

# Office Of the Auditor General

## RISK-BASED AUDIT PROGRAM

ISSUES TO CONSIDER	WORKING PAPER REFERENCE	DESCRIBE THE FACTORS AND EVENTS THAT WERE OBSERVED AND NOTED	EVALUATION OF IMPACT ON THE OVERALL AUDIT STRATEGY	REFERENCED TO OVERALL AUDIT STRATEGY
<b>TEMPLATE 1 - PRELIMINARY ENGAGEMENT ACTIVITIES PROCEDURES CHECKLIST</b>				
<p><b>1. Relevant Ethical Requirements</b></p> <p>1.1 Integrity</p> <p>(a) Document whether auditors have compiled with the SAI's procedures designed to ensure a high level of integrity</p> <p>E.g. SAI has adopted a Code of Ethics</p>				
<p>1.2 Objectivity</p> <p>(a) Document the steps that the audit team has taken to ensure that objectivity is maintained throughout the audit.</p> <p>E.g.</p> <ul style="list-style-type: none"> <li>-Declaration of relationships with audited entity or its management</li> <li>-Other independence/ethical requirements of the SAI's Code of Ethics.</li> </ul>				

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<p>1.3 Independence</p> <p>(a) SAI: Document the authority/ mandate of the SAI to carry out this audit.</p> <p>(b) Staff</p> <ul style="list-style-type: none"> <li>-State whether all team members have signed their independence declarations/ statements (if applicable).</li> <li>- Consider and document the following factors that could affect the independence of team members. <ul style="list-style-type: none"> <li>- Are any family members employed at the entity to be audited (e.g. spouse, children, siblings, and any close relatives?)</li> <li>- Has anyone in the audit team been employed by the audited entity within the last 5 years?</li> <li>- Have there been any actions by the entity to be audited which could be seen as an attempt to affect the outcome of the audit?</li> </ul> </li> </ul>				
<p><b>2. Accepting and Continuance</b></p> <p>2.1 Assess whether there is a requirement for specialized skill or knowledge that the SAI may not possess and the availability of resources by considering the following:</p> <ul style="list-style-type: none"> <li>- Nature of the audited entity's business or operation</li> <li>- Experience, skills, qualifications of the audit staff</li> <li>- Staff availability</li> <li>- Experts required</li> <li>- Timing</li> </ul>				

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<p>2.2 Evaluate the reputation and integrity of management and those charged with governance by considering the following:</p> <ul style="list-style-type: none"> <li>- Management Letters</li> <li>- Public Accounts Committee minutes</li> <li>- Media Reports</li> <li>- Letters/Memoranda to the SAI</li> </ul>				
<p>2.3 Are there any significant matters arising from the previous year's audit that could impact the current year's audit?</p>				
<p><b>3.3 Terms of Engagement</b></p> <p>3.1 Determine if the reports are prepared in accordance with the accepted financial reporting framework by assessing the following:</p> <p>(a) Nature of the entity (e.g. Government company, Central Government, non - profit organizations, Statutory Authorities, Internationally funded projects)</p>				
<p>3.2 Consider and document whether management acknowledges and understands its responsibilities in relation to the audit. E.g. a signed engagement letter including the following:</p> <ul style="list-style-type: none"> <li>- The preparation of financial statements in keeping with the applicable framework.</li> <li>- Implementing internal controls relative to Revenue/ Expenditure are adequate to ensure that they are free from material misstatement, whether due to fraud or error.</li> <li>- To provide the auditor with access to information such as :</li> </ul> <p>(a) records, documentation, other matters relevant to the audit</p>				

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(b) Additional information that the auditor may request  (c) Unrestricted access to persons within the entity from whom the auditor may need to obtain audit evidence. - The responsibility of management to make available to the auditor draft relevant information in time to allow the auditor to complete the audit in accordance with the proposed timetable.				
3.3 Consider whether management acknowledges and understands the role and responsibilities of the auditor.				
3.4 Scope of the audit engagement  (a) Is the scope of the engagement clearly understood by management as detailed in the Terms of Engagement? (b) Are there any scope limitations identified? (c) Are there any changes to the scope?				

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<b>TEMPLATE 2 - OVERALL AUDIT STRATEGY</b>			
<p><b>1. Characteristics of Engagement</b></p> <p>1.1 Reporting Framework</p> <p>(a) What is the reporting framework used to prepare the report (e.g. General purpose such as IFRS or IPSAS or specific purpose)? If a specific purpose framework is used, consider the evaluation of its suitability carried out in prior years.</p> <p>(b) Are there any regulations or laws which have had an impact on the reporting framework?</p>			
<p>1.2 Reporting Requirements</p> <p>(a) Are there any entity or industry specific reporting requirements set by law, regulation or other authority?</p>			
<p>1.3 Expected Audit Coverage</p> <p>(a) Does the entity have more than one division to be audited at separate locations? Consider significance, risk and extent of control exercised at those locations.</p> <p>(b) Are components audited by other auditors?</p> <p>(c) Is there a need for specialized knowledge due to the nature or activities carried out?</p>			

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<p>1.4 Reliance on work of the Internal Auditor</p> <p>(a) Is there an internal audit function?</p> <p>(b) Are reports and working paper files prepared by the Internal Auditor?</p> <p>(c) Is there segregation of duties in relation to the internal Audit function?</p> <p>(d) Is there an Audit Committee or other similar organizations that contributes to the independence of Internal Audit?</p> <p>(e) Is there the potential to place reliance on the work of Internal Audit?</p>			
<p>1.5 Reliance on Audit evidence from prior years' audits</p> <p>(a) Have previous audits been conducted on this entity?</p> <p>(b) Is there evidence from prior years' audits that can contribute to risk assessment procedures?</p> <p>(c) Does the audit team intend t rely on audit evidence from previous audits to reach conclusions on the effectiveness of internal control in current audit?</p>			
<p>1.6 The effects of Information Technology</p> <p>(a) Are the accounts prepared electronically or manually?</p> <p>(b) If records are electronic, how will the audit team access data or use computer assisted audit techniques?</p>			

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<p>1.7 Availability of data and key personnel</p> <p>(a) Has the audit team ensured that key personnel and data of the entity will be available at the planned audit dates?</p>			
<p><b>2. Reporting Objectives</b></p> <p>2.1 What is the timetable for completing the audit?</p>			
<p>2.2 Communication</p> <p>(a) Meet with management and those charged with governance to discuss Nature, timing and extent of audit work; type and timing of reports and other communications. (Document expectations for communications to the entity).</p> <p>(b) Document expectations agreed to with management to communicate the status of audit work throughout the engagement.</p> <p>(c ) Document expectations for communications among members of the audit team to discuss the expected types and timing of reports, nature and timing of team meetings and review of work performed.</p>			
<p><b>3. Significant Factors</b></p> <p>3.1 Determine materiality</p> <p>(a) Determine overall planning materiality for the audit using the SAI's guidance. Document the process used and the materiality established for the audit.</p> <p>(b) Determine performance materiality for the audit using the SAI's guidance</p> <p>(c) Document the process used and the performance materiality established for the audit.</p>			

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<p>3.2 Material misstatement</p> <p>(a) Based on knowledge of the entity and information gathered to date, make a preliminary identification of areas that may be subject to high risk of material misstatement.</p>			
<p>3.3 Internal Controls</p> <p>(a) Consider the results of previous audits that involved evaluating the operating effectiveness of internal controls including the nature of identified deficiencies and action taken to address them.</p> <p>(b) Is there evidence that management seriously considers control deficiencies?</p> <p>(c) Consider evidence of management's commitment to the design, implementation and maintenance of sound internal controls, including evidence of appropriate documentation of such internal control.</p> <p>(d) Consider the impact of the volume of transactions which may determine whether it is more efficient for the auditor to rely on internal control.</p> <p>(e) Consider the importance attached to internal control throughout the entity to the successful achievement of its objectives.</p>			
<p>3.4 Significant issues</p> <p>(a) Consider the impact of significant organizational developments affecting the entity such as changes in information technology and business processes.</p> <p>(b) Consider the significant developments such as changes in industry regulations and new reporting requirements.</p>			



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<b>TEMPLATE 2 - OVERALL AUDIT STRATEGY</b>			
<b>4. Resourcing</b> 4.1 Assigning Resources (a) Are there particular qualifications or levels of experience staff need to possess?  (b) Are personnel with special skills/ expertise needed (e.g. IT, Finance, Engineering)?			
<b>4.2. Amount of resources</b>  (a) How many staff members will be needed? (b) Was the previous year's allocation of staff sufficient? (c) How long did it take you to complete the audit in the previous year? (d) Are the necessary IT resources available?			
<b>4.3 Timing</b> (a) Are there sufficient and available resources to meet the timing requirements? (b) When will resources be deployed? Such as whether at an interim audit stage or at key cut-off dates.			
<b>4.4. Management of resources</b>  (a) Have you considered the allotment of time for the periodic review of audit work? (b) Will an engagement quality control review have to be completed? (c) How will resources be managed, directed and supervised? (d) When will team briefing and debriefing meetings be held?			

**ISSUES TO CONSIDER**

**DOCUMENT AN AUDITOR'S UNDERSTANDING OF THE BUSINESS**

**EXPLAIN IMPLICATIONS FOR RISK OF MATERIAL MISSTATEMENT**

**TEMPLATE 3 - ENTITY AND ITS ENVIRONMENT**

**1. Relevant Industry, Regulatory and other External Factors**

1.1 Relevant industry factors:

- (a) Consider what the business of the entity is (what it does).
- (b) Consider other factors that may influence or affect the direction or operation of the entity such as:
  - (i) Whether the entity's business is a monopoly or competes with a private sector;
  - (ii) Changes in government;
  - (iii) Changes in government and/policies resulting in:
    - New geographic locations or closures of existing locations
    - Reorganizations, including transfer of activities to other entities
    - New program areas
    - Budgetary constraints or cut backs.

1.2 Regulatory framework

- (a) Consider the legal and regulatory framework in which the entity operates. Ascertain whether there have been any recent changes to existing laws that would affect the entity.

1.3 Financial reporting framework

- (a) Ascertain whether there have been any recent changes to existing laws that would affect the entity's reporting framework.

1.4 Other external factors

- (a) Consider the impact of current economic and other non-economic factors on the entity's operations. These may include interest rate movements, availability of financing, increasing demand or expectations for the services provided by the entity.

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<p><b>2. Nature of the entity</b></p> <p>2.1 Understand and consider the nature of the entity's business</p> <ul style="list-style-type: none"> <li>- Sources of revenue</li> <li>- Services Provided</li> <li>- Organizational structure</li> <li>- Geographic dispersion</li> <li>- Key suppliers</li> </ul>		
<p>2.2 Understand and consider the ownership and governance structures.</p> <p>(a) Ownership</p> <ul style="list-style-type: none"> <li>- Government owned (consider whether there are any special purpose entities)</li> <li>- Statutory bodies</li> <li>- Government shareholding</li> <li>- Partnerships with private sector</li> </ul> <p>(b) Governance</p> <ul style="list-style-type: none"> <li>- Parliament – Ministers</li> <li>- Permanent Secretaries</li> <li>- Board of Directors</li> </ul> <p>(c) Accountability</p> <ul style="list-style-type: none"> <li>- Consider who is the accountable officer</li> <li>- Ministry – PS</li> <li>- Statutory Bodies - Board</li> </ul>		
<p>Entity's objectives, strategies and related business risk.</p> <p>3.1 Understand and consider management's objectives such as:</p> <p>(a) The overall mandate of the audit entity as defined in the governing laws, regulations and other authorities. (ISSAI 1315 A35)</p> <p>(b) Whether the audit entity has a strategic/ business plan to fulfill the requirements of the mandate? (ISSAI 1315 A35)</p> <p>(c) Were there any changes in the operations of the entity during the period under review?</p>		

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**TEMPLATE 3 - ENTITY AND ITS ENVIRONMENT**

(d) Understand and consider the entity's objectives, strategies and related business risks that may result in a risk of material misstatements.  
For example, consider the following :  
- Industry developments (Does the audit entity have the necessary resources to meet the requirements of the industry developments? (ISSAI 1315 A32)  
- New or expanded services  
- New government policies or regulations  
- Expansion of the business (or new operations)

4.1 Is there a system in place to assess whether the entity is meeting the objectives set by management (or government). For example:  
-Key performance indicators (financial and non financial) and key ratios, and statistics  
-Period on period financial performance analysis  
- Budgets forecasts, variance, segment information and divisional, departmental or other level performance a  
- Employee performance measures and incentive compensation policies.  
- Comparisons of an entity's performance was compensation plan.

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<b>TEMPLATE 4 - ENTITY'S CONTROL ENVIRONMENT, RISK ASSESSMENT, MONITORING AND COMMUNICATION CONSIDERATIONS</b>		
<b>1. Control Environment</b>		
<p><u>1.1 Communication</u></p> <p>(a) Consider how issues of integrity and ethics are communicated.</p> <p><u>Enforcement</u></p> <p>(b) Consider mechanisms for monitoring adherence to the integrity and ethical values. (e.g. whistle blowing, signed declaration document).</p>		
<p>1.2 Participation by those charged with governance.</p> <p>(a) Consider whether those charged with governance actively oversee the entity's procedures and accounting policies.</p>		
<p>1.3 Management's philosophy and operating style.</p> <p>(a) Document your understanding of management's philosophy and operating style by considering the following factors:</p> <ul style="list-style-type: none"> <li>- Attitudes and actions toward financial reporting (e.g. is adherence to financial reporting standards encouraged?)</li> </ul> <p>(b) Does management support efforts to safeguard information and data? (For example: Is management willing to budget for IT support or do they consider it unnecessary expenditure?)</p>		

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<b>TEMPLATE 4 - ENTITY'S CONTROL ENVIRONMENT, RISK ASSESSMENT, MONITORING AND COMMUNICATION CONSIDERATIONS</b>		
<p>1.4 Organizational structure</p> <p>(a) Document the entity's organizational structure:</p> <ul style="list-style-type: none"> <li>- Review documented or approved establishments as approved by Parliament/ Cabinet (Approved Policy- maker in case of Central Govt.)</li> <li>- Structure approved by the Board of Statutory bodies and other entities.</li> </ul> <p>(b) Consider whether the structure shows:</p> <ul style="list-style-type: none"> <li>- Key areas of authority</li> <li>-Key areas of responsibility</li> <li>-Appropriate lines of reporting</li> </ul> <p>(c) Consider whether the structure of the organization is adequate based on:</p> <ul style="list-style-type: none"> <li>- The size of the organization- e.g. few high level managers and large staff to supervise;</li> <li>- The nature of the activities - e.g. a company in the IT industry may need a structure that can respond readily to technological changes.</li> </ul> <p>(d) Consider whether management has employed staff in keeping with the approved structure.</p>		

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<b>TEMPLATE 4 - ENTITY'S CONTROL ENVIRONMENT, RISK ASSESSMENT, MONITORING AND COMMUNICATION CONSIDERATIONS</b>		
<p>1.5 Assignment of authority and responsibility</p> <p>(a) Document whether authority and responsibility for operating activities are clearly assigned and key personnel are aware of, and adhere to reporting relationships and authorization hierarchies.</p> <p>(b) Consider whether all personnel understand the entity's objectives, their role and responsibilities towards those objectives and recognize how and for what they will be held accountable.</p>		
<p>1.6 Human resource policies and practices</p> <p>(a) Assess whether the entity has clearly documented and approved policy and procedures for:</p> <ul style="list-style-type: none"> <li>- Recruitment of qualified and skilled staff</li> <li>- Training and Orientation</li> <li>- Performance Evaluation</li> <li>- Compensation</li> </ul>		
<b>2. Entity's Risk Assessment Process</b>		
<p>2.1 Determine whether a formal risk assessment process exists.</p>		
<p>2.2 If a formal system exists, document an understanding of the process and the results (what measures has management identified for managing those risks).</p>		
<p>2.3 If a formal risk management process does not exist ask management how they address the risks related to key business processes.</p> <p>(a) Document and assess risks identified by management;</p> <p>(b) If no formal process exists, consider reporting this as a material control deficiency.</p>		

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<p><b>3. Monitoring Of Controls</b></p> <p>3.1 Management's system of monitoring controls</p> <p>(a) Document the system that management has in place to monitor internal controls. These may involve:</p> <ul style="list-style-type: none"> <li>-Ongoing activities (e.g. supervisory and management activities);</li> <li>-Separate evaluations (e.g. communications from external parties such as customer complaints, regulator reports, etc. comments)</li> </ul> <p>(b) Determine if the data used for monitoring is accurate by gaining an understanding of :</p> <ul style="list-style-type: none"> <li>- The sources of the information used in the entity's monitoring activities; and</li> <li>- The basis upon which management considers the information to be sufficiently reliable for the purpose.</li> </ul>		
<p>3.2 Internal Audit Function</p> <p>(a) Document your understanding of the internal audit function and its status within the organization</p>		



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<p><b>4. Communication of Financial Roles And Responsibilities</b></p> <p>4.1 Determine if personnel understand how their activities in the financial reporting information system relate to the work of others and the means of reporting exceptions to an appropriate higher level within the entity. This can be done by:</p> <ul style="list-style-type: none"> <li>-Establishing that there is a clearly defined organizational structure;</li> <li>- Determining if staff is aware of the reporting lines of communication within the organization;</li> <li>- Reviewing the formal directives to staff such as: <ul style="list-style-type: none"> <li>- policy manuals and</li> <li>- financial reporting manuals</li> </ul> </li> </ul>		

**TEMPLATE 5**

**DESCRIPTION OF INFORMATION SYSTEM,  
POTENTIAL CONTROLS AND RELATED RISKS OF  
MATERIAL MISSTATEMENT**

<b>Component of Information system and description of Activities within the system</b>	<b>Potential control within the Information system</b>	<b>Is Control relevant to the audit? Document procedures used to confirm design and Implementation</b>	<b>Relevant risks of material misstatement from Template 6</b>

**Conclusion:**

**In my opinion, I have documented my understanding of key aspects of the entity's information system and have identified controls that may be relevant to the audit.**