



# **OFFICE OF THE AUDITOR GENERAL FOR THE FEDERATION**

## **REGULARITY AUDIT GUIDE**

**2017**

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## LIST OF ACRONYMS

AfDB	African Development Bank
AFROSAI-E	African Organization of English-speaking Supreme Audit Institutions
CAATs	Computer-Assisted (Aided) Audit Techniques
CISA	Certified Information Systems Auditor
CoC&E	Code of Conduct and Ethics
CPD	Continuous Professional Development
CRO	Critical Review of Outturn
FAM	Financial Audit Manual
GAAP	Generally Accepted Accounting Principles
GBE	Government Business Entity
HR	Human Resources
HRM	Human Resource Management
IA	Internal Audit
IAASB	International Auditing and Assurance Standards Board
ICBF	Institutional Capacity Building Framework
IDA	International Development Association
IDI	INTOSAI Development Initiative
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IS	Information Systems
ISA	International Standards on Auditing
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
ITGC	Information Technology General Controls
KPIs	Key Performance Indicators
MDAs	Ministries, Departments and Agencies
MoU	Memorandum of Understanding
MTSS	Medium Term Sectoral Strategy
OAGF	Office of the Accountant General of the Federation
OAuGF	Office of the Auditor General for the Federation
PAC	Public Accounts Committee
PFM	Public Financial Management
PMS	Performance Management System
QA	Quality Assurance
QC	Quality Control
RAM	RAM Regularity Audit Manual
RBA	Risk Based Auditing
RFP	Request for Proposal
SAI	Supreme Audit Institution
SOE	State Owned Enterprise
TBD	To Be Determined
ToR	Terms of Reference
WGA	Whole of Government Accounts

## FOREWORD BY THE AUDITOR GENERAL FOR THE FEDERATION

It gives me great pleasure to introduce this guide to the conduct of our regularity audit. This marks an important milestone in our institutional capacity building and points us towards becoming more effective in discharging our mandate under the Constitution of the Federal Republic of Nigeria. The introduction of this Audit Guide is clear evidence of our commitment to becoming a professional audit service that applies the International Standards of Supreme Audit Institutions (ISSAI) and other international best auditing practices.

The guide recognises that our audited entities are going through a transition to accruals based International Public Sector Accounting Standards (IPSAS). It also recognises the need for our auditors to be guided in their understanding of extant financial systems, processes and regulations. To this end, useful updated extracts from existing guidance in the conduct of specific aspects of our work are included as additional guidance within this audit guide.

We as an office have a duty to update our audit methodology regularly. The guide is therefore a living document that will be updated as the financial reporting landscape in Nigeria evolves for our audited entities. I urge all audit staff to make themselves familiar with the guide. I also ask that all staff apply the guide diligently in the course of their work, seeking further clarification from our Technical team whenever necessary. We believe the feedback from the field will enable us improve our methodology even further, as our audited entities implement new systems, processes and financial reporting standards.

Let me seize this opportunity to acknowledge and also appreciate the UK Department for International Development and the UK National Audit Office for their invaluable assistance (both financial and technical) in ensuring that this Audit Guide is developed and produced for our use.

Many thanks to the former Auditor General, Mr. Samuel Ukura and the former Acting Auditor General, Mrs. Florence Anyanwu for their contributions to the preparation of this guide.

The States and Local government Auditors-General offices are encouraged to make the best use of this Regularity Audit Guide as applicable, for the sake of uniformity in the nation's audit process.

Finally, I encourage all staff to exercise good professional judgement in their application of the methods contained within this audit guide, to ensure the opinions and reports that we produce are supported by the highest possible quality of audit, and are in line with the best audit practices.

**Mr Anthony Mkpe Ayine, FCA**  
**Auditor General for the Federation**

March 2017

# ACKNOWLEDGEMENTS

The following sources have been consulted in the preparation of this audit guide:

- International Standards on Auditing (ISAs);
- The International Standards for Supreme Audit Institutions (ISSAIs);
- AFROSAI-E Implementing Guidelines for the INTOSAI Auditing Standards;
- INTOSAI Code of Ethics and Auditing Standards;
- International Public Sector Accounting Standards (IPSAS);
- International Financial Reporting Standards (IFRSs);
- Guidelines issued by the International Federation of Accountants;
- The INTOSAI IDI IT Audit manual, and
- The AFROSAI-E Regularity Audit Manual (RAM), as adapted for Nigeria.

# INTRODUCTION TO THE GUIDE

This audit guide is set out in three parts plus appendices, and the purpose of each of these parts is set out below;

## **Part 1 – Institutional level requirements**

This section provides the auditor with an overview of the regularity audit process. It also includes information and guidance to the auditor on the structures and processes that are to be in place within the Audit Office to support a successful regularity audit. Detailed guidance is provided on the various stages of the audit process and the work that is expected of the auditor at each stage. Explanations are also provided on the use of various standard forms for the recording of audit work and on the steps to take to ensure the quality of an audit.

## **Part 2 – The audit of accruals based financial statements**

This section provides the detailed steps to take in order to audit General Purpose Financial Statements (GPFS) prepared on an accrual basis. The section sets out examples of various tests of substance/detail as well as the audit assertions covered by each step. Each audit or account area within the GPFS is examined in turn, and the auditor is also given guidance on the evaluation of test results.

## **Part 3 – Additional guidance**

We recognize the impact of ongoing changes as our audited entities move from cash based financial reporting systems to accruals based IPSAS compliant financial reporting. The additional guidance sections are included to provide additional support to the auditors. The auditor is to apply the guidance within Part 2 of the guide when carrying out the audit of financial statements prepared under accrual IPSAS. However, there are a number of areas where the audit work required may not directly be on General Purpose Financial Statements. Examples are where entities are yet to properly adopt IPSAS, where other forms of audit are required to compliment the financial audit, and where there is a need for more detailed guidance on the systems and processes an auditor may expect to see in the field.

In any case, the auditor must always state within the audit working papers, the audit assertions for which assurance has been obtained through the tests within Part 2 of the audit guide and also through the tests within this section.

## **Appendices**

The appendices set out the standard templates to be applied in the course of the audit. Links to the templates are provided within the intranet version of this guide.

## PART 1 – INSTITUTIONAL LEVEL REQUIREMENTS

### 1 – OVERVIEW OF THE APPROACH TO REGULARITY AUDIT

#### 1.1 Introduction

A regularity audit is conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) and relevant ethical requirements. Adherence to the ISSAIs enables the auditor to express an opinion as to whether or not the financial statements are prepared, in all material respects, in accordance with applicable financial reporting framework and statutory requirements. (ISSAI 1200.3)

#### 1.2 Objectives of regularity audit

The key objectives of regularity audit are as follows;

- a) To obtain reasonable assurance about the financial statements as a whole thereby enabling the auditor to express an opinion on the financial statements,
- b) To report on the financial statements, and communicate as required by the ISSAIs,
- c) To communicate to users, management, those charged with governance, and/or other interested parties as required by legislation or standard as the case may be. (ISSAI 1200.9 & 11)

1.2.1 The objectives of audits in the public sector are often broader than described above. The audit obligations for public sector entities arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives for the auditor. These may include audit and reporting responsibilities relating to:

- a) Reporting instances of non-compliance with authorities including budget and accountability; and/or
- b) Reporting on the effectiveness of internal controls.

1.2.2 To achieve these objectives an auditor should exercise professional judgment and maintain professional skepticism throughout the audit. Where an audit engagement requires auditors to report on compliance or non-compliance with authorities, auditors may need to refer to the more comprehensive INTOSAI<sup>1</sup> Compliance Audit Guidelines (ISSAI 4000 and 4200).

1.2.3 As part of a financial or regularity audit mandate, Supreme Audit Institution (SAI) auditors should express opinions as to whether the financial statements fairly present the financial position and financial results of the entity, in line with relevant reporting frameworks, for example International Public Sector Accounting Standards (IPSAS). When this is the case the full application of ISSAIs 1000-2999 will assist auditors in achieving this objective. (ISSAI 1200 P6).

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<sup>1</sup> International Organisation of Supreme Audit Institutions - INTOSAI



### 1.3 The meaning of Regularity Audit

The term 'regularity audit' encompasses financial audit and compliance audit. Such audits consist of an audit of financial statements, plus some or all of the elements set out below:

- Attestation of financial accountability of entities, involving examination and evaluation of financial records and expression of opinions on financial statements,
- Attestation of financial accountability of the government administration as a whole,
- Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations,
- Audit of internal control and internal audit functions,
- Audit of the probity and propriety of administrative decisions taken within the audited entity, and
- Reporting of any other matters arising from or relating to the audit that the SAI considers necessary to disclose.

1.3.1 This guideline provides an integrated approach for the audit of financial statements and for the audit of compliance with laws and regulations with respect to financial matters. The guideline is tailored to facilitate the conduct of regularity audit through a step-by-step approach while ensuring compliance with relevant ISSAIs and extant legislation in Nigeria.

### 1.4 The Regularity Audit process flow

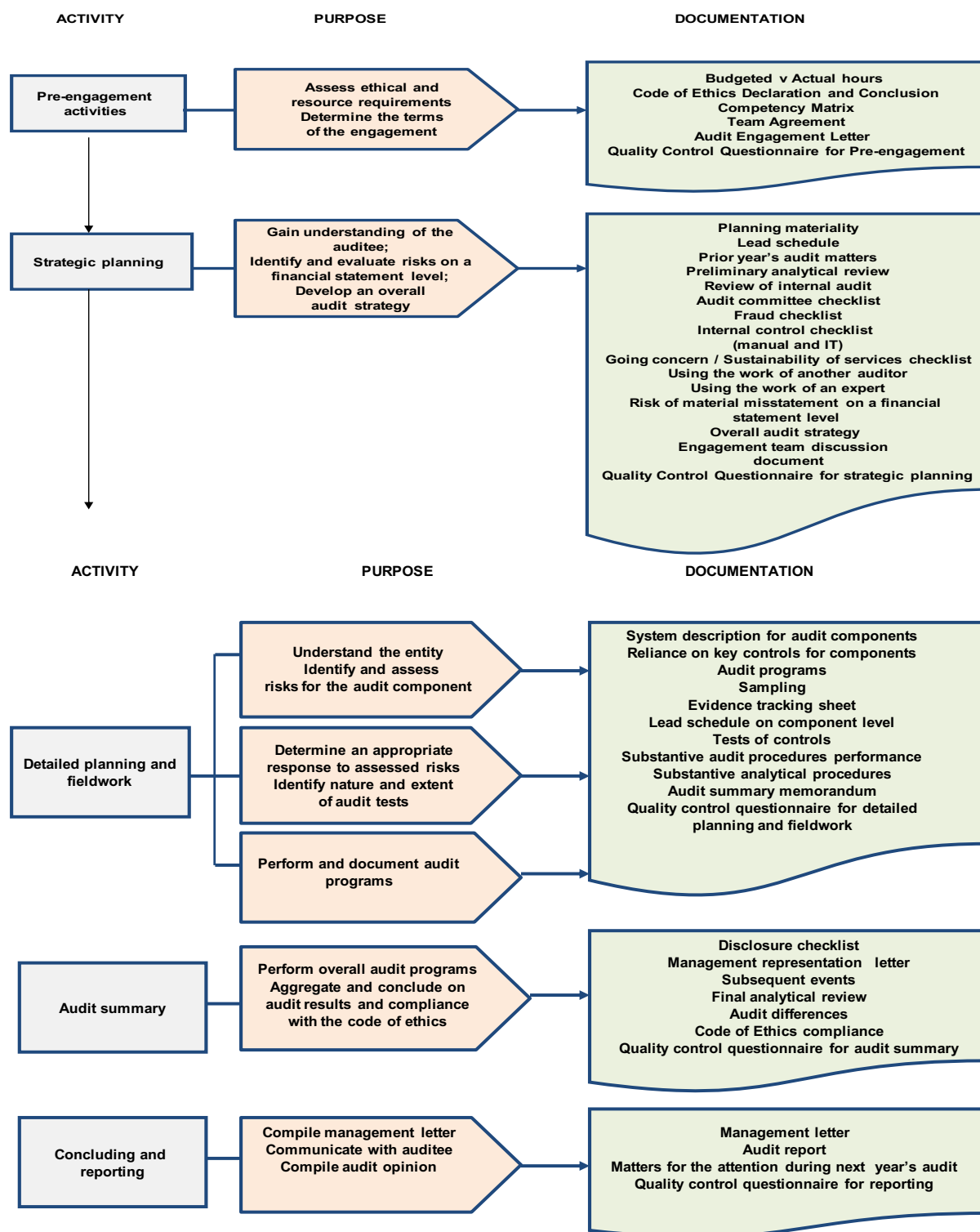
The regularity audit process flow refers to the essential stages and/or processes of carrying out regularity audit, so as to fulfill the requirements of ISSAIs, AFROSAI-E Regularity Audit Manual (RAM), and extant rules and regulations applicable to public sector accounting and auditing in Nigeria.

A regularity process flow consists of six steps namely:

- Annual Overall Audit Planning
- Pre-engagement activities
- Strategic planning
- Detailed planning and fieldwork
- Audit summary
- Concluding and Reporting.

## 1.5 The Regularity Audit process flow chart

Starting with the Overall consideration step, each of the six 'Activities' of the 'audit process flow' has its distinct purpose as well as processes for decision making and for the documentation of audit procedures relevant to the step. This guide explains each step in further detail in the following sections.



## 1.6 Overall considerations

The purpose of this section is to focus on the wider success factors for the regularity audit, and to prompt the auditor to give adequate early consideration to these factors that are relevant to the success of the audit. Three of the success factors are set out below, namely; communication, documentation, and quality control.

- **Communication.** The auditor should communicate with the auditee and other stakeholders by way of meetings, correspondence, internet, etc. during the audit as required by extant regulations. (Sections 9.3 & 11.3.2 of the Communication Policy of Office of the Auditor General for the Federation). Records must be kept of all audit communications
- **Documentation.** This is a record of matters related to the audit and/or matters of continuing significance to future audits. Documentation consists of all relevant working papers and audit evidence that is obtained in the course of audit which enable a re-performance of the audit procedure. Quality standards on audit documentation must be strictly adhered to.
- **Quality control.** This consists of all measures and procedures carried out within the audit process to reduce risks to the quality of audit work and to the resulting report. The team leader (Unit head) is responsible for the overall quality of the audit engagement, and is to institute procedures to ensure that the audit complies with international auditing standards and other applicable legal and statutory requirements. This obligation, however, does not relieve other audit team members of their individual responsibilities to adhere to quality control procedures during the audit.

## 1.7 Pre-engagement activities

The purpose is to assess ethical and resource requirements as well as to determine the terms of the audit engagement.

Before commencement of the audit, the SAI or the auditor directing the engagement should answer the question: are we able to carry out the audit in line with the ISSAIs, in particular 1220, 1230, 1260, & 1265. If the answer is in the affirmative the team can proceed with the audit, otherwise more work has to be done to ensure the audit can be conducted usefully.

The documents for the auditor to complete in relation to this step are:

- The Schedule of Budgeted v Actual hours
- Code of Ethics Declaration and Conclusion
- Staff Competency Matrix
- Team Agreement
- The Audit Engagement Letter
- The Quality Control Questionnaire for pre-engagement.

## 1.8 Strategic planning

The purpose of strategic planning is to gain an adequate understanding of the auditee and its operations. At this stage, the auditor identifies and evaluates risks on a financial statement level and develops an overall audit strategy. The auditor also formulates the overall direction, and decides on timing and scope in the overall audit plan in line with the applicable standards (see ISSAIs 1300, 1315, 1320 & 1330).

The auditor decides on the following;

- Levels of materiality,
- Which components of the financial statements to audit, and
- The overall level of risk of material misstatement.

The documents for the auditor to complete in relation to strategic planning are as follows;

- Determination of overall planning materiality
- Lead schedules
- Review of prior year's audit matters
- Preliminary analytical review
- Review of internal audit
- Audit committee checklist
- Fraud checklist
- Internal control checklist (manual & IT controls)
- Sustainability of services checklist
- Using the work of another auditor
- Using the work of an expert
- Risk of material misstatement on a financial statement level
- The overall audit strategy
- Engagement team discussion document, and
- The Quality Control questionnaire for strategic planning.

## 1.9 Detailed planning and fieldwork

During detailed planning and fieldwork (DPF), the auditor performs work on each component of the financial statements, and on each statement of disclosure by management (either implicitly or explicitly) regarding various elements of the financial statements. The DPF stage is where the auditor identifies and assesses risks to the components of the financial statements and determines the appropriate audit response to the assessed risks. This is done in order to reduce the risk of undetected material misstatement to an acceptable level. (ISSAI 1330.1:3).

At the DPF stage the auditor is to do the following;

- Determine the nature, timing, and extent of the audit procedures to be performed on each component,
- On the completion of the audit procedures for each audit component, draw conclusions based on the results of the audit work and on each audit program,
- For each audit component, draw conclusions for each assertion,

- Raise all exceptions and issue audit queries,
- Conclude on whether sufficient and appropriate audit work has been performed.

#### 1.10 Audit summary

The purpose of the audit summary is to accumulate and evaluate audit findings based on the materiality of the findings, and also conclude on compliance with the code of ethics by the audit team.

At the audit summary stage the auditor is to do the following;

- Draw conclusions based on the overall audit program of work
- Summarize un-resolved audit findings
- Evaluate unresolved audit findings based on materiality.

The documents for the auditor to complete or prepare in relation to this step are:

- The financial statements disclosure checklist
- A draft letter of representation for the auditee to agree
- A review of/for subsequent events
- Final analytical review
- Assessment of audit differences
- Code of ethics compliance review, and
- A Quality control questionnaire for audit summary.

#### 1.11 Concluding and Reporting

The purpose of the audit report is to express an opinion on audited financial statements. At this stage, the auditor evaluates the audit findings based on materiality. The auditor also drafts the audit report, stating whether the financial statement, in all material respects, and fairly present results of operations of the audited entity (*in accordance with prescribed accounting practice and relevant legislation*).

The auditor at this step is required to decide on:

- The appropriate audit opinion
- The representation required from those charged with governance at the auditee.

The documents for the auditor to complete or prepare in relation to the audit conclusion and reporting step are:

- Audit Completion report and Management letter
- The draft letter of the representation to be submitted by the auditee.
- A record of matters for attention during next year's audit.
- An Audit report or certificate.
- The Quality control questionnaire for reporting.

## 2 – AUDIT DOCUMENTATION (WORKING PAPERS)

### 2.1 Definition

Working Papers are materials prepared by and for, or obtained and retained by, the auditor in connection with the performance of an audit. They may be in the form of data stored on paper, film, electronic media or other media.

### 2.2 Purpose

- Provides basis for documenting the audit. (Audit documentation refers to all relevant working papers and audit evidence that has been obtained throughout the audit.)
- Provides sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with ISSAIs and applicable legal and regulatory requirements. (ISSAI 1230.5,7)
- Assists in discharging audit supervision and review responsibilities
- Enables an experienced auditor, having no previous connection with the audit, to understand significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions. (*Significant matters in this context may not only be material misstatements in the financial statements, but also matters relating to lack of compliance, violations of contract provisions or grant agreements or any other matters auditors are required to report on.*) (ISSAI 1230 P3)
- Provides a record of how the objectives of an audit assignment were achieved.
- Assists auditors to plan and perform the audit.
- Enables the audit team to be accountable for its work.
- Retains a record of matters of continuing significance to future audits.
- Enables the conduct of quality control reviews
- Enables the conduct of external quality assurance reviews in accordance with applicable legal, regulatory or other requirements. (ISSAI 1230.3)

### 2.3 Contents of Working Papers and audit evidence

Working papers describe in general terms the documents created or obtained for the audit files during the course of an audit, and as evidence of the audit process. Working paper files can contain the following information:

- The client's name, the relevant period of the financial statements under audit, the names of the persons preparing and reviewing the working paper, and the respective dates of preparation and review; (ISSAI 1230.9b,c)
- Relevant laws and regulations guiding the activities of the auditee;
- The letter of request for the audit to be undertaken, if any;
- The work performed through all stages of the audit, for example descriptions of the audit procedures or reviews executed;
- The source of the sample of information that was used to perform the audit procedure (for example the source may be the ledger);
- Lists of the transactions that were selected to be audited or the extent of the review performed;

- Sufficient information to enable re-performance of the procedure, e.g. document numbers, dates, names, reference numbers, explanations for tick marks used should be provided; etc.;
- The value or amounts of each of the sample items selected and an assessment of the coverage obtained;
- Results of the procedures performed;
- Conclusions on the work performed based on the audit evidence obtained;
- Detailed explanations when using professional judgment in reaching conclusions;
- Indication that all schedules, prepared by the auditee, have been cast and cross-cast;
- Indication of the purpose of photocopied or scanned documents; and
- References to other working papers or documents.

## 2.4 Systems of filing working papers

There are two filing systems to be operated, firstly for audit documentation that relates solely to the year or period of audit, and secondly for information about the client that may be of a more permanent nature.

### **What are Current and Permanent Audit files?**

In the case of recurring audits, some working paper files may be classified as permanent audit files which are updated currently with information of continuing importance to succeeding audit, as distinct from current audit files which contain information relating primarily to the audit of a single period.

A permanent audit file normally includes:

- Information concerning the legal and organizational structure of the entity. In the case of a company, this includes the Memorandum and Articles of Association. In the case of a statutory corporation, this includes the Act and Regulations under which the corporation functions.
- Extracts or copies of important legal documents, agreements and minutes relevant to the audit.
- A record of the study and the evaluation of the internal controls related to the accounting system. This might be in the form of narrative descriptions, questionnaires or flow charts, or some combination thereof.
- Copies of audited financial statements for previous years.
- Analysis of significant ratios and trends.
- Copies of management letters issued by the auditor, if any.
- Record of communication with the previous/retiring auditor, if any, before acceptance of the appointment as auditor.
- Notes regarding significant accounting policies.
- Significant audit observations of earlier years.

The current file normally includes:

- Correspondence relating to acceptance of annual reappointment.(where necessary)
- Extracts of important matters in the minutes of Board/Management Meetings and General Meetings as relevant to audit.
- Evidence of the planning process of the audit and audit programme.
- Analysis of transactions and balances.

- A record of the nature, timing and extent of auditing procedures performed, and the results of such procedures.
- Evidence that the work performed by assistants was supervised and reviewed.
- Copies of communication with other auditors, experts and other third parties.
- Letters of representation or confirmation received from the client.
- Conclusions reached by the auditor concerning significant aspects of the audit, including the manner in which exceptions and unusual matters, if any, disclosed by the auditor's procedures were resolved or treated.
- Copies of the financial information being reported on and the related audit reports.

The permanent file contains information of a continuing nature about the entity's operations, accounting systems and other features (for example loan/funding agreements) that are important to the conduct of the audit. The contents of the permanent file should be reviewed at every audit and schedules updated to show the latest position. Schedules considered to be outdated should be removed from the permanent file and filed in the current file of the year they relate to.

The audit file for the current year should include all the working papers and supporting evidence relating to the current year's audit objectives. There might be working papers and supporting evidence that is applicable for more than one financial year. In such cases it may be appropriate to retain them in the current audit file, placing a copy in the previous year's current file each time a schedule is carried forward. An example of this could be the system descriptions that may not change from one year to another. The working papers may be preserved for as long as necessary.

## 2.5 Cross referencing

All working papers documentation placed in the supporting files should have individual reference numbers.



## 2.6 Working Paper templates

### 2.6.1 The annual Overall Audit Plan

WORKING PAPERS	DESCRIPTION (what)	DETAILED STEPS (how?)	COMPLETED BY	REVIEWED BY
<a href="#">AP 1. Example Format of the Annual Overall Audit Plan</a>	The Overall Audit Plan shows the planned audit coverage of the year based on risks identified and transversal audit themes. The plan distributes the audits/entities to the different business units with resource allocation.	1. Plan the audit in accordance with the risks identified. The risk score will affect the composition of the audit team and who should be assigned as reviewers.	Team leader	Conclusion should be signed-off by the Audit Director or the person responsible for the audit report.
		2. Prepare a budget for the audit in accordance with the human and financial resource requirements		
<a href="#">AP 2. Example of a Directive</a>	A directive is linked to the transversal audit themes identified in the annual overall audit plan. Directives may instruct each audit team to perform and report on specific audit topics such as procurement, IT and personnel emoluments.	1. Identify any audit theme(s) listed in the directive.	Team leader	Conclusion should be signed-off by the Audit Director or the person responsible for the audit report
		2. Plan the audit in accordance with the audit theme(s) directed by top management.		
<a href="#">AP 3. Example of an Audit Calendar for Regularity Audit</a>	The audit calendar is a plan for the timeliness of regularity audits. It will normally state who should complete and review each working paper and when each phase is to be concluded. The major milestones for the audit are identified.	Ensure that the responsibilities and timing of the audit and milestones are set in accordance with the audit calendar.	Team leader	Conclusion should be signed-off by the Audit Director or the person responsible for the audit report

## 2.6.2 Pre-engagement activities

**The following table indicates the applicable working papers to be completed.**

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
PE 1.	Budgeted v Actual hours	To establish the time budgeted for the audit of each component and document actual hours spent on the audit.	Mandatory, to be completed for each audit.	Audit Team Leader	Conclusion should be signed-off by the Audit Director or the person responsible for the audit report
PE 2. and PE 3.	Code of ethics	Conclude on the team's independence	Mandatory, to be completed for each audit.	Each team member	Conclusion should be signed-off by the Audit Director or the person responsible for the audit report
PE 4.	Competency matrix of audit team	Conclude on the team's ability and competence to perform the audit. Identify competency gaps and training requirements.	Mandatory, to be completed for each audit.	Audit Team Leader	Conclusion should be signed-off by the Audit Director or the person responsible for the audit report
PE 5.	Team agreement	Agreement on the scope of the work required by each team member.	Administrative working paper to be completed for each audit	Audit Team Leader	Audit Team Leader and Audit Director
PE 6.	Audit letter of understanding	Agreement and common understanding about the terms of the engagement and informs both auditors and management regarding the expectations on the audit.  The letter of understanding is sent to the audited	Mandatory, to be completed for each audit.	Audit Team Leader	Letter should be signed-off by the Audit Director or the person responsible for the audit report

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
		entity and normally discussed during a meeting. The Accounting officer should also sign the letter.			
<a href="#">PE 7. Quality Control Questionnaire for Pre-Engagement</a>	Facilitating review and to identify aspects which may not have been adequately addressed during the pre-engagement phase of the audit.  <b>ISSAI 1220</b>	1. Review the audit work performed for pre-engagement 2. Document the review by completing the Quality Control Questionnaire for Pre-Engagement		Audit Team Leader	Audit Director and subsequent reviewers
<a href="#">PE 8 Review Worksheet</a>		To document coaching notes and the responses to the reviewers		Reviewers on all levels	

### 2.6.3 Strategic Planning

The following table indicates the working papers to be completed at the strategic planning stage.

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
SP 1.	Planning materiality	Calculation of quantitative planning materiality. Consideration of factors which may influence qualitative materiality.	Mandatory to complete for each audit.	Auditor	Audit Team Leader and Audit Director
SP 2.	Lead schedule	Identification of audit components to be audited, including significant balances and transactions from the financial statements.  Identify risk areas where large differences are noted between current and prior year and current and budgeted figures.	Mandatory to complete for each audit.	Auditor	Audit Team Leader and Audit Director
SP 3. Prior Year's Audit Matters	Prior year's audit matters are identified as risk areas for the current year's audit. <b>ISSAI 1315</b>	Read management letters and audit reports from the previous year to identify material items reported  Summarize main (material) issues raised.		Auditor	Audit Director
SP 4. Preliminary analytical review	Identify risk areas where large differences are noted between trends  <b>ISSAI 1315</b>	Document audit components from the lead schedule  Complete WP by comparing trends between budgeted, actual and prior year's figures.  Identify risk areas by following up on material differences and unexpected relationships and consider potential risks of material misstatement.  Document your conclusions.		Auditor	Audit Director
SP 5. Review of Internal Audit	To assess the quality and reliability of the Internal	Document your consideration of areas for assessment set out on the		Audit Team Leader  Each team	Audit Director

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
	Audit function at the entity. <b>ISSAI 1610</b>	checklist.  Document your conclusions.		member	Audit Director
SP 6. Audit Committee Checklist	To provide an assessment of the efficiency of the audit committee and its compliance with prescribed Terms of Reference, laws and regulations.  <b>ISSAI 1315</b>	1 Identify legislative and regulatory requirements regarding the formulation and operation of audit committees 2 Obtain and scrutinise the terms of reference and the minutes of Audit committee meetings. 3 Assess the efficiency and compliance of the audit committee with prescribed laws and regulations. 4 Complete the checklist and use the responses to conclude on the overall functioning of the audit committee.		Auditor	Audit Director
SP 7	Risk identification checklist	To determine the entity's susceptibility to fraud.  Identify risks relating to sustainability of services or going concern.  Identify risk areas from the prior year's audit that might have an influence on the current year's audit.	Mandatory to complete for each audit.	Auditor	Audit Team Leader and Audit Director
SP 8. Internal Control Checklist	Identify high level risks relating to the control environment (Excluding IT internal environment)  <b>ISSAI 1315</b>	1 Inspect documents with the following information: a. Legal and regulatory framework b. Strategic and operational plans, c. Media reports on the entity; d. Correspondence with stakeholders e. Accounting policies and records; f. Internal control manuals; g. Reports prepared by management (such as performance data) h. Other reports, such as minutes from meetings of those charged with governance, reports		Auditor	Audit Director

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
		<p>from consultants to obtain an understanding of the Auditee's operations.</p> <p>2 Identify and interview relevant officials</p> <p>3 Use checklist to identify risks and document conclusions.</p>			
	Governance arrangements checklist	<p>Identify high level risks relating to the manual and computerised control environment.</p> <p>To provide an assessment of the work and competence of the internal audit function.</p> <p>To provide an assessment of the efficiency and compliance of the audit committee to prescribed laws and regulations.</p>	Mandatory, to be completed for each audit.	Auditor	Audit Team Leader and Audit Director
SP 9.	IT Internal control checklist	Identify high level risks relating to the manual and computerised control environment.	When there is a computerized system it is mandatory to complete	Auditor	Audit Team Leader and Audit Director
SP 10. Sustainability of Services Checklist (going concern)	<p>Identify risks relating to sustainability of services or going concern</p> <p><b>ISSAI 1570</b></p>	<p>1 Obtain information which might affect continuity of service delivery such as:</p> <ul style="list-style-type: none"> <li>a. Budget and Cash flow statements (current and forecast)</li> <li>b. Performance information</li> <li>c. Vacancies relating to key positions</li> <li>d. Reports on service delivery</li> <li>e. Media reports on service delivery</li> </ul> <p><b>1</b> Interview management to understand the near term outlook of the auditee</p> <p>3 Complete the checklist</p>		Auditor	Audit Director

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
		and conclude			
SP 11.	Using the work of another auditor	To determine the extent of use of the work of another auditor (where applicable).	When applicable it is mandatory to complete	Auditor	Audit Team Leader and Audit Director
SP 12.	Using the work of an expert	To determine the extent of use of the work of an expert (where applicable).	When applicable it is mandatory to complete	Auditor	Audit Team Leader and Audit Director
SP 13.	Risk of material misstatement on a financial statement level	<p>Transfer all the risks identified during the strategic planning phase of the audit.</p> <p>Link these strategic risks to the audit components identified in the Lead schedule where possible and identify any further work which needs to be done.</p> <p>Determine risk of material misstatement on a financial statement level.</p>	Mandatory to complete for each audit.	Audit Team Leader	Audit Director
SP 14.	Overall Audit Strategy	Sets out the conclusions from all working papers up to this stage, and formulate the high level audit approach.	Mandatory to complete for each audit.	Audit Team Leader	Audit Director or person responsible for the audit
SP 15.	Engagement team discussion document	Confirms understanding and informs the engagement team about important aspects of the audit.	Mandatory to complete for each audit.	Audit Team Leader	Audit Director
SP 16.	Audit query	To provide a basis for communication of findings with the client.	To be completed when findings are raised and communicated	Auditor	Audit Director
SP 17.	Review worksheet	To document coaching notes and the responses provided to the reviewers	To be completed when necessary	Reviewers on all levels	

## 2.6.4 Detailed Planning, Fieldwork and Audit Summary

The following table indicates the working papers to be completed at the detailed planning and fieldwork stage.

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
DPF 1.	System description for audit components	Identification and recording of the systems underlying each of the components noted for audit on the Lead schedule. Will include a clear description of the risks identified for the component and the existing system controls intended to address the risks  Identify risks relevant to each component from the Inherent risks noted earlier in planning	Mandatory, to be completed for each audited component or for groups of components with largely similar processes.	Auditor	Audit Director
DPF 2.	Reliance on key controls for components	Link the risks identified in the system description to assertions and decide whether controls are going to be tested.	Mandatory, to be completed for each audited component with system descriptions.	Auditor	Audit Director
DPF 3.	Audit programs	Create appropriate audit tests to cover all of the risks identified in the System descriptions.	Mandatory, to be completed for each audited component.	Auditor	Audit Director
DPF 4.	Sampling	Tests of samples of transactions should be included in the Substantive procedures working paper	Mandatory, to be completed for each procedure / grouping of procedures	Auditor	Audit Director
DPF 5.	Evidence tracking sheet	This is to document information requests and to track outstanding audit evidence for further action	Administrative working paper	Auditor	Audit Team Leader / Director
DPF 6.	Lead schedule on component level	This is to break down the audited component and identify any further focus sub-areas relating to the component covered by the Lead Schedule	To be completed for each component – administrative working paper	Auditor	Audit Team Leader / Director
DPF 6.1	Analytical review for salaries and wages	To document the performance of the analytical review of	To complete when analytical procedures are	Auditor	Audit Team Leader / Director



WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
		salaries and wages	performed		
DPF 7.	Tests of controls	To document the performance of tests of controls	Mandatory, to complete for each test of controls performed.	Auditor	Audit Team Leader / Director
DPF 8.	Substantive audit procedures performance	To document the performance of substantive procedures	Mandatory to complete for each substantive procedure of group of procedures.	Auditor	Audit Team Leader / Director
DPF 9.	Substantive analytical procedures	To document the performance of substantive analytical procedures	Mandatory to complete for each substantive analytical procedure performed.	Auditor	Audit Team Leader / Director
DPF 10.	Audit summary memorandum	Summary of the audit process for each component	Mandatory, to be completed for each audit component.	Auditor	Audit Team Leader / Director
DPF 11.	Audit query	To provide a basis for communication of findings with the client.	To be completed when findings are raised and communicated	Auditor	Audit Director
DPF 12.	Quality Control Questionnaire for Detailed planning and fieldwork	This facilitates a quality review and enables the reviewer identify any aspects of the audit which may not have been adequately addressed during the detailed planning and fieldwork phase of the audit.	Mandatory, to be completed for each audit.	Audit Team Leader	Audit Director
DPF 13.	Review worksheet	To document coaching notes and the responses provided to the reviewers	To be completed when necessary	Reviewers on all levels	

## 2.6.5 Audit Summary and Reporting

The following table indicates the applicable working papers to be completed at the audit summary and reporting stage.

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
AS 1.	Disclosure checklist	For a review of the financial statements review to evaluate the appropriateness of disclosures.	Mandatory to complete for each audit.	Auditor	Audit Director
AS 2.	Management Representation letter	To obtain additional audit evidence in form of written representations from management of the auditee. This letter should contain all the issues around which written representation is required. A draft should be provided by the auditors to the auditee. The final letter should be signed by the accounting officer and returned to the auditors as evidence.	Mandatory, to be completed for each audit.	Audit Team Leader	Audit Director or person responsible for the auditor's report to sign the letter
AS 3.	Subsequent events	To identify events after the year end which may influence the financial statements and/or the audited information.	Mandatory, to be completed for each audit.	Audit Team Leader	Audit Director
AS 4.	Final analytical review (where applicable)	To confirm that given all risk areas have been adequately covered and the correct conclusions have been drawn.	Mandatory, to be completed for each audit.	Audit Team Leader	Audit Director
AS 5.	Audit differences	Documentation of all quantifiable misstatements and errors. Facilitates the evaluation of the effect of these errors on the auditor's report and on the audit opinion.	Mandatory, to be completed for each audit.	Audit Team Leader	Audit Director
AS 6.	Code of Ethics compliance	A declaration of compliance with the	Mandatory, to be completed for each	Audit Team Leader / Team	Audit Director

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
		provisions of the Code of Ethics for the audit	audit.	leader to ensure that all team members sign the declaration	
AS 7.	Quality Control Questionnaire for Audit summary	This facilitates a quality review and enables the reviewer identify any aspects of the audit which may not have been adequately addressed during the audit summary phase of the audit.	Mandatory, to be completed for each audit.	Audit Team Leader	Audit Director
AS 8.	Review worksheet	To document coaching notes and the responses provided to the reviewers	To be completed when necessary	Reviewers on all levels	
R1.	Management letter	Final management letter is issued to the Accounting Officer and should include all matters that will be reported within the auditor's report.  Management's responses are requested on each of the findings.	This document is communicated to the management of the audited entity and responses are requested	Audit Director	Audit Director or person responsible for the auditor's report to sign.
R 2.	Auditor's report	Provides templates for standard auditor's reports	To be completed for each audit	Audit Director	Audit Director or person responsible for the auditor's report
R 3.	Representation by audit management	Where applicable this working paper provides a tracking of the changes made to auditor's reports.	Mandatory, to be completed for each audit.	All senior / top Directors involved in the audit.	
R 4.	Matters for attention during next year's audit	Documentation of issues that are useful or relevant for the following year's audit.	Administrative working paper	Audit Team Leader	Audit Director
R 5.	Quality Control Questionnaire for Reporting	This facilitates a quality review and enables the reviewer identify any aspects of the audit which may	Mandatory, to be completed for each audit.	Audit Team Leader	Audit Director

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
		not have been adequately addressed during the audit reporting phase of the audit.			
R 6.	Review worksheet	To document coaching notes and the responses provided to the reviewers	To be completed when necessary	Reviewers on all levels	

## PART 2 – THE AUDIT OF ACCRUALS BASED FINANCIAL STATEMENTS

### 3 - OVERALL FINANCIAL STATEMENT AUDIT PROCEDURES

#### 3.1 Key considerations

In preparing financial statements, management is making implicit or explicit claims (i.e. assertions) regarding the recognition, measurement and presentation of assets, liabilities, equity, income, expenses and disclosures in accordance with the applicable financial reporting framework (e.g. IPSAS, IFRS<sup>2</sup>). Audit Assertions are also known as Management Assertions and Financial Statement Assertions.

For example, if the Statement of Financial Position of an entity shows buildings with a carrying amount of NGN50 million, the auditor assumes that management is asserting that the buildings were in existence at the end of the reporting period; the entity owns or controls them, they have been valued accurately in accordance with the measurement basis and that all buildings are included in the amount stated. The auditor then prepares his work programme to test the assumptions and assertions appropriately.

Assertions are classified as follows:

<b>Assertions relating to classes of transactions</b>	
<b>Assertions</b>	<b>Explanation</b>
Occurrence	Transactions recognised in the financial statements have occurred and relate to the entity.
Completeness	All transactions that were supposed to be recorded have been recognized in the financial statements.
Accuracy	Transactions have been recorded accurately at their appropriate amounts.
Cut-off	Transactions have been recognized in the correct accounting periods.
Classification	Transactions have been classified and presented fairly in the financial statements.

<b>Assertions relating to assets, liabilities and equity balances at the period end</b>	
<b>Assertions</b>	<b>Explanation</b>
Existence	Assets, liabilities and equity balances exist at the period end.

<sup>2</sup> International Financial Reporting Standards

Completeness	All assets, liabilities and equity balances that were supposed to be recorded have been recognized in the financial statements.
Rights & Obligations	Entity has the right to ownership or use of the recognized assets, and the liabilities recognized in the financial statements represent the obligations of the entity.
Valuation	Assets, liabilities and equity balances have been valued appropriately.

<b>Assertions relating to presentation and disclosures</b>	
Assertions	Explanation
Occurrence	Transactions and events disclosed in the financial statements have occurred and relate to the entity.
Completeness	All transactions, balances, events and other matters that should have been disclosed have been disclosed in the financial statements.
Classification & Understandability	Disclosed events, transactions, balances and other financial matters have been classified appropriately and presented clearly in a manner that promotes the understandability of information contained in the financial statements.
Accuracy & Valuation	Transactions, events, balances and other financial matters have been disclosed accurately at their appropriate amounts.

The following sections contain suggested substantive audit tests and the related audit assertions for the audit of financial statement balances where the accounts have been prepared using the IPSAS accrual accounting convention.

Section 3.2 covers tests of controls, while Section 3.3 covers tests to be conducted at the financial statement level to confirm the integrity of the Account balances, and the tests under Section 4 cover detailed audit tests conducted at component level in respect of a number of key account areas. Guidance on the audit of disclosures and other key matters to consider is provided under Section 4.14.

### 3.2 Tests of controls

#### **3.3.1 Test: In accordance with the audit strategy and detailed audit plan, carry out tests of controls identified as likely to be effective.**

*Assertions: possibly all, depending on the attributes of the controls identified*

#### **Tests to perform**

- Review the documentation of risks and key controls (DPF 1 and DPF 2) and design checks of each control process.

- Conduct tests of controls, applying the sample sizes and coverage determined in the agreed audit plan in line with the RAM sampling methodology.

### **Evaluate and reach initial conclusions**

- Confirm whether any control failures were identified through the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the Sample Evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.

Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

## **3.3 Substantive review of the financial statements**

### **3.3.1 Test: Opening balances**

*Assertions: completeness, classification, accuracy and valuation*

#### **Tests to perform**

- Confirm that the audited figures for last year's accounts have been correctly posted as the opening balances in the general ledger. Ensure in particular that audit adjustments made in the prior year audit have been processed in the trial balance and not simply adjusted manually on the face of the accounts.
- Review any variances from the previous year's audited closing balances and the current year's opening balance.
- Where any variances are identified, investigate as to whether this is a reclassification, or retrospective restatement.

### **3.3.2 Test: General ledger (GL) to Trial Balance (TB)**

*Assertions: completeness, classification, accuracy and valuation*

#### **Tests to perform**

- Reconcile the GL to the TB by reconstructing the trial balance by account code from the transaction level GL data. Ensure that the reconstructed GL data fully reconciles to the TB provided by the client. *The General Ledger data is the transaction level data supplied by the client. This data may be provided on a spreadsheet (MS-Excel) and can be transferred onto other data analysis tools for ease of interrogation. ) that is the source of our sample populations.*
- Ensure that any reconciling items from the GL data to the TB have been tested.

*Note we would expect the GL data to be the movements in balances from the previous year. To*

*reach the balances on the trial balance we will have to include opening balances. As a result this test should be performed in conjunction with TB Opening Balances test.*

### **3.3.3 Test: TB to draft account**

*Assertions: completeness, classification, accuracy and valuation)*

#### **Tests to perform**

- Reconcile the primary statements and the notes to the accounts fully to the trial balance, ensuring all TB codes have been included.
- Review any adjustments between the TB and Draft Accounts.
- Where adjustments have been made to the accounts which are not included in the TB and GL data ensure that these items are tested in the appropriate audit areas.

*If manual adjustments are made on the face of the account there is a risk that these items will not be tested in relevant audit areas as the items would not have been entered into the general ledger and so will not be included in sample populations.*

*It is important that teams gain assurance over each manual adjustment and reconcile each manual adjustment to the TB.*



## 4 - THE AUDIT OF KEY BALANCES AND ACCOUNT AREAS

Listed below are suggested tests on key audit areas, and with the related audit assertions. These are standard testing procedures where no significant risks have been identified for the audit area.

### 4.1 Income

#### 4.1.1 Test: Sample test of income (Test Of Detail)

*Audit Assertions: Occurrence, Accuracy, Classification, Regularity, Cut-off*

##### **Tests to perform**

- Select a sample of invoiced income from the general ledger in line with the agreed audit plan and the RAM. The RAM Sample Planning methodology should be used to calculate the sample size.
- Document how the sample was selected in sufficient detail to allow re-performance if necessary.
- Demonstrate how the sample population reconciles to the draft audit area balance (as supported by the draft financial statements).
- To the extent not already shown on the lead schedule, reference procedures where any elements of the population are tested elsewhere (e.g. testing of journal entries).

##### **Perform the following tests on each sampled item:**

- Trace the sampled item to backing documentation (this may be an invoice, email, contract/sales agreement) that will give an understanding of what the income relates.
- **Occurrence** - Ensure that the goods or service was actually supplied (document what source of evidence was used to confirm this, this may include support from the project manager, confirmation from the buyer);
- **Accuracy** - check that the transaction is recorded at the correct amount /rate. The invoice will not give adequate independent support of this, so match to published rates, agreed contract or other valid evidence.
- **Classification** - confirm that the transaction has been posted to an appropriate general ledger code;
- **Regularity** - check that the receipts are those which you would expect the organisation to receive. Ensure that the income is in line with Legislative approval and within the limits set on the MDA's activities. For all entities, ensure that income relates to activities detailed in authorising legislation and that fees have been set in accordance with appropriate regulations.
- **Cut off** - confirm that the transaction has been accounted for in the correct year based on when the good or service was provided to the customer.

##### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.

- Where misstatements have been identified, the Sample Evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.1.2 Test: Assurance over accrued income from accruals testing**

*Audit Assertions: Occurrence, Accuracy, Classification, Regularity, Cut-off*

##### **Tests to Perform:**

- Confirm that the audit work undertaken on accruals in the receivables work programme provides sufficient appropriate assurance over accrued transactions within income (*refer to section on Receivables below*). This will include confirming that the assurance factor used was appropriate to provide assurance over accrued income for Occurrence, Classification, Cut-off, Accuracy and Regularity.
- Provide references to where the work has been performed.
- If adequate assurance is not obtained, consider alternative procedures which will provide that assurance.

#### **4.1.3 Test: Income (Substantive Analytical Procedures)**

*Audit Assertions: Occurrence, Accuracy, Classification, Regularity, Cut-off*

##### **Tests to perform:**

- Perform a Substantive Analytical Procedure for suitable sub-populations of income (for example, rental lease income).
- For each suitable population create a valid expectation of the income outturn and compare it to the outturn recorded in the financial statements.
- Ensure that the data source used to make the prediction is independent and reliable (documenting why this is the case).
- Ensure that any assumptions used in making the prediction are fully justified and documented.

##### **Evaluate the results of the prediction by:**

- Calculating a tolerable difference in line with the RAM and the audit area approach. (*The calculation of tolerable difference depends on whether an assurance factor of 1.6 or 0.9 is required*).
- Evaluating whether the predicted amount falls within the tolerable difference.
- If the prediction is outside of tolerable difference, assess the assumptions used, to ascertain whether they can be refined.

- If the assumptions can be refined perform above tests again.
- If the assumptions cannot be reasonably refined, perform alternative procedures (see Evaluate and Conclude).
- The substantive analytical procedure work paper template can be used to document the analytical procedure.

### **Evaluate and Conclude**

- Document whether the prediction is sufficiently accurate (i.e. within the tolerable difference)
- Where the prediction remains outside of the tolerable difference, determine whether a misstatement or irregularity has been identified.
- Conclude on the assurance that can be taken from the test over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.1.4 Test: Completeness assurance from receivables completeness testing**

*Assertion: Completeness*

#### **Tests to perform**

The tests of completeness of receivables in the receivables work programme (see separate section below) provide assurance over the completeness of receivables. This is tested by:

- cash after date testing, tracing receipts to year-end receivables or accrued income; and
- testing of independent sales data, tracing independent unpaid sales data to year-end receivables or accrued income.
- Consider whether the work undertaken in the prepayments and receivables work programmes (see separate sections below) also provide sufficient and appropriate assurance over completeness of income.
- Provide references to where this work is performed.
- If additional procedures are required to obtain the necessary assurance over income (for example over income streams which have not been identified and recorded) then consider whether this may indicate the existence of a specific risk of material misstatement. If this is the case design appropriate responses to this risk and agree the approach with the Team Leader and Assignment Director, updating the Audit Plan.

### **4.2 Administrative expenditure**

#### **4.2.1 Test: Administrative Expenditure (Substantive Analytical Procedures)**

*Assertions: Occurrence, Accuracy, Classification, Cut-off, Regularity*

### **Tests to perform:**

Perform a Substantive Analytical Procedure (SAP) for suitable sub-populations of expenditure. (e.g. to predict the rental expenditure balance, review the rental agreements and develop an expectation for the rental expenditure in the period)

### **Steps:**

- For each suitable population create a valid expectation of the expenditure outturn and compare it to the outturn recorded in the financial statements.
- Ensure that the data source used to make the prediction is independent and reliable (documenting why this is the case).
- Ensure that any assumptions used in making the prediction are fully justified and documented.

### **Evaluate the results of the prediction by doing the following:**

- Calculate a tolerable difference in line with RAM and the audit area approach. *(Note that the calculation of tolerable difference is different depending on whether an assurance factor of 1.6 or 0.9 is required from the SAP).*
- Evaluate whether the predicted amount falls within the tolerable difference.
- If the prediction is outside of tolerable difference, assess the assumptions used, to ascertain whether they can be refined.
- If the assumptions can be refined perform the tests again.
- If the assumptions cannot be reasonably refined, perform alternative procedures (see Evaluate and Conclude).

### **Evaluate and Conclude**

- Document whether the prediction is sufficiently accurate (i.e. within the tolerable difference)
- Where the prediction remains outside of the tolerable difference, determine whether a misstatement or irregularity has been identified.
- Conclude on the assurance that can be taken from the test over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

## **4.2.2 Test: Administrative Expenditure (Sample testing - Test of Detail)**

*Assertions: Occurrence, Accuracy, Classification, Cut-off, Regularity*

### **Tests to Perform:**

- Select a sample of invoiced expenditure from the General Ledger (GL) (or an invoice listing reconciled to the general ledger), in line with the agreed audit plan and the RAM. The RAM Sample Planning methodology should be used to calculate the sample size.
- Document how the sample was selected in sufficient detail to allow re-performance if necessary.

- Demonstrate how the sample population reconciles to the draft audit area balance (in the draft financial statements).
- To the extent not already shown on the lead schedule, reference procedures where any elements of the population are tested elsewhere (e.g. testing of journal entries).

#### **For each of the sampled items:**

Document the nature of the evidence obtained for each assertion tested.

- **Occurrence** - Trace the line selected from the GL/listing to appropriate supporting evidence (e.g. an invoice).
- **Accuracy** - Confirm the arithmetic accuracy of the supporting evidence. Ensure that the value of the GL/listing entry agrees to the supporting evidence. This should include the appropriate treatment of any sales tax.
- **Classification** - Confirm that the expenditure has been included in a general ledger code that is appropriate for that type of expenditure.
- **Cut-Off** (partial) - Based on the supporting evidence, determine which reporting period the underlying activity took place in, and therefore whether the expenditure has been recorded in the correct period.
- **Regularity** - Consider the nature of the expenditure, is it novel or contentious or in any other way potentially irregular?

#### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the Sample Evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions specified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

### **4.3 Staff Costs / Payroll**

#### **4.3.1 Test: Staff Costs (Substantive analytical procedure)**

*Assertions: Occurrence, Accuracy, Classification, Cut-off, Completeness*

#### **Tests to perform:**

Substantive Analytical Procedure on payroll expenditure (including salaries, statutory tax deductions, pensions and allowances). Create a valid expectation of the payroll expenditure outturn and compare it to the outturn recorded in the financial statements:

- Identify an independent and reliable data source(s) (normally Human Resources (HR) data);
- Consider and document the reliability of the above data source;
- Document and justify the assumptions to be used in making the prediction;

- Validate the data source through testing of employees to signed contracts. Note that this testing could be included as part of the starters and leavers testing
- Calculate a tolerable difference in line with RAM;
- Make a prediction of the payroll expenditure balance, using the identified data source. The most common method of creating this prediction is as follows:
  - Obtain the number of staff in position at different grades throughout the year and the pay scale for those grade from HR; you may need to adjust for agency staff costs;
  - Calculate the average salary per pay scale;
  - Apply the average pay rise per the pay remit test to the average salary;
  - Calculate the total pay charge by applying the pay rise for the appropriate period, to the average salary multiple, by the number of staff in each grade;
- Calculate the pension contributions based on the relevant scheme rules. Ensure that all assumptions are documented on file.
- Calculate whether the difference between the prediction and the population is less than the tolerable error.
- If the prediction is outside of tolerable difference, assess the assumptions used, to ascertain whether they can be refined.
- If the assumptions can be refined perform the predictive steps –above again. If the assumptions cannot be refined in a valid way discuss with the audit lead/audit manager as to whether substantive testing is required.

### **Evaluation & Conclusion**

- Document whether the prediction is sufficiently accurate (i.e. within the tolerable difference)
- Where the prediction remains outside of the tolerable difference, determine whether a misstatement or irregularity has been identified
- Conclude on the assurance that can be taken from the test over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

### **4.3.2 Test: Starters and leavers testing**

*Assertions: Occurrence, Accuracy, Completeness, Regularity*

#### **Tests to perform:**

- Select a sample of starters and leavers for testing. The starters sample should be selected from payroll records; the leavers sample should be selected from the personnel records
- The following sample sizes are appropriate:
  - Where we have found controls to be operating satisfactorily a sample of 5-10 starters and 5-10 leavers may be appropriate.
  - Where controls have not been tested, or are not operating satisfactorily, a larger sample will be required to gain assurance.
  - The RAM provides further guidance on judgemental sampling.

- **Accuracy** - Ensure first/last payment was correctly calculated with reference to start date (contract) or leaving date (personnel records) taking into account any relevant allowances or outstanding leave.
- **Accuracy and Completeness** - Ensure that the first/last payment has been entered into the system accurately.
- **Occurrence** - Agree start date/leave date in HR system to contract of employment/personnel records/authorised leavers form.
- **Regularity** - Ensure employee was only paid from start date/to date of departure. Confirm payment is to a bona fide employee (by reference to signed contract).

### **Evaluation & Conclusion**

- Confirm whether any items failed the above testing, and whether any misstatements or irregularities were identified.
- Where misstatements or irregularities have been identified, understand the nature and cause of any misstatements or irregularities identified and determine whether they indicate that other misstatements or irregularities may exist, including in other audit areas.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

## **4.4 Property plant and equipment**

### **4.4.1 Test: Completeness testing of assets**

*Assertion: Completeness*

#### **Tests to Perform:**

Consider if any additions to or disposals of tangible non-current assets have not been recorded in the non-current asset register by:

- Reviewing minutes of senior management and Board meetings to identify any plans and commitments to acquire or dispose of assets,
- Review maintenance and other account codes for capital items (reference to expenditure testing - if any capital items have been found ensure they are included on the fixed asset register);
- From work undertaken in understanding the business, and our knowledge of the business from other audit work, consider whether all material tangible assets are included in the financial statements, on the basis of the entity's accounting policy;

#### **Other possible procedures where relevant:**

- Review any major equipment leases entered into and ensure that the accounting treatment accords with the Accountant General's Accruals Accounting Manual.
- Review any major disposal contracts to ensure all rights and obligations of any assets have been transferred.

- Review the minutes of the any investment/capital approval Boards the entity has, or for a Capital Investment steering group (or similar) to ascertain what the annual investment plans are and whether these have been reflected in the accounts.
- Select a sample of qualifying PPE items from the floor of the Client's premises and trace these to the Fixed Asset Register to confirm that they have been recorded, and included in the PPE balance. Confirm whether any misstatements were identified from the above testing.
- Where misstatements or irregularities have been identified understand the nature and cause of any misstatements or irregularities identified and determine whether they indicate that other misstatements or irregularities may exist, including in other audit areas.

### **Conclude**

- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.4.2 Test: Sample test of additions**

*Assertions: Occurrence, Accuracy, Classification, Cut-off, Regularity*

#### **Tests to Perform:**

- Select a sample of tangible non-current asset additions in line with the Regularity Audit Manual (RAM) and the audit approach.
- Ensure that the sample is taken from the source data reconciled to the General ledger (for example the additions report run from the Fixed Asset Register). The RAM Sample Planning methodology should be used to calculate the sample size.

#### **For each sampled addition ensure:**

- **Occurrence** - That the addition can be traced to appropriate source documentation (usually an invoice or purchase order)
- **Accuracy** - That the addition has been capitalised at its correct value (including the correct treatment of any sales tax).
- **Classification (as a capital asset)** - That the addition is appropriate for the entity to capitalise. Considerations should be:
  - Entity's accounting policies and capitalisation threshold; and
  - Recognition criteria set out in the Accountant Generals' Accruals Accounting Manual.
- **Classification (as the correct type of capital asset)** - That the addition has been recorded in the correct category in the fixed asset register and the general ledger.
- **Cut-Off** - That the addition relates to a non-current asset purchased in the current financial year
- **Regularity** - That the assets are those which you would expect the organisation to



purchase.

- **Existence and Rights and Obligations** - Note that it may be efficient to utilise the additions sample to support the existence assertion (see "existence of assets" test). If this is the case, perform the following additional tests:
  - **Existence** - Physically verify the asset's existence by inspection. Where physical verification is not practicable obtain other evidence (e.g. dated photograph, third party confirmation) that provides sufficient appropriate audit evidence to support the existence assertion.
  - **Rights and Obligations** - Confirm that the asset is still in use and used solely for the benefit of the entity.

### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.

Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

### **4.4.3 Test: Sample test of disposals**

*Assertions: Occurrence, Accuracy, Classification, Cut-off*

#### **Tests to Perform:**

- Select a sample of tangible non-current asset disposals in line with the Regularity Audit Manual and the audit approach.
- Ensure that the sample is taken from the source data reconciled to the general ledger (for example the disposals report run from the Fixed Asset Register). The RAM Sample Planning methodology should be used to calculate the sample size.

#### **For each sampled disposal ensure:**

**Occurrence** - The disposed asset can be matched to documentation supporting the transaction (e.g. receipt, disposal order or other supporting documentation);

**Classification** - That the disposal has been correctly reflected in the fixed asset register and the general ledger;

**Accuracy** - That any profit or loss on disposal has been correctly calculated and disclosed, and that any disposal proceeds and revaluation reserve balances have been correctly accounted for.

**Cut-Off** - The disposal has been made in the current financial year.

### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were

identified.

- Where misstatements have been identified, the sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.

Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.4.4 Test: Existence of assets**

*Assertions: Existence, Rights & Obligations*

##### **Tests to Perform:**

Select a sample in line with the Regularity Audit Manual and the audit approach. Ensure that the sample is taken from the source data reconciled to the General ledger (for example the Fixed Asset Register).

##### **For each sampled item:**

**Existence** - Physically verify the asset's existence by inspection.

Where physical verification is not practicable, obtain other evidence (e.g. dated photograph, third party confirmation) that provides sufficient appropriate audit evidence to support the existence assertion.

**Rights and Obligations** - Confirm that the asset is still in use and used solely for the benefit of the entity. NOTE: where applicable, assets owned jointly by multiple parties should, where material, be included on the Statement of Financial Position at the appropriate representative proportion.

##### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.

Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.4.5 Test: Rights and obligations of assets**

### *Assertions: Rights & Obligations*

#### **Tests to perform:**

Perform appropriate procedures to gain assurance over the rights and obligations of Tangible Non-Current Assets (TNCAs), based on the size of the asset base and the risk of material misstatement.

Examples of possible procedures are:

- For land and buildings, search the office land records (e.g. at a Land Registry) for evidence of the deeds of ownership,
- Review lease agreements,
- Review correspondence with the entity's lawyers,
- Review documentation supporting outcome of any disputes over ownership,
- Enquiry of key asset holders,
- Evaluate the results of testing the rights and obligations assertion as part of the sample selected for the existence of assets test,
- Evaluate the results of testing the rights and obligations assertion as part of the "use of the work of others for valuation of TNCAs" test if completed for the audit.

#### **Conclude**

- Whether we have obtained sufficient, appropriate assurance over the rights and obligations of TNCAs.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.4.6 Test: Substantive analytical procedure for depreciation**

*Assertions: Occurrence, Completeness, Classification, Accuracy, Classification, Cut-off*

#### **Tests to Perform:**

Perform a Substantive Analytical Procedure for the depreciation charge:

- Create a valid expectation of the depreciation expenditure and compare it to the depreciation charge recorded in the financial statements.
- Ensure that the data source used to make the prediction is independent and reliable.
- Ensure that any assumptions used in making the prediction are fully justified.

Specifically for the depreciation procedure, the following should be taken into account:

- The historic cost of the assets by category and the applicable depreciation rates/useful economic lives in the accounting policies.
- The effect of additions and disposals bought and sold part way through the year
- The effect of nil net book value assets

#### **Evaluate the results of the prediction by:**

- Calculating a tolerable difference in line with the RAM and the area audit approach. *(Please note that the calculation for tolerable difference is different depending on whether you seek an assurance factor of 0.9 or 1.6 from the SAP. Typically for a SAP on depreciation charge we will be seeking an assurance factor of 1.6).*

- Evaluating whether the predicted amount falls within the tolerable difference.
- If the prediction is outside of tolerable difference, assess the assumptions used, to ascertain whether they can be refined.
- If the assumptions can be refined perform the above tests again.
- If the assumptions cannot be reasonably refined, perform alternative procedures (see Evaluate and Conclude).

### **Evaluate and Conclude**

- Document whether the prediction is sufficiently accurate (i.e. within the tolerable difference).
- Where the prediction remains outside of the tolerable difference, determine whether a misstatement or irregularity has been identified.
- Conclude on the assurance that can be taken from the test over the audit assertions identified.

Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.4.7 Test: Sample test of detail for depreciation charge**

*Assertions: Occurrence, Completeness, Classification, Accuracy, Classification, Cut-off*

### **Tests to Perform:**

This test should only be completed if a substantive analytical procedure is not or cannot be performed over depreciation. This would be applicable in the first year of transition to IPSAS accrual accounting.

Select a sample of tangible non-current asset depreciation charges from the fixed asset register in line with the Regularity Audit Manual and the audit approach. The RAM Sample Planning methodology should be used to calculate the sample size.

Note that it could be beneficial to extend additions and disposals sample tests to include the item tests listed below in order to satisfy this test of detail.

### **For each selected item:**

**Occurrence and Completeness** - confirm the asset is properly subject to depreciation (i.e. it is available for use, not held for sale and not land);

**Accuracy** - recalculate the depreciation charge for the item and ensure it has been calculated accurately (based on the entity's accounting policy for that class of asset) and consider whether the depreciation rates applied are appropriate for the nature of the assets and their use by the entity;

**Classification** - ensure the depreciation has been charged to the correct account code; and

**Cut-off** - confirm that the useful life of the asset is appropriate.

### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the sample evaluation form should be used to

evaluate/ extrapolate any misstatements.

- Conclude on the assurance that can be taken from the testing over the audit assertions identified.

Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.4.8 Test: Use of the work of others for valuation of Tangible Non-Current Assets (TNCA)**

*Assertions: Valuation & Allocation*

##### **Tests to Perform:**

1. Perform procedures to earn the right to use the valuation reports of tangible non-current assets prepared by management's experts. In accordance with ISSAI, to be able to place reliance on the work of a valuer the auditor must:
  - evaluate the competence, capabilities and objectivity of the valuer;
  - obtain an understanding of the work of the valuer; and
  - evaluate the appropriateness of the valuer's work as audit evidence for the relevant assertion
2. Document any additional assurance (apart from valuation assurance) over the ownership of the assets giving assurance over rights and obligations.
3. Agree the valuations provided to those applied to the non-current asset register.
4. Ensure that the accounting entries have been correctly made to non-current assets, the revaluation reserve and/or performance statement of the financial statements. For example:
  - downward valuations have been debited to the revaluation reserve before debiting expenditure (except where there is a clear consumption of economic benefit - per the Accountant General's Accruals Accounting Manual)
  - revaluation reserves for different assets are not netted off
  - amortisation charges in year are reversed out in the non-current asset note (s).

##### **Conclude**

- Whether the work performed on the quality and scope of the valuer's work is sufficient for audit purposes.
- Whether the valuations have been applied correctly to the financial statements.

Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.4.9 Test: Impairment review**

*Assertions: Valuation & Allocation*

##### **Tests to Perform:**

From our knowledge of the business consider whether there are any indications of impairments

to tangible non-current assets. Tests might include:

- Review of Board minutes;
  - Review of other changes in the business through analytical procedures or other procedures performed in planning.
- Confirm whether management has performed an impairment review.
- Where there are indications that an impairment has taken place, review management's calculation of the appropriate carrying value and confirm whether it is appropriate.

**Conclude on:**

- Whether all material impairments have been identified.
- Whether the impairments are appropriate and have been accounted for correctly.

Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, discuss the revised approach with the Team Leader and Assignment Director.

## 4.5 Intangible Non-Current Assets (ITNCA)

### 4.5.1 Test: Sample test of additions

*Assertions: Occurrence, Accuracy, Classification, Cut-off*

**Tests to Perform**

- Select a sample of intangible non-current asset additions in line with the Regularity Audit Manual and the audit approach.
- Ensure that the sample is taken from the source data reconciled to the General ledger (for example the additions report run from the Fixed Asset Register).

For each sampled addition ensure:

- Occurrence - That the addition can be traced to appropriate source documentation (usually an invoice or purchase order)
- Accuracy - That the addition has been capitalised at its correct value.
- Classification (as PPE or an intangible asset) - That the addition is appropriate for the entity to capitalise. Considerations should be:
  - Entity's accounting policies and capitalisation threshold; and
  - Recognition criteria set out in Accountant Generals' Office Accruals Accounting Manual.
- Classification (as the correct type of intangible asset) - That the addition has been recorded in the correct category in the fixed asset register and the general ledger.
- Cut-Off- That the addition relates to a non-current asset purchased in the current financial year
- Regularity - That the assets are those which you would expect the organisation to purchase.

### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.5.2 Test: Sample test of disposals**

*Assertions: Occurrence, Accuracy, Classification, Cut-off*

### **Tests to Perform**

- Select a sample of intangible non-current asset disposals in line with the Regularity Audit Manual and the audit approach. Ensure that the sample is taken from the source data reconciled to the General ledger (for example the disposals report run from the Fixed Asset Register). The RAM Sample Planning methodology should be used to calculate the sample size.

### **For each sampled disposal ensure:**

- Occurrence- The disposed asset can be matched to documentation supporting the transaction (e.g. receipt, disposal order or other supporting documentation);
- Classification- That the asset has been correctly removed from the fixed asset register and the general ledger;
- Accuracy- That any profit or loss on disposal has been correctly calculated and disclosed in the account, and that any disposal proceeds and revaluation reserve balances have been correctly accounted for.
- **Cut-Off**- The disposal has been made in the current financial year.

### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.5.3 Test: Completeness testing of assets**

*Assertion: Completeness*

##### **Tests to Perform**

Consider if any additions to or disposals of intangible non-current assets have not been recorded in the non-current asset register by:

- Reviewing minutes of senior management and Board meetings to identify any plans and commitments to acquire or dispose of assets;
- Review maintenance, IT and other account codes for capital items [reference to expenditure testing if any capital items have been found];
- From work undertaken in understanding the business, and our knowledge of the business from other audit work, consider whether all material intangible assets are included in the financial statements, on the basis of the entity's accounting policy;

##### **Other possible procedures where relevant;**

- Review any major software leases entered into and ensure that the accounting treatment accords with the Accountant General's Accruals Accounting Manual
- Review any major disposal contracts to ensure all rights and obligations of any assets have been transferred.
- Review the minutes of any investment/IT asset approval Boards the entity has to ascertain what the annual investment plans are and whether these have been reflected in the accounts.

##### **Evaluate and Conclude**

- Confirm whether any misstatements were identified from the above testing.
- Where misstatements have been identified understand the nature and cause of any misstatements or irregularities identified and determine whether they indicate that other misstatements or irregularities may exist, including in other audit areas.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.5.4 Test: Existence of assets - ITNCA**

*Assertion: Existence*

##### **Test to Perform**

- Select a sample in line with the Regularity Audit Manual and the audit approach. Ensure that the sample is taken from the source data reconciled to the General Ledger (for example the Fixed Asset Register).



- Ensure that the source documentation reconciles to the financial statements and the trial balance, this would involve:
- reconciling the movements in year to the general ledger; and
- confirming the opening balances to the prior year financial statements (or an appropriate alternative source).

The RAM Sample Planning methodology should be used to calculate the sample size.

For each sampled item:

- **Existence** - Obtain documentary evidence for the existence of that asset. For example: Third party confirmation for software licenses. For databases and intangible IT systems the auditor can try accessing and using the database
- **Rights and Obligations**- Confirm that the intangible asset is still in use and used solely for the benefit of the entity. Occasionally an entity may jointly own the asset and a proportion of the asset should be included in the Statement of Financial Position.

### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

### **4.5.5 Test: Rights and obligations of Intangible Non-Current Assets (ITNCA)**

*Assertions: Rights and obligations*

#### **Tests to perform:**

Perform appropriate procedures to gain assurance over the rights and obligations of ITNCAs, based on the size of the asset base and the risk of material misstatement.

#### **Examples of possible procedures are:**

- For patents, search the patents register [where one is available] for evidence that the patent is granted in the clients name,
- Review software lease agreements,
- Review correspondence with the entity's lawyers,
- Review management controls over any disputes regarding ownership; or
- Enquiry of key asset holders.
- Evaluate the results of testing the rights and obligations assertion as part of the sample selected for the "existence of assets" test.
- Evaluate the results of testing the rights and obligations assertion as part of the "use of the

work of others for valuation of ITNCAs" test if completed for the audit

### **Conclude**

- Whether we have obtained sufficient assurance over the rights and obligations of ITNCAs.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.5.6 Test: Substantive analytical procedure for amortisation**

*Assertions: Occurrence, Completeness, Classification, Accuracy, Classification, Cut-off*

### **Test to perform**

Perform a Substantive Analytical Procedure for the amortisation charge by doing the following;

- Create a valid expectation of the amortisation expenditure and compare it to the amortisation charge recorded in the financial statements.
- Ensure that the data source used to make the prediction is independent and reliable.
- Ensure that any assumptions used in making the prediction are fully justified.
- Specifically for the amortisation procedure the following should be taken into account:
  - The historic cost of the assets by category and the applicable amortisation rates/useful economic lives in the accounting policies.
  - The effect of additions and disposals bought and sold part way through the year
  - The effect of nil net book value assets

### **Evaluate the results of the prediction by:**

- Calculating a tolerable difference in line with the RAM and the area audit approach. *(Please note that there is a different calculation for tolerable difference dependent on whether you seek an assurance factor of 0.9 or 1.6 from the SAP).*
- Evaluating whether the predicted amount falls within the tolerable difference.
- If the prediction is outside of tolerable difference, assess the assumptions used, to ascertain whether they can be refined.
- If the assumptions can be refined perform the above tests again.
- If the assumptions cannot be reasonably refined, perform alternative procedures (see Evaluate and Conclude).

### **Evaluate and Conclude**

- Document whether the prediction is sufficiently accurate (i.e. within the tolerable difference)
- Where the prediction remains outside of the tolerable difference, determine whether a misstatement or irregularity has been identified.
- Conclude on the assurance that can be taken from the test over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.5.7 Test: Sample test of detail for amortisation**

*Assertions: Occurrence, Classification, Accuracy, Cut-off*

This test should only be completed if a substantive analytical procedure is not performed over amortisation.

##### **Tests to perform:**

- Select a sample of intangible non-current asset amortisation charges from the general ledger in line with the Regularity Audit Manual and the audit approach. The RAM Sample Planning methodology should be used to calculate the sample size. Note that it could be beneficial to extend additions and disposals sample tests to include the item tests listed below in order to satisfy this test of detail.

##### **For each selected item:**

- **Occurrence** - confirm the asset is subject to amortisation (i.e. it is available for use, not held for sale and not a category of intangible asset not amortised e.g. goodwill)
- **Accuracy** - recalculate the amortisation charge for the item and ensure it has been calculated accurately (based on the entity's accounting policy for that class of asset) and consider whether the amortisation rates applied are appropriate for the nature of the assets and their use by the entity ;
- **Classification** - ensure the amortisation has been charged to the correct account code; and
- **Cut-off** - confirm that the useful life of the asset is appropriate and the brought forward balances are accurate (by cross reference to prior year figures testing).

##### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.5.8 Test: Impairment review**

*Assertions: Valuation & Allocation*

##### **Tests to perform:**

From your knowledge of the business consider whether there are any indications of impairments to intangible non-current assets. Tests might include:

- Review of Board minutes;
- Review of other changes in the business through analytical procedures or other procedures performed in planning.

- Consideration of the indications set out in the Accountant General's Accruals Accounting Manual.
- Confirm whether management has performed an impairment review.
- Where there are indications that impairment has taken place, review management's calculation of the appropriate carrying value and confirm whether it is appropriate.

**Note:** for assets under development, entities are required to perform an impairment review regardless. We will need to confirm the outcome of this where Intangible Assets under development are significant and any significant impairments have been put through the accounts appropriately.

**Conclude on:**

- Whether all material impairments have been identified.
- Whether the impairments are appropriate and have been accounted for correctly.

Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, discuss the revised approach with the Team Leader and Assignment Director.

## 4.6 Cash and cash equivalents

### 4.6.1 Test: Cash and bank confirmation

*Assertions: Existence, Valuation & Allocation, Rights & Obligation, Completeness*

Also see Part 3 for additional guidance.

**Tests to Perform:**

- Obtain bank letters for all balances held with banks at the year end.
- For each account held, conduct the following tests:
  - Valuation & Allocation, Rights & Obligations, Existence** - Confirm that the balances recorded by the client within their year-end bank reconciliation for balances per the bank statement(s) agree to the balances on the bank confirmation letter(s).
  - Completeness** - Ensure all balances on bank accounts detailed in the bank confirmation letters have been included in the client's GL and have been taken into account in the year-end bank reconciliation.
  - Completeness (disclosures)** - Check if any other information in the bank confirmation letter (e.g. guarantees given by the bank) has been appropriately reflected in the financial statements.

**Evaluate and Conclude**

- Evaluate the results of the testing performed.
- Understand the nature and cause of any misstatements identified and determine whether they indicate that other misstatements exist, including in other audit areas.
- Conclude on the assurance that can be taken from the test over the audit assertions

identified.

- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.6.2 Test: Re-performance of year end bank reconciliation**

*Assertions: Existence, Valuation & Allocation, Rights & Obligation, Completeness*

*Note: If bank reconciliations have been tested as part of the controls testing, cross reference to the appropriate work programme to accompany this testing. Controls tests of bank reconciliations are normally only performed where there are a very large number of bank accounts and therefore re-performance of every year-end bank reconciliation is not efficient.*

Also see Part 3 for additional guidance.

#### **Tests to Perform:**

- Re-perform the client's year end bank reconciliation(s). This will involve starting with the balance per the bank letter, adding in **uncleared lodgements** (for which the client should have a breakdown), deducting **unpresented cheques/BACS payments that have not cleared** etc. (for which the client should have a breakdown) and adjusting for any **bank errors** (very rare). The resulting figure will be the figure that should be in the General Ledger for that bank account at the year end.
- For a sample of the three types of reconciling items per the bank reconciliation above, agree to supporting documentation to confirm that they are reconciling items at the year-end (e.g. agree BACs payments recorded in the General Ledger, but not cleared at bank by the period end, to subsequent bank statements and ensure they clear at bank within a reasonable timeframe, i.e. 1-2 days).
- Completeness of reconciling items:
  - Trace a sample of items (e.g. bank charges, direct debits) from the bank statement to the bank reconciliation to check that items cleared at bank just prior to period end are reflected in the General Ledger for the period being audited.
  - Check a sample of items from bank statements subsequent to period end to the bank reconciliation to check that uncleared lodgements and unpresented cheques/BACs payments are reflected in the General Ledger for the period being audited.
- Ensure the ledger has been updated as appropriate as a result of the reconciliation and that the financial statements materially reflect the true cash position.

#### **Evaluate and Conclude**

- Evaluate the results of the testing performed.
- Understand the nature and cause of any misstatements identified and determine whether they indicate that other misstatements may exist, including in other audit areas.
- Conclude on the assurance that can be taken from the test over the assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary

assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director

#### **4.6.3 Test: Cash equivalents**

*Assertions: Existence, Valuation & Allocation, Rights & Obligation, Completeness*

Also see Part 3 for additional guidance.

##### **Tests to Perform:**

- **Completeness** - Consider if there are any undisclosed balances that would meet the definition of cash equivalents. Examples of such balances would be:
  - Amounts held on account with third parties
  - Investments with short (< 3 months) maturity date - when used to meet short-term cash requirements
  - Bank borrowings - when used to meet short-term cash requirements (Note: overdrafts should be disclosed as liabilities).
- Where balances are considered insignificant, perform minimal substantive procedures, e.g.
  - Substantive analytical procedure; or
  - Test of detail (as is appropriate for the entity).
- Where balances are considered significant, the auditor must:
  - Design test of detail to gain assurance over all assertions (**Existence, Rights & Obligations, Completeness, Valuation & Allocation**).

Consider the risk of material misstatement due to fraud.

##### **Conclude**

- Evaluate the results of the testing performed.
- Understand the nature and cause of any misstatements identified and determine whether they indicate that other misstatements may exist, including in other audit areas.
- Conclude on the assurance that can be taken from the test over the audit assertions identified above.
- Where the planned assurances cannot be taken, consider what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, discuss the revised approach with the Team Leader and Assignment Director.

#### **4.6.4 Test: Cash in hand**

*Assertions: Existence, Valuation & Allocation, Rights & Obligation, Completeness*

Also see Part 3 for additional guidance.

##### **Tests to perform**

- Ascertain what cash in hand balances are held by the entity.
- Where balances are considered insignificant and there is no risk of material misstatement, perform no further work.

- Where balances are considered significant the auditor must design tests of detail to gain assurance over all assertions (**Existence, Rights & Obligations, Completeness, Valuation & Allocation**). These might include, for example:
  - Obtaining a listing of petty cash held and supporting documentation.
  - Performing a spot check on cash held.
  - Review the year-end procedures to verify and record the level of cash held (e.g. authorisation of monthly standard expense claim forms to confirm top-up of petty cash).

Consider the risk of material misstatement due to fraud when determining the procedures to be performed.

### **Conclude**

- Evaluate the results of the testing performed.
- Understand the nature and cause of any misstatements identified and determine whether they indicate that other misstatements may exist, including in other audit areas.
- Conclude on the assurance that can be taken from the test over the audit assertions identified above.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

## **4.7 Prepayments**

### **4.7.1 Test: Completeness testing for prepayments**

*Assertion: Completeness*

Required Work: Test completeness of prepayment balances and conclude on the results.

### **Tests to perform**

Consider if sufficient assurance can be taken from work performed in expenditure. If so, document the basis for the conclusion. If not, perform the procedures below;

- Review account codes which would be expected to contain prepayments (rent, rates, utilities, subscriptions etc.) to ensure that all expected prepayments have been recognised.
- Where not already done so, form an expectation over the requirement for period-end adjustments (accrued/deferred payments) for significant expenditure streams. This expectation could be formed through comparison to prior period listings and through our understanding of the timing of payments for significant expenditure streams. Check the prepayments listing against our expectation.

### **Evaluate and Conclude**

- Evaluate the results of the testing performed. The purpose of this testing is to obtain

evidence that the balance is materially complete; therefore any misstatement identified may indicate that there could be further omissions from the financial statements and overstatement of expenditure.

- Where misstatements are identified:
  - From discussion with management, understand the nature and cause of any misstatements identified and determine, whether those represent systematic or isolated instances of omissions from the financial statements. Consider specifically whether the errors found indicate weaknesses in internal control.
  - Where the error can be isolated, the Engagement Team should perform further work to evaluate the extent of the error. Where considered relevant, request management to examine a class of transactions, account balance or other appropriate source population (e.g. prepaid work in progress) to determine the maximum extent and value of the misstatement. Perform procedures to evaluate management's work. Exercise and document professional scepticism when reviewing management's work or considering whether an error can be isolated.
  - Where the error has the potential to be systematic, consider extending the testing, focussing on the nature of misstatements identified and the relevant source populations. The Engagement Team should exercise their judgement when considering additional audit procedures based on their understanding of the client. Further testing could include but is not limited to: extending sample size, extending the scope of population, focusing testing on a population where misstatements were identified, performing a review of significant balances within the source population, considering findings from the review of board minutes (cross refer as appropriate). If you conclude that no further testing is required, explain how sufficient appropriate evidence has been obtained over completeness.
- Conclude on the assurance that can be taken from the test over completeness.
- Where the planned assurances still cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director and document this appropriately (including documents completed at the planning stage).

#### **4.7.2 Test: Prepayments (Test of detail)**

*Assertions: Existence, Valuation & Allocation, Rights & Obligation*

##### **Tests to Perform**

- Perform a sample test on prepayment balances and conclude on the results of the test.
- Obtain a listing of prepayments from the client and select a sample in line with the agreed audit plan (e.g. using an appropriate assurance factor and sampling methodology) and the RAM (See Guidance).
- Document how the sample was selected in sufficient detail to allow re-performance if



necessary.

- Demonstrate how the sample population reconciles to the draft audit area balance (as supported by the draft financial statements).

For each sampled item ensure the following:

- **Valuation & Allocation** - the balance is recorded at the correct amount /rate (including the treatment of VAT) and has been posted to an appropriate ledger code. If the service spans the period end, recalculate the prepaid element; and
- **Existence; Rights & Obligations** - cash was paid prior to the reporting date in consideration of goods or services received after the reporting date.

In addition to the assertions above the auditor should also consider the regularity of the expenditure as the transaction may have occurred in a prior period - e.g. ensure for the prepayments sampled that any payments made in advance of need have Treasury approval as these are potentially novel and contentious.

### **Evaluate and Conclude**

- Evaluate the results of the testing performed.
- Understand the nature and cause of any misstatements identified and determine whether they indicate that other misstatements may exist, including in other audit areas.
- Conclude on the assurance that can be taken from the test over the audit assertions identified above.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director and document this appropriately (including documents completed at the planning stage).

## **4.8 Receivables & Accrued Income**

### **4.8.1 Test: Sample test of Receivables**

*Assertions: Existence, Valuation & Allocation, Rights & Obligation, Completeness*

#### **Tests to Perform:**

- Obtain a listing of receivables from the client and ensure that this listing matches the receivables value in the financial statements and the trial balance.
- Pick a sample from the receivables listing in line with the agreed audit plan and the RAM (See Guidance).
- Document how the sample was selected in sufficient detail to allow re-performance if necessary.
- Demonstrate how the sample population reconciles to the draft audit area balance (as supported by the draft financial statements).

**For each sampled item:**

- Trace the item to a source document (usually a sale invoice but may be a sales agreement or contract)
- **Valuation** - Ensure that the receivable matches the invoice or other source document (including VAT where relevant).
- **Existence, Valuation, Rights and Obligations** - Match the receivables to a receipt of income from the client after year end
- **Cut-off (Expenditure)** - Ensure that the receivables relates to goods or services provided before the year end.
- **Allocation** - Ensure that the receivable has been posted to an appropriate code on the general ledger.

**Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the Sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director and document this appropriately (including documents completed at the planning stage).

**4.8.2 Test: Sample test of Accrued Income**

*Assertion: Existence, Valuation & Allocation, Rights & Obligation*

**Tests to Perform:**

- Obtain a listing of Accrued Income from the client and ensure that this listing matches the Accrued Income value in the financial statements and the trial balance.
- Pick a sample from the Accrued Income listing in line with the agreed audit plan and the RAM (See Guidance).
- Document how the sample was selected in sufficient detail to allow re-performance if necessary.
- Demonstrate how the sample population reconciles to the draft audit area balance (as supported by the draft financial statements).

**For each sampled item:**

- Trace the item to a source document (usually a sale invoice but may be a sales agreement or contract)
- **Valuation** - Ensure that the Accrued Income matches the invoice or other source document (including VAT where relevant).

- **Existence, Valuation, Rights and Obligations** - Match the Accrued Income to a receipt of income from the client after year end
- **Cut-off (Expenditure)** - Ensure that the Accrued Income relates to goods or services provided before the year end.
- **Allocation** - Ensure that the Accrued Income has been posted to an appropriate code on the general ledger.

### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the Sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director and document this appropriately (including documents completed at the planning stage).

## **4.9 Inventory**

### **4.9.1 Test: Sample test of Inventory**

*Assertions: Existence, Valuation & Allocation, Rights & Obligation, Completeness*

#### **Tests to Perform:**

- Gain a listing of Inventory items from the client and ensure that this listing matches the Inventory value in the financial statements and the trial balance.
- Pick a sample from the Inventory listing, and obtained in the inventory stock count, in line with the agreed audit plan and the RAM (See Guidance).

#### **For each sampled item:**

From Inventory Listing -

- **Existence** - Trace the sampled item to the physical item inventory. Where there is more than one item, count the items to ensure that the final stock sheet is correct.
- **Valuation** - Ensure that the item sampled is held at the lower of cost and net realisable value.
- **Valuation** - ensure that the item sampled is not impaired. It may be impaired if it is obsolete, damaged or ageing.
- **Rights and Obligations (partial cut-off)** - ensure that the item sampled is owned by the entity (this may involve matching to an invoice or GRN and then ensuring that the item has not been sold but still recognised in stock) and has been recognised in the correct financial year.

**From physical stores,**

a) **Completeness** - Trace the sampled item from Inventory floor to inventory records and the general ledger

**Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the Sample Evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director and document this appropriately (including documents completed at the planning stage).

**4.10 Payables & Accruals**

**4.10.1 Test: Payables & Accruals completeness testing**

*Assertion: Completeness*

**Tests to Perform:**

Completeness of payables is tested by:

- Cash after date testing, tracing payments to period-end payables or accruals; and
- Unpaid invoice testing, tracing unpaid invoices to period-end payables or accruals.
- Identify an appropriate source population of payments made after the period-end. This could be taken from the cash book in the next financial period or taken from bank statements.
- Identify an appropriate source population of unpaid invoices (This may be a physical invoice file or a listing of invoices received as at the time of audit testing).
- Select the sample using an appropriate sampling method in accordance with the RAM.
- Sample sizes will depend on the audit approach as per the RAM.

**For each payment or unpaid invoice sampled:**

- Trace to the invoice (where a payment is selected) or equivalent supporting documentation and determine whether it relates to goods or services that took place prior to the period end.
- **Completeness of trade payables** - if the invoice and the goods or services were received pre-period-end, confirm that the item has been included in the period-end payables listing at the correct amount (including the treatment of VAT).
- **Completeness of accruals** - if the invoice was received post-year-end, and goods or services were received pre-year-end, confirm that the item has included in the year-end

accrual listing at the correct amount (including the treatment of VAT).

### **Evaluate and Conclude**

- Evaluate the results of the testing performed. The purpose of this testing is to obtain evidence that the balance is materially complete; therefore any misstatement identified may indicate that there could be further omissions from the financial statements.
- Where misstatements are identified:
  - From discussion with management, understand the nature and cause of any misstatements identified and determine, whether those represent systematic or isolated instances of omissions from the financial statements. Consider specifically whether the errors found indicate weaknesses in internal control.
  - Where the error can be isolated, the Engagement Team should perform further work to evaluate the extent of the error. Where considered relevant, request management to examine a class of transactions, account balance or other appropriate source population (e.g. unbilled work in progress) to determine the maximum extent and value of the misstatement. Perform procedures to evaluate management's work. Exercise and document professional scepticism when reviewing management's work or considering whether an error can be isolated.
  - Where the error has the potential to be systematic, consider extending the testing, focussing on the nature of misstatements identified and the relevant source populations. The Engagement Team should exercise their judgement when considering additional audit procedures based on their understanding of the client. Further testing could include but is not limited to: extending sample size to 30 (for 0.9 AF), extending the scope of population (e.g. extra month), focusing testing on a population where misstatements were identified, performing a review of significant balances within the source population, considering findings from the review of board minutes (cross refer as appropriate). If you conclude that no further testing is required, explain how sufficient appropriate evidence has been obtained over completeness.
  - Conclude on the assurance that can be taken from the test over completeness.
- Where the planned assurances still cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director and document this appropriately (including documents completed at the planning stage).

#### **4.10.2 Test: Sample test of accruals**

*Assertion: Existence, Valuation & Allocation, Rights & Obligation, Cut-off*

#### **Tests to Perform:**

- Obtain a listing of accruals from the client and ensure that this listing matches the accruals value in the financial statements and the trial balance. Pick a sample from the accruals

listing in line with the agreed audit plan and the RAM (See Guidance).

- Document how the sample was selected in sufficient detail to allow re-performance if necessary. Demonstrate how the sample population reconciles to the draft audit area balance (as supported by the draft financial statements).

**For each sampled item:**

Trace the item to the basis of the accrual (this may be a purchase order, contract, supplier quote or timesheet).

- **Valuation**- Where possible, trace the accrual to an invoice received after the period-end, and ensure that the payment (including VAT) matches the accrued amount.
- **Existence, Rights and Obligations, Valuation**- Where an invoice has not been received assess whether the supporting documentation is reliable, sufficient and appropriate to justify the basis for the accrual.
- **Cut-Off (expenditure)** - Ensure that the accrual relates to goods or services delivered before the period end.
- **Allocation**- Ensure that the accrual has been posted to an appropriate code on the general ledger.

**Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the Sample Evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director and document this appropriately (including documents completed at the planning stage).

**4.10.3 Test: Sample test of trade payables**

*Assertions: Existence, Valuation & Allocation, Rights & Obligation*

**Tests to Perform:**

- Obtain a listing of trade payables from the client and ensure that this listing matches the trade payables value in the financial statements and the trial balance. Pick a sample from the trade payables listing in line with the agreed audit plan and the RAM (See Guidance).
- Document how the sample was selected in sufficient detail to allow re-performance if necessary. Demonstrate how the sample population reconciles to the draft audit area balance (as supported by the draft financial statements).

**For each sampled item:**

- Trace the item to a source document (usually an invoice but may be an expense claim or

credit card statement)

- **Valuation** - Ensure that the trade payable matches the invoice or other source document (including VAT where relevant).
- **Existence, Valuation, Rights and Obligations** - Match the trade payable to a payment of the supplier after year end
- **Cut-off (Expenditure)** - Ensure that the trade payable relates to goods or services delivered before the year end.
- **Allocation** - Ensure that the trade payable has been posted to an appropriate code on the general ledger.

### **Evaluate and Conclude**

- Confirm whether any items failed the above testing, and whether any misstatements were identified.
- Where misstatements have been identified, the Sample evaluation form should be used to evaluate/ extrapolate any misstatements.
- Conclude on the assurance that can be taken from the testing over the audit assertions identified.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director and document this appropriately (including documents completed at the planning stage).

## 4.11 Provisions and contingent liabilities

### 4.11.1 Test: Completeness testing

*Assertion: Completeness*

#### **Tests to Perform:**

Perform audit procedures to test whether management have identified all provisions and contingent liabilities. This must include any unidentified litigation and claims involving the entity which may give rise to a risk of material misstatement to meet the requirements of the ISSAIs.

In performing these audit procedures, you should:

- Inquire of management and those charged with governance;
- Document the entity's process for identifying provisions and contingent liabilities;
- If applicable, inquire of in-house legal counsel (and others within the entity);
- Review board minutes;
- Review correspondence between the entity and its external counsel;
- Review legal expense accounts;
- Consider our understanding of the entity and its environment (e.g. requirements for redundancy provisions); and
- Consider the results of other audit procedures
- Provide references to the review of board minutes and responses from meetings with those charged with governance where applicable.

#### **Conclude**

- Whether the entity has identified all litigation or claims which may give rise to a contingent liability or a provision.
- Whether the entity has identified all other liabilities which may be classified as either a contingent liability or a provision.

### 4.11.2 Test: Movements in the Provisions balance

*Assertion: Occurrence, Completeness, Accuracy, Cut-off and Classification*

#### **Tests to Perform:**

- Test the movements in the provisions balance to obtain assurance over the occurrence, completeness, accuracy, cut-off and classification of the movements in the year
- Where not addressed by other tests of the provision, perform procedures to obtain assurance over the movements in year in the provision balance (e.g. recalculate unwinding of discounts, recalculate the amounts provided and/or the released amounts)

#### **Conclude:**

Whether the movements in the provisions are free from material misstatement.

### 4.11.3 Test: Testing of items within individual provisions/contingent liabilities



*Assertions: Completeness, Existence, Rights & Obligation*

**Tests to Perform:**

Based upon our understanding of how management have made the accounting estimates, and for each applicable provision or contingent liability:

- Test the completeness of items included within the estimate
- Test the existence of items included within the estimate
- Test that the rights and obligations relate to the entity

As an example, the tests above for a provision for an office to be closed could be:

- Test the completeness of items included within the estimate by (e.g. checking all employees for the office being closed are included in the redundancy provision listing; assurance from work on unidentified claims that there are no other unfair dismissal claims; review of listing of all leases for closed sites requiring onerous lease provisions
- Test the existence of items included within the estimate by checking a judgemental sample of employees back to payroll work and reviewing the terms of a judgemental sample of leases
- Test that the rights and obligations relate to the entity by checking a judgemental sample of employees back to payroll work and reviewing the terms of a judgemental sample of leases

**Conclude**

Whether the items being provided for/included in the contingent liability are complete and represent valid obligations of the entity.

**4.11.4 Test: Recognition and measurement criteria**

*Assertions: Existence, Rights and Obligations*

**Tests to Perform:**

Test that provisions and contingent liabilities have been recognised (or disclosed) and measured in accordance with the requirements of the Accrual Accounting Manual.

**For each type of provision**

**Existence, Rights and Obligations-** determine whether management has appropriately applied the relevant requirements per the Accrual Accounting Manual;

In particular that each provision is:

- a legal or constructive obligation to the entity at the balance sheet date
- as a result of a past event
- it is **probable** that an outflow of resources embodying economic benefits will be required to settle the obligation (liabilities assessed as **possible** should be measured as contingent liabilities, set out below)
- the provision can be measured reliably (in line with the Accrual Accounting Manual).

In doing so, specifically consider whether:

- the liability has matured (i.e. should properly be accounted for as a payable)
- there is reasonable justification for the disclosure

**For each type of contingent liability:**

**Existence, Rights and Obligations** - determine whether management has appropriately applied the relevant requirements of the Accountant General's Accruals Accounting Manual;

In particular that each contingent liability is:

- a possible obligation, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
- a present obligation that does not meet the recognition criteria (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

In doing so, specifically consider whether:

- the liability has matured (i.e. should properly be accounted for as a provision or payable)
- the contingency is not too remote
- there is reasonable justification for the disclosure

**Conclude**

- For each type of provision and contingent liability, conclude whether they have been accounted for on an appropriate basis.
- 
- Where applicable, document the audit evidence supporting this conclusion, in particular the evidence supporting recognition or non-recognition of the liability in the financial statements.

## 4.12 Reserves

### 4.12.1 Test: General Fund/Taxpayers' Equity Movement

Assertion: *Completeness, Existence, Valuation and Rights & Obligations.*

#### **Tests to perform:**

##### **Existence, Valuation and Rights & Obligations:**

- Agree the movements in the General Fund to areas of the financial statements where they have been audited. Movements may include:
  - Net expenditure for the year;
  - Transfers from other Reserves;
  - Amounts paid into the Treasury Single Account, etc.
- Where the General Fund has not been audited elsewhere match to supporting documentation to gain sufficient appropriate assurance over the movement.
- Where there are transfers from other reserves, consider whether we have obtained assurance that these transfers are accurate.

**Valuation** - Recalculate the carried forward balance as shown in the primary statements.

**Completeness** - Consider whether all expected entries have been made to the reserve.

#### **Conclude**

- On whether the general fund is properly prepared and no misstatements have been found.
- Where misstatements have been identified understand the nature and cause of any misstatements or irregularities identified and determine whether they indicate that other misstatements or irregularities may exist, including in other audit areas.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

### 4.12.2 Test: Revaluation reserve movements

Assertions: *Existence, Valuation & Allocation, Rights & Obligation, Completeness*

#### **Tests to perform:**

##### **Existence, Valuation and Rights & Obligations:**

- Agree the movements in the Revaluation Reserve to areas of the financial statements where they have been tested, ensuring the reserves movements have been completely audited in these areas.
- Where the revaluation reserve has not been audited elsewhere match to supporting documentation to gain sufficient appropriate assurance over the movement.
- Where there are transfers from other reserves, consider whether we have obtained assurance that these transfers are accurate.

**Valuation** - Recalculate the carried forward balance as shown in the primary statements.

**Completeness** - Consider whether all expected entries have been made to the reserve.

Movements may include:

- revaluations of non-current assets and inventories in year;
- the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.
- the realised revaluation reserves related to an asset disposal;
- transfers from other Reserves.

### **Evaluate and Conclude**

- On whether the revaluation reserve is properly prepared and no misstatements have been found.
- Where misstatements have been identified understand the nature and cause of any misstatements or irregularities identified and determine whether they indicate that other misstatements or irregularities may exist, including in other audit areas.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the necessary assurance.
- Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### **4.12.3 Test: Other reserve movements**

*Assertions: Existence, Valuation & Allocation, Rights & Obligation*

### **Tests to perform:**

Many entities will have additional reserves over and above the general fund and revaluation reserve e.g. available-for-sale reserve. For complex reserves a new work programme should be added.

### **Existence, Valuation and Rights & Obligations**

- Agree the movements in the Other Reserve to areas of the financial statements where they have been audited e.g. non-current and donated assets.
- Where the reserves have not been audited elsewhere match to supporting documentation to gain sufficient appropriate assurance over the movement.
- Where there are transfers from other reserves, consider whether we have obtained assurance that these transfers are accurate.

**Valuation** - Recalculate the carried forward balance as shown in the primary statements.

**Completeness** - Consider whether all expected entries have been made to the reserve.

### **Evaluate and Conclude**

- That the other reserves are properly prepared and no misstatements have been found.
- Where misstatements have been identified understand the nature and cause of any misstatements or irregularities identified and determine whether they indicate that other misstatements or irregularities may exist, including in other audit areas.
- Where the planned assurances cannot be taken, consider with the Team Leader and Assignment Director, what further audit procedures may be performed to obtain the

necessary assurance. Where a change to the planned audit approach is necessary, confirm the revised approach with the Team Leader and Assignment Director.

#### 4.13 Management override of controls

Additional tests are required at the financial statement level to obtain assurance that there has been no management override of controls. These include:

##### 4.13.1 Test: Journals testing

*Assertions: Occurrence, Accuracy, Classification, Cut Off, Regularity*

##### **Tests to perform:**

- Review the General Ledger and select journal entries and other adjustments made in the preparation of the financial statements that might indicate that management have overridden the normal journal controls.
- This should be undertaken for adjustments made at the end of the reporting period, but consideration will need to be given as to whether testing should also be done on a sample of journals at other periods throughout the reporting period.
- Journals should be selected for testing based on risk, as well as size. Teams should be observant for signs of fraudulent journal entries or other illegal adjustments. Where possible, spreadsheets can be used to identify journals of interest (in particular year-end journals) and for selecting some (or, if higher risk, all) of those journals for testing. Spreadsheets and data interrogation software could be used to identify:
  - journals exceeding authorisation limits;
  - journals raised by individuals raising few journals in the year;
  - journals posted to accounts of particular sensitivity;
  - journals switching costs between control totals, particularly when any of these are close to an excess (e.g. movements between Programme and Admin)
- A discussion with those responsible for processing and authorising journal entries may also help to identify unusual journals which management have requested them to process.
- Ensure that you have clearly documented your assessment of risks and how you have selected the journals we are testing.

##### **Test the selected journals to check that:**

**Regularity** - the journal is supported by appropriate evidence; the activity is within the ambit and otherwise one which you would expect the organisation to conduct; and the journal has been appropriately authorised

**Accuracy, Occurrence** - the journal reflects the underlying events and transactions by posting at appropriate amounts to appropriate locations in the ledger;

**Cut-off** - the transaction has been accounted for in the correct year;

**Classification** - the journal has been recorded against an appropriate account code

##### **Evaluation and Conclusion**

- Evaluate the results of the testing performed.
- Understand the nature and cause of any misstatements identified and determine whether

they indicate that other misstatements may exist, including in other audit areas.

- Conclude on whether there are any indications of management override of controls over journal entries.
- Where a change to the planned audit approach is necessary, discuss the revised approach with the Team Leader and Assignment Director.

#### **4.13.2 Test: Bias in Management's Estimates**

*Assertions: Valuation, Allocation, Regularity*

##### **Tests to Perform**

- Review the various accounting estimates made by management in the preparation of the financial statements (this will need to be performed after significant accounting estimates have been audited).
- Look at the judgements and decisions made by management in arriving at those estimates (e.g. the assumptions chosen). Evaluate whether, even if they are individually reasonable, they indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. For example, if all of the valuations of assets in the financial statements are at the higher end of the ranges suggested by valuation experts, this might indicate management bias.
- Examples of estimates we may need to consider include:
  - allowance for doubtful accounts;
  - depreciation method or asset useful life;
  - outcome of long term contracts;
  - costs arising from litigation settlements and judgments;
  - valuation of provisions and contingent liabilities;
  - valuations of internally generated intangible fixed assets;
  - valuations of complex financial instruments, which are not traded in an active and open market; and
  - valuations of property or equipment held for disposal.

##### **Evaluation and Conclusion**

- Evaluate the results of the testing performed and whether it indicates the presence of management override in the production of accounting estimates
- Where we consider that the findings indicate the possibility of management override, conclude on our re-evaluation of the accounting estimates included in the financial statements as a whole.

#### **4.13.3 Test: Significant or Unusual Transactions**

*Assertions: Valuation, Allocation, Regularity*

##### **Required Work:**

- Review the financial statements, general ledger and bank statements for any significant transactions that appear to be outside the normal course of business.

- Significant unusual transactions might be identified from (for example):
  - Large payments to unusual payees (unexpected supplier names, potential related parties);
  - Journal entries with inadequate description or supporting documentation;
  - Management placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
  - The form of such transactions appears overly complex (for example, the transaction involves multiple entities within a consolidated group or multiple unrelated third parties).

For any significant or unusual transactions which are outside the normal course of business identified:

- Investigate to confirm whether or not fraudulent financial reporting or the misappropriation of assets has occurred.
- Where we provide a regularity opinion, consider the regularity of the transactions, and whether they may have been entered into to conceal irregular transactions. Considerations should include the framework of authorities for the entity in particular:
  - For Departments and Agencies the restrictions on amounts voted by the legislature.
  - For Parastatals, the entity's management statement and financial memorandum with the sponsor department.
  - For all entities, against the requirements of the Accountant General's authority.
  - Authorising legislation and any subsequent Statutory Instruments.

### **Evaluation & Conclusion**

- Evaluate the results of the testing performed.
- Understand the nature and cause of any misstatements identified and determine whether they indicate that other misstatements may exist, including in other audit areas.
- Conclude whether there are any indications of management override by means of significant or unusual transactions.
- Where a regularity opinion is provided, conclude whether any identified significant or unusual transactions outside the normal course of business were regular.
- Where a change to the planned audit approach is necessary, discuss the revised approach with the Team Leader and Assignment Director.

#### **4.13.4 Test: Retrospective Review of Accounting Estimates**

*Assertion: Valuation, Allocation, Regularity*

#### **Tests to perform:**

Perform a retrospective review of significant accounting estimates reflected in the prior year financial statements. Significant accounting estimates may be:

- Provisions and contingent liabilities
- Finance Leases
- Financial Instruments
- Specialised non-current assets

### **Tests to Perform**

#### **Significant Estimates:**

**Valuation & Allocation** - As far as possible compare the outturn of events to the value of estimate in prior years accounts (for example has a provision been released after year end)

**Regularity, Valuation** - Where there has been a significant variance, consider:

- Are there any indications of bias in the prior year estimate?
- Are there any indications that the extent of measurement uncertainty is so great as to give rise to a Specific Risk?

#### **Non-Significant Estimates:**

- Our preliminary and concluding analytical reviews should provide assurance for non-significant accounting estimates. Make reference to the work programmes and confirm they provide sufficient and appropriate assurance.

### **Evaluation and Conclusions**

- Evaluate the results of the testing performed and whether it indicates the presence of bias in the prior year accounting estimates
- If there is indicating of bias in the prior year or significant estimation uncertainty, consider and conclude on the impact on our audit approach.
- Conclude on management's ability to make reliable accounting estimates.

## **4.14 Disclosures**

For each of the above account areas, the relevant disclosures should be audited separately using the audit work programme below on Disclosures.

### **4.14.1 Test: Audit Area Disclosures**

*Assertion: Disclosure*

#### **Tests to perform**

- Confirm whether the specific disclosures relevant to the audit area have been audited in the Financial Statements Work Programme (e.g. there may be sub-disclosures where additional testing is required).
- Where disclosures for this audit area have not been tested, obtain and test the information necessary to support the disclosures identified (e.g. narrative within relevant notes to the accounts).
- When testing the disclosures, ensure that they are consistent with the audit work performed and are understandable.
- Where testing has been completed elsewhere, provide references to the relevant tests (Note that the 'Overall Account Review' and completion of the relevant disclosure checklist will confirm that the financial statements have sufficient disclosure and all primary statements and notes are in the format prescribed by the Accountant General's Accruals Accounting Manual).

### **4.14.2 Other Considerations:**

- (i) The Preliminary Analytical Review should be performed using the template at SP4



- in the RAM;
- (ii) The lead schedule should be completed for the financial statement balances audit, using the template SP2 in the RAM;
- (iii) The Prior year's audit matters template SP3 in the RAM should also be completed.

## PART 3 – ADDITIONAL GUIDANCE

### 5 – AUDIT PROCEDURES FOR CASH AND BANK ACCOUNTS

#### 5.1 **Introduction**

This section of the audit guide is intended to support the audit of cash and bank account balances at all government establishments and Agencies.

#### 5.2 **The objectives of the audit**

1. To ascertain the existence of cash on hand and at bank and that it agrees with the cash book balance.
2. Confirm that the cash book has been properly maintained and posted up to date.
3. Check that security books such as Receipt Books are used in serial order and are physically in existence.
4. Assess the adequacy of the internal checks and controls including the security of Government money.

#### 5.3 **Procedures for the audit of cash and bank balances**

In line with the Regularity Audit manual, the following procedures are prescribed for the audit of cash and bank balances.

1. Cash survey.
2. Examination of the cash book and related records.
3. Appraisal of the internal control system.
4. Audit of Bank Reconciliation Statements

#### 5.4 **The cash survey**

- a. Collect relevant information from other sources other the establishment under audit such as details of receipt books issued to it, imprest etc.
- b. Arrive at the station in the morning to conduct the survey, preferably before the day's transactions begin.
- c. Direct the cashier to evacuate the content of the strong room, safe, cash tanks and any other receptacle in which money is kept and present them for counting. Count all cash in the presence of the cash holder who should be requested not to leave the spot until counting is completed. If compelled to leave, he must lock up the cash so that the survey will resume when he returns.
- d. Record the details and specifications of the cash produced, including cheques/mandate, postal orders, stamps and any other paper money. List and

- report all stale cheques/unapplied mandates, I.O.U's, cash order forms and cheques exchanged for cash. A specimen cash specification record is shown under.
- e. Cast and total the specification in the auditor's cash survey form or working paper and get the responsible staff to sign the specification in agreement.
  - f. Where cash posting is not up to date instruct the treasurer or cashier to post all transactions into cash book up to the date of the survey and balance the cash book.
  - g. Post the current month transactions into the cash book watch contra-entries; cast and balance the cash book; compare cash book balances with total cash counted.
  - h. If there is a shortage, the cashier must make good the differences on the spot, a report of such shortage should be made stating the reasons. However, a substantial shortage must be formally reported immediately to the accounting officer who must follow it up.
  - i. Request for the bank statement or certificate showing/stating the balance of the account as at the close of business the previous day. This should agree with the cash book balance but should there be difference, a reconciliation statement must be effected by the cashier and verified by the auditor.
  - j. The original of the certificate with the auditor's endorsement will be attached to the audit cash survey form and report.
  - k. After the completion of the cash survey, the auditor must inspect the safe and query abnormality discovered.
  - l. Where any unpaid salaries are held, check same against the payroll.
  - m. Where the cashier is also holding any imprest account the imprest must also be checked immediately.
  - n. In the cash book, give an audit cash survey certificate and record there under the cash specification as follows:

### TEMPLATE - CASH SURVEY CERTIFICATE

I certify that the amount of N..... (*in words*) produced for inspection today.....20.....and specified below agreed/did not agree with the cash book balance. The shortage of ₦ ..... (*In words*) could not be made good and payment voucher No..... of ..... has been raised as an advance in the name of Mr/Mrs..... (*Treasurer/Cashier, Not applicable in the case of imprest holders and Revenue Collectors*). The surplus of ₦ ..... (*In words*) was brought to account on T.R.V No..... of .....20.....

### CASH SPECIFICATION

#### **NOTES**

₦1000 .....

₦ 500.....

₦ 200.....

₦ 100.....

₦ 50.....

₦ 20.....

₦ 10.....

₦ 5.....

Cheques/Mandate

.....  
Signature of Auditor

Name.....

Rank.....

Date.....

- o. Direct that all cash surveyed is immediately paid to treasury or bank and evidence produced;
- p. Review the cash holding and comment if in excess of holding/requirements;
- q. Confirm that periodic and Annual Board of survey are carried out as required by Financial Regulations;
- r. Obtain Bank Certificate of Balance as at date of survey; direct preparation of Bank Reconciliation up to that date. Verify the Reconciliation;
- s. Scrutinize outstanding matters in the Reconciliation Statement and comment where necessary;
- t. Check if all paper monies entered in the Paper Money Register have been promptly brought to account;
- u. In respect of the stock and Distribution/Receipt Book Register.:
  - i. Post the Receipt Book Issue Notes (RBINS or Delivery Notes into the Register; (a file for RBINs should be maintained by Audit)
  - ii. Examine and ensure that issues are recorded and signed for by the Cashier and Revenue Collector.
  - iii. Verify physical existence of the unused Receipt Books through some Books to ensure that there are no missing pages.
  - iv. Verify the last month's Return of used and Unused Receipt Books, License Books, etc.;
  - v. Confirm that all security books are obtained from approved sources;
  - vi. Endorse on the front cover of partly used Receipts Books the number of last receipt used, "used to No....." and initial and date;
  - vii. Confirm that receipt are serially issued and used.
  - viii. Confirm that all books are kept under lock and key by a responsible officer.

#### 5.5 **Appraisal of the Internal Control System**

The purpose of this exercise is to ensure that the internal control system installed in the Treasury/Cash Office is effective. This is to ensure that no one person starts and concludes a transaction on his own and that one person's job serves as a check on another. The Auditor should ask questions on the following:

- a) Receipt and opening of mails
- b) Promptness in issuing of receipts for money received;
- c) Daily check of cashier's cash book by treasurer;
- d) Signatories to cheques/Mandate
- e) Holding of keys to safes and strong-room;
- f) Lodgements of cash into banks;
- g) Collection of bank statements;
- h) Preparation of bank reconciliation statement;
- i) Custody and issue of security and revenue earning books;

- j) Security of cash-in-transit;
- k) Security of cash holding

## 5.6 **Audit of the Bank Reconciliation Statement**

### **Objectives**

When a cashier or sub-Accountant or Federal Pay officer not only maintains a cash book but also keeps a bank account, the bank balance as shown in the cashier's cash book should, under normal circumstances, agree with the balance shown in the bank's certificate, supported by the bank statement. But there are some cases when the two balances will differ, not because errors have been committed by the cashier or the bank but because there were certain transactions which did not reflect in the books of either party. Such transactions should be traced and quickly identified.

## 5.7 **Relevant documents required for the preparation and/or audit of the Bank Reconciliation Statement**

- Mandate Register.
- Bank teller.
- Cashbook.
- Bank statement.
- Bank advices.
- Last bank reconciliation statement.

## 5.8 **Procedures for the audit of the Bank Reconciliation Statement**

- a) Request the cashier/sub-Accountant/Federal Pay officer or sub treasurer to prepare the bank Reconciliation Statement.
- b) Post all entries on the debit side of the cash book to the credit column of the Bank statement in detail.
- c) Similarly, post all entries on the credit side of the cash book to the debit column of the bank statement in detail.
- d) Scrutinize the whole cash book and the bank statement for the relevant month. You may discover that there are some unticked entries both in the cash book and the bank statement. These unticked entries represent transactions either recorded in the cash book and not seen in the bank statement or seen in the bank statement but not shown in the cash book.
- e) The next stage is the preparation of the Bank Reconciliation Statement. In carrying out this assignment certain considerations must be borne in mind. There are two approaches to the preparation of the Bank Reconciliation Statement. The first approach is to take the cash book balances as the starting basis and try to arrive at the balance shown in the bank certificate/bank statement. The second method is to take the bank statement balance as the basis and try to arrive at the bank

statement shown in the cash book. You should, therefore study the specimen reconciliation statements under "A" and "B" below.

### **SPECIMEN RECONCILIATION "A"**

	<b>N</b>	<b>N</b>
Balance as per cash book as at ..... (Date)		X
Add: Cheques issued but not presented to bank	X	
Lodgement made to bank not yet in the Cash book (e.g. bank interest)	<u>X</u>	<u>XX</u>
		XXX
Deduct: -Debit in bank (e.g. bank charges) not in cash book	X	
-Receipts in cash book not yet in bank	<u>X</u>	<u>XX</u>
- Bank balance as at ..... (Date)		<u>XXXX</u>

### **SPECIMEN RECONCILIATION "B"**

	<b>N</b>	<b>N</b>
Balance as per bank certificate attached		X
Add: - Receipts in cash book not yet in bank	X	
- Debit in bank (e.g. bank charges) not in cash book	<u>X</u>	<u>XX</u>
		XXX
Deduct: - Cheques issued but not presented to bank	X	
- Lodgement made to bank not yet in the Cash book (e.g. bank interest)	<u>X</u>	<u>XX</u>
- Cash book balance as at.....(Date)		<u>XXXX</u>

## **5.9 The audit of E-RECEIPT (Credit) Mandates and E-PAYMENT (Debit) Mandates**

The E-receipt and E-payment system is as an electronic network that links bank accounts and provides the functionality for money exchange and/or transfers of funds.

### **Objectives of the audit**

- To confirm that receipts and payments are properly posted into the cash book, and that the appropriate debit/credit is effected on the bank account as the case may be.
- To confirm proper authorization of receipts and payments.

### **Procedures**

- a) Request the credit(s) mandates (advice), payment(s) mandates, cash book(s) and bank statement(s) from the Auditee.
- b) Strike out the amount on the credit mandate (advice) and the corresponding entry in the debit side of the cash book and bank statement in details.
- c) Strike out the amount on the payment mandate and the corresponding entry in the credit side of the cash book and bank statement in details.
- d) Scrutinize the whole receipt mandates, payment mandates, cash book(s) and bank statement(s) for the relevant month. You will discover that there are some unticked entries.
- e) Write out the unticked entries in the cash book; on the debit side as "Debits (Receipts) in the cash book with no credit mandate (advice)" and on the credit side as "Credits (Payments) in the cash book with no payment mandate".
- f) Write out the unticked entries in the bank statement; on the credit side as "Credits (Receipts) in the bank statement with no credit mandate (advice)" and on the debit as "Debits (Payments) in the bank statement with no payment mandate".
- g) Write out the unticked credit mandate (advice) as "Credit Mandate (advice) not debited in the cash book and "Credit Mandate (advice) not credited in the bank statement.
- h) Write out the unticked payment mandate as "Payment Mandate not credited in the cash book and "Payment Mandate not debited in the bank statement.
- i) Examine each mandate for proper authorization, dating, numbering, bank details, etc.



## 6 – EXAMINATION OF COMMONLY USED CASH BOOKS

### 6.1 Introduction

There are three types of cash books commonly in use the Nigerian public service. These are:

- Revenue Collector's cash book;
- Imprest Cash Book or Petty Cash Book
- Sub-Accountant, F.P.O., C.P.O. or Treasury Cash Book cash bank (Main Cash Book)

### 6.2 Objectives of the audit

The cash book is checked to ensure that all revenue received on behalf of the government for which official receipts have been issued, are correctly recorded in the cash book and are fully accounted for, and payments made and recorded in the cash book are authorized and are bona fide expenditures of the Federal Government.

### 6.3 General

- (i) The audit of a cash book is not usually carried out in isolation. It is generally preceded by a surprise cash survey. After the cash survey has been completed, the next stage is the audit of the cash book.
- (ii) The cash book audit should commence from the day immediately following the end of last audit and should be checked up to the date of the current cash survey.

### 6.4 Revenue Collectors Cash Book: Audit Procedure

- (i) Vouch revenue collector's receipts (triplicate copies) into the cash book in detail ensuring the amount on receipt (both in words and figures) agrees with amount in cash book.
- (ii) While vouching receipts into the cash book, the auditor should ensure that the receipts' numbers are serially entered in the cash book and any receipt missing must be listed for audit query.
- (iii) He should verify that all the three copies of any cancelled receipt must be left intact in the receipt book. The auditor should cross off the copies with the endorsement "cancelled".
- (iv) Vouch a few receipts by tracing the transactions to the original bill book, ensuring that the correct amount on the bill agrees with the amount of the relevant revenue receipts. Any irregularities discovered should be queried.
- (v) Vouch all receipt vouchers into the cash book. The auditor should make out a list of all necessary receipts issued to cover payments made to treasury/FPO for verification at the treasury/FPO cash office.
- (vi) Cast the cash book and compare total revenues collected with the amount paid to the treasury/FPO. If they agree, cross off the covering treasury receipts (*i.e. the TR Form 6*) usually pasted on the credit side of the cash book.
- (vii) Verify every carry-forward from the cash book to the next until the casting of the whole cash book covering the period under audit is completed. Do not rely on the casting or adding up of machine foils prepared by the Cashier.
- (viii) Revenues collected and paid to bank are verified by reference to the bank tellers. Also check the teller with the Bank Statement to ensure that sums paid in are reflected in the Bank Statement. Obtain the bank statements directly from the bank.

*(Note: The statements will be for TSA accounts where these are in effect, and the auditor should seek direct access to the TSA system to independently generate bank statements and similar reports).*

During cash Survey, it is more convenient to check the Paper Money Register (PMR), at the same time. Check all cheques/mandate and Postal Orders in the safe and counted as part of the physical cash, into the Paper Money Register. Then check the PMR into the bank teller while ensuring that the order of date received had been followed when paying to the bank.

(ix) Scrutinize the cash book and ascertain whether or not the revenue collector submits his cash book for routine periodical checking at the treasury/FPO cash office.

(x) The cash book should be endorsed "Exd" (meaning examined) and signed by the auditor

## 6.5 **Imprest Cash Book**

Imprest is a cash advance issued by the Accountant-General on the authority of an Imprest Warrant, to the Imprest holder, enabling him to make petty disbursements of public money, for which vouchers cannot be presented immediately to the Sub-Accountant.

There are two types of Imprest in the public service

- Standing Imprest
- Special Imprest

A Standing Imprest is issued for a specific purpose. It should be recouped when necessary or, at least, at the end of the month and must be retired on or before 31<sup>st</sup> December of the year.

A Special Imprest is issued for a particular project or service. It is recouped whenever it is necessary and retired at the expiration of the time allowed or when the project or service for which it is created has been completed.

## 6.6 **Audit of Imprest Cash Book**

(i) Ascertain the purpose of the Imprest and the amount of Imprest authorized by reference to the relevant Imprest Warrant.

(ii) Cash survey of the Imprest money should be carefully carried out.

(iii) Vouch in detail to the debit side of the cash book all the relevant Sub-Accountant/FPO payment vouchers (duplicates) which cover the Receipts of actual Imprest or its reimbursements.

(iv) Also vouch in detail to the credit side of the cash book all copies of petty vouchers supporting the disbursements, ensuring that they are in order.

(v) Examine the petty vouchers and ensure that no expenditure is incurred and charged to Imprest other than the purpose for which the Imprest account is created.

(vi) Cast the cash book and verify the arithmetic accuracy of book figures.

(vii) Verify the retirement of the Imprest by inspecting the relevant treasury receipts covering the refund of the authorized Imprest amount to treasury.

(viii) Endorse that the cash book has been examined.

**6.7 The Sub-Accountant. F.P.O., C.P.O. or Treasury Cash Book (Main Cash Book) Procedure**

- (i) Tick entries on both sides of the cash book representing the receipt vouchers and payment vouchers. Any unticked receipt vouchers and payment vouchers relate to unproduced receipt vouchers and payment vouchers. Call for these and, if not produced, list them as outstanding vouchers.
- (ii) Verify all contra-entries and ascertain that they are correctly recorded.
- (iii) Verify the opening and closing balance in respect of both cash and bank columns. Confirm that the opening balance of the ensuing year agrees with the closing balance of the previous financial year.
- (iv) Where the bank balance is at variance with the balance shown in the bank statement, the Sub-Accountant/Cashier should prepare a Bank reconciliation Statement to be checked and certified by the auditor.
- (v) The cash book should be endorsed "Exd" (meaning examined) and signed by the auditor.

## 7 – SPECIFICS FOR REVENUE AUDIT

### 7.1 Introduction

Some MDAs are significant in terms of generating revenue for the Federation, and key examples are the Federal Internal Revenue Service (FIRS) and the Nigerian Customs Service (NCS). This chapter includes specific guidance on the audit of these two core revenue generating agencies. However, as many other MDAs also collect revenue, we have included some general guidance on the audit of revenue collection in these agencies.

Revenue collection is one of the high-risk areas in terms of corruption and leakage of public funds, so all significant revenue streams should be subject to audit at least once a year to try and minimise the loss of government revenue.

The introduction of the Treasury Single Account (TSA) in recent years has changed the approach to revenue audit. Auditors used to concentrate on receipt books and receipts. Now we need to ensure that all revenue is paid directly into one of the agency's bank accounts with a private bank. Auditors then need to ensure that these funds are transferred each day from these bank accounts into the relevant revenue account for the MDA at the Central Bank of Nigeria.

### 7.2 Audit Objectives

The objectives of revenue audit are to ensure that:

- revenue generation is optimized in line with the relevant laws and regulations
- where relevant, goods and services are only provided when the relevant fee have been paid
- all revenue due and accruing to the MDA is paid directly into a bank account
- all revenue collected is accurately coded and accounted for by the MDA
- all revenue is transferred each day from the MDA's revenue accounts in private/commercial banks to the correct bank account at the Central Bank of Nigeria.

### 7.3 THE AUDIT OF INTERNALLY GENERATE REVENUE IN MDAs

#### 7.3.1 Revenue optimization / maximisation

Auditors should consider the laws and regulations governing the MDA to ensure that all possible different types of revenue are being collected. Checks should be made to ensure that all the different types of revenue that were collected over the last three years continue to be collected. In addition, auditors should investigate any types of revenue where there has been significant reduction of revenue collection in the financial year which is subject to audit. Auditors should enquire whether the MDA has investigated all possible sources of revenue and considered any practical steps to increase revenue collection.

### 7.3.2 **Goods and services only provided if relevant fees paid**

Almost all Federal revenue is now paid directly into the relevant bank account by the person requiring the goods or services. The relevant fees are paid into a bank account and a copy of the bank teller is then taken to the relevant government office. An official receipt is issued which can be used to collect the associated service, for example, a licence. The payer is to sign the receipt.

Auditors should make enquiries to ensure that goods and services are only provided if the relevant fees are paid. Auditors should check that the relevant government offices have notices indicating the relevant level of current fees to be paid. Auditors should also check that the correct fee levels are being shown on these notices.

### 7.3.3 **All revenue is paid directly into a bank**

The auditors should check that there are clear notices in applicable offices of where payments should be made by the public. Auditors should make enquiries to ensure that no cash is received in government offices. Any evidence of cash receipts should be carefully investigated and reported as necessary.

Auditors should check that fees and charges are only levied as required by the relevant laws, regulations or circulars. The current official rates of fees and charges should be properly displayed in all relevant offices along with the correct details of the bank accounts where the fees are to be paid.

### 7.3.4 **Receipt of Revenue**

Auditors should identify all cases where official receipts are not provided, as temporary or unofficial receipts are not to be used. Original receipts should be given to the payer (in exchange for the associated bank teller), while the duplicate receipt acts as a temporary *Receipts Voucher* and the triplicate to remain in the *Receipts Book*.

Where revenue collectors are used, auditors should check that they are provided with a *Revenue Receipt* for every payment they provide to the Treasury Cash Officer (ideally daily). Revenue collectors are to maintain a Cash Book to record all payments received and all sums paid to a Treasury Cash Officer. Auditors should check any revenue collector cash books to ensure that all receipts have been adequately recorded and promptly paid into a bank account. Auditors should check that the Revenue Collectors Cash Books are all examined and ruled off each month by the Treasury Cash Officer and counter-signed by the Cash Office Supervisor.

The Treasury Cash Officer should also maintain a cash book to record all the receipts that have been received in the bank account using the copies of the official receipts and the bank tellers as sources of information. Auditors should check that all monies received into the bank account are properly coded and accounted for. Auditors should check that bank reconciliations are properly undertaken each month for all bank accounts maintained by the MDA for revenue collection.

Auditors should check that the Treasury Cash Officer completes official *Receipts Vouchers* for each revenue transaction. Each *Receipts Voucher* to include:

- Station of receipt
- Date of receipt
- Receipt Voucher number
- Head and Sub-head of revenue (from National Chart of Accounts)
- Amount received in figures and words
- Sub/local treasurer who received the revenue
- Signature or mark (thumb print) of the payer
- Signature of witness to any mark
- Official stamp of sub/local treasury.

#### 7.3.5 **Control of receipt books**

A *Receipt Book Register* should be used to record the numbers of the receipt books that are issued to officer and a Stores Issue Voucher is issued with each set of receipt books.

Only official pre-numbered receipts are used. The printing and storage of receipt books is adequately controlled.

Auditors should check that all receipts books and all receipts are adequately accounted for. They should also check that all the associated revenue has been received, recorded properly and banked promptly.

In respect of the stock and Distribution/Receipt Book Register.:

- Post the *Receipt Book Issue Notes* or *Delivery Notes* into the *Receipt Book Register*
- Examine and ensure that issues are recorded and signed for by the Cashier and Revenue Collector
- Verify physical existence of the unused Receipt Books and check through some Books to ensure that there are no missing pages
- Verify the last month's Return of used and Unused Receipt Books, License Books, etc.
- Confirm that all security books are obtained from approved sources
- Confirm that receipts are serially issued and used
- Confirm that all *Receipt Books* are kept under lock and key by a responsible officer.

Auditors should check that licenses and other security documents are similarly adequately controlled and that they are all accounted for. They should also check that associated revenue has been received and recorded properly.

#### 7.3.6 **Verification that all revenues are transferred daily to the CBN**

All revenues collected by the MDA should be promptly transferred each day from the MDA's revenue accounts (in private banks) to the correct bank account at the Central Bank of Nigeria. Deductions should not be made for bank charges COT etc. (FR.223). These are paid from the MDAs expenditure budget.

Auditors should check the bank statements for each bank account maintained by the MDA to ensure all receipts are transferred in full to the Central Bank of Nigeria. Auditors are to check to the bank statements of the relevant bank account at the CBN.

#### 7.3.7 **Reporting levels of revenue collected**

Auditors should check that the proper returns are made as required to the Accountant General of the Federation or any other regulatory authority. Auditors should check that all revenues received are accurately coded and reported.

Auditors should check that the MDA management review all revenue streams on a monthly basis. Auditors should also check to ensure that management undertake the necessary investigations when revenue received reduces or is significantly less than the relevant budget. Where relevant, auditors should seek explanations for such low levels of revenue collection.

In a self-accounting MDA, check from all cash books that the *Revenue Abstract* is completed accurately each month.

#### 7.4 **Audit of Tax Revenue**

Tax revenues are guided by applicable laws which detailed out the rate of charge and the mode of calculation. The various tax laws in operation in Nigeria are as follows:

- Capital Gains Tax Act
- Companies Income Tax Act
- Education Tax Act
- Industrial Development (Income Tax Relief) Act
- Personal Income Tax Act
- Petroleum Profits Tax Act
- Value Added Tax Act
- Taxes and Levies (Approved List for Collection) Act

#### 7.5 **Revenue Audit life cycle**

The process or transaction life cycle for tax revenue should include a consideration of the following steps:

- Identification of tax payer and the tax base, by comparing information between government databases, possibly by using spreadsheets and/or other data interrogation tools. E.g. ACL, MS Excel, IDEA etc.
- Receipt of declarations

- Assessment of declarations to confirm whether they include all relevant income and whether taxes are accurately calculated and charged.
- Recording of revenues in the system.
- Recording of cash receipts
- Banking of cash received intact and on a timely basis.
- Transferring funds to the relevant Central Bank account of Government.

## **7.6 Tax Revenue Audit Procedure**

### **7.6.1 Identification of Tax Payers**

- Inspect the reconciliation between the list of companies registered for tax and the list by registrar of companies.
- Match the companies from the list of registered companies to the taxpayers.

### **7.6.2 Receiving Declaration Returns**

- Inspect evidence that the delegated official has reconciled the returns received to the list of taxpayers.
- Reconcile the list of taxpayers to the return received and identify taxpayer who did not submit returns / submitted returns late.
- For taxpayers who did not submit returns / declarations identify whether the penalties were charged correctly.

### **7.6.3 Assessment of the Returns/ Declaration**

- Inspect the assessments and confirm whether the delegated official has reviewed selected returns and:
- Reconciled the returns received to the list of taxpayers.
- Recalculated the tax payable.
- Inspect files assessed and confirm whether selection criteria for assessments have been applied consistently.

For selected sample of returns / declarations:

- Compare income on supporting documents to estimated taxable income on the return.
- Ensure that the taxes have been correctly charged

### **7.6.4 Recording revenue**

For the selected periods: inspect proof of reconciliations between assessments and receipts.

For selected assessments confirm that payments have been recorded:

- At the correct amounts.
- In the correct account
- In the correct period.

### **7.6.5 Recording Cash Receivable**



Inspect the cash book and identify whether it is maintained and up to date.

Inspect documents and confirm that:

- Pre-numbered receipts are used by cashiers.
- Unused receipt books are stored safely.
- Receipt book issues are documented.
- For selected periods inspect proof that pre-numbered receipts are accounted for regularly (daily, weekly, Monthly).
- For a selected period, account for all the receipt books and pre-numbered receipts issued.

For a selected sample of receipts confirm that receipts have been recorded:

- Accurately in the ledger;
- In the correct account;
- In the correct period

#### 7.6.6 **Banking of Cash Received**

Inspect proof of:

- Regular banking of cash received
- Independent reconciliation of cash received and deposit slips
- Daily cash collections for all cashiers
- Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank.

For a selected sample of receipts issued confirm that cash is banked in a timely manner.

For selected days confirm that all cash received have been adequately accounted for.

#### 7.6.7 **Transfer to Designated Government Account in central bank**

For selected periods confirm that amounts deposited in the bank were transferred to the appropriate Central Bank account.

### 7.7 **Customs Duties**

Customs duty is payable upon goods or merchandise being imported or exported. It is payable before the action giving rise to the duty payable is carried out, i.e. before the goods are cleared through customs. This is opposed to income taxes, which are paid after the year end in which income was earned. Import duty is generally charged as a percentage of the value of imports or as a fixed amount contingent on quantity.

Custom duties can be used effectively to encourage or discourage the import or/and export of certain goods. Customs revenue beyond import and export duty can also include demurrage charges, refunds and others depending on the legislative framework.

Demurrage charges are a form of compensation for the delay of a ship or freight car or other cargo beyond its scheduled time of departure. It can also refer to a charge for

storage in a warehouse, which accrues after a given time for consignments not collected.

#### **7.7.1 Customs Audit Programmes**

#### **7.7.2 Identification of goods**

For selected transactions:

- Confirm that declaration forms were duly completed.
- Inspect the signature of customs officer as proof of the physical inspection of goods.
- Inspect proof of regular independent reconciliations between the details of goods included on the declarations and the insurance documents.

For selected declarations match details of declaration form to details on invoices.

#### **7.7.3 Non-declaration of goods**

- Observe the customs officers for a period of time and note the number of times physical inspections are performed.
- Inspect evidence regarding the frequency of physical verification by customs officers.

Confirm that:

- At least two customs officers are present for the physical inspection;
- Undeclared goods are immediately documented;
- Penalties / fines are charged as per requirements.

For a sample of goods which were not declared, confirm that duties, as well as penalties and fines were charged adequately as per regulations.

#### **7.7.4 Under-declaration of goods**

- Inspect proof that a delegated officer confirmed the exempt nature of goods from documentation.
- Inspect evidence that record of all duty exempt goods is adequately maintained.
- Inspect proof that when goods are identified as exempt at entry, their leaving the country subsequently is confirmed at another boarder post.
- Goods which have not been confirmed leaving the country should be followed-up by the Revenue Authority.

For selected items on the list of exempt items confirm whether:

- Any vehicles have been registered in the country.
- There is proof that goods have exited the country at another boarder post, where applicable within the given time restriction.
- For violations discovered, confirm that appropriate steps have been taken as per regulation and duties were collected.

- For selected declarations inspect documentation and confirm that appropriate reasons with evidence have been provided for transactions where the value declared is less than the declared value of the pre imported identical or similar goods.

#### 7.7.5 **Importation and Exportation of prohibited goods**

- Observe the customs officers for a period of time and note the number of physical inspections performed.
- Inspect evidence regarding the frequency of physical verification by customs officers.
- Inspect that there is a list maintained including all prohibited goods discovered. Confirm that the list is regularly updated.
- Inspect evidence of regular reconciliations between the list of confiscated items and the list of items warehoused.

For a sample of prohibited goods included in the documentation, confirm that actions have been appropriately taken by customs officers, in line with legislative requirements, i.e. goods are confiscated and appear in the warehouse inventory.

#### 7.7.6 **Rebates**

Inspect proof that:

- Delegated officer has approved rebates; and
- Checked the relevant criteria to establish validity of rebates.

For selected declarations with rebates, confirm that all supporting documents are in place and conditions have been met for the rebates.

#### 7.7.7 **Customs Warehousing**

- Inspect notices issued to notifying owners to clear goods from customs and inspect evidence of collection of duties either through payments or auctioning.

Inspect evidence that:

- Stock book is updated on daily basis.
- Regular stock counts are performed.
- Regular reconciliations are performed between physical items according to the stock-counts and the entries in the stock lists.
- Lost / damaged goods are identified and accounted for.
- Items long outstanding for collections are identified and demurrage is charged.

For selected items listed in the stock lists confirm:

- The date of entry;
- The duration taken in ware house; the adequacy of notices issued;
- Recalculate duties charged; and
- Confirm that duties have been recovered.

Identify goods stored in the warehouse in conditions shown below and, if so, confirm the actions which have been taken by the customs officer:

- Goods prohibited for import/export;
- Goods with dock shortage;
- Goods for which the owner did not pay customs duty and goods were not cleared from the customs;
- Goods for which departmental valuation is not yet completed or the customs code number has not yet been fixed;
- Goods withheld by the customs officer for further enquiry;
- Goods which are pending due to court cases.

Determine whether the following actions have been initiated in respect of the goods seized by the office:

- Confirm the adequacy of records of goods seized when being smuggled into the country. The records should show on what basis the goods were seized and how, e.g. informers, border police, etc.
- Persons found carrying goods without declaring them should be checked against information provided by INTERPOL where applicable. Police may be involved for arrests when necessary.
- Perishable goods and livestock have been auctioned within 24 hours of being seized, according to the customs regulations;
- For non-perishable goods confirm whether such goods have been retained for years without any action.
- For selected items stored: confirm that there is a respective entry in the stock list.
- Identify goods which have not been collected for a long period and confirm that they were followed- up.

#### 7.7.8 Invoicing

Check evidence of assessments based on alternative valuation methods by the customs officer. Inspect proof that independent reviews regularly performed.

For selected declarations, confirm whether:

- The owner of the goods has described the particulars of the goods correctly;
- The customs duty has been collected on the basis of the higher of the value of the goods determined for the purpose of raising customs duty according to the Finance Proclamation applicable for the fiscal year or the sales price shown on the invoice;
- Transportation cost of the goods, insurance, and other related costs are included in the dutiable cost and they are agreed with the supporting documents;

The details of the goods mentioned in the declaration form agree with the invoice;

- The duty rate charged and the arithmetic calculations are correct;
- Correct harmonize code has been mentioned in the form;
- Same amount of duty has been recovered against the same nature of goods;
- Various types of revenue levied by Finance Proclamation such as custom duty, countervailing duty, sales tax, local development fee, agriculture improvement fees, special fees etc. have been recovered;

- Supporting document such as invoice, shipping document, bill of lading, packing list, insurance certificate, certificate of origin, letter of credit, transporter's invoice etc. have been attached with the declaration form while importing and exporting goods;
- The declaration form have been verified and certified by authorized custom officials.

#### 7.7.9 **Assessments**

Check evidence of:

- Independent checks and approval of assessments
- Effective risk management and close supervision;
- Rotation of staff at border posts;
- Increase in collections as a result of spot checks.
- Post clearance audits have been performed.
- For selected assessments recalculate the import duty charged based on supporting information.
- Analyse information by comparing collections month to month, from prior year to current year and calculating increases.
- For selected post clearance audits confirm that audit observations and recommendations have been noted and actions or adjustments done accordingly.

#### 7.8 **Revenue Generating Agencies**

For MDAs engaged in the collection of revenues, the following checks are applied to ensure that revenues collected during the financial period represent all the revenues which are due for collection during the period.

- Ensure that there exists valid authority for any revenue being collected. This should be verified from the relevant legislation, legal notices, circulars, etc. Particular note should be taken of the applicable rate of charge.
- compare the actual collections with the budget estimate.
- ensure that all revenues are deposited in the banks accounts.
- ensure that all records (journal, ledgers) have been properly completed.
- analyse the reasons for the arrears in collection.

## 8 – CONTEXT FOR THE AUDIT OF EXPENDITURE ACCOUNTS

### 8.1 Introduction

Each MDA is to institute and vigorously pursue a sound system of internal controls over payment. Measures within such a system will include the authorization of payments, approved signatories for mandates/cheques, procurement and approval processes for contracts and for purchase orders etc. Our work therefore necessarily includes a review of the expenditures by each MDA to confirm they have been incurred and processed in accordance with extant regulations and laws

### 8.2 Objectives

The objectives of this area of audit are to ensure that:

- i. All payments out of the public funds are properly vouched authorized and accurately recorded.
- ii. That the documents attached to the payment vouchers are complete and support the payment.
- iii. Value has been received for the money expended.

### 8.3 Procedures

In carrying out expenditure audit, the auditor should;

- i. Ensure that there exists authority for the expenditure by way of approved estimates, appropriation laws and warrants;
- ii. Ensure that payment conform to financial rules and regulations, contract tender/regulation purchasing rules etc.
- iii. Evaluate the effectiveness of the existing internal control in the organisation especially the aspect of prepayment check by the internal auditor. This will enable the auditor determine the scope of his examination.
- iv. Ensure that payment voucher are serially numbered, batched on monthly basis, and preserved.
- v. Examine the payment vouchers as to regularity in classification, authorisation, receipts for payment, certificate of completion of contracts attachment of relevant invoices, receipts, local purchase orders etc. In support of the payment vouchers. Verify calculations on vouchers and attached documents;
- vi. Ensure value for money by verifying physical receipts of services rendered or goods purchase as to quality, quantity and need , stages of completion of phased contracts, and that pricing is competitive and commensurate to service rendered;
- vii. Ensure that the subject of payment is relevant to the activities of the organisation;
- viii. Vouch payment voucher into the cashbook and watch out for outstanding vouchers;

- ix. Vouch payment vouchers to the monthly schedules/expenditure abstracts/expenditure ledgers;
- x. Verify cast of expenditure abstracts and ledgers;
- xi. Extract expenditure totals into the transcripts;
- xii. Compare actual expenditure with approved/authorised expenditure, and comment on excesses, or material differences.

#### **8.4 Audit of cash transactions (payments)**

##### **Objectives**

- i. To establish the authority for each payment e.g. circulars, financial regulations, warrants etc.
- ii. To reconcile it with the liability discharge or asset acquired.
- iii. To trace the actual receipt of the money and the payee's acknowledgment thereof.

#### **8.5 Procedures**

In carrying out the audit of payment vouchers, the auditor should ensure that:

- i. The date on the vouchers must fall within the period covered by the audit.
- ii. The voucher must be addressed to the customer/supplier/client;
- iii. The amount on the voucher must agree with that recorded in the books of accounts and the narrative on the voucher must be verified to the relevant records mentioned.
- iv. It must be seen that the voucher submitted has not been accepted previously in respect of any other entry and not photocopies. The auditor should examine each voucher critically to ensure that it is in any respect what it purports to be and should watch carefully for any evidence of forgery.
- v. Where the amount of the payment exceeds ₦ 1,000 the receipt should bear a postage stamp except it is one of the payments which are exempted from stamp duty.
- vi. The auditor should check the relevant allocation authorities and rates.
- vii. He/she should verify all computations, extensions and casting;
- viii. He/she should ensure that the numbers on the payment vouchers run consecutively;
- ix. All deductions must be checked and confirmed as accurate and appropriate. (E.g. VAT, WHT). Also confirm payment was made to the appropriate authorities.
- x. Transactions should be reviewed for contract splitting, and any suspected instances should be queried.
- xi. With respect to supply the auditor should review the records for supply and carry situations i.e. "recycling".
- xii. Consultancy payments should be critically examined in conjunction with the rate approved by the appropriate professional body working with relevant

government authorities, the contract signed and the agreement entered into by both parties.

#### 8.6 **Audit of personal Emolument Record Cards** *(for MDAs that are not on the Integrated Payroll and Personnel Information System IPPIS).*

##### **Objectives**

The audit of personal emolument record cards is undertaken in order to ensure that:

- i. Salaries are paid to the appropriate officers;
- ii. They are computed with approved salary scales;
- iii. Variations in emolument such as increments, acting allowances and promotions are fully covered by appropriate authorities,

#### 8.7 **Procedures**

- (i) At the beginning of every financial year, the audit officer should check the transfer of the particulars of the previous year's P.E. Cards to the current P.E. Cards. This step is taken to avoid over payment arising from wrong transfer of salaries.
- (ii) Call for the personal file of the newly recruited staff and check names and correct salaries into the P.E. cards.
- (iii) Check from the current staff nominal rolls to the P.E. card control register to ensure that no payment of salary is made to names other than those entered in the register (ghost names). The auditor should also verify that the cards are effectively controlled and each card should have its control number. The variation control officer is responsible for the custody of the stock, issue and control of P.E. cards.
- (iv) check for variation advice schedules and from official gazettes to P.E. cards and verify in test that changes in salaries occasioned by increment, acting allowances, promotions, etc. are correct. Check salary list for unclaimed salaries.
- (v) In the case of staff who has left the service on grounds of resignation, termination or dismissal, the auditor should call for their personal files and verify that correct salary is paid up to the terminal date.
- (v) Verify that their name has been deleted from the P.E. cards control register and ensures the withdrawal of their cards.
- (vi) Confirm that gross pay is properly authorised.
- (vii) Vouch deductions from gross pay.
- (ix) Attend pay-day parades.

#### 8.8 **Manual audit of the Integrated Payroll and Personnel Information System (IPPIS).**

##### 8.8.1 **Audit Objective.**



The main objective of this work is to ensure that only staff that are authorised to work at the MDA receive salary payments through the Integrated Personnel & Payroll Information System (IPPIS). To this end, the accurate input of data has been identified as a key risk for Payroll staff in each MDA under IPPIS.

#### 8.8.2 **Audit Testing**

An indication of the range of audit tests to be undertaken on salaries is provided below:

- i. Obtain the staff nominal roll from the human resources section of the MDA. Check, on a sample basis (minimum of 10 staff), that the names included in the nominal roll are all included on the payroll from IPPIS for the month. Check that the total number of staff on the MDAs nominal roll is the same as the total staff on the payroll from IPPIS. Investigate any differences.
- ii. Check that the HR section in the MDA carefully reconciles their nominal role with the staff of the MDA paid by IPPIS at least quarterly/annually.
- iii. Pick a sample of staff (in line with RAM methodology on sampling) from the monthly payroll from IPPIS and check to the following:
  - a) Nominal roll maintained by HR in the MDA
  - b) Personnel File held by HR in the MDA – to check all staff paid have a personal file at the MDA
  - c) Supervisor of the staffs to ensure that the staff attend work regularly and have not been transferred, retired, absconded or are late
  - d) Physically see the sample staff members to ensure that they are working at the MDA – note any staff not present and seek explanations
- iv. For the sample of staff from the IPPIS monthly payroll check that:
  - (i) The gross pay on IPPIS/payslip is accurate from the promotion letters from the Federal Civil Service Commission (GL7 and above) or letter from the Permanent Secretary (GL6 and below)
  - (ii) The gross pay in IPPIS is consistent with existing salary scales
  - (iii) The gross pay on the Payslip is consistent with the grade level and step quoted on the Payslip
  - (iv) The income tax deducted is consistent with the current Tax Tables from FIRS
  - (v) Pension of 7.5% of gross pay is deducted from the salary.
- v. Check for a sample of any starters and leavers during that month that the salary on IPPIS was started or stopped at the correct date.
- vi. Check the variation file in the salaries office to ensure that all variations were accurately made on IPPIS for the month.
- vii. Call for the personal file of a sample of officers and check that:

- a. The date of birth as written in the IPPIS record is the same with the officer's record of service and if different immediate correction should be ordered to be carried out.
  - b. Date of first appointment in the IPPIS record must be the same with the officers record of service, if different is observed, immediate correction should be ordered.
- viii. Ensure that officers are paid salaries through their individual bank account number and no bank account number appears twice on the monthly payroll prepared by IPPIS.
- ix. Ensure that names of officers that have left the service on the ground of death, retirement, termination and dismissal do not appear on the last IPPIS monthly payroll.
- x. Check a sample of officers each month to ensure that they are coming to the office regularly. Ensure that team leaders/supervisors are instructed to inform HR/admin promptly when any staff leaves the organisation, and to certify their all of staff each year.
- xi. Identify all the staff at the MDA who have access to the IPPIS. Ensure that only the relevant members of staff in the HR and Salaries sections of the MDA have user names and passwords for the system. Check that the relevant staff only have access to the records of staff in their MDA. Check that these staff have changed their passwords in the last quarter (or in line with regulations on the changing of passwords). Check that user names have been deleted from IPPIS for any staff who had access to IPPIS and who have left or have been transferred.
- xii. Check the Establishment Returns for the last year and ensure that:
  - i. These have been received from each department and unit.
  - ii. The returns have been signed by the relevant head of unit.
  - iii. That any necessary changes have been made on IPPIS.

## **8.9 Audit Examination of Monthly Transcripts Main and Supplementary**

### **Objectives**

- i. To ensure that the figures for both expenditure (payments) and revenue (receipt) as contained in the main accounts are actually the true and correct amount.
- ii. In respect of supplementary transcript, the main objective is to ascertain the correctness of the figures (for revenue and expenditure).

## **8.10 Procedures**

- (i) Vouch the receipt and payment voucher into the relevant schedules and ensure that the appropriate classification codes, as reflected in the approved estimates, are correct.

- (ii) Vouch from the voucher schedule into the analysis books according to classification.
- (iii) Cast the sub- head totals in the analysis book and post same total into the main transcript.
- (iv) Verify the various statements which accompany the transcript.
- (v) Ensure that the correct procedure was applied in the preparation of the transcript.

Since supplementary transcript figures are from both internal and external adjustment vouchers (*i.e. transactions which not processed during the month of the transactions due to delays*), the adjustment voucher schedules or the journal book is used for the vouching. The figures in the journal book are verified and vouched to the supplementary transcript according to the classification within the estimates and the below the line accounts.

- (vi) Cast the main and supplementary transcripts and verify the balance brought forward from the previous month for each transcript.
- (vii) Report any of the following as observations:
  - a. Differences between the figures in the main transcript and those in the main analysis book and/or those between the figure in the supplementary transcript and journal book.
  - b. Instances of wrong classification.
  - c. Arithmetical errors in addition and balances.
  - d. Transfers of wrong balances.

## 9 – A FOCUS ON STORES AND INVENTORY

### 9.1 Introduction

Stores and inventory can be defined as all movable property purchased from public funds or otherwise acquire by Government. Expenditures on purchase and storage of inventory are significant across most MDAs and in aggregate.

### 9.2 Classification of stores

Stores in Government Offices can be classified into two namely

- Allocated Stores, and
- Unallocated stores.

The two classes can be further divided into three categories depending on the nature of the assets as follows:

- Expendable,
- Non – Expendable, and
- Consumable stores.

### 9.3 Definitions

- Allocated Stores:** These are Stores the cost of which is chargeable to, and remain a charge to the subhead of expenditure in which funds for their purchase are provided in the Estimates. These stores are taken on numerical charge and may be placed in an allocated store or put into immediate use. They may either be purchased direct or obtained from the unallocated store. Allocated stores are taken on ledger charge on numerical basis only.
- Unallocated Stores:** These are Stores purchased for general stock (rather than for a particular work or service) for which the final vote of charge cannot be stated or determined at the time of purchase. Their cost is debited to an unallocated store subhead in the Expenditure Estimate. They are held on charge by book value and unit and, when issue for use, are charged to the appropriate subhead of expenditure as an allocated store and the corresponding credit is posted to the unallocated subhead.
- Expendable Stores:** These are Stores of a semi – permanent nature such as shovels, matches, paint – brushes, etc., which are expected to give a comparatively short period of serviceable life.
- Non – Expendable:** These are Stores of permanent nature such as furniture, typewriter, motor vehicles, etc., which are expected to give a varying but considerable number of years of serviceable life.
- Consumable Stores:** These are Stores which once used for the purpose for which they were acquired, ceased to exist as a stores' item. For example, a tin of paint (which is a stores item) becomes a coat of paint on a wall (which is not a stores item). Similarly, timber or joints and taps built into a house are consumable stores.

#### 9.4 **General**

There is no difference in the system of accounting for expendable and non – expendable stores. Consumable stores must be treated for accounting purpose in exactly the same way as non – expendable or expendable stores until they are actually issued from the store for use for the purpose for which they were acquired. For example, a tin of paint may be transferred from store to store (during which time accounting arrangements are as (or expendable and non- expendable stores) until it gets to its final stores from which it is actually issued for consumption.

#### 9.5 **How are Stores acquired?**

Stores in Government offices are obtained from the following sources:

##### **Allocated Stores:**

- Local Purchases
- Transfer from other stores
- Returned stores
- Excess taken on charges (during Stock taking or Board of Survey etc.)
- Any other sources

#### 9.6 **Objectives of the audit of Stores and Inventory**

- To ensure that all goods purchased for use are properly receipted and taken on ledger charge into the stores.
- To ensure that all issues made from the stores are requisitioned for, authorized and properly recorded.
- To ensure that stores are properly secured and controlled in accordance with laid down regulations.

#### 9.7 **Forms and books of account in use for and within the Stores**

The following forms and books of account are used in Government Stores:

- Store Ledger
- Store Receipt Voucher(SRV)
- Store Issue Voucher(SIV)
- Statement of Discrepancies Found
- Unserviceable Stores Register
- Certificate of handling over of Store
- Store transfer requisition
- Transfer Issue Voucher
- Tally Board
- Furniture Inventory Board
- Invoice Register
- Stationery Ledger
- Store Requisition Book

- Tools Ledger

## 9.8 Procedures

A good storekeeping system ensures that all store items purchased are duly received and taken on through a ledger charge. The system must also provide adequate storage facilities for store items, and avoid excess stock as much as possible by careful monitoring of re-order levels and quantities. There must be adequate maintenance and control of records of items received and issued, as well as proper system for periodic checks and for stock takes. There must also be adequate storage facilities for the store items. Accordingly, an audit of stores will address all of the above procedures in the following order.

- The authorisation of Purchases
- Receipts
- Storage and Security
- Requisition
- Issues
- Stock – taking

## 9.9 Authorisation of purchases

Once the validity of all purchase requisitions has been confirmed, the auditor should also verify and confirm that:

- a) All orders are made on the official order form or the formal contract agreements. The mode adopted depends on the value of stores to be purchased and this varies from time to time. The auditor should check and note whether the value of order warrants the use of Local Purchase Orders or formal agreement
- b) Copies are sent to the Receiving Store and the Accounts Section for follow – up action
- c) Copies of Local Purchase Orders are serially numbered, and cancelled leaflets are left in the booklets
- d) All unused booklets of Local Purchase Orders are firmly safeguarded against possible misuse by unauthorized persons.
- e) The rates quoted are strictly as per the quotation tendered;
- f) Orders are placed with established suppliers who are registered with Government
- g) Care should be taken to ensure that no officer authorizes the issue of a Local Purchase Order/Contract Agreement in excess of the financial limit allowed him/her.
- h) Orders should be grouped in such a way that the total of the split jobs fall within allowed limits of contracting
- i) The auditor should check that price, quantity of goods on the GRN/SRV agree with those on the LPO and invoices
- j) Ascertain that proper discounts where applicable, are obtained.
- k) Check posting to the ledger to ensure that an items in the GRN/SRV are taken on ledger charge until disposed of. Entries in the ledger should include reference to the SRV, date, cost, and the supplier.

- l) Check the cut off procedures to ensure proper accounting for purchases, issues and stock of stores during and at the end of the Financial year
- m) Ensure that store items returned are properly accounted for.
- n) Ensure that claim register is maintained for short-supplied, missing or damaged items.
- o) Where Tally/ Bin Cards and the Store Ledgers are being maintained separately by different Officers, the audit verification of postings should be done in the Store Ledgers, after which the balances in the ledgers should be compared with those in the Tally/Bin Cards.
- p) The auditor must ensure that where Unallocated Stores are maintained, the quantity, unit cost of each item of stores and the total cost are vouched to the store Ledger.
- q) All order forms are duly authenticated by the appropriate designated officer, preferably the officer controlling expenditure.
- r) Tender procedures are followed where purchase of stores fall within those provisions of Financial Regulations/Stores Regulations which require certain value of stores to be procured by public tender.

#### 9.10 **Receipt and recording of stores**

- a) Confirm the source of the Store items and ensure that proper procedure is adopted. It should be noted that items may be received on purchase, on transfer from another store as surplus, scraps, or damages, or could be returned stores. Each source requires specific treatment and documentation.
- b) Collect and review information on the receipt of Stores from sources independent of the Store Keeper. E.g. verification sheets, details of purchases on payment vouchers and the transferor's records.
- c) Where store items were transferred from one store to another, vouch the details of the store issue voucher from the issuing store to the store receipt voucher of the receiving store.
- d) Where items were purchased directly, compare details on the LPO with the receiving Store Keeper's Goods Received Note (GRN) or Store Received Voucher (SRV) and invoice.

#### 9.11 **Storage and security**

It is the responsibility of the officers controlling expenditure to ensure that proper facilities are provided for the stores irrespective of size and value. Accordingly, auditor should review storage arrangements for any breach of this responsibility, and also examine the following areas:

- a) Consider whether storage arrangements are commensurate with the value of stores held, placing emphasis on the protection of stores from destructive agents, including fire.
- b) Consider whether there has been over stocking or wasteful stockpiling. In this regard the auditor takes into consideration the nature of the items, availability of supplies, rate of use and possible obsolescence.

- c) Scrutinize ledger for slow moving and dormant stocks, and ascertain reasons for retaining items of stores over a long period, say six months, without use or disposal
- d) Ensure that all store items are placed either in bin racks or adequate stacks, and that each has a tally card posted up to date. Comments on improper stacking of items which prevents detection of damaged items or loss of store
- e) Ascertain the sequence of issue of items which from the tally racks or stack. Note that it is most appropriate to issue out items on a First – in – First – out (FIFO) basis so that the newest items are left in stock. This method helps reduce the risk of loss through deterioration and obsolescence
- f) Ensure proper recording and care of damaged or unserviceable stores

#### 9.12 **Requisition**

Fraudulent acts at the requisition stage of procuring stores could lead to serious loss of funds. Accordingly the auditor will exercise proper diligence in reviewing the procedure for procuring stores, and ensure that all requisitions are undertaken along the following lines:

- a) Executed in writing by a responsible officer authorized for that purpose.
- b) Emanated from the right quarters, preferably the unit or person who would eventually use the items.
- c) Detailed enough to indicate actual requirements.
- d) Approved by the appropriate authority so designated, and from outside the user department.

#### 9.13 **Issuance of stores**

In reviewing the issuance of stores/stocks, the duties of the auditor include:

- a) Ensuring that all issues are authorized by a responsible officer. This approval is important and should be on the requisition forms.
- b) Ensure that issues are not in excess of quantities requisitioned and authorized. Check signed requisition forms against Store Keeper's Store Issue Vouchers.
- c) Ensure that all Store Issue Vouchers and requisition forms are serially numbered and firmly preserved.
- d) Ensure that all Store Issue Vouchers carry reference to the requisition and, when necessary, ledger account folios especially in case of the unallocated stores.
- e) Ascertaining that monetary values of items are quoted on the Store Issue Vouchers, in case of unallocated stores.
- f) Ascertaining the existence and maintenance of Loans Register to ensure there is no abuse.
- g) Test the posting of Ledger /Bin Cards entries into Store Issue Vouchers.
- h) Checking issue vouchers to job cards (Workshop A/C) where applicable
- i) Test checking Store Issue Vouchers to ascertain the effectiveness of internal control measures.



#### 9.14 **Stock taking and valuation**

As a routine all store items are to be checked at least once a year. Most establishments also conduct such checks occasionally during the year, using their personnel or the service of Stock Verifiers. However, a Board of Survey should be appointed by the MDA to inspect such stores at the end of the year. In all cases, the responsibilities of the auditor include:

- a) Ascertaining that proper procedure was adopted at the Stocktaking. The financial regulations stipulate the procedures to be followed by the stock Verifier to ensure compliance.
- b) Checking the Stock-sheets against the ledger entries for completeness and accuracy of balances Proper method of valuation is adopted.
- c) Test-checking the stock balances. This also entails casting a percentage of the ledger folios.
- d) Ascertaining the method of stock valuations adopted, and verifying its adequacy in relation to the type of establishment.
- e) Noting the degree of internal checks and controls in the system. For example, to ascertain whether the same person handling the physical stock checks had access to, or maintained the ledgers.
- f) Noting surpluses and ensuring that they are properly taken on ledger charge.
- g) Noting stock deficiencies and apportioning liabilities to the Officers responsible for them
- h) Commenting on whether or not the recommendations of the Stock Verifier have been effected, and also ensuring that a board of survey was appointed at the end of the year and that its recommendations have been effected
- i) Ensuring that actual destruction of damaged items listed for destruction was not done alone by the Store Keeper. Also verification of the authority on the destruction certificate
- j) Test-checking to confirm physical existence of the highly marketable items which can be easily removed.
- k) Physical observation of stocktaking of stores to ensure that it is properly carried out and adequate control measures were put in place for the stock-take.

#### 9.15 **Damaged and obsolete stock**

Damaged and obsolete stocks are to be written off only with proper approval by a competent authority. A list of damaged/obsolete stocks shall be separately maintained showing their values, and such a list must be reviewed and verified every year till the stocks are completely disposed of.

#### 9.16 **Disposal of obsolete stock**

While examining the disposals of obsolete or damaged stock the auditor must verify that:

- a) unserviceable, obsolete and damaged stocks are disposed of in good time;
- b) necessary approvals are accorded by a competent authority for such disposals;
- c) proceeds from such disposals are properly accounted for in the books.

## 10 - THE REVIEW OF CONTRACTS

### 10.1 Introduction

Government is continuously entering into arrangements and relationships with trade and development partners of various forms (e.g. consultants, suppliers, contractors, service providers, financiers etc.). Once parties have entered into a binding contractual relationship they create rights and obligations between themselves. These rights and obligations involve money and the values of the assets and liabilities created as a result of these contracts are to be reflected in the accounts and records of the Government. It is therefore important to verify that the amounts as reflected in the accounts of the Government are complete and accurate. It is also important to verify the regularity of contract expenditure.

### 10.2 Objectives of Contract Audit are to ascertain:

- i. That the provisions of the contract as contained in the contract agreement have been primarily adhered to
- ii. That the proper authorization for purchase/construction of capital assets were duly obtained
- iii. That the vouching process identifies proof of reasonable accuracy in all relevant areas. E.g. the analysis and/or pro-rating of expenditures, extension of the contract, postings to books of account and reconciliations of contract sums; and
- iv. Finally, to express an opinion to the Government or its agency through the Auditor General:
  - a. That provisions of the contract were or were not adhered to
  - b. That the provisions were adhered to subject to qualifications
  - c. That verifiable evidence prove that the contract was fully, partially or not performed
  - d. That relevance of total work done to date equal to total payments as proved by a verified certificate of completion by an acceptable and competent professional.

### 10.3 Documents for Contract Audit

The auditor should call for and examine the following documents as they relate to the Organisation and the contract

- Act establishing the Organisation
- Appropriation Act/Approved Budget

- Budget Releases
- Tender Documents
- Minutes of the meetings of Procurement Tender Board/Committee, Management Tender Board
- Report of Procurement Planning Committee
- Contract Files
- Vote Book
- Bill of Engineering Measurement (BEME)
- Payment Vouchers
- Bank Cash Book
- Bank Statement
- Correspondence Files with relevant Bank
- Report of Project Site Meetings covering monitoring the progress of work
- Latest Contract Status Report, etc.

#### 10.4 **Review of Documents**

Documentation is necessary and should exist for every stage of any contract, from the contract conception, to execution, completion and/or hand over to the Government Agency, etc. This documentation is not just necessary for the determination of the project but also as reference materials for those who were not directly involved in the execution of the project. The auditor therefore reviews the following documents;

##### **Contract Files:**

- i. Review for preliminaries such as advert placement, call for bid, number of companies that submitted bid, etc.
- ii. Review for Tender Board Minutes and approval for the contract award
- iii. Review for variation if any and authority for such
- iv. Review for valuation certificate supporting every payment
- v. Review for contract award letters/local purchase order and other related documents, including the acceptance letter by the contractor, valuation certificates, job completion certificates, request(s) for payments, invoices submitted by the contractor, delivery note, stores received vouchers, etc.

##### **Payment Vouchers:**

- i. Vouch for proper and adequate documentation/attachments of payments/payment vouchers
- ii. Vouch for compliance to Financial Regulation and Extant Circulars
- iii. Vouch payments against interim payment certificates for completion and receipt of supplies where possible
- iv. Ensure that payments are within the contract sum and that deduction for mobilization advance, material supplied to contractor and retention fee are made according to the terms of the agreement

- v. Vouch for approval for Payments
- vi. Vouch for amount in words and in figures

**Capital Cash Book:**

- i. Ensure that capital cash book is kept and maintained by the Government Agency
- ii. Ensure that all contract payments are correctly posted into the capital cash book
- iii. Ensure that the Bank Statement on monthly basis reflects the correct amount in respect the amount of each contract certified and paid

**Capital Vote Book:**

- i. Ensure that the Capital Vote Book is maintained by the Agency
- ii. Review to ensure that released allocation is entered into the Vote Book
- iii. Review to ensure that only Contracts approved by the Tender Board/appropriate Board and paid are entered therein
- iv. Review to ensure that there is no over expenditure in respect of the amount of each contract certified and paid.
- v. Where contracts are paid through the recurrent vote book, ensure that they are correctly entered therein.

**Bill for Engineering Measurement Evaluation (BEME)**

- i. Review the items contained in the BEME and ensure that they are relevant to the execution of the contract
- ii. Review for estimation of prices comparing the BEME with in-house estimate/market price
- iii. Where the Bills of Quantity is not attached to the contract agreement, ascertain that technical specifications and calculations were prepared by the Government establishment concerned in arriving at the contract sum. Scrutinize this for possible errors
- iv. Note that the provision for contingency in contract agreement is on the condition of happening of unforeseen event and that although part of a contract sum, should only be paid for established good cause duly considered and approved by the appropriated authority
- v. Ensure that retention fee is exclusively stated and not paid until when due
- vi. Where project administration cost is included in the BEME, this amount is not paid to the contractor

**10.5 Review of the System:**

- i. Review the system to ensure that the necessary Committees' e.g. procurement Committee, Evaluation Committee, etc. are in place

- ii. Review to ensure that the members of the Committees were chosen as stipulated in the Procurement Act
- iii. Examine Internal Control of the Department (Projects) with regards to segregation of duties and how that can duly or unduly influence contract implementation
- iv. Review of process of information generation to ensure that the system is fast enough to generate information needed on any contract at the least possible time

#### 10.6 **Audit of the Tendering process**

- i. Examine tendering procedure for compliance with Financial Regulations and the Public Procurement Act of 2007
- ii. Examine Departmental internal guide on tendering, if available
- iii. Examine tender documents of an accepted tender
- iv. Critically scrutinize bases/criteria for selection of a particular tender, such as:
  - Costs determination
  - Costs bases
  - Arithmetical accuracy
  - Lowest responsive bidder
  - Delivery date
  - Expertise and experience
  - Capital/Manpower advantage
- v. The auditor should call for the register or schedule of tender and should test them by comparison with the accepted and rejected tenders. Any case in which a department refuses access to rejected tenders should be reported.
- vi. The auditor should certify that the tender(s) agree with specifications and guide as contained in the call for bid documents

#### 10.7 **Placing of Non-Competitive Contracts**

When competitive tendering is impracticable, or when it is practicable but there are good reasons for not resorting to it, a non-competitive contract may be let. Where this is done, the grounds on which it has been decided to place a contract without competition should be clearly stated and should include the reasons for allocating the work to the particular firm concerned. The auditor should check that the process for awarding the non-competitive contract was done in accordance with the requirements of the Public Procurement Act of 2004 for such procurements. As part of this check the auditor should confirm that the appropriate approval was received for the award of the contract, and from the right authorities.

## 10.8 **Audit of Contract Agreement:**

### **Introduction:**

The auditor should read rigorously, examine and digest the contract agreement relating to the contract under audit, outlining conditions and terms of the contract and objectives of all parties thereon and see that they are reasonably satisfied.

### **Areas of Focus in the Audit of Contract Agreement:**

The areas to which particular attention should be paid in the agreement include the following:

#### i. Terms of Payment

This should not be at variance with Government Financial Regulations e.g. Exchange Regulations. The schedule of payments should be noted and also the retention money. In some cases the amount to be paid to the contractor shall (subject to the provisions of the conditions of contract) be determined by measuring the work actually done in accordance with the contract and valuing it at the rates and prices inserted by the contractor in the Bill of Quantities (see Engineer's/Architect's etc. Certificate for work done)

#### ii. Variation Clause:

This should be reasonable and not capable of being used for massive cost increases by the contractor unilaterally. All approved variations by the authority that awarded the contract should be noted as they form part of the contract documents. Verify terms and conditions attached to such variation. In case of expenditure, over and above stipulated variation, investigate the covering approval of appropriate authority or authorities for the excess expenditure in contract performance.

#### i. Liability Clause:

Conditions stated in the Contract Agreement must be capable of being implemented by the Federal Government e.g. A provision that a contractor accepts no liability, unless everything is covered by insurance may not be acceptable to Government since Government does not normally insure itself.

#### ii. Vehicles, Equipment, etc. Ownership:

Any clauses relating to the ownership of the vehicles, equipment, etc. used for the duration of the contract should be noted. If these assets become the property of the Government on completion or termination of the contract, a list of them should be compiled and their reversion to the Government verified physically, noting whether or not they have been properly maintained by the contractor.

Where rehabilitation expenses were incurred for purchase of equipment, verify whether such equipment were returned to Government at the completion of contract or whether their values were accounted for in the final payment.

#### iii. Time for Commencement and Completion:

The clauses relating to the time for commencement and that for completion should be noted. Compliance with them should be verified by the auditor

Verify whether penalty clauses were invoked where a contract was not completed on schedule.

iv. Non Payment for Materials not utilised on the Contract:

Ensure that the contents of the BEME are fully utilised in the execution of the contract, if not, any part/material not used should be subtracted from payments made to the contractor.

v. Examination of Payment Vouchers:

The auditor should examine contract payment vouchers and records to satisfy that quantities, prices, advances, progress payments, etc. are in accordance with the terms of the relevant contracts, that assets to be handed over to the Federal Government have been received, and that the system provide adequate safeguards against double payment.

vi. Foreign Exchange Clauses:

Examine critically the foreign exchange clauses and whether they were adhered to.

vii. Contract Related Overseas Travels:

In certain types of contract agreements, provision is made for Government Officers to travel overseas to the Office of the contractor to supervise the Federal Government's interest in the contract. Expenses of such trips are normally met by the contractor in the first place but reimbursements should be verified to ensure that in no case do they exceed the estacode and travelling allowances appropriate to officers of the rank employed on the inspections to which the claims relate.

#### 10.9 **Site Visitation**

It is possible that some contracts may exceed a period of more than one year especially, non-supply contracts. In some cases contracts may require site visitation when necessary. The essence is to determine the existence and performance of the contract

- i. The auditor should establish the physical existence of the contract
- ii. That the contract is on-going evidenced by activities on the site (snap shots)
- iii. The Auditor should monitor performance by physical inspection and evaluation of work done against payment made. For contract of supply and services rendered, confirm quality and quantity and ensure that goods are taken on store ledger charge
- iv. Ensure that the contractor adhere to the contract specifications as contained in the Bill of Engineering Measurement and Estimation (BEME)

#### 10.10 **Conclusion**

- i. Watch out for end of year rush and ensure that contracts are not entered into merely to exhaust the voted or prevent them from lapsing. Monitor performance to ensure the performance certificates are not fakes

- ii. In contracts of supply watch out for “supply and carry” situations (recycling)
- iii. In the case of abandoned projects, evaluate stages of performance reached against payments already made to the runaway contractor. When an abandoned job is being re-awarded to another contractor, evaluate work remaining to be done against the new contract figure. This is an area prone to serious abuse. Also ensure that the penalty clause is invoked, where applicable.



## 11 - PROJECT EVALUATION AND PROGRAMME AUDITS

### 11.1 Introduction to Project / Programme audits

As the audit office builds up its expertise in performance audit, previous guidance on the audit or evaluation of projects and programmes remains relevant. In particular, these audits enable a quick assessment of a project's performance.

### 11.2 The need for evaluation

Reasons for carrying out project evaluation include the following:

- transparency and accountability in term of use of project resources
- providing constant feedback on the extent to which projects are achieving their goals
- monitoring the accessibility of the project to all sectors of the target population
- identifying potential problems at an early stage and proposing possible solutions
- providing guidelines for the planning of future projects.
- Improvement of project design.
- Incorporating views of the stakeholders
- Monitoring the efficiency with which the different components of the projects are being implemented and suggesting improvements.

### 11.3 Project / Programme audits

As with all audits, programme audits go through Planning, Fieldwork and completion stages. The guidance below highlights specific aspects of each stage that will enable the auditor understand the project's circumstances better.

#### 11.3.1 The building blocks of Project / Programme audits

Project/programme audits have certain common structural characteristics which can be regarded as the building blocks. Recognition of these characteristics can help the auditor perform more efficiently by enabling him to focus his work on the key matters. Understanding these characteristics will also enable the auditor to outline his report more logically. The characteristics are as follows;

##### **Authority** (*consider at Planning Stage*)

Ascertain the authorisation for the project, programme or activity being audited and the organisational arrangements for carrying out the various responsibilities under the project. In Government the authority is usually in the form of a law/decreed, council conclusion, Government Estimates and Directives etc. The enabling authority should be examined in detail to identify what was authorised or intended to be accomplished. The auditor then assesses whether the project is being conducted within the bounds of the given authority.

##### **The objectives of the project** (*consider at planning Stage and revisit during the fieldwork*)

Understand the objectives of the project being audited. It is imperative that the objective(s) are clearly identified before detailed audit begins, as well the appropriate process for any variation to the objectives.

**The regulations prescribed for the execution of the project** (*consider at planning Stage and revisit during the fieldwork*)

These may be Government and/or International regulations, rules, standards, conditions and requirements guiding the execution of the project. The auditor is to consider:

- whether the established procedures for adhering to all relevant regulatory and conditionality requirements are adequate, and
- whether the established procedures are being followed

Identifying the established procedures is important to determine any gaps between what was intended and what was actually done.

**Findings on the state of the project/programme** (*consider during fieldwork and during the summary stage*)

As the auditor reaches a view on the state of the project and its components in the course of the evaluation, and ensures his findings and conclusions are evidence based, the auditor must also consider the following in relation to the findings:

- does the finding indicate that project objectives are being achieved satisfactorily?
- does the finding indicate that project objectives are not being achieved satisfactorily?
- does the finding indicate that project objectives are partially being achieved? and;
- does the finding indicate whether or not project objectives are being pursued economically and efficiently?

**Identifying the underlying cause of any project failures and the factors that contribute to success** (*consider during fieldwork and during the summary stage*)

The auditor must be able to get to the 'root of the matter' on every finding, and articulate the key issues and the likely solutions.

**11.4 Conclusions**

The conclusions reached by the auditor should be clear and convincing to persuade management of the need for a change in procedures or practices to bring about desired objectives.

**11.5 Recommendations**

Recommendations represent the auditor's considered opinion and reflect his or her knowledge of, and judgement on the matter being audited. They should be designed to correct the basic causes of the deficiencies and to obtain recovery or other adjustments in specific instances. The recommendations should be worded carefully to ensure they will be received positively. They should be SMART in nature, as specific as possible and should include named or suggested action owners.

#### 11.6 **The evaluation / audit process**

- i Identify the project/programme for the audit
- ii Visit the Ministry/Extra-Ministerial Department in charge of project/programme for the purpose of familiarisation with the project and obtaining relevant background information such as:
  - project objectives i.e. expected end-results.
  - Resources: total budget, amount spent, so far and percentage of performance to date etc.
  - Project management process and expenditure controls applied etc
- (iii) Sources of such information include the following:
  - Approved budget, vote book, expenditure returns
  - Payment vouchers
  - Files
  - Minutes of Meeting (Tender Board)
  - Enabling laws, where applicable
  - Contract Agreements
  - Specification of work
  - Project guidelines (established by management)
  - Financial Regulation and relevant extant circulars
  - Civil Service Reforms (Decree 43 of 1988)

#### 11.7 **Key issues around contract award**

- Except in a minority of approved instances all contracts are to be awarded after competitive tender. Watch out for multiple instances of sole sourcing,
- There are procedures established in the Public Procurement Act (PPA 2007) and by the Bureau of Public Procurement for the award of contracts,
- There are categories of tender Boards are to award each level of contract, depending on the value and nature of the contract.
- All contracts must be covered by contract agreements.

#### 11.8 **Types of Tendering**

There are three types of tendering:

- **Advertising to the public** - must be in the government tendering journal, at least two national daily newspapers and the website of the procuring entity. (PPA 2007) This is approach is to ensure a fair contract price as a result of its competitive nature.
- **Selective or accelerated or limited tendering** allowed on special permission from Ministry of Finance. This should be discouraged. The advocates of this form of tendering usually make their case based on time constraints, but this is not always the case.
- **Negotiated contracts** — Applies to specialised projects where only a few contractors possess the relevant expertise. This is also permissible only with the permission of the Ministry of Finance

#### 11.9 **Visits to Project Sites** *(where applicable)*

- Observe whether the project is as stated in its supporting documents, and if relevant, consider whether the state of completion is as documented in completion certificates
- Observe the utilisation of resources e.g. men, material, machinery, and time. Is it as expected?
- for completed projects, examine for obvious evidence of substandard jobs and check quantities etc.

**11.10 Checking of payments and consideration received** (*Construction projects*)

- Confirm that all payment vouchers (whether interim or final) are supported with the appropriate Engineer's/Architect's certificate.
- Compare the amount approved for payment to the valuation or measurement of the works by the Quantity surveyor. The approved price of the quantities applied is relevant here.
- For equipment acquisitions - verify the material and machinery acquired and their location. Confirm the arrangements for these assets to revert to government on completion of the project (unless otherwise stated in the contract agreement).

**11.11 Example questions to consider**

- has the government received value for the amount of money spent?
- how was the project initiated?
- was the project approved by the appropriate authority and for how much?
- was the pricing fair as being the result of comparing several quotations or was it a sole source price?
- were the quotations received through competitive public tendering or were they from selected connected persons?
- was there any feasibility survey and report before the inception of the project/ services?
- were the tenders considered by a tender board or were they awarded by an individual?
- have you compared the successful tender with the others for any irregularities;
- is there any indication that the execution of the contract was delayed by administrative inefficiency or for the self-serving interests of executives e.g. intentional delay of payment to contractors performing effectively? The effect of this is undue escalation of contract price which might lead to contract abandonment;
- were there credible reasons for rejecting the least tender?
- have you compared the actual quantities and price of goods and services or work with the initial quantities, specifications and rates?
- did the goods, services or works meet the desired objectives?
- is there any evidence that the management of the ministry/extra-ministerial development established criteria or standards for the acquisition of goods, services or works and was there evidence or monitoring of actual performance
- was there any evidence or indication that money was just spent because it was available?

- were there instances where regulations were circumvented e.g. fragmentation of the contract etc.?
- are appropriate records maintained for government assets?
- have you verified the physical existence, custody ownership and location of all government assets e.g. furniture, vehicle, building, and machinery, plant spare parts, equipment (air conditioner, photocopying machine, typewriters etc.)
- are the assets safeguarded against waste, loss, unauthorised use or misappropriation?

#### 11.12 **Contents of a project evaluation report**

Every project evaluation report must include the following sections as a minimum:

- Title
- Table of contents
- Executive summary
- Introduction
- Evaluation objectives and methodology
- Findings and conclusions
- Recommendations

## 12 - VETTING OF ACCOUNTS OF PARASTATALS

### 12.1 Introduction

The Federal Government has many Parastatals and Companies, each properly deserving its own special guide for vetting purposes. A general guideline for vetting any of them, such as is provided here, must therefore be understood as not being detailed enough for some complexities within some companies and parastatals. In such cases the auditor must refer to superior authorities for directives. The guidelines set out here will in any case aid the auditor in the performance of his work.

### 12.2 Presentation of the accounts to be vetted

The accounts to be vetted will have been audited by professional external auditors hired for that purpose. The accounts are presented in a booklet form and should comprise; a Statement of Financial Position (balance sheet), a Statement of Financial Performance (Income and Expenditure), supported by notes and schedules that disclose more information on the figures in the primary statements and the accounting policies and judgments that were applied. Submitted along with the accounts is the Domestic Report of the appointed external auditors setting out in detail any weaknesses observed. Recommendations from the external auditor are also stated in the Domestic Report. Seven (7) copies of the accounts and the Domestic Report should be submitted to the Auditor-General for the Federation after being duly signed by the Board of the Parastatal or Agency. The Auditor-General is to vet the accounts in accordance with section 85[3] b of the constitution of the Federal Republic of Nigeria, 1999 [as amended]. The Report generated from the vetting of the audited financial statement by the Auditor-General is titled the "AUDITOR-GENERAL'S COMMENT.

### 12.3 Objectives of vetting

- i. To enhance the auditors understanding of critical areas in agency's financial records.
- ii. To confirm if the accounts were prepared in accordance with the relevant accounting standards.
- iii. To determine the risks inherent in each of the audit components.

### 12.4 General steps in vetting

#### 12.4.1 Collection of Audited Financial Statements for vetting

Note that the Management Letter (Domestic Report) of the examining auditors who carried out the audit to be submitted along with the accounts for vetting. Furthermore, the Vetter should confirm that the submitted Financial Statements are properly signed by the right person (s) and that the accounts are properly embossed with the seal of the relevant professional body to which the external auditor belongs.

#### 12.4.2 Go through Prior Year working papers and any other documents concerning the organisation

The Auditor should painstakingly go through previous vetting reports and other prior year documents to gain an understanding of the likely areas of special attention (*refer to Working Paper on Strategic Planning, SP 3*)

**12.4.4 Go through the corporate information of the Agency and its Accounting Policies as stated in the Financial Statements**

This would enable the Auditor get a deeper understanding of the Agency and its Accounting policies underlying the figures reported in the Financial Statement. The statement of significant accounting policies would enable the Auditor to know the totality of standards, rules, bases, methods, regulations etc. used in the preparation of the accounts. The Auditor should confirm if the policies stated in the financial statement are in consonance with relevant accounting standards. Any material departure from standards should be commented on. Corporate information such as Board of Directors, External Auditors, Bankers, Corporate Head office etc. should be confirmed as properly disclosed in the accounts.

**12.4.5 Casting of Accounts and other supporting schedules as contained in the Notes to the Account.**

At this step the Auditor confirms the various subtotals and totals of the Schedules, Notes and Statements related to the accounts.

**12.4.6 Compare figures obtained from casting with those stated in the Financial Statements.**

This step would reveal casting errors and wrongly stated total and subtotals. Where any discrepancies are observed, the Auditor should comment on it.

**12.4.7 Selected the components of the Financial Statements to be vetted**

The Auditor completes the Lead Schedule Working Paper (**SP 2**) and uses it to determine the components to be vetted, based on their materiality (**SP 1**) and associated risks.

**12.5 Specific steps in vetting**

**12.5.1 Vetting of the Statement of Financial Position (Balance Sheet)**

This Statement of the financial position of an entity shows the assets, liabilities and source of equity of an organization as at a particular date. The starting point of vetting the Statement of Financial Position is the Non-Current Assets (Fixed Assets).

**12.5.2 Non-Current Assets (Fixed Assets):**

Detailed information on the Non-Current Assets shown in the Statement of Financial Position is usually presented as a Note called the Property, Plant & Equipment (PPE) schedule – formerly the Fixed Assets Schedule. This Schedule which shows the movement in Non-Current Assets during a reporting period is usually stated in a columnar format with the following sub- headings:

**a) Cost**

Under this sub- heading, we have:

- i. Cost at beginning of the accounting year
- ii. Additions during the year, at cost
- iii. Revaluation during the year.
- iv. Reclassification/transfer during the year.
- v. Disposals during the year, at cost
- vi. Balance at the end of the year (i+ii+/-iii-/+iv-v)

**b) Depreciation**

Under this sub- heading, we have:

- i. Balance at the beginning of the year
- ii. Reclassification/transfer during the year
- iii. Disposals during the year.
- iv. For the year (annual depreciation based on the rate given in the accounting policies)
- v. Balance at the end of the year (i+/-ii-iii+iv)

**c) Impairment ( if any)**

This is the excess of Carrying Amount (CA) of an asset over its Recoverable Amount (RA).

Under this sub- heading, we have:

- i. Balance at the beginning of the year
- ii. Reclassification/transfers during the year.
- iii. Disposals during the year.
- iv. For the year (confirm the disclosure of CA and RA and the date of impairment review in the notes)
- v. Balance at the end of the year (i+/-ii-iii+v)

**d) Carrying Amount (formerly Net Book Value).**

This must be shown for both the current period and the immediate preceding year.

This arrived at as follows:

(a) – (b)- (c).

The Auditor vetting the accounts should ensure that the same rate of depreciation is used for the same class of asset and also, those tangible assets are properly classified into Property or Plant or Equipment.

**12.5.3 Activities to be performed by the Auditor when vetting Non -Current Assets**

- i. Check to confirm that each class of Non-Current Assets is reported in the manner and style provided by applicable accounting Standards
- ii. Confirm that depreciation charged on each class of assets is in line with the Accounting policy stated in the Statement of Significant Accounting Policies by carefully calculating the current depreciation recorded under column b (iv)
- iii. Vouch from column (vi) of the Non-Current Assets Schedule of the previous year's accounts into column (i) of the Non-Current Assets Schedule of the current year's account



- iv. Check that column (a) (vi) of the current year's schedule is equal to columns a (i +ii+/-iii-/+iv-v)
- xiii. Vouch from column b (v) of the previous year's schedule into column b (i) of the current year.
- xiv. Carefully calculate the figures under column b(iv) of the current year's schedule using the relevant rates of depreciation.
- xv. Check that column b (v) of the current year's schedule is equal to columns b (i+/-ii-iii+iv)
- xvi. Vouch from column c(v) of the previous year's schedule into column c (i) of the current year
- xvii. Calculate the excess of Carrying Amount over Recoverable Amount (if any)
- xviii. Check that column c (v)) of the current year's schedule is equal to Column c(i +/-ii-iii +iv)
- xix. Check that d is equal to  $a - b - c$
- ix. Confirm that the total of d is correctly stated

#### 12.5.4 Current Assets

In vetting Current Assets as presented in the Statement of Financial Position of an entity, the following specific actions should be taken. However, when an item not stated below is reported under Current Assets, the Auditor should be guided by his professional judgment on how it should be handled.

- i. **Inventory** - Confirm that the entity has a policy on inventory valuation; carefully go through the Notes to the accounts and the Domestic Report to see if there was any provision for obsolescence or diminution in value. Check to see how inventory shortages were treated.
- ii. **Inventory in transit** - Confirm that this is separately stated from inventory on hand. Ask for confirmation of receipt at destination
- iii. **Accounts or trade receivables** – Call for and review the individual debtors Schedule showing the amount owed by each debtor and the age analysis of the debts.
- iv **Staff Debtors** - Ensure that the rules governing debts by staff as provided in Government Financial Regulations and other extant circulars are adhered to. If not already furnished, request for Schedules showing a description of the debts, names of individual staff and amount owed by each of them.
- v. **Provisions for Bad and Doubtful Debts** - This should be made only on trade receivables and based on acceptable standards. Normally, there should be no provision for debts owed by staff as the amounts owed can be deducted from salaries.
- vi. Where **credit balances in trade receivables** exist, this should be explained as it could result from error or inefficiency in accounting.

- vii. **Outstanding advances in respect of ex-staff** - Explanation should be sought as to why the amounts were not deducted from their terminal benefits. Enquire how the indebtedness is to be cleared.
- viii. **Dormant Debtors' Balances** - Seek explanation on why these were not recovered.
- ix. **Prepayments** - Where adequate details of prepayments are not provided, ask for a schedule showing the parties prepaid, nature of expenditure items prepaid and the period covered by the prepayments.
- x. **Investments in Treasury Bills** - Check to see that accrued interest has been recorded on the Statement of financial performance.
- xi. **Bank Deposit Accounts** (Fixed or Short Term) - Check to see that the appropriate interest has been received and credited to the Statement of Financial Performance. Furthermore, confirm that the interest realized was paid to the Consolidated Revenue Fund account.
- xii. **Cash at Bank** - Names of the Banks, amounts and their stations should be stated. Bank overdrafts should not be netted against credit balances. Overdrafts should be shown separately under current liabilities. Ask to see the authority or approval to incur any overdrafts. Scrutinize the interest element and ensure the public interest is protected. Ensure that Government Financial Regulations regarding bank accounts are strictly adhered to. Where a particular bank account has been dormant, raise questions on the action taken by management in respect of the dormant account (why is the account dormant?). Confirm if amounts in any liquidated banks are being recovered.

#### 12.5.5 Current Liabilities

When vetting current liabilities as presented in the Statement of Financial Position of an entity, the following activities should be carried out:

- i. **Accounts or trade payables.** - A schedule should be called for (if not already provided) giving names of the individual creditors and amounts due to each of them, as well as the age analysis of the debts.
- ii. **Debit balances in Accounts Payables** - Where debit balances in creditors' accounts exist, this should be explained as it could result from error or inefficiency in accounting.
- iii. **Accruals** - A schedule should be called for (if not already provided) detailing the types of costs accrued. In the case of accrued rent the schedule should give such information as address and description of property, name and address of landlord, annual rent, amount actually paid, amount charged in the accounts, prepayment carried forward, accrued rents, name and grade of occupier of premises (if residential).

iv. **Statutory Deductions** - Deductions for on-payment to other authorities should be seen to have been promptly paid over.

v. **Reserves and Funds** – Any movements in these accounts should be fully explained.

vi. **Prior Year Adjustments** - A clear explanation of what gave rise to the adjustment should be obtained if it is not disclosed in a Note to the Accounts.

#### 12.6.1 **Vetting of the Statement of Financial Performance**

- (i) In vetting the Statement of Financial Performance, the Auditor is expected to carry out the following activities; however, when an item not stated below is reported in the Statement of financial Performance, the Auditor should be guided by his professional judgment on what issues to raise.
  - Ensure that items reported are in line with the Accounting Policies of the reporting entity.
  - Carefully confirm that relevant Accounting Standards are adhered to in the presentation of items in the Statement of Financial Performance.
  - Using the **Analytical Review Working Paper (SP 4)**, compare revenue head figures in the current year's account with those of the previous year. Obtain explanations for any significant variances.
  - Where the audited entity has accounts with commercial or private banks, review whether Investment Income (including Bank Deposit Account Interest) are reasonable, having regard to the prevailing rates of interest.
  - Compare expenditure head figures in the current year's account with those in the previous year's using the **Analytical Review Working Paper (SP 4)**. Any material variances should be explained by the Agency.
  - Call for a breakdown of any "blanket" expenditure head as well as any "blanket" income head.
  - Query any expenditure that appears not clear or improper, calling for the authority to incur such.
  - Audit and Accountancy fees - Call for a breakdown into each component
- (ii) For the Accountancy fee, if deemed high, ascertain the reasons for the increase. The auditor may also inquire why the Accounts Department of the Agency did not carry out adequate work and remove the need to incur additional costs to get the accounting work done.
- (iii) Professional fees - Ask for the type of professional services rendered to the Parastatals. Obtain copies of the reports, if any.
- (iv) Consultancy fee - Ask for the nature of consultancy work done. Obtain copies of the reports, if any.
- (v) Profit or Loss on disposal of Non-Current Assets - Call for information on the costs of the assets sold, the accumulated provision for depreciation up to date of disposal, and the proceeds of sale.
- (vi) Prior Year Adjustments - Detailed statements and explanations should be obtained from the auditee to support Prior Year Adjustments.
- (vii) Conduct an analysis of ratios and ascertain whether any material variations requiring explanation have occurred in the year on year ratios within the

Statement of Financial Position. E.g. gross profit/surplus to turnover ratio, ratios of individual expenses to turnover, debtors to turnover, stock to turnover, etc.

#### 12.6.2 **Statement of Changes in Net Assets/Equity**

- I Net Assets/Equity refers to the residual measure in the Statement of Financial position which may be positive or negative. The Statement of changes in net assets/equity reflects information about the increase or decrease in net assets or wealth. The minimum information to be presented on the face of this statement includes the following:
  - i. The net surplus or deficit for the period
  - ii. Each item of revenue and expense, which, as required by other standards, is recognized directly in net assets/equity, and the total of these items
  - iii. The cumulative effect of changes in accounting policy and the correction of fundamental errors.
- II. Other information to be presented on the face of the Statement of changes in equity or in the notes include the following:
  - i. Contributions by owners and distribution to owners, in their capacity as owners;
  - ii. The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the movements for the period; and
  - iii. To the extent that components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each movement.

The Auditor should confirm that this minimum information disclosure requirement is met. Where there is any material departure from the accounting standards, and without stating the reason for such a departure, comments should be raised by the auditor.

#### 12.7.1 **Statement of Cash flows**

This statement reports cash flows during the reporting period, classified by operating, financing, and investing activities.

In vetting cash flows items, the auditor should do the following:

##### **a. Cash flows from operating activities**

- i. Confirm which method of reporting an entity adopts - Direct or Indirect.
- ii. If the Direct method is used, confirm that operating revenues, operating expenses and other items in the statement of financial performance have been adjusted; for instance,
  - changes during the period in inventories and operating receivables and payables
  - other non-cash items;
  - other items for which the cash effects are investing or financing cash flows

The auditor should confirm that the entity has reconciled the surplus/deficit from ordinary activities with the net cash flow from operating activities

iii. If the Indirect method is used, confirm that the net cash flow from operating activities has been determined by adjusting net surplus or deficit from ordinary activities for:

- effects of non-cash transactions
- deferrals or accruals
- investing or financing cash flows

**b. Cash flows from investing activities**

- i. check that major classes of gross cash receipts and gross cash payments are reported separately.
- ii. confirm that aggregate cash flows from acquisition or disposal of subsidiaries and other business units are classified as investing activities.

**c. Cash flows from financing activities**

- i. confirm that cash flows from financing activities are reported by separately listing major classes of gross cash receipts and gross cash payments.

**d. Cash flows that can be reported on a net basis**

The Auditor should ensure that only cash flows that fall into the following categories are reported on a net basis:

- Cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity.
- Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

**e. Cash and Cash equivalents**

- i. Check components of cash and cash equivalents in the Statement of cash flows and reconcile with the equivalent items in the Statement of Financial Position
- ii. Check for disclosure of the amount of cash and cash equivalents that are not available for use by the entity

**12.8 The management letter or domestic report of the examining external auditor**

- i. The Management Letter is an integral part of the vetting of accounts of any entity. Where an Agency does not submit its management letter for vetting, the Auditor should state this clearly in his report, and make a request for it to be submitted.
- ii. The Auditor should read the Management Letter in detail very carefully and take note of any serious shortcomings revealed therein. Those shortcomings that affect the true and fair position of the Statement of Financial Position, or that constitute a

serious breach of Internal Control principles should be summarized and included in the vetting report under the appropriate section.

#### 12.9 **Report writing**

- i. The report should bear a reference number according to its position in the current file of the relevant Parastatals, and should be for one year of account. There should be as many reports, with separate reference numbers, as there are years of accounts to be vetted.
- ii. Findings to be included in the report come from observations made during the vetting of items on the Statement of Financial Position and Statement of Financial Performance. The order of marshalling the observations in the Report should be strictly in the order in which the items commented upon appear on the Statement of Financial Position and Statement of Financial Performance. Observations on items on the Statement of Financial Position should all be stated before items from the Statement of Financial Performance.
- iii. The report is not a query or an instruction to the management of the Agency, but a statement of the situation for the benefit of "whom it may concern". The wording should therefore be couched accordingly, stating what the position was and what it should have been, in respect of the things that were not in order in the account. If, however, there is no fault found on any aspect of the accounts, we say so in the comment, in which case there will be a nil report.
- iv. In the last paragraph of each report we ask for Management's views on the observations contained in our reports well as in the management letter of the external auditors.
- v. Serious comments in the Management Letter materially affecting the true and fair position of the accounts should be included in our report in an abridged form, under the appropriate paragraph, indicating that it is from the Management Letter.

## 13 – KEY STEPS FOR THE AUDIT OF OVERSEAS MISSIONS

### 13.1 Cash and Bank Transactions (Main Account)

- (a) Conduct Survey of physical cash-in-hand
- (b) Obtain Bank Certificates for the following;
  - (i) Local Currency Account
  - (ii) Foreign Currency Account: £ or \$
- (c) Check the Bank Reconciliation Statements as at date of survey.
- (d) Endorse Cash Book the after cash survey, as follows:

	1	2	3
Cash Specifications - of the cash produced	x	x	(x)
Cashbook balance	<u>(x)</u>	<u>(x)</u>	<u>(x)</u>
Cash Surplus/(Deficit)	<u>xx</u>	<u>(x)</u>	<u>NIL</u>

Where:

1. Cash produced is more than Cashbook balance
  2. Cash produced is less than Cashbook balance
  3. Cash produced is equal to Cashbook balance
- (e) Complete the Cash Survey Form
  - (f) Vouch copies of Payment Vouchers and Receipt Vouchers into Cash Book
  - (g) Cast figures posted in cash book and note that figures carried forward are correct.
  - (i) Check Bank Statement with Cash Book and Pay-in-Slips, noting dates of lodgement.
  - (ii) Check direct lodgements i.e. remittances from Home Office credited in Embassy's bank account with Bank Advice Note and Remittance Register.
  - (iii) Check transfers to postage stamp imprest account or any other imprest maintained at the Embassy and audit accordingly.

### 13.2 Revenue Collector's Cash Book (Consular Office)

- (a) Conduct a Cash Survey
- (b) Check Revenue Collector's Cash Tank
- (c) Endorse Cash Book as usual
- (d) Complete the Cash Survey form
- (e) Vouch all used Revenue Receipt Books into Cash Book and to the amounts posted in the Cash Book
- (f) Ensure all collections received by the Revenue Collector are paid to the Finance Attache by checking original TRV 6 issued by the Financial Attache.
- (g) Check a sample of TRV 6 posted to the Revenue Collector's Cash Book into the Finance Attache's Cash Book. *(see the RAM for Sampling methodology, or check a minimum of 10%)*
- (h) Obtain Schedule showing amounts payable by different Nationals as visa fees and test check into the Receipts. Do the same for Travel Certificate and Passport Fees.

- (i) Initial the last receipt vouched on the current Receipt Book.

### 13.3 **Stock Register**

- (a) Check Receipts Book Issue Note R.B.I.N. into Stock Register
- (b) Check the used Receipts Book (TB6 and 6A) to the Stock Register.
- (c) Review the unused Receipts for completeness
- (d) Check the Passport Register and verify Receipt vouchers used therefrom into Cash Book
- (e) Endorse the Stock Register accordingly.

### 13.4 **Paid vouchers copies**

- (a) Obtain the specimen signature of the Head of Chancery
- (b) Enquire into the purchases and payment procedure – who authorises payments, for what purpose, etc.?
- (c) Scrutinize a sample of payment vouchers and confirm they are valid
- (d) Test check a sample of transactions with regard to procedures adopted for their approval and for the effectiveness of the internal control system.
- (e) Carry out an in-depth review of a sample of vouchers, i.e. from authorization, payment of amounts into Cash Book, Bank Statement, Stores Receipts and Issues.
- (f) Enquire into how claims in respect of duties levied on goods purchased by the Embassy are recovered from the host government (if applicable).
- (g) Verify a sample of payments made for the purchases selected above for the testing of the Internal Control Systems, e.g. purchases covering the most recent period.

### 13.5 **Payment Voucher Register**

- (a) Scrutinize the entries in the register for signs of error, misstatement or irregularity
- (b) Confirm whether the numberings are in the correct sequence
- (c) Note the names of Payees and check the Embassy's transactions with those whose names frequently appear in the Register. Call for relevant paid vouchers for scrutiny as necessary.

### 13.6 **Remittances Register**

- (a) Obtain a list of remittances from the Auditor General's staff in the Ministry of Foreign Affairs and use it to vouch the amounts on the Register held at the Embassy.
- (b) Note differences in amounts, total omissions and any amounts in register but not on list for discussion with Finance-Attache and the Head of Chancery, and then for Query action.
- (c) Note the purpose of remittances, and vouch to the relevant Vote Book to ensure the expenditure is in accordance with the intended purpose.



- (d) Check Receipt vouchers quoted against each remittance to the Cash Book.
- (e) Note the exchange rate at the time of the receipt of remittances and compare with the standard rate used by the Embassy's Accounts. The difference will either be appreciation (**Exchange Gain**) for which Receipt Voucher will be issued, or depreciation (**Exchange Loss**) which will require Payment Voucher action. Appreciation is credited to the Revenue.
- (f) Check remittances into the Bank Statement (Convert to Local currency), to ensure that all the Remittances have been received.
- (g) Note all observations on the Remittances Register for discussion with the Finance-Attache and Head of Chancery.

### 13.7 **Department Vote Expenditure Analysis (D.V.E.A) Book (or Vote Book)**

- (a) Vouch all Authority to Incur Expenditure A.I.Es. to the Vote Book
- (b) Vouch payment vouchers for 1 month in every 6 months to the Vote Book and check the casting.
- (c) Scrutinize the numbers taking note of any high value expenditure. Carry out in-depth reviews of significant or material expenditures.
- (d) Note any excess expenditure on all subheads.
- (e) Pay particular attention to medical expenses, purchase of furniture and telephone charges and Personnel Emoluments (P.E.) Subheads.

### 13.8 **Medical Expenses**

- (a) Obtain all Officers' personal files and note names of children, wives and dependants at station. Ask to see the International Passports of the family members to confirm their names and identity.
- (b) Test-check a sample of the names on the medical expenses vouchers into your notes.
- (c) Enquire whether or not the host Government laws allow Embassy staff to take out medical or Health Insurance Policies with a view to reducing cost.
- (d) Find out the number of medical doctors involved where health Insurance is in operation.
- (e) Review the effectiveness of the controls put in place to prevent abuse.

### 13.9 **Purchase of Furniture**

- (a) Test-check items listed on the Payment Vouchers into the Master Inventory. Ensure that such relevant details as date of purchase, price, location and identification number are included in the Register.
- (b) Check from the Master Inventory to either
  - (i) Office Inventory or
  - (ii) Household Inventory
- (c) Request for how old Furniture, Equipment have been disposed of. Call for unserviceable Furniture/Equipment Register and scrutinize.
- (d) Check Office and Household Inventory Boards.

#### 13.10 Telephone Register

Find out about the telephone policy of the Embassy. Scrutinize to ascertain whether there is any misuse. Confirm that regular returns are rendered to Headquarters on the use of telephone.

#### 13.11 Foreign Service Allowance (FSA)

Examine individual files and pay particular attention to allowances paid and confirm if it is in accordance with Financial Regulation.

Check the Domestic allowance paid and confirm if it is commensurate with the FSA.

#### 13.12 The P.E. Sub-head

- (a) Call for the nominal roll of local staff
- (b) Request for HR files to check contracts and conditions of employment.
- (c) Check names on the Nominal Roll to the pay vouchers
- (d) Physically verify the existence of a sample of workers
- (e) Check whether excessive overtime allowance is paid to drivers. Interview drivers to establish
  - (i) Normal working hours
  - (ii) Duties performed after closing hours (i.e. whether official or private).

#### 13.13 Stores-Drinks, Stationery and Others

- (a) Check copies of the invoices attached to a sample of payment vouchers, to the Store Ledgers, and to the Stores Verification list obtained from our team in the Ministry of Foreign Affairs.
- (b) Check from the Ledger to Store Issue Vouchers (SIVs) to ensure authorization of issues.
- (c) Check items on SIV for any alterations or mutilation or over-writing.
- (d) Cast the ledgers
- (e) Observe arrangements for the security of Stores. Are the stores accessed by few or many staff?

#### 13.14 Equipment Returns and Register

- (a) Check the physical existence of a sample of assets
- (b) Verify their serial numbers to the Register
- (c) Confirm whether Returns were submitted to Headquarters when due.

#### 13.15 Advance Ledger – Salary

- (a) Check from cash account/payment vouchers into the ledger (DR) at the time of payment
- (b) Vouch recoveries from cash account or T.F. 15 or Receipt Voucher into the Ledger (CR)
- (c) Cash ledger
- (d) Note long-standing advances for query action
- (e) Note instances where the repayment of advances are made in the local currency of the country.
- (f) Note any unusual or irregular advance.

#### 13.16 **Education Supplement**

Confirm that all the relevant circulars relating to the payment of the education supplement are strictly complied with. E.g. limits on the number of children and their ages etc.

#### 13.17 **Students Scholarship Account**

- (a) Obtain the remittances to the Mission from the Auditor General's staff in the Federal Ministry of Education
- (b) Check a sample of student's files to verify Government letter to the Embassy

In respect of Scholarship award and course duration.

- (c) Verify that separate bank accounts are maintained for Student's maintenance allowances.
- (d) Verify receipt of remittances and relevant receipt vouchers.
- (e) Verify statement of returns of expenditure to the student's State Government.
- (f) If students' maintenance remittances are banked with the Embassy account, ascertain that sufficient funds exist in the bank account for every student's monthly maintenance.
- (g) If the funds are inadequate because the home government is in arrears with remittances, note for query
- (h) Review the accounts of any other government agencies maintained by the Mission and note any irregularities.

#### 13.18 **Passages**

- Select a sample of Officer Travels for scrutiny.
- Review the relevant files to know the frequency of officer's Air Travel and to ascertain to what extent such travels are official and the number of entourage – wife and children, etc.
- Confirm that travels are in accordance with extant Circulars, issued by the Ministry of Foreign Affairs.

#### 13.19 **Chancery Buildings**

- (a) Obtain and read the relevant contract files to ascertain that payments are in accordance with the Rental Agreement.
- (b) Ascertain whether rent changes are in line with the price index issued by the host Government, and ascertain the incorporation of such a clause in the Rent Agreement.
- (c) If the property is owned by the Government of Nigeria, check documents of ownership, place of custody of document(s), and its security. Ask for the Property Register which should show date of purchase and cost among others.
- (d) Note security arrangements at the Embassy. Are there adequate facilities for storing vital information?

#### 13.20 **Government Quarters**

- (a) Obtain a list of the Quarters occupied by the Embassy staff.
- (b) Read through a sample of the Rent Agreements for any peculiarities on the rent payable, conditions of payments, etc.
- (c) Check during the examination of Payment Vouchers that officers' share of utility charges are being deducted from pay or refunded by the officers.

#### 13.21 **Vehicle log books**

- (a) Ensure the maintenance of a Log Book for each Embassy vehicle.
- (b) Ascertain the authorization of journeys and the check for the initials of authorising officers
- (c) To know the number of kilometres covered on each journey, deduct the kilometre recorded at the beginning of each journey from the one at the end.
- (d) Ensure fuel purchased (No of litres) is entered in log book, as well as other maintenance costs such as engine oil, etc.
- (e) To ascertain that a vehicle is not consuming more fuel than expected, or that no fraudulent practice has taken place, work out the kilometres covered per litre of petrol consumed by the vehicle.]
- (f) Endorse log book.
  - i. Pay special attention to Payment Vouchers relating to the last 3 months of the financial year.
  - ii. Note excesses, if any.

#### 13.22 **Defence Attache and Other Attaches**

If one or other exists at the Mission:

- (a) Ascertain from Head of Chancery whether he maintains separate Book of Account
- (b) If so, carry out a survey of his cash book and carry out normal Audit duties on related documents.
- (c) Examine the vote book
- (d) Vouch a sample of Payment Vouchers to the Vote book (e.g. for 1 month in every 4 months).

- (e) Pay special attention to Payment Vouchers relating to the last 3 months of the financial year.
- (f) Note excesses, if any.

**13.23 Audit Queries**

- (a) Verify the present position of the last Office of the Auditor General's Inspection Report issued and note any item not satisfactorily answered.
- (b) Scrutinize the Internal Audit Reports, Reports of the Inspectorate Department of the Ministry of Foreign Affairs and of the Office of the Accountant-General of the Federation for outstanding issues.

**13.24 Relevant Circulars**

Familiarize yourself with circulars from the Ministry of Foreign Affairs, Ministry of Finance, Civil Service Commission, and Secretary to the Government of the Federation, etc. and relate their provisions to all payments and Mission's transactions. Obtain the Circular files at the Mission to keep you abreast.

**13.25 Others**

- (a) Obtain the personal files of home-based officers in the Mission and those who have left the station within the period of audit for scrutiny noting any indebtedness to the Mission and/or external creditors for your report.
- (b) Carry out any other audit duties occasioned by any peculiar transactions of the Mission.

## 14 - CONTENTS AND FORMAT OF THE AUDITOR'S REPORT

### 14.1 General

The most important output from an audit exercise is the Audit Report. The amount of financial and non-financial resources expended on an audit can only be justified by the quality of the resulting report. Where significant findings from an audit are not properly reported to management, the opportunity to take the necessary corrective actions to avoid a recurrence may be lost to the management.

### 14.2 Objectives

#### **Good audit reports:**

- i. Communicate the results of audit to the auditee
- ii. Make the results less susceptible to misunderstanding.
- iii. Make audit results available and legible to the general public.
- iv. Facilitate follow-up to determine whether appropriate corrective actions have been taken.

### 14.3 Examples of records maintained during an audit

#### **1) Audit Inspection Files**

Reports on observations arising from the audit inspection of a Ministry or Extra-Ministerial Departments accounts and activities are issued through Inspection Report files. Necessary follow-up actions are tracked in the file.

#### **2) Annual Report Note Book**

Draft observations of material importance thought to be good material for inclusion in the published Annual Report are entered in the Annual Report Note Book. The Note Book provides a medium for the follow-up of the matters reported.

#### **3) Model Audit Working Paper Files**

The AFROSAI-E Model Audit File (2013) is an example of how an audit file may be compiled. The model audit file is the result of a workshop held by selected auditors to give examples on how to complete the working papers included in the Regularity Audit Manual (RAM).

### 14.4 Types of Audit Report

#### 14.4.1 Inspection Reports

An Audit inspection Report is a compilation of queries raised while carrying out the audit of MDA accounts and activities. The queries deal, among other things with errors, misstatements, control failures, losses due to wastage or misappropriation. The points raised depend largely on the state of the internal controls in existence and the records examined. Queries are issued on every error revealed during the inspection

and they are forwarded as part of the Inspection Report to the Accounting Officer. The report should indicate the period covered in the audit and should be addressed to the Accounting Officer.

#### 14.4.2 Nil Report

In some instances, there may be need for a 'Nil' Report in which case the inspecting officer will state that he has no observations/queries to report in respect of the particular audit inspection.

#### 14.4.3 Special or Interim Report

Irregularities of major importance requiring immediate attention may be made the subject of a Special/interim Report, even though the inspection of the whole account has not been completed. For example, if during an audit, cases of irregular payment or fraud or total absence of internal control was discovered, a special/interim audit report will be issued immediately to stop further instances of that nature, to plug the lapses in the control and to take necessary steps for the recovery of amount so far paid or defrauded.

#### 14.4.4 Annual Report of the Auditor General for the Federation

The Report of the Auditor General for the Federation on the accounts of the Federal Government is issued annually after completing the audit of the financial statements of the Government for the previous financial year. The Report contains all material observations and irregularities on the accounts and activities of accounting Officers, including losses of funds and stores that came to light during the audit. It also contains observations and irregularities on the Accountant-General's Financial Statements (Statement of Assets and liabilities, Cash Account and various Fund accounts) maintained by the Accountant-General of the Federation.

#### 14.4.5 Steps to take in reporting *(extract from the ISSAIs)*

a) State the standards applied during the audit.

The auditor's report should only state that the audit has been conducted in accordance with the International Standards on Auditing when all standards of ISSAI have been fully complied with. Under the 'auditor's responsibility' paragraph included in the auditor's report auditors should state the standards applied during the audit. There are four options:

- In accordance with the ISSAIs (1000-2999). This means full compliance with all relevant International Standards on Auditing (ISAs) and the additional guidance set-out in the INTOSAI Practice Notes to the ISAs.
- In accordance with the ISAs; which means full compliance with all relevant ISAs;
- In accordance with the INTOSAI Fundamental Auditing Principles, but not full compliance with the ISSAIs (1000-2999); or
- In accordance with other national and relevant Auditing Standards. *(ISSAI 1700 P12)*

*When applying all the provisions included in the RAM the auditor's report can refer to compliance with ISSAIs (first option above).*

b) State the applicable national auditing standards.

When the auditor is required by law to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the “national auditing standards”), but additionally also complied with the ISSAIs, the auditor’s report may refer to the ISSAIs in addition to the national auditing, if:

- There is no conflict between the requirements in the national auditing standards and those in ISSAIs that would lead the auditor to form a different opinion, or not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISSAIs; and
- The auditor’s report should include the minimum layout requirements as stated below. The auditor’s report should identify the applicable national auditing standards. *(ISSAI 1700.43)*

(c) Minimum requirements for auditor’s reports

According to the ISSAIs the auditor’s report includes, at a minimum, each of the following elements:

- A **title** clearly indicating that it is the report of an independent auditor; *(ISSAI 1700.21)*
- An **addressee**, as required by the circumstances of the engagement. If laws and regulations do not identify the addressee the auditors can address the report to those charged with governance. In public sector the distribution of auditor’s reports is normally not restricted. Auditors should refrain from statements that the report is intended solely for the specific users. *(ISSAI 1700.22; P11) (ISSAI 1706 P6)*
- An **introductory paragraph** that including the following:
  - Identify the entity audited;
  - State that the financial statements have been audited;
  - Identify the title of each statement that comprises the financial statements including additional reports where applicable (such as comparison of actual and budgeted amounts, reports on performance information etc.). The complete set of financial statements also include any notes to the financial statements; *(ISSAI 1700 P14)*
  - 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; *(ISSAI 1700.23)*
- A description of management’s responsibility for the preparation and fair presentation of the financial statements titled ‘**Management’s Responsibility**’ for the Financial Statements’. Responsibilities of management should include:
  - Preparation of the audited Financial Statements in line with the financial reporting framework;
  - Instituting necessary internal controls to enable the preparation of financial statement free of misstatements; and
  - Achieving fair presentation where applicable; *(ISSAI 1700.24;25;26;28)*



- A description of the auditor's responsibility titled **"Auditor's responsibility"** that includes the responsibility to:
  - Express an opinion on the financial statements based on the audit;
  - Perform the audit in line with the International Standards of Supreme Audit Institutions (ISSAIs). Include specific reference to the requirement to comply with ethical requirements (IFAC and INTOSAI Code of Ethics) and the explanation of reasonable assurance that is provided by the auditor that the financial statements are free of material misstatement; *(ISSAI 1700 P8)*
  - The auditor's report should describe and audit by stating that:
    - An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;
    - The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and
    - An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.
    - Any other reporting responsibilities of the auditor maybe applicable. *(ISSAI 1700.28;29;30;31;32;33; P7)*
- The auditor's report should state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's (modified – Qualified/Adverse where appropriate) opinion. Consequently, when a disclaimer of opinion is issued it needs to be stated that evidence could not be obtained. *(ISSAI 1705.26;27)*
- A paragraph on the **'Basis for Qualified / Adverse / Disclaimer Opinion'** includes a description of the matter giving rise to the modification and a quantification of the amount of misstatement when practicable should also be included in the paragraph. The description may refer to for example a narrative disclosure and explanation will be given on how this disclosure is misstated. It may also refer to an aspect which was omitted. All the matters which would alone warrant a qualification should be included under this heading. For example if a disclaimer of opinion is issued based on the lack of audit evidence the auditor would describe the scope limitation and also include paragraphs under the same heading with explanations for other material misstatements found during the audit. *(ISSAI 1705.16; 17; 18;19;20;21).*

- An opinion paragraph titled **‘Opinion’** containing:
  - The title of this paragraph should clearly state the kind of modified opinion issued when applicable i.e. Qualified Opinion, Adverse Opinion, Disclaimer of Opinion. *(ISSAI 1705.22)*
  - Reference to the applicable financial reporting framework used to prepare the financial statements.
  - An expression of opinion on the financial statements.
  - For unqualified audit opinion the paragraph will quote
    - ✓ The financial statements present fairly, in all material respects, in accordance with [name the applicable financial reporting framework]; or
    - ✓ The financial statements give a true and fair view in accordance with [name the applicable financial reporting framework]; or
    - ✓ Financial statements are prepared, in all material respects, in accordance with [name the applicable financial reporting framework]. *(ISSAI 1700.34;35;36;37)*
  - For qualified audit opinion the paragraph will quote: ‘except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph’ *(ISSAI 1705.23)*
  - For adverse opinion state that: The financial statements do not present fairly or the financial statements have not been prepared in all material respects, in line with applicable financial framework. *(ISSAI 1705.24)*
  - For disclaimer of opinion state that because of the significance of the matter described in the Basis for Opinion paragraph the auditor has not been able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion. *(ISSAI 1705.25)*
  - Other reporting responsibilities the auditor may have should be included here. For example, the auditor may be required to report on the legal or regulatory requirements, or on performance information disclosed. *(ISSAI 1700.38;39)*
- **‘Emphasis of matters’** paragraphs with clear indication that the audit opinion is not qualified as a result of this paragraph.
- **‘Other matters’** paragraphs Standards, laws or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor’s responsibilities in the audit of the financial statements or of the auditor’s report thereon. Such matters may be addressed in a separate paragraph following the auditor’s opinion;
- **‘Other reporting responsibilities’** – Matters reported relating to reporting responsibilities other than reporting on the financial statements.
  - The auditor’s signature; *(ISSAI 1700.40)*
  - The date of the auditor’s report; *(ISSAI 1700.41)* and
  - The auditor’s address. *(ISSAI 1700.42)*

#### 14.4.6 Reporting in accordance with a layout prescribed by law

If law or regulation requires the auditor to use a specific layout or wording of the auditor’s report, the auditor’s report should refer to International Standards on

Auditing only if the auditor's report includes, at a minimum, each of the following elements:

- A title;
- An addressee, as required by the circumstances of the engagement;
- An introductory paragraph that identifies the financial statements;
- A description of the responsibility of management for the preparation of the financial statements;
- A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:
  - A reference to International Standards on Auditing and the law or regulation; and
  - A description of an audit in accordance with those standards;
- An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards;
- The auditor's signature;
- The date of the auditor's report; and
- The auditor's address. *(ISSAI 1700.43; P9)*

#### 14.5 **Characteristics of a good report**

The auditor's report should be easy to read and understand. The following rules should be observed:

- Clarity and simplicity: Our reports must be presented as clearly and simply as practicable. We should use non-technical language. All technical terms, unfamiliar abbreviations and acronyms should be clearly defined when used;
- Convincing: Logical organization of material. Reports must be written in such a manner that they focus the attention of responsible officials on the matter in our reports which warrant attention and which will stimulate their own actions on them.
- Accuracy and precision in stating facts and in drawing conclusions. All officers must be made to produce reports that contain no errors of facts, logic or reasoning. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report.
- Conciseness: Our reports must be no longer than necessary to communicate the information we seek to report. Effective use of titles and captions and topic sentences; and use of visual aids (such as pictures, charts, graphs, and maps) to clarify and summarize complex material is essential. Needless repetition should be avoided.
- Materiality: The matters included in all our reports must be of sufficient materiality to justify their inclusion in the report and to warrant the attention of Accounting Officer to whom the report is directed.

- Timeliness: Every completed audit exercise should be accompanied immediately with an Audit Inspection Report. Observations involving such matters as unnecessary expenditure, waste of public funds, illegal transactions and other failure to protect the public interest should be reported without delay in order that prompt and decisive corrective action may be taken.
- Usefulness: Reports should be written so that they will be clear to any reasonable intelligent, well informed person who is not very familiar with the particular activity audited or the Ministry/Extra-ministerial Department involved.
- Completeness: Our report must contain sufficient information about our observations to promote adequate understanding.
- Constructiveness of Tone: The tone of our report should be designed to encourage favourable reaction from Accounting Officers. We should avoid intemperate language, and expression which generate defensiveness and opposition. Our emphasis should be on needed improvements rather than on criticisms.

## 15 – REVIEW OF THE WHOLE OF GOVERNMENT ACCOUNTS

### 15.1 Statutory background and requirements

#### 15.1.1 The 1999 Constitution of Federal Republic of Nigeria

Section 85(5) of The 1999 Constitution of Federal Republic of Nigeria provides that the Auditor General for the Federation shall within ninety days (i.e. 3 months) of receipt of the Accountant General's financial statements, submit his report under this section to each House of the National Assembly and each House shall cause the reports to be considered by a committee of the House of the National Assembly responsible for public accounts.

#### 15.1.2 Finance (Control and Management) Act, F26, LFN 2004,

Section 24 of the Act, states that *"the Accountant-General shall sign and present to the Auditor General for the Federation accounts showing fully the financial position on the last day of each financial year of the Consolidated Revenue Fund and the Funds specified in the First Schedule to the accounts shall form part of the accounts referred to in section 85 of the constitution but the accounts relating to the University College Capital account referred to in the First Schedule to this Act shall be signed and presented as soon as may be practicable to do so after the close of the financial Year's"*<sup>3</sup>.

#### 15.1.3 Fiscal Responsibility Act 2007

- i. Section 49(1) of the FRA 2007 states that the Federal Government shall publish their audited accounts not later than six months following the end of the financial year.
- ii. Furthermore, the Federal Government shall, not later than two years following the commencement of the Act and thereafter, not later than 7 months following the end of each financial year, consolidate and publish in the mass media, its audited accounts for the previous year.
- iii. The publication of general standards for consolidation of public accounts shall be the responsibility of the Accountant-General for The Federation.

#### 15.1.4 Financial Regulations (FR)

The Financial Regulations 108 and 109 also provide the responsibilities, functions and scope of work of the Auditor General for the Federation. The Financial regulations should be on the permanent audit file.

### 15.2 Objectives of the Audit:

The objectives of the audit include the following:

- (i) to enable the Auditor General express an opinion as to whether the Financial Statements show a true and fair view of the financial position of the Federal Government of Nigeria during the year under review.

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<sup>3</sup> This direct extract from the 1958 statute has been replicated here, although the reference to the University College Capital Account is no longer as relevant.

- (ii) to ascertain whether the Financial Statements comply with the provisions of the Finance (Control and Management) Act (1958), the Financial Regulations (2009), relevant Financial Circulars as well as the Standardized Reporting format approved by the Federation Account Allocation Committee (FAAC) of the Federal Republic of Nigeria and other relevant Rules and Regulations.
- (iii) to determine if the information contained in the Financial Statements is properly classified, reliable, accurate and complete.

### 15.3 **Components of the Financial Statements<sup>4</sup>**

The Financial statements of the Federal Government are to consist of the following:

- (i) Statement of Cash Flow
- (ii) Statement of Financial Position
- (iii) Statement of Financial Performance (and of the Consolidated Revenue Fund)
- (iv) Statement of Changes in Equity/Net Assets
- (v) Accounting Policies and Notes to the Financial Statements

As the annual budget of the Federal Government is a published document, the financial statements should also include a comparison of budget and actual amounts for the year.

### 15.4 **Statement of Cash Flow**

A Statement of Cash Flow provides information about the cash receipts from various sources and cash payments of the Government during the period ended 31<sup>st</sup> December of each financial year. The statement indicates the pattern of cash generated from different activities like operating, investing and financing likewise the closing balances of cash and cash equivalents at the year end.

### 15.5 **Statement of Financial Position (Statement of Assets and Liabilities)**

This statement shows the amount for each class of assets and liabilities that belong to the Federal Government at the end of the financial year. The assets will include Plant Property and Equipment, the CRF Bank balance (CBN), Pension Account (CBN), Cash and bank balances held by MDAs, Advances, imprests etc. and liabilities such as Capital Development Fund, Police Reward Fund, External Loans etc.

### 15.6 **Statement of Financial Performance**

The statement shows the amount generated from various sources of revenue to the Federal Government and various expenses incurred during the year. The sources include statutory Allocation from FAAC, Value Added Tax Allocation, Direct Taxes, Fees, Fines, Sale, Interest earned etc. and expenses such as Personnel Cost, Overhead

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<sup>4</sup> Please note the components of the first Whole of Government Accounts expected to be prepared under IPSAS were yet to be communicated to the OAuGF at the time of preparing this guide.

Charges, Federal Government Contribution to Pension, Repayments Nigerian Treasury Bills (NTB). It also shows the amounts expended by the various MDAs.

**15.7 Statement of Changes in Equity/Net Assets**

This statement is in accordance with the International Public Sector Accounting Standards (IPSAS) and replaces the Statement of Capital Development Fund under system with effect from January 1<sup>st</sup> 2016. The statement gives information about changes in net assets/equity of government which includes capital grant, reserves and surpluses/ (deficits) during the year. It includes the additional capital grant received during the year, surpluses on revaluations e.g. Property, Plant and Equipment, investments property and net surpluses during the year.

**15.8 Accounting Policies and Notes to the Financial Statement**

This contains information about the accounting policies adopted during the year such as depreciation method, basis of accounting etc. and breakdown of totals in the Statements.

**15.9 Documents and information required for the audit**

The documents set out below are the key submissions expected to accompany the Whole of Government Accounts. However, in addition, auditors are expected to utilise the read-only access (audit function) on key financial systems on which material balances or transactions are managed, and generate reports/schedules for examination. Key financial systems include GIFMIS, IPPIS and the TSA. Revenue and Asset management applications in use at agencies such as the FIRS and the Nigeria Customs Service will also be relevant.

**15.10 Information required from the Consolidated Account Department of the Office of the Accountant General of the Federation (OAGF)**

- Revenue Estimates for the year
- Appropriation for the year
- Supplementary Appropriation Act for the year
- Statement of the share of National Judiciary Council
- Consolidated Trial Balances / Transcripts of Ministries, Departments and Agencies (MDAs) & Federal Pay Offices (FPOs) for the year
- Annual budgets of all the consolidated entities

**15.11 Information from Sub-Treasurer of the Federation**

- Consolidated Revenue Fund Bank Statement for the year,
- Consolidated Revenue Fund Cash Books for the year
- Consolidated Revenue Fund Transcript for the year,
- Mandates for Consolidated Revenue Fund Payments for the year,
- Mandates for Consolidated Revenue Fund Receipts for the year.

**15.12 Information from the Debts Unit of the Funds Department in OAGF:**

- Issues 1<sup>st</sup> January to December 31<sup>st</sup>
- Repayments 1<sup>st</sup> January to December 31<sup>st</sup>
- Commissions Received 1<sup>st</sup> January to December 31<sup>st</sup>
- Commissions Paid 1<sup>st</sup> January to December 31<sup>st</sup>

**15.13 Details of Programme of Treasury Bills by CBN**

- Issues 1<sup>st</sup> January to December 31<sup>st</sup>
- Repayments 1<sup>st</sup> January to December 31<sup>st</sup>
- Commission Received 1<sup>st</sup> January to December 31<sup>st</sup>
- Commission Paid 1<sup>st</sup> January to December 31<sup>st</sup>

**15.14 Debt Management Office (DMO) Report**

- External funded Loan to Federal and State Government of Nigeria Statutory Corporations for the year
- Public debt of Federal Government of Nigeria for the year
- External Debt Stock for the year
- Internal Fund Loans to the Federal Republic of Nigeria for the year
- Internal Loan to the Federal Government of Nigeria for the year
- Internal Public Debt of the Federal Government of Nigeria for the year

**15.15 Information from Expenditure Division of Funds Department in OAGF Actual Cash Release & Utilization for:**

- Personnel Cost - 1<sup>st</sup> January to December 31<sup>st</sup>
- Over-Head Cost - 1<sup>st</sup> January to December 31<sup>st</sup>
- Service-Wide Vote 1<sup>st</sup> January to December 31<sup>st</sup>
- Statement of Actual Capital Utilization of Cash Releases for (MDAs) 1<sup>st</sup> January to 31<sup>st</sup> December
- Capital Supplementation 1<sup>st</sup> January to 31<sup>st</sup> December
- Actual Capital Utilization of Cash Release for the year and the spill over after 31<sup>st</sup> December
- Loans to Parastatals and Agencies 1<sup>st</sup> January to 31<sup>st</sup> December
- Break-Down of mandates Passed for External Debt Payment 1<sup>st</sup> January to 31<sup>st</sup> December
- Cash Releases to Local Debt payments 1<sup>st</sup> January to 31<sup>st</sup> December
- Mandates for Consolidated Revenue Fund Charges 1<sup>st</sup> January to 31<sup>st</sup> December
- Mandates for payment of Petroleum Support Fund Statement 1<sup>st</sup> January to 31 December
- Mandate for disbursement of Fund to Universal Basic Education Commission (UBEC) 1<sup>st</sup> January to 31<sup>st</sup> December
- Mandate for disbursement of Fund to Niger Delta Development Corporation (NDIC) 1<sup>st</sup> January 31<sup>st</sup> December



- Mandate for disbursement of Fund to National Judiciary Commission (NJC) 1<sup>st</sup> January 31<sup>st</sup> December
- For the same dates, mandates for disbursements for the National Assembly, National Human Rights Commission and Public Complaints Commission.

**15.16 Pensions and Gratuities:**

- Mandates for FGN Contribution – Employer
- Mandates for Pension and Gratuity –Civilian
- Mandates for Pension and Gratuity -Military
- Mandates for Pension and Gratuity - Police
- Mandates for Pension and Gratuity - Universities
- Mandates for Pension and Gratuity – Nigeria Railway Corporation
- Mandates for Pension and Gratuity –Others (If any)
- Mandates for Pension Redemption fund as per the Pension Reform Act 2014
- Amount for the Actual Funding of IPPIS showing the MDAS as at 31st December

**15.17 Information from Federation Account Division of Funds:**

- Monthly publications of the Federation Account Allocation Committee (FAAC) in respect of the Federal Government's Share (January to December)
- List/Statement of Mandates in respect of Allocations to other Agencies e.g. Customs & Exercise, FIRS 1st January to 31st December

**15.18 Information from the Fiscal Account Division of Funds**

Statement of the Federal Government of Nigeria Consolidated Income and Disbursement Accounts for 1<sup>st</sup> January to 31<sup>st</sup> December

**15.19 Information from the Revenue Division of the Investment & Revenue Department - OAGF (Independent External Revenue - US Dollars):**

- Bank Statements of J.P. Morgan Chase Manhattan Bank N/Y Account 1<sup>st</sup> January to 31<sup>st</sup> December
- Cash Books of J.P. Morgan Chase Manhattan Bank N/Y Account 1<sup>st</sup> January to 31<sup>st</sup> December
- Copies of Mandates issued to CBN for the Monetization of revenue draw-down in Naira (N) from the above named Account to Consolidated Revenue Fund (CRF) 1<sup>st</sup> January to December 31<sup>st</sup> December
- Bank Reconciliation Statements of this Account 1<sup>st</sup> January to 31<sup>st</sup> December
- List of all other Funds maintained in custody of the Accountant-General of the Federation and their balances as at 1<sup>st</sup> January to 31<sup>st</sup> December

**15.20 Information from the Investment & Revenue Department of the OAGF:**

- Statement showing the detail of Revenue collected by the Investments Department from 1<sup>st</sup> January to 31<sup>st</sup> December

- Bank Statements of Independent Revenue in Naira and in foreign currencies from 1<sup>st</sup> January to 31<sup>st</sup> December
- Copies of mandates issued to CBN to transfer fund from this Account to Consolidated Revenue Fund (CRF) (CRF) 1<sup>st</sup> January to 31<sup>st</sup> December
- Bank Reconciliation Statements of this Account
- Statement of Loans & Investment
- Bank Statements for all Special & Trust Funds
- Statements of Affairs of all Special & Trust Funds.

**15.21 Information from Special Duties Unit in OAGF:**

- Pension Account Bank Statements for the year
- Pension Account Cash Books for the year
- Payment Vouchers for the arrears of Pension for the year
- Statement of Arrears of payment

**15.22 Audit Procedures**

The audit process for the Whole of Government Accounts (WGA) is based on the process for executing an operational audit. The auditor for the WGA plans the audit, identifies and documents controls put in place by the OAGF, tests the design and operating effectiveness of the controls, conducts tests of detail as necessary, concludes, and reports. The key difference is that all of the balances that are consolidated into the Financial Statements are already subject to external audit, either by the Auditor General, or by other external auditors appointed from the approved schedule that is maintained by the Office of the Auditor General. Our audit procedures will therefore include the following at appropriate stages;

At the planning stage

- Obtain audit reports on all material or significant audited balances within the Whole of Government Financial Statements. This will mean obtaining submissions from internal and external audit teams of the entities generating the material balances. Further detail on the steps to take before placing reliance on the submissions received are covered within Part 1 of this guide and on SP11 - *Using the work of another auditor*.
- Determine whether there are material or significant balances for which we do not have adequate audit coverage. For any such balances, prepare and execute a financial audit or request that an audit is conducted.

At the fieldwork (or Consolidation review) stage

- Examine the consolidation process in detail, with emphasis on data accuracy and adequate disclosure. Review all submissions received from the OAGF and other affected entities (see schedules above, and also via our access to client electronic records), and confirm they are properly accounted for within the Financial Statements.

- Assess the level of combined unadjusted errors within the financial statements and comment on its materiality.
- Conduct the specific checks of the primary statements set out below.

At the completion and reporting (Summary) stage

- Apply the approved disclosure checklist to the Financial Statements.
- Determine whether the accounts as a whole have been prepared in accordance with the prescribed Accounting and Financial Reporting Standards (currently IPSAS). Check whether any significant or material balances within the Financial Statements were not deemed IPSAS compliant.
- Determine the appropriate audit opinion.

#### 15.23 **Checks of the Statements of Cash Flow and Financial Performance**

- i. For all the items in the statement vouch and confirm the previous year's figures into the current financial statements.<sup>5</sup>
- ii. Compare the opening and closing balances in the statement of consolidated Revenue Fund with the balances in the bank statement for the Fund
- iii. Cast and compare the total disclosed in the previous and current year statements.
- iv. Compare the amounts budgeted with the actual figures in the statement for all the items in the statement to know if any item was under budgeted for or was extra budgetary.
- v. Compare the amounts shown in the statements with the amounts reflected for all the items in the notes to the statement.
- vi. Extract the monthly figure of revenues such as Statutory Revenue, VAT and other receipts including Direct Taxes, Mining Rents, Royalties, Fees etc. in the Cash Flow Statements by examining the CRF Bank Statements, Cash Book and CRF Transcripts of Accounts and note the differences. Then, compare the amounts shown in the statements with the notes to each item.
- vii. Confirm the amounts on some of the mandates issued for capital expenditures, repayment of loan, personnel cost, Overhead Charges and other payments with the amount paid in the CRF bank statements.
- viii. Sample the amounts for the personnel cost, overhead charges, subvention to parastatals, Consolidated Revenue Charges in the statements with the ones shown in the notes for some MDAs.
- ix. Go through samples of the Trial Balances and transcripts of some MDAs to check if their T/B or transcripts for the year is complete showing, opening balance, revenue, personnel cost, overhead etc.
- x. Sample and compare the capital expenditures for the MDAs as shown in the notes to the statement with the amounts in their transcripts

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<sup>5</sup> Please note there will be no prior year balances for first time adopters of IPSAS

- xi. Extract the total of all items under Financing activities like proceeds from Aids and Grants, external loan, internal loan, etc. and repayment of external loans, treasury bonds, Development of loan stock etc. under cash flows from Financing activities in the statement and compare with the amounts in the notes to the statement.

#### 15.24 **Checks of the Statement of Financial Position**

For all the items in the statement, vouch and confirm the previous year's figures to the current financial statements<sup>6</sup>.

- i. Cast and compare the total disclosed in the previous and current year statements.
- ii. Compare the amounts budgeted with the actual figures in the statement for all the items in the statement to know if any item was under budgeted for or was extra budgetary. This will require a breakdown of the balances within the Statement of Financial Position by budget line.
- iii. Compare the amount shown in the statements with the amounts reflected for all the items in the notes to the statement.
- iv. Compare the amounts shown for all liquid assets in the statement with the amounts reflected in their bank statements.
- v. Check the amounts shown for liquid assets on the statement with the amounts in the note to each item, and examine any differences.
- vi. Confirm the amount on each mandate issued for purchase of investment, repayment of loans and treasury bonds, capital Development fund.
- vii. Compare the report of Debt Management Office relating to the external and internal loans with the amounts in the statement
- viii. For all other balances under Current Assets, compare the amounts shown on the statement with the amounts reflected in the notes to the statement.
- ix. Also, select a sample and compare the amounts in the Trial Balance or transcript for each MDA for imprest, Advances, and revolving loan with the individual amount in the note.
- x. For individual items of public funds, confirm the closing balance for each item with the amount shown in the statements.
- xi. Extract the individual list of items from the CRF bank statement and compare the total with the amount in the relevant notes to each item.
- xii. Check a sample of the amounts shown in the Notes as the individual balances of each MDA with the amounts in the transcripts/Trial Balances of the selected MDAs.

#### 15.25 **Checks of the Statement of Changes in Equity / Net Assets**

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<sup>6</sup> Please note there will be no prior year balances for first time adopters of IPSAS

- i. For all the items in the statement post and confirm the previous year's figures into the current statements.<sup>7</sup>
- ii. Cast and compare the total disclosed in the previous and current year statements.
- iii. Compare the additional funds received in the CRF with the amount disclosed in the Statement of Changes in Equity
- iv. Compare the revaluations disclosed in the Statement of Financial Position with the amounts in the Statement of Changes in Equity
- v. Compare the Net surplus disclosed in the Statement of Financial Performance with the surplus disclosed in the Statement of Changes in Equity

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<sup>7</sup> Please note there will be no prior year balances for first time adopters of IPSAS

## 16 - INFORMATION TECHNOLOGY (IT) AUDIT

### 16.1 Introduction

In response to the increasing automation/computerization of the operations of governments and public sector organisations, Information Technology (IT) audit has become central to audits being conducted by Supreme Audit Institutions (SAIs) across the world. In addition to their primary function of supporting the operations of an entity, IT systems also protect the data and business assets of the organization. While the increasing use of IT has led to more efficient and effective service delivery, it has also brought with it risks and vulnerabilities associated with computerised databases and applications, which typically define an automated working environment.

Most of the financial transactions and financial management processes of the federal government are being automated / computerized. These include, notably the **Treasury Single Account (TSA)** being implemented through the **Government Integrated Financial and Management Information System (GIFMIS)** and also the **Integrated Payroll and Personnel Information System (IPPIS)**. These are in addition to specific applications in operation at other MDAs. IT audit is therefore crucial in providing assurance that appropriate processes are in place to manage the relevant IT risks and vulnerabilities, and for the SAI to meaningfully report on the efficiency and effectiveness of government and public sector operations.

### 16.2 Definition of IT/IS Audit

*"Information Technology (IT) or Information Systems (IS) audit is the process of deriving assurance on whether the development, implementation and maintenance of IT systems meets business goals, safeguards information assets and maintains data integrity"* (IDA Handbook on IT Audits for SAIs). In other words, IT Audit is an examination of the implementation of IT systems and IT controls to ensure that the systems meet the organisation's business needs without compromising security, privacy, cost, and other critical business elements. The objective of IT Audits therefore, is to ensure that the IT resources allow organisational goals to be achieved effectively and the resources used efficiently.

### 16.3 Information Technology (IT) Controls

In the IT audit environment, policies and procedures, processes, tools, supervision/oversight, and other ways to manage a function are also referred to as **controls**. A control is the combination of methods, policies, and procedures that ensure protection of the organisation's assets, the accuracy and reliability of its records, and operational adherence to management standards. As a minimum, all auditors are required to understand the control environment of the audited entity so as to deliver assurance on the internal controls operating in an entity. The IT audit function, through relevant standards, guidelines, frameworks, etc. works to ensure that all the necessary controls within the IT environment are in place and effective; ensuring that all organizational businesses and operations possess evidences of business integrity and internal controls to protect valuable assets.

### 16.4 Categories of IT Controls

In an IT context, controls are divided into two categories: **General Controls** and **Application Controls**. The categories depend upon a control's span of influence and whether it is linked to any particular application.

**(a) IT General Controls**

IT General Controls are the foundation of the IT Control structure. These are concerned with the general environment in which the IT systems are developed, operated, managed and maintained. General IT controls establish a framework of overall control for the IT activities and provide assurance that the overall control objectives are satisfied. Examples of general controls include the development and implementation of an IT Strategy and an IT Security Policy, setting up of an IT Steering Committee, organisation of IT staff to separate conflicting duties, and planning for disaster prevention and recovery. The items to be looked at under IT General Controls include:

- (i) IT Governance - IT Strategic Management, Organisational Structure, IT Risk and Internal, IT Service Performance, etc.
- (ii) IT asset management (people and resources) i.e. a description of the computer systems in place - hardware specifications, Operating System, major applications, the Security Software, the existing manpower of the IT department and that of other user departments. This is to aid the auditor in determining the adequacy or otherwise of the organisation's systems.
- (iii) Access Controls - both **physical** and **logical access** to the data centre and databases.
- (iv) Program Change Controls - the process of making changes to computer programs.
- (v) Backup and Recovery Controls (including disaster recovery plans)
- (vi) Computer Operations Controls - i.e. general operational documentation relating to the systems in place.
- (viii) Database Management System (DBMS) controls.
- (ix) Telecommunication and Networks technologies controls.
- (x) Personal Computers (PCs) and End-User Computing (EUC) controls. etc.

**(b) IT Application Controls**

An **application** is specific software used to perform and support a specific business process. It may include both manual and computerised procedures for transaction origination, data processing, record keeping and report preparation. Each entity would be likely to have a number of applications running, ranging in size from an enterprise-wide system that is accessed by every employee, to a small client application accessed by one employee. An **Application Controls Review** enables the auditor to provide the management with an independent assessment of the efficiency and effectiveness of the design and operation of internal controls and operating procedures relating to automation of a business process, and identify application-related issues that require attention. The application controls operate on individual transactions to ensure that they are correctly input, processed and output. Since application controls are closely related to individual transactions, testing the controls will provide the auditor with assurance on the accuracy of a particular functionality. The elements of application

control are: **Input Controls – Processing Controls – Output Controls – Application Security Controls.**

#### 16.5 **The relationship between IT General Controls and Application Controls**

While Application Controls operate on individual transactions and ensure that they are correctly input, processed and output, IT General Controls are not specific to individual transaction streams, particular accounting packages or financial applications. The design and operating effectiveness of IT general controls greatly influence the extent to which the application controls can be relied upon to manage risks. General controls provide the applications with the resources they need to operate and ensure that unauthorised changes cannot be made to either the applications (i.e. they are protected from reprogramming) or the underlying databases (the large collection of transaction data).

#### 16.6 **Standards, frameworks and guidelines on IT Audit.**

The auditor is required to be aware of a number of frameworks, standards, guidelines and tools that exist to provide guidance in completing an IT Audit and use them as reference tools when performing IT Audits. Some of the relevant guidance, provisions and requirements are as follows:

- the *International Standards for Supreme Audit Institutions (ISSAIs)* (e.g. Section 22 of ISSAI 1 on the “Audit of Electronic Data Processing Facilities”, ISSAI 5300 which covers ‘Guidelines on IT Audit’, and ISSAI 5310 on “Information System Security Review Methodology”).
- *ISACA IS Audit Standards* – the Information System Audit and Control Association (ISACA) Audit Standards lay emphasis on information technology, systems and processes which the IT auditor should know and apply in the course of the IT audit.
- *International Organization for Standardization (ISO)* – the ISO standards providing for various aspects of IT include: ISO 20000 on IT Operations; ISO 27000 on IT Security; ISO 31000 on Risk Management; ISO 38500 on IT Governance, etc.
- *COBIT (the Control Objectives for Information and related Technology)* is a control framework for IT governance, which defines the reasons IT governance is needed, the stakeholders and what it needs to accomplish.
- *ITIL (IT Infrastructure Library)* – which provides “a set of practices for IT service management that focuses on aligning IT with the needs of the business”. Other standards/ frameworks/guidelines/tools the IT auditor should be at the very least aware of are the COSO (Committee of Sponsoring Organisations of the Treadway Commission) frameworks, Risk IT; Val IT and the “PRojects IN Controlled Environments2” (PRINCE2).

#### 16.7 **The IT Audit process**

The IT audit process is, in theory, no different than the process for executing an operational audit. **The auditor plans the audit, identifies and documents controls, tests the design and operating effectiveness of the controls, concludes, and reports.** In planning the IT audit, **a risk-based approach** to prioritise and select suitable topics for audit would be appropriate. With the rapid proliferation of modern Information Systems across governments and the limitation of resources available to SAs, a risk-based approach in selecting IT systems for audit assists the auditor in deciding the



priority of audits. To use the risk assessment framework, an SAI needs to have some minimum information across the MDAs, usually gathered through a survey.

#### 16.8 **Identifying Sources of Information**

For the IT General Controls review, a questionnaire fashioned after the RAM SP 9 (IT Internal Control checklist) working paper is used to preliminarily gather information from the auditees before commencing the audit. See copy attached in the Appendices. This should be edited to reflect the operations of the entity (i.e. based on the complexity of the systems in the MDA), the risks identified or the scope/extent of the assignment.

Other typical sources of information in an organisation that has IT Systems will include the following:

- Policy, processes and procedures and other guidance documents;
- The users of the system – including those in the IT department and those in the user departments;
- Documents describing business processes – user manuals, flow charts, up-to-date presentations;
- System Development documents such as the User Requirement Specification (URS) document, and System Requirement Specification (SRS);
- Electronic data;
- Other information available in the organisation related to its functions, control and monitoring systems, etc. such as forms, registers (Risk registers, Software Registers, etc.), budgetary information, different reports including reports from previous audits, external audits, internal reviews and so on.

#### 16.9 **Audit Planning - IT Audit Matrices (or the Audit Logic Matrix)**

The Audit Matrix, which is developed during the planning stage, outlines the scope of the audit, the objectives, important audit issues, performance criteria etc. under different IT audit areas. SAIs use various formats of audit matrices for planning their audits, but there is an overall uniformity in the information captured in the audit matrices. The IT auditor is required to know the matrices for the different audit areas. Though the matrix is prepared at the planning stage, the contents can be updated or modified during the IT audit process.

#### 16.10 **Use of Computer Assisted Audit Tools (CAATs)**

CAATs are specialised software tools that an auditor uses to automate aspects of the audit process. They are used by auditors to collect and analyse data/information/evidence from diverse Information system environments, in assessing application controls. Once the entity's data is made available in electronic format, the use of CAATs enables better audit coverage, savings in time and cost, more complex audit interrogations and better analytical capability.

#### 16.11 **Classifications of CAATs**

CAATs are classified according to their use or capability to perform different tasks. On broad terms, one set of CAAT tools is used for data extraction and analysis, referred to as **Generalised Audit Software (GAS)**. Examples of GAS are Spreadsheets (like the

Microsoft Excel), MS Access, ACL (Audit Command Language) Analytics and IDEA (Interactive Data Extraction and Analysis). Another set performs specialised tasks like program validation, vulnerability assessment, etc. these are referred to as **Concurrent Audit Tools** and examples include SAP GRC Access Control, Risk Management, Process Control (VIRSA); Oracle Governance, Risk, and Compliance (LogicalApps); and IBM Workplace for Business Controls and Reporting).

**16.12 Conclusion and Reporting**

The IT Audit report follows the general layout of the reporting practice in place at the SAI. It should be measured in the technical detail reported, based on the level of detail required by the audience of the report. Reports should be timely and the findings should be constructive and useful to the audited entity as well as meaningful to all other stakeholders. It is extremely important to get a response from the auditee to audit observations. The IT auditors should have meetings with the agency's management at the different levels, document their responses and finalize the record by asking the agency to confirm its contents. Adequate evidence about all audit efforts should be kept on the audit files, and the outcome of all efforts should be stated in the report. The final report should also include management's comments wherever applicable. (*Refer to ISACA IS Standard S7 for further information requirements*).

**16.13 Audit Findings, Conclusions and Recommendations**

In order to be constructive the report should also address improvements identified and future remedial action(s) by incorporating statements by the audited entity or by the auditor. Audit findings, conclusions and recommendations must be based on evidence. In formulating the audit conclusion or report, the IT auditor should have regard to the materiality of the matter in the context of the nature of the audit or audited entity. Conclusions on the audit findings should be based on the audit objectives. The conclusions should be relevant, logical and unbiased. Sweeping conclusions regarding absence of controls and risks thereon should be avoided, when they are not supported by substantive testing.

## **APPENDICES – WORKING PAPER TEMPLATES (e-copy only on CD-ROM)**

- AP 1. Example Format of the Annual Overall Audit Plan
- AP 2. Example of a Directive
- AP 3. Example of an Audit Calendar for Regularity Audit

### **Pre-Engagement**

- PE 1. Budgeted v Actual hours
- PE 2. Code of ethics
- PE 4. Competency matrix of audit team
- PE 5. Team agreement
- PE 6. Audit letter of understanding
- PE 7. Quality Control Questionnaire for Pre-Engagement.
- PE 8. Review Worksheet

### **Strategic Planning**

- SP 1. Planning materiality
- SP 2. Lead schedule
- SP 3. Prior Year's Audit Matters -
- SP 4. Preliminary analytical review
- SP 5. Review of Internal Audit
- SP 6. Audit Committee Checklist
- SP 7. Risk identification checklist
- SP 8. Internal Control Checklist
- SP 9. IT Internal control checklist
- SP 10. Sustainability of Services Checklist (going concern)
- SP 11. Using the work of another auditor
- SP 12. Using the work of an expert
- SP 13. Risk of material misstatement on a financial statement level
- SP 14. Overall Audit Strategy
- SP 15. Engagement team discussion document
- SP 16. Audit query
- SP 17. Review worksheet

### **Detailed Planning and Fieldwork (Working Papers)**

- DPF 1. System description for audit components
- DPF 2. Reliance on key controls for components
- DPF 3. Audit programs
- DPF 4. Sampling
- DPF 5. Evidence tracking sheet
- DPF 6. Lead schedule on component level
- DPF 6.1 Analytical review for salaries and wages
- DPF 7. Tests of controls
- DPF 8. Substantive audit procedures performance
- DPF 9. Substantive analytical procedures
- DPF 10. Audit summary memorandum

DPF 11. Audit query

DPF 12. Quality Control Questionnaire for Detailed planning and fieldwork

DPF 13. Review worksheet

**Audit Summary and Reporting**

- AS 1. Disclosure checklist
- AS 2. Management Representation letter
- AS 3. Subsequent events
- AS 4. Final analytical review (where applicable)
- AS 5. Audit differences
- AS 6. Code of Ethics compliance
- AS 7. Quality Control Questionnaire for Audit summary
- AS 8. Review worksheet
- R1. Management letter
- R 2. Auditor's report
- R 3. Representation by audit management
- R 4. Matters for attention during the next year's audit
- R 5. Quality Control Questionnaire for Reporting
- R 6. Review worksheet