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I. PUBLIC SECTOR ACCOUNTING

A. Assessment of the National Public Sector Accounting Environment

Timely, relevant, and reliable financial information is required to support all fiscal and budget management, decision making and reporting processes.

(1) The Accounting Law

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>I. For reliability the requirements for public sector accounting and reporting should be specified by law, cover all government-owned entities, specify the methods by which accounting and auditing standards are to be set for the public sector, specify the reporting requirements, and lay down time tables for the publication of audited annual accounts.</p>	<p>Public sector accounting is based on provisions in the following laws:</p> <ul style="list-style-type: none"> ■ Constitution of Sri Lanka 1978 ■ Financial Regulations of Sri Lanka 1992 ■ Finance Act No 38 of 1971 ■ Financial Responsibility Act of 1987 ■ Local Government Acts and Ordinances <p>Current financial management laws do not provide a sufficient basis for modern efficient and effective PFM. Accurate and timely accounting information is needed for orderly and reliable departmental budget implementation and efficient audit activities. For the general budget sector, the Government has adapted the Financial Regulations to follow the Cash Basis IPSAS, Part I, presenting a statement of cash receipts and cash payments in line with IPSAS Cash Standard 1.3.4. The enforcement procedures for these regulations are weak. There is a need for constant upgrading of officer training in the requirements.</p> <p>The Sri Lanka Accounting and Auditing Standards Act 1995 adopted international accounting and auditing standards to improve financial disclosure for the commercial sector including public corporations involved in the sale of goods or the provision of services. It also established the Sri Lanka Accounting and Auditing Standards</p>	<p>Legislation for the public sector financial management of each public sector entity needs to be updated covering:</p> <ul style="list-style-type: none"> ■ custody of money and property ■ the accounting framework ■ adoption of IPSAS ■ financial management ■ auditing of financial statements ■ adoption of auditing standards based on ISA and INTOSAI Auditing Standards ■ compliance with general policies of the Government ■ imposition of penalties for malpractices ■ contents of annual reports ■ contents of annual financial statements. <p>Enact the proposed Public Finance Act to provide a firmer basis for more effective enforcement and clarify the financial accountabilities of responsible parties.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>Monitoring Board to monitor compliance. However arrangements for the general budget sector are not legislated and practices are therefore not supported by adequate direction.</p>	
<p>2. Compliance with IPSAS for non-commercial bodies and IAS for commercial bodies is needed for consistent transparency.</p>	<p>The Government has stated its intention to adopt the accrual-based IPSAS as the basis for government budgeting and accounting. A draft Public Finance Act is under consideration.</p> <p>Annual financial statements are published according to Cash Basis IPSAS, Part I, for the general budget sector. Annual government accounts are not published in a sufficiently timely way. They do not provide sufficient information about public sector performance and public assets and liabilities either in aggregate or by entity.</p> <p>In 2002 ADB reported a decline in the standard of financial reporting by public corporations.</p>	<p>A time table is needed for consolidation of controlled entities into the cash basis statements as per 1.6.5 of the Cash Basis IPSAS (e.g. public enterprises).</p>
(2) Education and Training of Public Sector Accountants		
<p>3. For reliability, the curriculum requirements for the accounting qualifications of public sector accountants should accord with internationally recognized standards of accounting training as established in the IES for Professional Accountants.</p>	<p>Government accountants are recruited on the basis of the results of a competitive examination, consisting of six 3-hour papers on financial management, for which a university degree in accounting or equivalent is required.</p> <p>A 2002 ADB report found that government accountants and auditors do not have adequate or appropriate professional qualifications. These should have specified academic qualifications, professional examinations, practical experience, and continuing professional education requirements.</p>	<p>A training program in Sri Lanka that meets the IES is needed for the public sector accountants and auditors. Plans to have the UK CIPFA adapt its public sector program for Sri Lanka conditions provide the path for sustained improvement using a Sri Lanka based training institution monitored to international standards.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>Current INGAF and SLIDA courses do not provide training of the standards set by the IES. There is no specific training for public sector accountants except the Induction Training given at recruitment given in SLIDA. A scholarship scheme exists to release a few accountants for ICASL training.</p> <p>The use of foreign training is expensive and potentially wasteful as its curricula are not oriented towards the Sri Lankan environment. The ADB study found deficiencies in the accreditation methods of the Institute of Public Finance and Development Accountancy.</p>	
<p>4. For reliability, public sector accountants should be provided with continuing professional training requirements that accord with internationally recognized standards of accounting training.</p>	<p>All government accountants hold at least a university degree or equivalent and most of them hold part qualifications of ICA, CIMA. A continuing training and professional development program should be a professional requirement that has not yet been met. The intention for accountants to be required to pass two efficiency bar examinations for their promotions has not yet been implemented.</p>	<p>INGAS and SLIDA offer good facilities for continuing training in accounting and related matters, and occasional training needs analyses should be conducted to identify and fill the needs for training.</p>

(3) Code of Ethics for Public Sector Accountants

The INTOSAI code covers integrity; independence, objectivity and impartiality; professional secrecy; and competence.

<p>5. For reliability, public sector accountants should be required to adhere to the principles laid down in a code of ethics that are at least in accord with the internationally recognized standards for professional accountants. This may be based on IFAC or INTOSAI codes.</p>	<p>The general civil service establishment code applies to all.</p>	<p>A specific code of ethics based on IFAC or the Sri Lanka Institute of Accountants should be prepared and adopted.</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
(4) Public Sector Accountant Arrangements		
<p>6. For timeliness, relevance, and reliability, there should be a professionally qualified CFO function to be responsible for maintaining systems of internal financial controls that manage risks, and for preparing regular financial accounts for each government entity.</p> <p>The CFO should also be responsible the following:</p> <ul style="list-style-type: none"> ■ maintenance and management of the chart of accounts, ■ to ensure the most appropriate technological support for financial management practices, ■ manage training and education needs for financial management, ■ report on key performance indicators, and ■ assist program managers develop an effective financial approach to the delivery of expected outcomes. 	<p>The secretary (CEO) for each ministry is appointed as the CAO accountable for all aspects of financial management of the ministry and departments under their purview. The CAO is required to follow the instructions given by the head of the Treasury, who is the CAO for the Ministry of Finance. Grade I officers generally perform as the CFOs. They are responsible for preparing annual financial statements.</p>	<p>CFOs should be professionally qualified as departments move toward preparing their own annual financial statements for audit and report</p>

B. Assessment of National Public Sector Accounting Standards

Financial reporting must be adequate to meet the accountability demands of stakeholders

(1) Framework for the Preparation and Presentation of Financial Statements		
<p>7. National accounting standards should accord with international standards to provide consistency. The responsibility for establishing the national accounting standards for the public sector should be well defined to provide reliability.</p>	<p>For commercial accounting the ICASL is empowered by law to establish accounting and auditing standards. IFAC-issued ISA and IAS are generally adopted after a short time lag.</p> <p>IAS 29 and IFRS 1 have not been adopted because of lack of relevance for Sri Lanka. IAS 32,</p>	<p>With the promulgation by IFAC of IPSAS, it would be appropriate to amend the Sri Lanka Accounting and Auditing Standards Law 1995 to add responsibility for public sector standards.</p> <p>A further longer-term time table is needed for the transition path for provision of the additional</p>



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	<p>39 and 41, and IFRS 2 -7 are being adopted as per a work schedule.</p> <p>All auditing standards have been adopted and modifications for 2004 will progressively be incorporated.</p> <p>For government, the ICASL has no role. The Ministry of Finance is responsible in general but no specific consideration has been given to this issue.</p>	<p>information encouraged by Part 2 of the Cash Basis IPSAS, and of the further movement toward full accrual reporting based on IPSAS.</p> <p>The IFAC PSC transition guidance and the IPSASB Exposure Draft 28, Disclosure of Financial Information about the General Government Sector should be considered.</p>
(2) Preparation and Presentation of Financial Statements on the Cash Basis		
<p>8. The Government should have adopted a national accounting and reporting framework based on recognized international standards to provide authority.</p>	<p>Government has adapted Financial Regulations that substantially follows the Cash Basis IPSAS plus some accrual elements.</p>	
<p>9. If the Cash Basis IPSAS has been adopted as a national standard, reporting should comply with the standard to ensure consistency.</p> <p>If the accrual basis is adopted, disclosures made with respect to the general government sector shall include at least disclosure of the following:</p> <ul style="list-style-type: none"> ■ Assets by major class, showing separately the investment in other sectors, ■ Liabilities by major class, ■ Net assets/equity, ■ Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity, ■ Revenue by major class, ■ Expenses by major class, ■ Net surplus or deficit, 	<p>The Cash Basis has been adopted and the 2004 accounts are in compliance with Part I apart from consolidation of non-commercial public enterprises, disclosure of third party payments, and disclosure of restrictions on cash balances. The 2005 accounts have been substantially expanded to include accrual elements, and Sri Lanka is embarked on a path to accrual reporting in accordance with IPSAS.</p> <p>In addition annual accounts are being prepared and audited for Ministries/Departments.</p>	

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<ul style="list-style-type: none"> ■ Cash flows from operating activities by major class, ■ Cash flows from investing activities, and ■ Cash flows from financing activities. (Oct 2005 IPSAS ED 28)		

C. Assessment of Accounting and Auditing in State-Owned Enterprises

Financial Statements should comply with IAS and IFRS.

<p>10. Financial statements should include (a) balance sheet, (b) income statement, (c) statement of changes in equity or a statement of recognized gains and losses, and (d) cash flow statement [IAS 1.8]</p> <p>Financial statements should present fairly (or give a true and fair view of) the financial position, financial performance, and cash flows of the entity. [IAS 1.13]</p> <p>Financial statements should be prepared on the accrual basis of accounting [IAS 1.27]</p> <p>Financial statements should be prepared using the accounting policies established by the International Accounting Standards. [IAS 1]</p>	<p>SOEs apply IFRS. They should also comply with governance requirements established by the Department of Public Enterprises and by the ICASL Code of Best Practice. This includes the Board having responsibility to assess the systems of internal control maintained by management and to operate an Audit Committee. A report on the risk management and control framework is to be included in the Annual Report.</p> <p>Only 10 of the 178 SOE accounts for 2003 received unqualified audit opinions. The AG expressed a disclaimer on 29 public corporations, and noted a lack of response to problems identified in earlier years. There is a clear problem in corporate governance when serious audit objections that lead to disclaimers on accounts are uncorrected.</p> <p>Long-standing receivables were noted as a particular problem. This leads to increased tax-payer burdens.</p>	<p>Greatly increased attention needs to be given to corporate governance issues for SOEs when the AG qualifies the annual accounts.</p> <p>The actions taken with respect to directors of public corporations in the event of continued failures in corporate governance need to be reviewed.</p>
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II. PUBLIC SECTOR AUDITING

A. Assessment of the Public Sector Auditing Environment

An effective scrutiny by the legislature through comprehensive, competent, external audit enables accountability for the implementation of fiscal and expenditure policies.

The environment for an effective SAI requires a comprehensive PFM approach. SAIs are not stand-alone institutions; they are part of a PFM architecture that also includes budgeting, accounting, internal control, audit and legislative oversight, and government response. Improving the way the SAI functions is integral to providing information for improving the overall PFM system, but the action must be within the executive branch under the watchful eyes of the legislature and the public. A strong demand for good public sector external auditing is necessary for the SAI to have any impact. This requires willingness of the executive branch to accept and respond to external scrutiny over its management of funds and to ensure that suitable action is taken for reforms. It also requires public presentation of the audit reports to ensure public support for effective action.

(1) Statutory Framework

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>11. Statutory auditing requirements should be established by legislation.</p>	<p>Current relevant laws are:</p> <ul style="list-style-type: none"> ■ Constitution of the Democratic Socialist Republic of Sri Lanka, ■ Finance Act No.38 of 1971 Ch. 252, ■ Municipal Council Ordinance Ch 255, ■ Urban Council Ordinance Ch 255, ■ Pradesiya Sabha Act No. 15 of 1987 (local government), ■ Lanka Accounting and Auditing Standards Act 1995. <p>The Constitution and the laws above provide for the AG to audit all government bodies; although in practice Government Business Enterprises are audited by accounting firms and reviewed by the AG Department. However, the provisions are not too specific about the type of audit report required.</p> <p>The legislation does not give sufficient administrative authority to the AG to ensure that the AG Department is adequately protected from interference by the executive branch.</p> <p>There is no Audit Act that deals specifically with the Auditor General.</p>	<p>Enact dedicated audit legislation that specifies the duties, powers, and responsibilities of the Auditor General and provides safeguards for the AG's financial and administrative independence from the executive branch.</p> <p>Complete negotiations with donors over the implementation of the institutional strengthening program that the World Bank is considering. This program would resource part of the activities as envisaged in the modernization proposal. The Ministry of Finance is asked to liaise with donors for the necessary funding. Further discussions are needed for evolving the best way to manage the process, including the possibilities for a sectorwise approach to the development.</p> <p>Conduct a review of PFM high-level indicators. Given the strong interdependencies between the elements of the PFM system, coordinated or integrated programs of development are important for success. The World Bank regularly conducts PFM indicator assessments for</p>

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	<p>The Government of Sri Lanka had approved in October 2005 the drafting of a National Audit Bill and an institutional development plan expected to cost US\$19.5 million to modernize the AG Department.</p> <p>Until the legislation and the audit functions are brought up to the international standards, the AG operations will continue to be inadequate to support the PFM system. Complementary developments in the accounting, internal controls, and legislative scrutiny functions will also be needed for the PFM function to perform in an adequate manner.</p>	<p>its members, which provide an overall framework for dealing with the financial management risks through reform of PFM. Sri Lanka has not yet been addressed.</p>
<p>12. The SAI should have authority to conduct a full range of audits for all government-owned or government-controlled entities, including regularity, financial, and performance audits. (INTOSAI Lima Declaration Sections 18-19)</p>	<p>As per Section 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, “The Auditor General shall audit the accounts of all departments of Government, ..., local authorities, public corporations and business or other undertakings vested under any written law.”</p> <p>Various laws governing public bodies specify the matters to be examined by the audits. In some cases the laws allow a limited form of performance audit through examining whether there has been economy and efficiency in the commitment of funds and the utilization of funds. The AG’s reports contain frequent reference to uneconomic transactions and under-utilized assets.</p>	<p>The new National Audit Act should provide a broader base to undertake all forms of audit. The World Bank has already given advice in respect of the content of the proposed law. Further to this advice, it is recommended that the law should include an overall objectives clause as follows:</p> <p>(1) The objectives of the Office of the Auditor-General shall include providing an opinion on whether or not:</p> <ul style="list-style-type: none"> (a) the public accounts provide a true and fair view of the finances of the government and the individual public bodies to which they refer; (b) the financial transactions of the government and public bodies comply with relevant legislation, and regulations issued by any relevant competent body; (c) the financial affairs of the government and public bodies have been managed with due regard to probity, and that their statutory and

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		<p>ethical duties to Parliament and the public have been met in an open and even-handed manner;</p> <p>(d) the government, public bodies, and public money have been managed with due regard to value for money and that officers have made the best use of the resources for which they are responsible.</p> <p>(2) The Auditor-General will provide recommendations and advice to Parliament on significant issues which the Auditor-General has discovered in the course of his/her work.</p>
<p>13. The legislation should list out penalties in the event of non-compliance with the auditing requirements. These penalties should be applied appropriately.</p>	<p>Under the Financial Regulations Section 154, all Chief Accounting and Accounting Officers should ensure that every assistance is given to the Auditor General and AG-authorized Officers (in writing), for the performance of their duties and functions. Provisions in the Finance Act and the Auditing and Accounting Standards Act allow for penalties with respect to some bodies. There have been some cases of action taken but details are not available.</p>	<p>The new National Audit Act should contain an adequate Offences Clause along the following lines:</p> <p>(1) Any person commits an offence, without lawful justification or excuse, if he/she:</p> <p>(a) intentionally obstructs, hinders or resists the Auditor-General</p> <p>(b) intentionally refuses or fails to comply with any lawful requirement of the Auditor General</p> <p>(c) makes a statement or gives information to the Auditor General knowingly or recklessly to the fact that the statement or information is false or misleading;</p> <p>(d) willfully suppresses any information required by the Auditor General in the performance of his/her duties; or</p> <p>(e) represents directly or indirectly that the person holds any authority under this act when</p>

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		<p>the person knowingly does not hold that authority.</p> <p>(2) For the purpose of subsection (a), “the Auditor-General” includes any member of the AG staff or other auditor acting with AG authority.</p> <p>(3) Any member of the AG staff or other auditor acting with his/her authority commits an offence if he/she:</p> <ul style="list-style-type: none"> (a) demands or takes any bribe, gratuity, recompense, or reward for the neglect or non-performance of his/her duty; (b) willfully fails to report to the Auditor General any abuse or irregularity that comes to his/her notice in the course of his/her auditing duties; or (c) makes any report to the Auditor General that he/she knows to be false or has no reason to believe to be true. <p>If the Auditor General has reason to believe that an offence has occurred, he/she shall request that the Director of Public Prosecutions take appropriate action to prosecute the offender(s).</p> <p>A person who is convicted of committing an offence as stated in Section 51 is liable, on summary conviction, to a fine not to exceed ... and/or to imprisonment for a term not to exceed five years. An organization which commits such an offence is liable, on summary conviction, to an unlimited fine.</p>
(2) Setting Auditing Standards		
<p>14. The government should have adopted the INTOSAI Auditing Standards and</p>	<p>The AG Department’s current auditing approach is based on the Auditing Standards set by the</p>	<p>The formal government adoption of International Standards on Auditing in the new National</p>



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<p>the IAASB International Standards for Auditing for public sector entities. (ISA 200.5 and INTOSAI Auditing Standards I.O.14)</p>	<p>ICASL together with public sector elaboration on some of the ICASL Auditing Standards. However there is no document that lists out the public sector audit standards. Without any formal document there is no authoritative and credible basis for financial reporting standards.</p>	<p>Audit Act would be a credible solution, as per the following formulation:¹²</p> <p>The Auditor General shall determine which auditing standards should be applied; and may establish auditing standards and a code of ethics specific to the audits performed by the Office of the Auditor General. In applying generally accepted governmental auditing standards:</p> <ul style="list-style-type: none"> (a) The auditing standards and code of ethics published by the INTOSAI and the IAASB may be used for conducting audits of central government bodies. (b) The auditing standards and code of ethics published by the IFAC may be used for conducting audits of public enterprises. (c) Other recognized or required standards issued or accepted by funding or donor organizations may be used in conducting audits of their projects.
(3) Code of Ethics		
<p>15. The INTOSAI Code of Ethics should have been fully adopted by the SAI, communicated to all staff and applied. (IFAC ISA 200.4 and INTOSAI Code of Ethics 4)</p>	<p>There is no specific Code of Ethics applicable to Government Accountants. The SAI has not adopted the IFAC Code of Ethics or INTOSAI Code of Ethics for its staff. The Code of Conduct for Public Sector Accountants is mainly based on the Establishment Code for Public Servants, developed by the Ministry of Public Administration. The Code of Ethics issued by the ICASL applies only to its members.</p>	<p>The AG Department should adopt a Code of Ethics.</p> <p>A register of the interests held by senior audit staff should be in place.</p> <p>Policies and procedures for protecting whistle blowers should be adopted.</p>

¹² Adopted from clause 40 A Model National Audit Office Act, The Association of Chartered Certified Accountants, 2004

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	<p>There is no program for training or dissemination of a Code of Ethics. To be effective, a developing SAI needs its own Code of Conduct that is communicated to all staff, who must be required to subscribe to its elements, with policies and procedures in place for protecting whistle blowers.¹³</p>	
(4) Accountability in the SAI		
<p>16. There should be an accountability process in the SAI. (INTOSAI Auditing Standards I.0.20)</p>	<p>The AG Department has management meetings. Circular instructions are issued to staff from time to time by the AG.</p>	
<p>17. There should be clear responsibility in the SAI for (a) advising on internal finance, keeping proper financial records and accounts, and maintaining systems of internal control; (b) for ensuring compliance with laws and regulations.</p>	<p>The general requirements of the public service financial rules are applied.</p>	
<p>18. The SAI should prepare an annual report on its operations and performance that is separate from its reports on its audits. It should provide an objective, balanced and understandable account of activities and achievements, and details of financial position and performance.</p>	<p>The annual Activity Report of the Auditor General tabled in the Parliament includes performance commentary, organizational details, and summaries of the audit findings for the year, which are set out in detail in over 30 other report volumes. For example the 2003 report includes a self assessment of the current strengths and weaknesses of state audit. It also contains an assessment of the SAI against INTOSAI standards.</p>	
<p>19. The SAI should prepare a corporate plan or equivalent.</p>	<p>A corporate plan is being prepared.</p>	
<p>20. The SAI should undergo peer review or independent performance audit.</p>	<p>Done. A 2003 Peer Review by the Netherlands SAI noted the need for:</p> <ul style="list-style-type: none"> ■ a National Audit Act, 	<p>The Institutional Development Plan should pay particular attention to achieving the Peer Review recommendations in practice.</p>

¹³ Adopted from SAI Maturity Model, UK National Audit Office, 2005

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	<ul style="list-style-type: none"> ■ AG status as that of Supreme Court Judge, ■ budget to go to Parliamentary Committee, ■ give audit reports to the media, ■ more autonomy, 	
(5) Independence provided by the Legislation		

If the SAI is to provide effective external scrutiny, legislation should be adequate for the following core principles of SAI independence:

- (a) The existence and de facto application of an appropriate and effective constitutional and legal framework,
- (b) The independence of the SAI Heads including security of tenure and legal immunity in the normal discharge of their duties,
- (c) A sufficiently broad mandate and full discretion in the discharge of SAI functions.
- (d) Unrestricted access to information,
- (e) The obligation to report on their work,
- (f) The freedom to decide on the content and timing of their reports and to publish and disseminate them,
- (g) The existence of effective follow-up mechanisms on SAI recommendations,
- (h) Financial and managerial autonomy and the availability of appropriate human, material and monetary resources.

(Core Principles of SAI Independence, INTOSAI Subcommittee on SAI Independence, 2004)

21. There should be an appropriate and effective constitutional/statutory/legal framework for the extent of SAI independence and powers, and an adequate de facto application of the provisions of this framework. (INTOSAI Auditing Standards 1.0.15 and 2.2.2)	By the Sri Lanka Constitution, the AG Department has coverage of all government bodies and adequate powers to carry out its audits. The gap is that legal provisions governing audit are contained in acts primarily written for other purposes. Effective application of powers can be better ensured through an act written directly for the SAI.	Complete the drafting and passage of the National Audit Act.
22. The legislation should spell out in detail the extent of SAI independence. (INTOSAI Lima Declaration Section 5) The legislation should assure the independence of the SAI Heads and "Members" (in collegial organizations) and that there is security of tenure and legal immunity in the normal discharge of their duties. (INTOSAI Lima Declaration Section 6)	The Constitution does not specify this. Without clear independence the AG is constrained in his/her activities.	The National Audit Act should contain clauses specifying AG independence along the following lines: (a) The Auditor General shall act independently in the exercise and performance of his/her functions, duties, and powers. (b) The Auditor General shall be immune from legal prosecution in the normal discharge of his/her duties during the period of his/her

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		<p>office or after he/she has left office.</p> <p>(c) Before undertaking his/her duties, the Auditor General shall take an oath, administered by the Speaker of Parliament, pledging to perform honestly and impartially the duties of the office, abide by the laws, and uphold the Constitution.</p> <p>The salary, superannuation, benefits, and other conditions of service for the Auditor General shall be the same as those for the Supreme Court Judge.</p>
<p>23. The SAI constitutional/statutory/legal framework should ensure that it has available sufficient human, material, and monetary resources. (INTOSAI Lima Declaration Section 7)</p>	<p>The legal framework does not do this. There are financial and other constraints in making available sufficient resources. The recent Country Financial Accountability Assessment found that “Like any other government department, the Auditor General’s Department faces resource constraints.”</p>	
<p>24. A fixed term must be long enough to survive changes of government and avoid pressures concerning re-appointment which create obstructions in the term of office of the SAI office bearer. A single non-renewable appointment is preferable to avoid those pressures. (INTOSAI Working Group on SAI Independence, 2004)</p>	<p>The Constitution allows the Auditor General to serve in office during a sustained period of good behavior. Removal can take place upon an address of Parliament.</p> <p>Non-renewable appointment of a professionally qualified accountant for a fixed term of 10 or more years is preferred for reasons of competence and independence.</p> <p>More specific removal provisions are needed to prevent potential political pressures.</p>	<p>Legislation should specify the grounds upon which removal might be considered and the process by which any alleged infringement might be judged.</p> <p>Clauses along the following lines might be considered:</p> <p>(a) The Auditor General may be removed from office only by the provisions of this section.</p> <p>(b) The Auditor General may be removed from office only on the grounds of inability to discharge the functions of his/her office (whether arising from infirmity of body or mind or any other</p>



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		<p>cause whatsoever) or for misconduct.</p> <p>(c) The Auditor General shall be removed from office by the President if the question of removal from office has been referred to a Parliamentary tribunal appointed under this article and the tribunal has recommended to Parliament that the Auditor General ought to be removed from office for inability as aforesaid or for misconduct and the Parliament has endorsed the recommendation.</p>
<p>25. The legislation should ensure that there is a sufficiently broad mandate including financial and performance audit, and allow full discretion in the discharge of SAI functions. (INTOSAI Lima Declaration Section 4)</p>	<p>The Auditor General has statutory responsibilities to report to the Parliament on his/her audits, under the statute, with a view to improving public sector administration and accountability. The legislation does not specifically state that the AG Department is free to publish and disseminate its reports once they have been formally tabled as required by law, but the AG Department could do so, if it thinks fit.</p>	
<p>26 The legislation should ensure that the SAI Head is free to determine the organization of the audit office, including personnel and contract management systems and material acquisition/disposal policies and procedures. The SAI Head should be able to determine personnel policies, including the selection, recruitment, training, remuneration, promotion, discipline, and dismissal of staff and contract personnel. (INTOSAI Lima Declaration Section 6)</p>	<p>There are financial and other constraints in making available sufficient resources. The AG Department is under the administrative control of other agencies and has no legal authority, for example, to transfer staff from one station to another, to take disciplinary action, or to suspend a salary increment, The AG budget in Sri Lanka is not subject to scrutiny or approval by a special legislative committee, nor are there any safeguards against executive control over this budget. Similar to the problems faced by other government departments, the AG Department has budget</p>	<p>Greater autonomy should be given to the AG. Suitable clauses are as follows:</p> <ul style="list-style-type: none"> ■ The Auditor General shall employ such persons as are necessary for efficiently and effectively executing the AG functions, duties, and powers. Within the framework of the budget approved for the Office of the Auditor General, the Auditor General has the authority to assess staffing needs and appoint, train, assign, pay, promote, reward, and dismiss staff members. ■ Employees in the Office of

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	<p>cuts imposed on it by the General Treasury and often encounters delays in obtaining the approved funds. In these circumstances, the AG is in no position to meet SAI international standards.</p>	<p>the Auditor General shall be considered to be in an excepted service. They are not part of the public service nor are they subject to any of the rules, regulations, or procedures promulgated by Public Service Commission.</p> <ul style="list-style-type: none"> ■ The Auditor General shall establish job descriptions with clearly defined responsibilities, qualifications, and performance expectations for all positions in the Audit Office. ■ The staff of the Office of the Auditor General shall be managed to ensure that: <ul style="list-style-type: none"> (a) there is fair, open, and equal treatment of individuals applying for or being offered positions; (b) staff appointments and advancement decisions are made on the qualification and merit of all individuals eligible for consideration ;and (c) disciplinary, removal, or other adverse actions are done in accordance with clear, established and consistently applied criteria and processes. <p>The staff shall be appointed at such remuneration and on such other terms and conditions as the Auditor General may decide. In so deciding, the Auditor General shall consider the terms and conditions determined by the Public Services Commission.</p>
<p>27. There should be unrestricted access to information. (INTOSAI Lima Declaration Section 10)</p>	<p>The Constitution provides for this.</p>	
<p>28. The legislation should give the SAI the right and obligation</p>	<p>The Constitution provides for this.</p>	



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<p>to report on their work. (INTOSAI Lima Declaration Section 16)</p> <p>The legislation should give the SAI the right and obligation to report effectively on its work, and the freedom to decide on the content and timing of its reports and to publish and disseminate them expeditiously. (INTOSAI Lima Declaration Section 17)</p>		
<p>29. To the extent the findings of the SAI findings are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution shall be empowered to approach the authority which is responsible for taking the necessary measures and require the accountable party to accept responsibility. (Lima Declaration Section 11.2)</p>	<p>The Constitution does not give the AG Department powers to enforce findings, and the general standard of response to audit findings is not at a satisfactory level. The SAI does not have the status nor the resources or methods to gain compliance with its recommendations.</p> <p>In the absence of much stronger remedial actions by government agencies on the findings of the audit, the history of repetitive reports of misdemeanors will continue and PFM in Sri Lanka will not improve to a satisfactory level.</p> <p>There should be a greater willingness by the executive branch to follow up and implement the SAI findings (which might require departmental Audit Committees to set a stronger performance management approach). Also there needs to be a much stronger interaction between the SAI and the legislative oversight committees to follow up SAI reports more systematically, and cause system improvements for the overall PFM structures in Sri Lanka. This may require support from donors for strengthening the Committee processes.</p>	<p>Improve the audit and reporting methodologies of the AG Department.</p> <p>Introduce practice management systems which include audit recommendation tracking systems through to implementation (e.g. ADM Plus as used by the Pakistan SAI).</p> <p>Amend the standing orders and the Parliamentary Powers and Privileges Act, which govern the rules of procedure of Parliament, to allow for greater public access to the hearings of the Committee on Public Accounts and Committee on Public Enterprises.</p> <p>Build awareness, information sharing, and research capacity of the two oversight committees and the proposed new standing committee on the budget in the legislature.</p>

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(6) Qualifications and Skills of the Auditor		
<i>The SAI needs qualified accountants to sign audit opinions. Auditors must have adequate professional expertise and technical knowledge to carry out audits</i>		
<p>30. The syllabus of the government and SAI accounting schools should cover all areas recommended by IFAC-issued IES.</p>	<p>The quality of accounting educational and training arrangements in the government schools is not satisfactory as it does not meet the needs of modern accounting and financial management. AG Department staff has good basic accounting qualifications, but a dearth of required auditing expertise has been highlighted in the Institutional Development Plan.</p>	<p>Introduce a better training institution that meets the established international standards.</p> <p>Draft legislation has been prepared to establish a Public Sector Professional Accountancy Institute which merges two current public sector training institutes (Institute of Public Finance and Development Accountancy and the Institute of Government Accounts and Finance).</p> <p>The assistance of the UK CIPFA has been sought to support a relevant professional diploma.</p> <p>The new Institute is envisaged to secure membership of IFAC within a five- to ten-year period.</p> <p>Provide for adequate funding of the Institute.</p> <p>The idea of creating an institution teaching at international levels is supported by proposed World Bank funding but further funding may be needed.</p> <p>Use the Institutional Development Plan to fill current short-term gaps in skills. The implementation of the IDP would strengthen the training programs in the shorter term.</p>
<p>31. There should be adequate professional criteria for recruitment and promotion of auditors. (INTOSAI Lima</p>	<p>Recruitment requires an accounting degree. Promotion is based on seniority.</p>	<p>Introduce a greater element of merit into the promotion process along with tests for competencies as levels for</p>

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Declaration Section 14 and INTOSAI Auditing Standards 2.1.4)		promotion. There has been an intention to introduce examinations to act as tests for promotion at two levels, but no action has been taken.
(7) Training		
32. The SAI should operate a continuing professional development program for its professional personnel. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.5-2.1.12)	The AG Department does not have basic facilities for training, research and development. A proper needs-based approach is required to support the introduction of an audit methodology, and international accounting and auditing standards.	Conduct a skill analysis program based on international standards for competencies. Use the IDP to strengthen the internal AG Department training facilities.
(8) Audit Competence		
33. The SAI should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems. (INTOSAI Auditing Standards 2.2.37)	<p>The audit methodology for the general budget sector is aimed at finding non-compliant transactions, not attesting to the reliability of a specified system of internal control and reporting.</p> <p>The AG Department's basic audit approach is pivoted on compliance testing of a 3-month selection of transactions. There is no intention to form an opinion about the validity of the annual expenditure as a whole. The intention of the testing is to help to identify possible or actual instances of noncompliance with those laws and regulations which provide a legal framework within which the entity conducts its affairs. It is only incidental that this also can provide some confidence about the accuracy of the financial accounts, but this can only be done if the transactions are selected on a systematic sample basis in accordance with the relevant ISA.</p> <p>There is no concept of audit confidence that is, the confidence level that is implicit in the audit</p>	<p>Implement the Institutional Development Plan. Systems, methodologies, and facilities need to be updated in accordance with the Institutional Development Plan to enable modern audits to be undertaken by the staff.</p> <p>Develop a specialist forensic audit capability.</p> <p>Develop a specialist IT audit capability.</p> <p>Change the audit orientation from transaction to risk-based systems. The audit should not aim to correct instances of misuse of government funds; it should be aimed at reporting on the adequacy of the system of control, then recommending action to correct the system. It is the responsibility of the managers to correct instances of misuse of government funds.</p> <p>Audits should be aimed at identifying the inadequate</p>

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	<p>opinion and which underpins the level and extent of audit testing required in order to express that opinion.</p> <p>Without substantially different audit methodologies and substantially more IT support, the SAI will not be able to take full advantage of its staff’s knowledge of accounting to conduct valid certification and systems-based audits.</p> <p>An audit methodology should clearly outline:</p> <ul style="list-style-type: none"> ■ audit confidence level (usually 95% confidence); ■ minimum requirements for an audit, including how audit planning, audit work papers, and the audit summary is documented; ■ how audit materiality is determined and what is an acceptable level of audit risk and confidence, along with how these factors are documented; ■ how to develop an appropriate mix of audit work, in order to adequately address the audit risks identified. <p>The mix of audit work would include:</p> <ul style="list-style-type: none"> ■ documentation of key accounting and management information systems; ■ the identification of key controls in and around those systems, with audit walkthrough tests to verify the systems and controls in operation; ■ evaluation of the information systems control environment; ■ overall assessment of the control environment; ■ combination of audit compliance and substantive 	<p>behavior of managers in applying the system of controls rather than the inadequate behaviors of individual officers in managing specific transactions. Both approaches involve the examination of transactions but the systems approach looks more thoroughly at each transaction selected on the basis of materiality in order to form conclusions about the system including the role of the managers in that system.</p> <p>Aim to equip all audit staff with laptop computers to enable the introduction of electronic work papers. An electronic work paper package would:</p> <ul style="list-style-type: none"> ■ enable standardization of all planning and reporting documents and audit work papers, ■ ensure work papers are reviewed properly and consistently, ■ eliminate the need to create hard-copy files, ■ provide for nationwide electronic storage and retrieval of audit files, ■ enable planning and work papers to be rolled forward from year to year, ■ enable the assimilation of sector-wise issues collection and reporting where appropriate, and ■ support review action.



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	<p>testing (key item testing, analytical review, and sampling) procedures that are necessary in order to form a view on key account balances and transactions;</p> <ul style="list-style-type: none"> ■ how audit errors are recorded, summarized and evaluated against audit materiality. 	
(9) Quality Assurance		
<p>34. The SAI should have the quality assurance programs in place to ensure audit performance and results. Written quality control policies and procedures should be communicated to the audit personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. (ISA 220.7)</p>	<p>There is no quality assurance program. Audit supervision is expected to ensure quality. Currently however, the audit is not timely, many findings lack materiality, and the audit programs, which focus on compliance and financial (attestation) audits, are not on par with international best practices.</p> <p>There has been some improvement in the recent past. A quality assurance program would help to implement an adequate standard across the board.</p> <p>There is no Audit Manual. Such a manual is needed to outline the single layer of supervisory review to be undertaken on audits, prescribe what has to be covered by this review, and set down the supporting quality assurance program.</p>	<p>An Audit Manual prepared in accordance with the methods described in the IDP is needed. A manual prepared by consultants during the 1990s lacked acceptance in the AG Department. The new manual should be prepared and written by the AG staff, in full consultation with external consultants who will be providing guidance and support only, and not actually writing the manual.</p>
<p>35. Quality control procedures should cover:</p> <ul style="list-style-type: none"> ■ <i>Direction.</i> Assistants with delegated work need appropriate direction. ■ <i>Supervision.</i> the functions that must be covered during the audit include (a) monitoring progress of the audit, (b) becoming informed of and addressing significant accounting and 	<p>The AG Department does apply quality control through audit supervisors.</p>	

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<p>auditing issues, and (c) resolving any differences of professional judgment between personnel and considering the level of consultation that is appropriate.</p> <ul style="list-style-type: none"> ■ <i>Review.</i> The work performed by each assistant needs to be reviewed by personnel of at least equal competence. (ISA 220.8-220.17) 		

B. Assessment of Public Sector Auditing Standards and Practices

Results from the audits should hold the executive to account for its fiscal and expenditure policies and their implementation.

(1) Planning		
<p>36. The planning process should collect information about the audited entity and its organization in order to identify important aspects of the environment in which the audited entity operates; develop an understanding of the accountability relationships; determine whether appropriate action has been taken on previously reported audit findings and recommendations; assess risk; and determine materiality. (IFAC ISA 300.6-300.9)</p>	<p>Most of the AG audits are aimed at identifying regulatory breaches. The reports of these audits are of minimal assurance value to either the preparers or users of the financial reports, or wider stakeholders. Nor are they of much value to those responsible for managing systems of internal control.</p> <p>Planning involves stating a number of person-days for various areas of audit examination. There can also be some examination by audit supervisors of annual reports and other entity data to identify some particular areas of testing.</p> <p>Only the full financial attest audits provide any assurance value and utility. The work in these audits in the AG Department largely revolves around examining the compilation of the financial reports and substantively testing in order to form a view on the existence assertion.</p>	<p>The new Audit Methodology Manual should introduce more comprehensive planning requirements based on the specific objectives of the audits.</p> <p>The audit methodology and supporting working papers should be more precisely defined in a manual of procedures.</p>



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<p>37. The planning process should identify the scope of the audit and specify the audit objectives and the tests necessary to meet them. (ISA 300.10-300.12)</p>	<p>Audit planning is not sufficiently tailored to the audit client – that is, there is no documented formality in the following points of an assessment of the auditee’s:</p> <ul style="list-style-type: none"> ■ management control environment ■ accounting and management information systems ■ key controls ■ issues and risks ■ size and scale of business and ■ financial statements and key account balances. 	
<p>38. The planning process should review the internal audit of the audited entity and its work program, identify key management systems and controls, and carry out a preliminary assessment to identify both their strengths and weaknesses, and determine the approach to be adopted in the audit. (ISA 300.9)</p>	<p>This is not done.</p>	
<p>39. The planning process should highlight special problems foreseen when planning the audit. (ISA 300.10)</p>	<p>This is done.</p>	
<p>40. The planning process should prepare a budget and a schedule for the audit, and provide for appropriate documentation of the audit plan and for the proposed field work. (ISA 300.10)</p>	<p>Budgets and schedules are prepared at a broad level.</p>	
<p>41. The planning process should identify staff requirements and a team for the audit. (ISA 300.11)</p>	<p>This is done.</p>	
<p>42. The planning process should familiarize the audited entity about the scope, objectives, and the assessment criteria of</p>	<p>The type of audit-compliance is well known to the auditee, so this is not done.</p>	

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<p>the audit and discuss with them as necessary. (ISA 300.7)</p>		
<p>(2) Supervision</p>		
<p>43. The process of supervision should ensure that the members of the audit team have a clear and consistent understanding of the audit plan. (INTOSAI Auditing Standards 3.2.3a)</p>	<p>This is done.</p>	
<p>44. The process of supervision should ensure that the audit is carried out in accordance with the auditing standards and practices of the SAI. (INTOSAI Auditing Standards 3.0.3b)</p>	<p>Working paper practices were poor. No working papers were signed-off as evidence of review. Generally the supervision handled the preparation of report paragraphs</p>	
<p>45. The process of supervision should ensure that the audit plan and action steps specified in that plan are followed unless a variation is authorized. (INTOSAI Auditing Standards 3.0.3c)</p>	<p>This is done.</p>	
<p>46. The process of supervision should ensure that working papers contain evidence adequately supporting all conclusions, recommendations, and opinions. (INTOSAI Auditing Standards 3.0.3d)</p> <p>The process of supervision should ensure that the auditor achieves the stated audit objectives. (INTOSAI Auditing Standards 3.0.3e)</p> <p>The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)</p>	<p>Mostly the audit evidence is contained in the original vouchers and supporting papers in the department. They are not copied, documented, filed, and referenced. Mostly files relate to the audit findings that are carried forward through to reporting. Some brief review of working papers indicated that even where there were manuals of audit procedures, working paper rules were not followed.</p> <p>Without a more comprehensively structured working paper system, the audit cannot attain the following normal audit objectives regarding the validity of transactions:</p> <ul style="list-style-type: none"> ■ Existence ■ Measurement ■ Completeness ■ Measurement 	



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<p>The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)</p>	<ul style="list-style-type: none"> ■ Presentation and Disclosure ■ Regularity 	
(3) Internal Controls		
<p>47. The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. (ISA 315.2)</p> <p>After obtaining an understanding of the accounting and internal control systems, the auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. (ISA 315.90)</p> <p>The auditor should document in the audit working papers: (a) conclusions reached about susceptibility to material misstatement due to error or fraud; (b) the understanding obtained of the entity's accounting and internal control systems; and (b) the assessment of control risk. (ISA 315.122-123)</p> <p>The auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating</p>	<p>The general budget sector audits examine transactions against the rules established by the Financial Regulations. Their reports therefore indicate where controls have not been applied. They do not approach the audit from the perspective of material misstatement of an accounting figure but rather the failure of a transaction to comply with the rules.</p> <p>The effect of this approach is that there is no pressure on the system to improve as all of the effort goes into argument about the transaction, not the system of control. The 2003 AG Activity Report notes that past audit reports had been merely post mortem examinations often delayed from 5 to 15 years, and that by and large the issues were not significant.</p> <p>The AG intended to move toward a performance-based audit approach. This has involved supervisors looking for more significant issues to specify for examination of their audit planning. This was apparent in the study but to be effective, the overall methodology needs to change and be supported by a manual of audit procedures.</p>	<p>Introduce an updated Audit Methodology Manual.</p>

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<p>effectively at relevant times during the period under audit. (ISA 330.23)</p> <p>When the auditor cannot obtain sufficient appropriate audit evidence as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 330.72)</p> <p>The auditor should make management aware in writing, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the accounting and internal control systems that have come to the auditor's attention. (ISA 315.12)</p>		
(4) Compliance with Laws		
<p>48. The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. (ISA 250.15)</p> <p>The auditor should perform testing and other procedures to help identify instances of non-compliance with those laws and regulations where non-compliance should be considered when preparing financial statements. (ISA 250.18-250.19)</p> <p>Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures</p>	<p>The AG Department uses most of its resources for this type of audit. It is an important issue as to whether or not the audits are effective in dealing with instances of non-compliance. In other countries in South Asia, for example Pakistan, the audit reports log large numbers of transactions for pursuit of recovery and these continue to be monitored until the matter is resolved, either by the Public Accounts Committee or the Auditor General.</p> <p>In the local government area, the AG does have the power to disallow items of the accounts that are contrary to law and surcharge the responsible officer. There was no indication that this is done effectively. The 2003 AG Activity Report states that recoveries of surcharges were small, with more than half the outstanding surcharges uncollected for more than four years.</p>	<p>Introduce a system of recommendations and methods to monitor that the recommendations are implemented. Report on the process in the AG Activity Report.</p> <p>Introduce a system to ensure that 172 (3) of the Pradesiya Act (and any similar provisions in other laws) are met effectively. Report on the process in the AG's Activity Report.</p>



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<p>to test or assess compliance, the auditor should evaluate the entity's internal controls and assess the risk that the control structure might not prevent or detect noncompliance. These evaluations should be used to report to management on defects in the system of internal controls and the steps that should be taken to improve the system. (ISA 250.17)</p> <p>The auditor should obtain written representations that management has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (ISA 250.23)</p> <p>The SAI should use regularity audit to make sure that the State budget and accounts are complete and valid. The audit procedure may result, in the absence of irregularity, in the granting of a "discharge". If not, other processes are needed to resolve irregularities.</p>		
(5) Evidence		
<p>49. When obtaining audit evidence from tests of control, the auditor should consider the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk. (ISA 500.10)</p> <p>When obtaining audit evidence from substantive procedures, the auditor should consider the sufficiency and appropriateness of audit evidence from such procedures together with any</p>	<p>The relevant ISAs on evidence were not generally relevant to the methodology of the audits conducted by the AG Department. It is likely that they were used by the private sector accounting firms that audited the annual accounts of the public corporations, but this review did not have access to these working papers because the AG Department did not have access.</p>	<p>The AG Department should, as per ISA 600 (8), examine on a sample basis some of the working papers of the 'qualified auditors' employed to audit government bodies. ISA 600 (8) states:</p> <p>"The principal auditor should perform procedures to obtain sufficient appropriate audit evidence that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment."</p>

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evidence from tests of control to support financial statement assertions. (ISA 500.12)		
<p>50. When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting. (ISA 500.5)</p> <p>When in substantial doubt as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 500.18)</p>	<p>These activities were undertaken.</p>	
(6) Analysis of Financial Statements		
<p>51. In regularity (financial) audit, and in other types of audit when applicable, the auditor should analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. (INTOSAI Auditing Standards 3.6.1)</p> <p>Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on the financial statements. The auditor should ascertain whether:</p> <ul style="list-style-type: none"> ■ financial statements are prepared in accordance with acceptable accounting standards; ■ financial statements are presented with due consideration to the circumstances of the audited entity; 	<p>These appear to have been done for the audit of financial statements.</p>	



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<ul style="list-style-type: none"> ■ sufficient disclosures are presented about various elements of financial statements; and ■ the various elements of financial statements are properly evaluated, measured, and presented. <p>(ISA 200.2-200.12)</p>		
(7) Reporting on Financial Statements.		
<p>52. The auditor should provide an opinion paragraph in the audit report. (ISA 700.4)</p> <p>There should be a reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards). (ISA 700.12-15)</p> <p>The opinion paragraph should contain an expression of opinion on the financial statements stating the auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly) in all material respects. (ISA 700.17)</p>	<p>By and large these requirements are met. However, the audit scope and audit opinion paragraphs for the Consolidated Financial Statements 2004 do not contain the degree of detail set by ISA 700 in paragraphs 12 to 15. This leaves some uncertainties as to the auditing standards used for the work, and whether the audit provides a reasonable basis for the opinion, and that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. The scope statement notes the limitations of staff, other resources, and time available. This would normally be read by a user of the accounts as an indication that the audit opinion on the accounts is thereby qualified by the limitations on the work that has been done as per ISA 700.36-37.</p> <p>The reference to the reporting framework used to prepare the accounts is by way of the notes to the financial statements and these are somewhat unclear as to whether Cash Basis IPSAS, Part I, has been fully adopted.</p> <p>For the audits of government business entities, the sample of audits examined showed that the audit reports are in conformance with ISA 700.</p>	<p>The requirements of ISA 700 should be adopted in full when the audit methodology allows. It is apparent that the audit methodology used is not sufficiently precise to draw the audit conclusions that are needed to follow the requirements of ISA 700 for the audit report. In the meantime the wording of the report should be in accord with ISA 700 as far as is possible and the limitations should be set out in specific terms at the relevant part of the report.</p> <p>It would be preferable for the audit opinion to make explicit reference to the Cash Basis IPSAS, Part I, as required by that standard if the accounts have been prepared in accordance with the standard. Any exceptions can be mentioned.</p>

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<p>53. The SAI should provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion. Reports should be made where weaknesses exist in systems of financial control or accounting. (ISA 700.17)</p>	<p>This is done. The study reveals a number of weaknesses in the success of the present reporting system, e.g. lack of depth, irrelevance, lack of brevity, etc. Although the AG submits a supplementary report in respect of statutory boards and corporations, no serious attempt seems to have taken by the boards of such institutions for improving controls and management of resources.</p>	<p>Improve the effectiveness of the audit report by stronger enforcement of corporate governance requirements through the audit committees.</p>
(8) Reporting on Fraud		
<p>54. The SAI should report fraudulent practices or serious irregularities discovered by the auditors. (INTOSAI Auditing Standards 4.0.7) ISA 240 establishes standards and provides guidance on the auditor's responsibility to consider fraud and error in an audit of financial statements. The standard requires that, when planning and performing audit procedures and evaluating and reporting the results thereof, the auditor considers the risk of material misstatements in the financial statements resulting from fraud or error.</p>	<p>Much of the AG Department work relates to these issues, but most findings are not characterized as fraudulent. Mostly they are classified as contentious; uneconomic; noncompliant; or lacking authority, records, or verification. The 2004 AG Activity Report summarizes a few instances of local government transactions considered to be fraudulent.</p>	
(9) Reporting on Compliance		
<p>55. With regard to regularity audits, the auditors prepare a written report, which may either be a part of the report on the financial statements, or a separate report, on the tests of compliance with applicable laws and regulations. (INTOSAI Auditing Standards 4.0.7)</p>	<p>This procedure is followed.</p>	

