

# Intosai auditing standards essay



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Audit practices have been evolving in response to growing public expectations of accountability, and to the complexities in economic and technological advances being made in the organizations. An important recent development has been the challenge of globalization and the need for harmonization of financial reporting in facilitating the most efficient allocation of funds globally. Harmonization applies not only to the financial reporting standards applied in preparing financial statements but to the credibility attached by the audit process.

In an increasingly complex world, the SOAP should be able to maintain confidence in its reputation for independence, objectivity, knowledge and understanding of the public sector environment. The SOAP plays an important role in helping to improve financial reporting, project management and accountability in the public sector. SOAP audit reports and related products and services are designed to meet the evolving needs of the Parliament, the Executive and public sector entities. We should be fully committed to providing professional auditing and related services that are of high quality, timely and cost-effective.

It should be the independence of the Auditor-General and the SOAP, and the quality and objectivity of our work, that should underpin our standing and reputation. Critical to our success is our ability to recognize and respond to changes occurring in our environment which impact directly and indirectly on the provision of our products and services. The environment we operate in will have a significant and sustained impact on the way we do our work and the cost of meeting our statutory responsibilities.

Key environmental Issues facing the SOAP Include; The Increasing complexity of the public sector operating environment as a result of factors such as: 1 . The continuing trend In using the private sector to provide government services to the public with the attendant need for appropriate Hansel being used to deliver services to the community including whole of government approaches; 3. The ever increasing reliance on, and complexity of, information technology systems; 4. The need for more effective use and retention of corporate knowledge and the importance of effective record keeping, particularly electronic records; 5. Halogens in recruiting and retaining the required skills for today’s resource person; and 6. An increased focus on the physical environment for example, clean water, poverty alleviation and security matters. Developments in the accounting and auditing profession: 1 . Intuition attention to sound corporate governance; 2. The emphasis on risk management and the importance of robust control environments; 3. The adoption of international accounting and auditing standards; 4. The continuing development of government accounting standards 5. He ongoing development of audit methodologies, including an appropriate focus on legislative compliance. Key elements of the quality of Soaps actual external audit is envisaged to comprise the scope/ coverage of the audit, adherence to appropriate auditing standards including independence of the external audit institution, focus on significant and systemic FM issues in its reports, and performance of the full range of financial audit such as reliability of financial statements, regularity of transactions and functioning of internal control and procurement systems. Inclusion of some aspects of performance audit (such as e. . Value for money in major infrastructure contracts) would also be expected of a high quality

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audit function. With the Auditor-General adopting International Auditing Standards the envisaged wider role of the Auditor-General in auditing circumstances changed. The timing of audits has changed and now has to be done during the busy periods due to reporting deadlines imposed by the PEA. This implies that Auditor General will need to staff up in order to be in a position to meet the reporting deadlines. Moreover Devolution has changed the way government money is spent in Pakistan.

Responsibility for well over billions of rupees a year now lies with the devolved administrations. These changes in accountability for public money have also meant changes in the audit arrangements. Objectives of AFAR Audit Component AFAR was one such initiative where SOAP tried to achieve following objectives from the Project relating to Audit Component: \*

- \* Implementation of Best Audit Practices.
- \* Development of SOAP Infrastructure, Technology ; Human Resources.
- Implementation of Audit Management and Information System (MA'S).
- Development and adoption of auditing Standards and Guidelines.

The purpose of this concept paper is to develop a strategy for post Project to Improve Financial Reporting and Auditing (AFAR) scenario. AFAR will be completed in the year 2010. Therefore it is necessary to develop a strategy for succession of the reforms implemented by the project. To develop an effective strategy, we need to assess the Activities being carried out by AFAR consultants. \*

\* The effect on SOAP staff after completion of Project

Assumptions It is assumed that following objectives will be achieved by the end of the project in order to assess post AFAR Scenario. Roll out of FOAM to all three tiers of Government. \*

- \* Implementation of AMISS
- \* Up-gradation of

Oafs Challenges confronted by SOAP SOAP is facing modern day challenges of adopting best international practices and widening its scope in terms of the client base and the variety of work that we do. Key Areas | Description | ASSAI adoption | FOAM was developed in the light of MAINTAINS guidelines. MAINTAINS has now adopted International Standards of Supreme Audit Institutions (ASSAI) and made its adoption mandatory for all the SASS.

FOAM and practices performed under FOAM also need certain revisions in the light of new technical requirements prescribed by Sisal. Auditor-General of Pakistan is signatory of Lima Declaration (ASSAI guidelines) and World Bank has recommended that these should be formally adopted to conform to international best practices. Currently, work is in process and ASSAI gap analysis is being made with current departmental practices. Subsequent to the adoption of ASSAI, new technical requirements prescribed by the ASSAI need to be formally implemented across all the Oafs.

Such an implementation would require extremely sophisticated technical and professional expertise and human resource well verse with International Standards on Auditing (Isis). | IS Auditing | SAP is being implemented across all tiers of Governments from Federal to Districts level. Moreover, a pilot project is also in progress to apply it to devolved level of governments | E. Tama or whatever administration in place. The quantum of audit work will increase significantly as more and more government and devolved overspent levels are being added to the workflow.

SAP generates variety of accounts & reports and reliance on reports can only be made after a detailed Information System (IS) functionality audit by

trained IS staff on regular basis has been established. World Bank has also emphasized on adoption of ISAAC standards to be used on such IS Audits. The ISAAC standards are very technical and require the services of professional (CICS) and experienced staff in the field of IS audit. These Experts will not only train the Oafs staff but also monitor their progress and meet minimum IS audit requirements stated in ISAAC standards.

I AMISS I The Audit Management and Information System (MA'S) is software that encompasses the entire audit cycle ranging from audit planning, execution to reporting. It is an effective tool in reducing human discretion and bias in audit processes and provides real time information to the strategic management. Implementation of AMISS is currently in concept for SOAP, critical to the success of this system in a post-AFAR scenario would be having professional (MIS expert) staff with relevant experience becomes critical for technical support and training to Oaf's staff.

I Integration of certification ND compliance with authority work Audit I  
Currently two types of audit are being performed in SOAP; these are compliance with authority work and certification audit. These two audits are mainly two sides of a same coin. Integrated audit approach is considered as one of the best international practices. Among other perceived benefits Integration of regularity and certification audits will significantly enhance efficiency and avoid duplication of work. This is a very special nature of Job which will change certain practices and management of audit within the department across all the 25 Oafs.

Professionally qualified human resource having sufficient hands on knowledge & experience of integrated audit approach are pre-requisite to educate Oafs staff. I Continuously updating audit requirements I SOAP prides itself with being an organization always at the forefront of innovative and bold initiatives taken worldwide in the profession of public sector auditing and accounting. FOAM is such an example of us being bold and adaptive in response to the changing environment that surrounds us. But it is not a static document; it also needs suitable amendments and continuous updating based on lessons learnt and innovative thinking.

Moreover, SOAP has issued 16 sector guidelines; there will always be an opportunity for improvement in the light of current/proposed audit practices. I PIPES Accrual Basis I PIPES is a comprehensive set of public sector accounting standards framework applicable to all the public entities which prepare financial statements. Compliance with the PIPES standards guarantees that the financial reporting of public bodies conveys what is termed a true and fair view of the financial situation. It gives two options as a basis for preparation of financial statements ' cash basis of accounting and accrual basis of accounting.

Currently in Pakistan, public sector accounts are prepared on cash basis of accounting. Auditor General has envisaged for adoption of accrual accounting in future. The strategy chosen to achieve this objective is phase-wise adoption of accrual accounting starting from asset accounting and commitment accounting. Accrual accounting being radically different from cash basis would certainly create the need for extremely sophisticated and

relevant knowledge and experience capable of understanding the requirements of two niche of accounting systems.

I Improvement in PEA indicators I Public Expenditure and Financial Accountability (PEA) is an integrated performance measurement framework for Public Financial Management (FM) developed by multi-donor's (including World Bank, MIFF, European Commission, United Kingdom's Department for International Development, French Ministry of Foreign Affairs, Royal Norwegian Ministry of Foreign Affairs, Swiss State Secretariat for Economic Affairs and SPA Strategic Partnership with Africa).

The availability of donor's funds to a country and/or determination of interest rates are dependent on these PEA indicators. The audit reports are considered key document for accountability ND transparency system established within a country as a check on budgeted expenditures/ donor's funds utilization and overall Public Financial Management (FM). One of the scoring methodology for ' A category in PEA indicators requires that period covered and in the case of financial statements from the receipt of the audit office. Currently government accounts are prepared, audited and presented to legislature within 1 year from the end of relevant financial year. In the light of PEA category-A, team of professional and experienced staff is required to meet such required timeliness. This will facilitate in improving the PEA ratings for Pakistan followed by increased flow of funds [grants [debts at substantial relaxed terms. I The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget law.



If the legislature does not rigorously examine and debate the law, that power is not being effectively exercised and will undermine the accountability of the government to the electorate. Assessing the legislative scrutiny and debate of the annual budget law will be informed by consideration of several factors, including the scope of the scrutiny, the internal procedures for scrutiny and debate and the time allowed for that process. Legislative scrutiny of annual budget is one of important indicators of PEA framework (PI-27).

SOAP being the representative of legislature for assessing the transparency and scrutiny of public funds; are now looking to expand our scope to assess and audit the procedures followed for budget scrutiny and the assumptions formulated for the preparation of budget. This a whole new area never touched before and we would need to build our capacity to meet the challenge we are setting for ourselves. Again doing this will facilitate in improving the PEA ratings for Pakistan followed by increased flow of funds [grants [debts at substantial relaxed terms.

I Functions of AFAR Audit Component Audit Component of AFAR performs major role in the implementation of Financial Audit Manual. FOAM has been prepared on the basis of international best practices, which is risk based auditing approach and used in public and private sector both. In order to train our staff for a proper implementation of such practices; experienced audit consultants from market were hired from market and posted at respective G offices to support on Job and classroom based training.

Audit Competency Centers were established at GAP Head Office and four provincial levels to support respective G offices for FOAM implementation. Core team consisting of Audit Experts and Supervisors are placed at AC Islamabad where they coordinate with all Field Audit offices for achievement of benchmarks envisaged in FOAM. Functions performed at AC are as follows:

- \* Monitors the progress towards achievement of targets set by the GAP and World Bank. AC devises the strategy to achieve the targets and support Audit Component Chief for smooth implementation of reforms.

AC communicates the strategy to field offices and ensures that the targets are met in time; \* Liaison with all field audit offices through respective Sacs at provincial level for communication of policy decision of Audit Component and assistance to G offices in its implementation; \* Arrange Class room trainings for respective G offices with support of training component; \* Provide technical input on queries raised by Audit Component Chief, G IR&C & Oafs; \* Hiring of Audit Experts/ Supervisors, their orientation for SOAP; \* Extraction of data from SAP and its distribution to Development of CAL checks for Oafs; \* Procurement related to Audit Component in coordination with procurement wing; \* Coordination with AMISS consultants for nationwide implementation of MA'S; \* Arrange workshops on best auditing and accounting practices; \* Assist PAR; SD wing on quality control, assessment of audit working papers, audit results and audit certificates.

Technical support for finalization of financial statements on cash basis PIPES format and; \* Provide practical inputs and advice on IT audits and control assessment of IT environment. Professionals at Field Audit Offices Audit Experts and Audit Supervisors are placed at 24 Oafs where they provide on

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Job training to Field Audit Staff on implementation of Financial Audit Manual.

The Audit Experts/ Supervisors are performing following functions: \* Class room training of FAA staff. \* Provide on Job training by assisting in preparation of following files; \* Annual Audit Plan \* Permanent files \* Planning file of Individual Audits \* Execution Files \* Reporting File \* Preparation of Management letter \* Assisting G office in conducting Special Audits if any Follow-up Procedures Proposed Strategy: \* Improvement in Audit

In order to ensure sustainability following strategy is put forward for consideration: SUPPORT OF PROFESSIONALS FOR TECHNICAL INPUT FOAM Technical Assistance \* In formulating its strategy for FOAM technical assistance under ( the department has learnt from its experience in AFAR-II. The department will continue with the existing number of Audit Experts and Audit Supervisors placed at 24 Oafs where they will continue providing on Job training to Field Audit Staff on implementation of Financial Audit Manual and making maximum out of this. \* The Audit Competency Centers will be made permanent setup as a technical resource enter where Master Trainers along with qualified professionals would be appointed for providing technical input to Oafs.

Master Trainers will be qualified accountants from PA; AS or departmental staff with experience of FOAM implementation. FOAM Modules certified Master Trainers will be attached with Audit Experts at Oafs and they would lead at least three to five more Audit Cycles in the presence of Audit Experts. The ratio should be ideally three Master Trainers for each Audit Expert. \* These Master Trainers would be compensated through an allowance for

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motivation and sustainability of reforms. The Master trainers would be encouraged to have certifications in the field of Audit and accountancy e. G. Certificate in International Auditing, Certified Government Auditor or COCA etc. One Director General would be appointed in Audit Competency Center (AC), Islamabad to manage all the Audit Audit Offices. One Director will be appointed in AC Lahore and Karachi each while AC Equate and Appeaser will be run by Deputy Directors to continue with the \* FOAM will be a key criteria and case for promotion of Oaf's staff. Existing setup. Incentives will be introduced as prime motivator for master trainers in the form of additional allowances and recognition of work performed. AMISS Technical Support \*

Once the AMISS is fully functional, the next step will be to maintain the system. For this purpose, there will be continuous need of IT professionals for the maintenance and up gradation of the system so as to ensure smooth and effective system operations.

The department will identify staff with IT background and they will be attached with AMISS implementation team so that once the project is implemented they have enough experience to successfully maintain the IT system. \* More PA&AS officers are being involved at implementation stage of MA'S. The officers are needed to be posted at Sacs so that they can provide technical support to respective G office in post AMISS implementation scenario. \* AMISS Experts will be placed at each AC for a period of at least 3 to 5 years. These Experts will look into any technical difficulties encountered in any change management process related to AMISS operations and its acceptance.

They will also be responsible for catering the continuous need for training at each FAA and wherever necessary provide them on job training in coordination with Audit Experts placed in the respective Oafs. CAL Master Trainers Master Trainers will be placed at respective Sacs for data extraction and application of CAL checks for Oafs. \* CAL Master Trainers should be encouraged for CAL certification. Once certified they should be placed at respective Sacs. They should continue training of selected staff of Oafs instead of training whole staff. Strategy Office ; Staff at AP; AS wing Professionals will be placed at Strategy office as they will continue to support SOAP office for overall technical assistance and ensure that SOAP is abreast of the International Best Practices.

Moreover they will also assist AP; AS wing in charges of their following envisaged functions; \* Continuous up gradation of FOAM, Working Paper Kit, Sector guidelines, Desk audit guidelines and compliance with International Standards of Supreme Audit Instructions (ASSAI) through active field research. \* Issuance of instructions and arrangement of workshops for new auditing techniques of the new upcoming \* Modification / amendments of auditing techniques if PIPES accrual basis is adopted. Quality Assurance Unit As FOAM requires at each step that quality assurance procedures are in place so that Quality and timeliness in our reports can be achieved. In order to ensure that quality assurance procedures are in place and in built in all the work that we do. Quality quality is maintained at each step of our work.

Quality Control Unit With the conversion of our Financial Statements in PIPES compliant accounts and awareness in our stakeholders of our improved output, opinion on financial statements (certification audit) will gain more

importance. In order to address the quality issue presence of strong Quality Control Unit would be required. Presence of Senior Quality Control Specialist along with support team will ensure that Audit Opinions expressed by SOAP are accurate and address risk of reputation. Knowledge Management Cell Various types of information gathered by the SOAP at different levels are undoubtedly an asset that requires appropriate management.

This will be achieved through the establishment of knowledge management cell. This cell will be responsible for ensuring the timely availability of required information that is current and up to date. It will also convert the accumulated information of the department, into knowledge. IS Auditing SAP is being implemented across all tiers of Governments from Federal to Districts level. SAP generates variety of accounts ; reports and reliance on reports can only be made after a detailed Information System (IS) functionality audit by trained IS staff on regular basis has been established. World Bank has also emphasized on adoption of ISAAC standards to be used on such IS Audits.

The ISAAC standards are very technical and require the services of professional (CICS) and experienced staff in the field of IS audit. These Experts will not only train the Oafs staff but also monitor their progress and meet minimum IS audit requirements stated in ISAAC standards. Performance Auditing SOAP through an efficient use of state of the art tools gained in AFAR-II and coordination amongst its various wings has significantly reduced the timeliness for certification and regulatory audit. It is now widely understood and expected from us that we should be presenting reports to the Parliament on the value for money (FM) with which

Government departments and other public bodies have spent their resources.

We intend to allocate a reasonable time to develop this product for all the stake holders internal and external. Our value for money work will cover a wide range of issues and all aspects of government. Our reports will range from examining the entire operation of the criminal Justice system to the major procurement projects of the Ministry of Defense, and initiatives to improve literacy and innumeracy levels. SOAP as a first step towards developing performance auditing capability is planning to develop a performance auditing manual. Firm of international repute known for the quality and success of their work and their capability to understand the local environment will be engaged to develop this manual for SOAP.