DETAILED AUDIT MANUAL
VOLUME I
2025

FINANCE DEPARTMENT
GOVERNMENT OF UTTARAKHAND

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Preface

The Government of Uttarakhand (GoUK) has passed a separate legislation, namely the Uttarakhand Audit Act, 2012 which provides provisions and regulations for audit of all the Government Departments including Government machineries, Public Corporation, Government Companies, Institutions, Statutory Authority, Panchayati Raj Institutions, Municipalities, Urban Local Bodies and Government Committees in the State. The Act also provides for constitution of Directorate of Audit under section 3 of the Uttarakhand Audit Act, 2012 to perform the functions of audit.

This manual sets out the principles, policies and procedures that governs the audit practices for conducting of Detailed Audit of Urban Local Bodies and Rural Local bodies in the State of GoUK. The manual provides a standard set of guidelines and code of ethics for conducting Detailed Audit including management of related audit functions such as planning, execution, reporting, documentation, and quality assurance.

The content of this manual is divided broadly in two parts. In the first part, there are eight chapters which deal with applicability and user of the manual, audit mandate and applicable rules, background of local bodies, power, authority, duties and responsibilities of RLBs and ULBs, risk-based audit planning, types of audit, risk-based audit execution, methodology, reporting & follow up action in audit, and audit monitoring. The second part of the manual contains annexures, appendices and other forms and format to be used in audit life cycle. This manual has been prepared in accordance with the best practice specified in **International Standards of Supreme Audit Institutions (ISSAI)** as prescribed by **International Organisation of Supreme Audit Institutions (INTOSAI)** to the extent applicable in the context of State of Uttarakhand.

The Finance Department is expected to keep this Manual updated with a comprehensive review every three years to improve or modify the contents of Manual.

I would also like to express our gratitude to Shri Amit Singh Negi (Former Secretary, Finance & Project Director), Shri Dilip Jawalkar, IAS (Secretary Finance), Ms. Sowjanya-IAS (Former Secretary, Finance), Shri S. Murugesan-IAS (Former Director, Audit), Shri Surendra Narayan Pande-IAS (Former Secretary, Finance & Director Audit), Dr. V. Shanmugam- IAS (Former Director, Audit), Dr. Ahmed Iqbal-IAS (Project Director), Shri Khajan Chandra Pandey (Joint Secretary Finance Audit Cell), Shri Vipin Bihari Lal (Former Deputy Director Audit), Shri Sobhan Singh Nagnyal (Former Deputy Director, Audit), Shri Raghuraj Singh (Deputy Director, Audit), Shri Rahul Kumar Jha (Audit Officer, Finance Audit Cell) Shri Mahip Kumar Singh (Asst. Director, Audit), consultants and all other Officers of the Principal Accountant General (Audit), Uttarakhand, Directorate of Audit who contributed extensively in the development of this

Detailed Audit manual. The comments and suggestions provided by the World Bank Team have been pivotal in improving the quality and practicality of this manual.

I would appreciate suggestions which would bring further improvements, if any, and to bring to our notice any error, inaccuracy, or omission to be incorporated in the next edition.

Anand Bardhan -IAS

Date: Additional Chief Secretary, Finance

Place: Dehradun Government of Uttarakhand

Glossary

The definitions of the various terms used in this Manual are given below:

1. **Act** refer to The Uttarakhand Audit Act, 2012
2. **Accounting policies** are the specific principles and procedures implemented by an organisation that are used to prepare its Financial Statements. These include any accounting methods, measurement systems, and procedures for presenting and disclosures.
3. **Audit** is an independent appraisal function with a primary role to provide an objective evaluation of the operations, information, and control systems that the Government has put in place. Audit acts as a medium for change and presents diagnosis and solutions, not just a list of problems.
4. **Auditee** means the auditable units of Urban and Rural Local Bodies whose audit is conducted,
5. **Auditor** means and includes Director and all other officers appointed under Section 3 of The Uttarakhand Audit Act, 2012 for their assistance.
6. **Audit Team:** means the team of audit personnel appointed by Directorate of Audit to conduct the Detail Audit of the ULBs and RLBs.
7. **Audit Plan** is a document approved by Directorate of Audit that define the audit objective, scope, coverage, and resources, including the time, required to conduct the audit.
8. **Audit Programme** isa detailed action plan of the audit work that include necessary audit checks and procedures performed by the auditor to validate the conformity of policies and procedures implemented by auditee.
9. **Audit Sampling** is the use of an audit procedures on selection of the items within an account balance or class of transactions.
10. **Initial Memorandum** is a memo or letter issued by the auditor during audit to elicit information from auditee on any other matter considered necessary to highlight audit observations.
11. **Chief Secretary** means Chief Secretary to the Government of Uttarakhand.
12. **Competent Authority** means the authority that has been authorized by rules, procedures, Government order.
13. **Computer Assisted Audit Techniques (CAAT) refers to** software tools used by the auditor for data analysis to enhance the audit practices.
14. **Director** means the Director, Audit (with Local Funds Audit, Panchayat Audit) Department, Uttarakhand appointed under Section 3 of Uttarakhand Audit Act, 2012 and inter alia includes such officer on whom powers of the Director are conferred upon under sub-section (4) of said section.
15. **Financial Year means** the period beginning on April 1st and ending on March 31st
16. **Financial Reporting Framework** is defined as set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the Financial Statements and

would be UMAM 2021 for Urban Local Bodies (ULBs) and Simplified Format of Accounts for Rural Local Bodies (RLBs) as applicable from time to time.

17. **Financial Statements** are reports prepared by an organisation's management to present the financial performance and position at a point in time in accordance with applicable financial reporting framework. A general-purpose set of Financial Statements usually includes a balance sheet, income statements (income & expenditure), receipts & payment account, statement of cash flows, notes to account or any other relevant statements or documents of financial data prepared from accounting records.
18. **International Standards of Supreme Audit Institutions (ISSAI)** are the framework of professional standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI) for public sector audits.
19. **International Organization of Supreme Audit Institutions (INTOSAI)** is a worldwide affiliation of governmental entities. INTOSAI operates as an umbrella organization for the external government audit community. It is a non-governmental organization with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations.
20. **Internal Control** refers to the procedures or policy adopted by the management to safeguard assets, promote accountability, increase efficiency, and prevent fraudulent behaviour.
21. **Local Bodies** are institutions of the local self-governance, which look after the administration of an area or small community such as villages, towns, or cities. Local bodies constituted for local planning, development and administration in the rural areas are referred as Rural Local Bodies (Panchayats) and the local bodies, which are constituted for local planning, development and administration in the urban areas are referred as Urban Local Bodies (Municipalities).
22. **Management** refers to Head of Office (HoO)/ Head of Department (HoD), wherever applicable.
23. **Online Audit Management System (OAMS)** is a web application developed by National Informatics Centre for Directorate of Audit, Government of Uttarakhand. It has distinct audit and compliance modules is to automate the entire audit life cycle starting from audit planning, execution, reporting, follow-up, compliance, and monitoring.
24. **Receipts & Payments account** is a summary of actual cash receipts and payments extracted from the cash book over a certain period (usually one year).
25. **Rural Local Bodies (RLBs)** is a system of rural local self-government in India. Local Self-Government is the management of local affairs by such local bodies who have been elected by the local people.
26. **Section** means any sections specified in the Uttarakhand Audit Act, 2012.
27. **State Government** means Government of Uttarakhand.

Abbreviations

List of Abbreviations and Acronyms used in this manual

Abbreviation	Full Form
CAAT	Computer Assisted Audit Techniques
CAG	Comptroller & Auditor General of India
CA	Chartered Accountant
DoA	Directorate of Audit
DDO	Drawing & Disbursing Officer
FC	Finance Commission
FAA	Financial Attest Audit
GoUK	Government of Uttarakhand
GP	Gram Panchayat
GO	Government Order
HoD	Head of Department
HO	Head Office
INTOSAI	International Organization of Supreme Audit Institutions
ICAI	The Institute of Chartered Accountants of India
ISA	International Standard on Auditing
ISSAI	International Standard for Supreme Audit Institution
IAS	Indian Administration Services
OAMS	Online Audit Management System
QAIP	Quality Assurance Improvement Programme
RLBs	Rural local Bodies
SAIs	Supreme Audit Institutions
SFC	State Finance Commission
UDD	Urban Development Directorate
ULBs	Urban Local Bodies
UMAM	Uttarakhand Municipal Accounting Manual

Structure of the Manual

Part I	
Heading of Chapter	**Content of Chapter**
Chapter 1: About the Manual	Includes overview, applicability & user of this manual, Audit Mandates along with applicable Act, Rules, and Regulation
Chapter 2: Basic Principles and Concept in Auditing	Includes types of public sector audit, purpose and objective of Detail Audit, Applicability of the Auditing Standards, Code of Ethics and Independence for audit staff, audit materiality, Risk Model, Audit Sampling and Audit Evidence.
Chapter 3: Audit Life Cycle	Explains whole Audit Lifecycle viz. audit planning and preparation, audit execution, audit reporting, audit follow up, audit monitoring and quality assurance and introduction to OAMS and CAAT
Chapter 4: Audit Planning and Preparation	Includes the steps that are to be followed in overall annual audit planning and preparation for individual audits
Chapter 5: Audit Execution	Includes the steps that is to be followed for executing an individual audit engagement
Chapter 6: Audit Reporting and Documentation	Includes steps that is to be followed for reporting and documenting and individual audit engagement
Chapter 7: Audit Monitoring and Follow-Up	Includes the steps that is to be followed for audit monitoring and compliance of audit paras and using the work of another auditor/ internal auditor and expert
Chapter 8: Quality Assurance	Includes procedures to be followed for quality assurance of Detail Audit
Part II	
Forms, Format and Audit Checklist	Includes the various Forms, Formats and detailed audit checklist to be used during the audit

Chapter 1: About the Manual

1.1 Purpose

This Manual is a compilation of the policies, procedures and guidelines that governs the Detailed Audit of RLBs and ULBs in the state of Uttarakhand. The manual is designed to meet the following objectives:

- Serve as a primary source of information and procedure for the auditors to conduct Detailed Audit.
- Assist the auditors in performing Detailed Audit of RLBs and ULBs.
- Provide auditors with the compliance guidelines for applying modern audit techniques
- Issue Detailed Audit Report

1.2 Applicability of this Manual and It's User

This manual is applicable for conducting Detailed Audit of following entities:

- Rural Local Bodies Zila Panchayat, Kshetra Panchayat and Gram Panchayat)
- Urban Local Bodies (Nagar Nigam, Nagar Palika Parishad and Nagar Panchayat)

The users of this manual will be the staff and officials of Directorate of Audit and external agencies appointed by the Directorate of Audit for conducting the Detailed Audit of ULBs and RLBs in pursuance of the Gazette notification and Financial Attest Audit Manual.

A detailed audit shall be based on the principles of propriety, regularity, and value for money. As per clause 8 (c) of notification no. A-584/XXVII (6)/1466/Three/2021 dated December 06, 2021, a detailed audit will be initiated with the approval of Director, Directorate of Audit and shall be conducted in the following cases:

A. Audit findings from **Financial Attest Audit** of the previous year(s) are significant/material/pervasive and there is a need to apply detailed audit procedures to identify the cause and effect of these findings (there are significant qualifications if audit report is adverse or disclaimer.
B. At the discretion of the Addl. Chief Secretary/Principal Secretary/Secretary Finance as **Special Audit**
C. **DoA** shall select a sample of ULBs/ RLBs for conducting detailed audit along with Financial Attest Audit every year.
D. **Request** from Urban Development/Panchayati Raj/ Rural Development/any implementing agencies for Urban or Rural local bodies/Administrative Departmental Heads or Head of Departments (HoD) of these units to Director, Audit, who may order conduct of detailed audit for specific units.

Roles as defined under section 1.3 (An overview of the Institutional Arrangement of Audit in the State) of the Uttarakhand Financial Attest Audit Manual 2021, Volume I will be applicable in case of the detailed audit manual.

1.3Audit Mandate and Applicable Acts, Rules, and Regulations

Constitution of India

Audit of Accounts of Panchayats
"Article 243J. The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts."

Audit of Accounts of Municipalities
"Article 243Z. The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts."

As per Article 243(J) and 243(Z) of the Constitution, the State Legislature may, by law, make provisions with respect to maintenance of accounts by Local Bodies, i.e., Panchayats and Municipalities and auditing of such accounts. Resultantly, the Government of Uttarakhand (GoUK) has promulgated a separate legislation, namely the Uttarakhand Audit Act 2012, governing inter alia the audits of Rural Local Bodies (RLBs) and Urban Local Bodies (ULBs) in the State. The Act provides for constitution of an organization structure (i.e., appointment of Director and other audit officers in the Directorate). The Directorate of Audit was constituted under section 3 of the Uttarakhand Audit Act, 2012 for preforming the various audit work in the state.

The guidelines provided in this manual is governed by various acts, rules and regulations issued by Government of Uttarakhand from time to time. The list of acts, rules, and regulations applicable is provided below:

1. Uttarakhand Audit Act, 2012
2. Uttar Pradesh Nagar Nigam Act 1959 (as in force and as amended in Uttarakhand)
3. Uttar Pradesh Nagar Palika Act 1916 (as in force and as amended in Uttarakhand)
4. Uttarakhand Municipal Accounting Manual (UMAM) 2021**(**as amended from time to time**)**
5. Uttarakhand Panchayati Raj Act, 2016 (as in forces and as amended in 2019)
6. Any other rules/regulations, concerning the ULBs & RLBs as promulgated by the GoUk from time to time and any mandate/MoU by CAG/GoI.

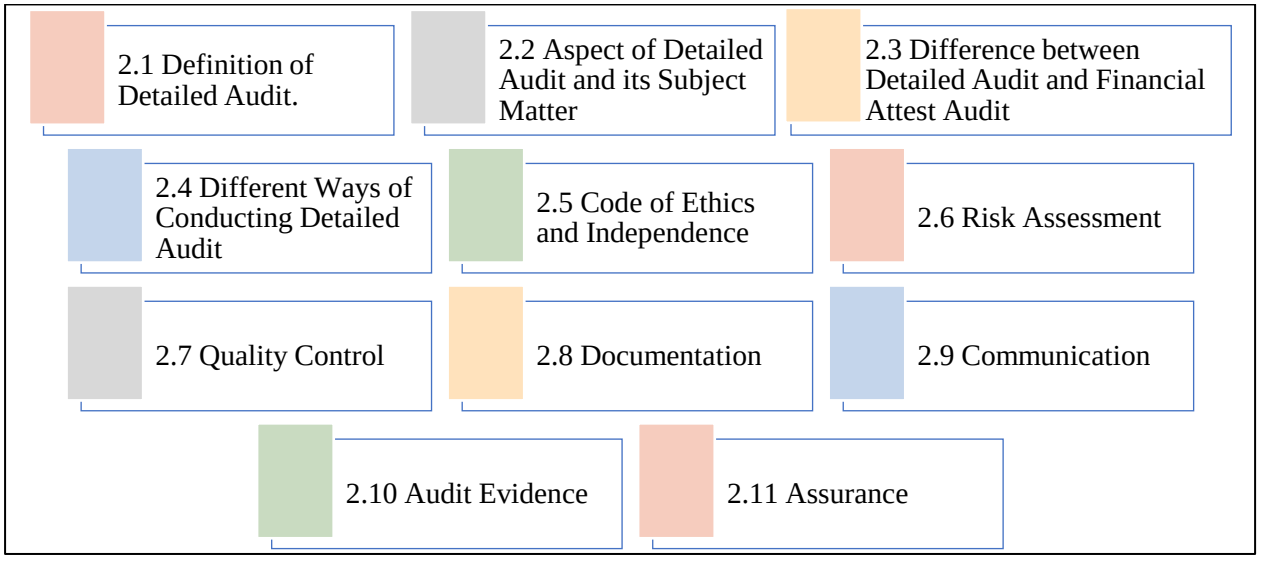
Chapter2: Basic Principles in DetailedAudit

Detailed Audit of ULBs and RLBs shall be conducted based on standards and principles of INTOSAI with respect to compliance audit. The main objective of detailed audit is to provide the intended user(s) with information on whether the audited ULBs and RLBs follow the applicable statutes, legislative acts, rules, regulations, codes, orders, notifications, circulars, policies, procedures, etc.

In general, Detailed Audit's objective shall be to evaluate and verify if the audit entity is complying with the concepts of:

- regularity (adherence to formal criteria such as relevant laws, regulations, and agreements); and/or
- propriety (observance of the general principles governing sound financial management and the conduct of public officials).

This chapter covers the following basic principles relevant for conducting Detailed Audit:



2.1 Definition of Detailed Audit

A detailed audit is used to examine a large proportion of the transactions of a department. It is typically used to search for cases of suspected fraud, where there may be a few fraudulent transactions hidden amongst a mass of legitimate transactions.

The objectives of audit in the public sector are often broader than just expressing an opinion on the financial statement, it aims at verifying the transactions which whether conforms to the concept of regularity, propriety and Value for Money Audit (VFM). Further, whether internal control mechanism of the auditee institutions are designed and operated effectively throughout the year. Thus, to achieve all the aforesaid objectives, concept of detailed audit is introduced which will aim at comprehensive reporting on auditee's

financial data, non-financial data, regularity and propriety of the expenditure, internal controls over the financial reporting and performance of the schemes and projects.

Detailed Audit is conducted by assessing whether activities, transactions and information comply, in all material respects, with the authorities that govern the audited entity.

Definition of Compliance Audit as per "ISSAI 4100"

Compliance audit deals with the degree to which the audited entity follows rules, laws and regulation, policies, established codes, or agreed upon terms and conditions, etc. Compliance auditing may cover a wide range of subject matters.

Definition of Compliance Audit as per "GUID 4900 issued by INTOSAI"

Compliance audit - one of the three types of public sector audit, independent assessment of whether a given subject matter complies with applicable authorities identified as criteria. Compliance audits are conducted by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities that govern the audited entity. Compliance audits may include regularity and/or propriety criteria, depending on the mandate of the SAI and the jurisdiction. The criteria identify evidence which can be used further as basis for jurisdictional decisions or sanctions taken by adequate authorities.

Definition of Compliance Audit as per "Compliance Audit ISSAI Implementation Handbook"

Compliance audit is an independent assessment of whether a given subject matter follows applicable authorities identified as criteria. This is done by assessing whether activities, financial transactions and information are in all material respect, in compliance with the authorities which govern the audited entity.

Definition of Compliance Audit as per "Para 22 of the ISSAI 100"

Compliance Audit focuses on whether the activities of an audit entity, its financial transactions and information materially comply with the applicable laws, rules &regulations and various orders &instructions issued by the competent authority from time to time

Definition of Compliance Audit as per "CAG's Regulations on Audit and Accounts, 2007"

'An assessment as to whether the provisions of the Constitution of India, applicable laws, rules and regulations made there under and various orders and instructions issued by the competent authority are being complied with.'

Compliance auditing aims to obtain sufficient appropriate audit evidence to make a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the measurement or evaluation of a subject matter against criteria.

Compliance auditing is concerned with regularity or with propriety. While regularity is the focus of compliance auditing, propriety may also be essential given the prudence of financial management and in this regard, the conduct of officials is also an important factor given the public sector context.

Refer Annexure 11.1.1 for 'List of ISSAI's Standards'

2.2 Aspect of Detailed Audit and its Subject Matter

2.2.1 Regularity Aspect

Audit in context of regularity consists of verifying that the expenditure conforms to the relevant provisions of the Act or rules made thereunder and is also in accordance with the financial rules, regulations and orders issued by a competent authority either in pursuance of any provisions of the Act or in virtue of powers formally delegated to it by a higher authority. The rules, regulations and orders under which audit is conducted fall under the following categories:

- Rules and orders with reference to delegation of financial power to incur and sanction the expenditures from the resource envelope (revenues, grants, etc.) of the ULBs and RLBs.
- Rules and orders with respect to the following:
  - the mode of presentation of claims against the entity,
  - withdrawing moneys from the accounts of the entity,
- The applicable financial rules prescribing the detailed procedure to be followed by the officials for various type of transactions of the entity; and
- Rules and orders regulating the conditions of service and pay of the staffs of the entity.

2.2.2 Propriety Aspect

It is an essential function of audit to bring in light not only cases of clear irregularity but also every matter which in its judgment appears to involve improper expenditure or wastage of public money or stores, even though the accounts have been made as per the principles and standards as laid down by the Government and no obvious irregularity has occurred. The following are the key points to be kept in mind while performing propriety check:

- Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
- Public funds should not be utilized for the benefit of a particular person or section of the community.
- No authority should sanction any expenditure which is beyond its own power of sanction.

2.2.3 Identifying the Subject Matter, Responsible Party, Authorities, Criteria and Users

Subject matter and subject matter information

Subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria. The subject matter of a detailed audit is defined by the scope of the audit. It may be activities, financial transactions, or information.

Authorities and criteria

Authorities are relevant acts of the legislature, rules, regulation, directions, and guidance issued by the State Government with powers provided for in statute, with which the audited entity is expected to comply.

For example, Procurement at ULBs is guided by Uttarakhand Procurement Rules, 2017or as amended from time to time.

Criteria may be derived from laws, policies, rules, regulations, and other instruments which is used in assessing reasonability of transactions. For example, in the case of procurement of streetlight the compliance of Procurement Cycle as mentioned in Procurement Rules 2017or amended rules, is required.

Three parties

Compliance auditing (Detailed Audit) is based on a three-party relationship, where an auditor aims to obtain sufficient and appropriate audit evidence to express a conclusion, designed to enhance the degree of confidence of the intended users, other than the responsible party, about the measurement or evaluation of a subject matter against criteria. In all compliance audits we have:

- A responsible party (ULB/RLB) which gets public funds for specified activities.
- State Government, CAG of India under the provisions of TGS and Central Government in case of grants that allocates fund to ULB/RLB and expects that funds will be used as per relevant rules, regulations, and appropriate propriety considerations.

Illustration: Identifying the subject matter, Responsible party, Subject matter information, Authorities, criteria and users

The audit aims to review the procurement practices against the applicable Procurement Rules and Regulations, and the extent to which the procurement practices followed by ULBs comply with the Rules. In this respect, the audit will cover the procurement policy, planning and sourcing stages of the procurement lifecycle. It will encompass an assessment of all procurement activities for one year period from 1st April –31st March.

1. Subject Matter- Procurement Review
2. Responsible Party- Selected ULBs
3. Subject matter information- Financial information related to procurement procedures and controls

4. Authorities- Uttarakhand Procurement Rules 2017, as amended from time to time.
5. Criteria- Complete Procurement Lifecycle
6. User- Legislative assembly

2.2.4 Factors determining Audit Subject Matter and Scope

Broad guidelines that DoA may consider in determination of the audit subject matter and scope include:

- Audit of ULBs and RLBs regarding relevant laws and regulations, such as procurement rules.
- Findings and recommendations in the financial attest audits.
- Risk assessments performed in connection with financial or performance audits indicating specific areas where there is risk of non-compliance (for example across sectors such as procurement, or large sector-specific program areas such as revenue collection, welfare benefits, etc.)
- Specific areas that are the subject to significant legislative focus (for example, environmental issues and compliance with Solid Waste Management Rules, 2016 as amended from time to time.

2.3 Difference between Detailed Audit and Financial Attest Audit

The Detailed Audit differs in many ways from Financial Attest Audit. The key differences between Detailed Audit and Financial Attest Audit are shown below:

Aspects	Detail audit	Financial Attest audit
Applicability	Detailed Audit will be done in limited cases. Only those audit units will be selected for Detailed Audit in every year considering factors provided in **Section 1.2 – Applicability of the Manual**.	The Financial Attest Audit will be conducted for all audit units of ULB and RLB as per the Audit programme approved by the DoA.
Objective	The primary objective of detailed audit is to verify whether the transactions conforms to the concept of Regularity and Propriety.	The primary objective of Financial Attest auditing is to provide an 'expression of an opinion' on the Financial Statements of the auditee.
Reports	A comprehensive Detailed Audit report covering financial data, non-financial data from regularity and propriety prospective and an assessment of internal controls mechanism.	Standardised Independent Auditors' Report consisting of Opinion or Disclaimer, if any.

Aspects	Detail audit	Financial Attest audit
Scope	The scope of detailed audit may be for more than one year, the same shall depend upon the subject matter, criteria's, etc.	The Financial Attest audit is being conducted on a financial year basis and auditor is to express an opinion as on the date of the annual financial statement.
Reporting Authority	Detailed Audit Report is addressed to Head of Department (HoD).	For ULBs: Addressed to The Members of Governing Body/Municipal Commissioner/ E.O. etc. of ULB; and For RLBs: Addressed to the Governing Body of RLB/ Head of the RLB.

2.4 Different Ways of Conducting Detailed Audit

The DoA will conduct annual audit that includes different types of audits such as combination of financial, compliance or performance audits. In other words, compliance audits may be conducted either as a stand-alone engagement in accordance with **ISSAI 4000** or combined with financial or performance audit.

ISSAI 100 states that SAIs may conduct combined audits incorporating financial, performance and/or compliance aspects.

Following are the different ways of conducting Detailed Audit:

1. Detailed Audit as Standalone Activity

The DOA will conduct Detailed audit as standalone engagement. This means that the Detailed audit is done on its own and it is not done in conjunction with financial audit or performance audit. The ISSAIs provide that Compliance audit may be planned, performed, and reported separately from the financial audit and performance audit. It may be conducted on a regular or ad-hoc basis as distinct and clearly defined audits, each related to a specific subject matter.

2. Detailed Auditing in combination with Financial Auditing

For ULBs/RLBs, DoA may in practice combine detailed audit with their audit of financial statement within one audit process.

2.5 Code of Ethics and Independence

2.5.1 Code of Ethics

Refer Section 3.4.1 on "Code of Ethics" in the Volume I of Financial Attest Audit Manual.

2.5.2Confidentiality of Audit Information

Refer Section 3.4.2 on "Confidentiality of Audit Information" in the Volume I of Financial Attest Audit Manual.The auditors are required to respect the confidentiality of information acquired from the various audited units. The auditors shall not disclose any official information without obtaining necessary authorization or use it for personal benefits.

2.5.3 Independence and Objectivity

Refer Section 3.4.3 on "Independence and Objectivity" of Volume I, Financial Attest Audit Manual for details.

As per International Standards of Supreme Audit Institutions (ISSAI) 200 'Fundamental Principles for Financial Audit'

"Auditors conducting audits in accordance with the ISSAIs are subject to comply with ethical requirement set out in ISSAI 130 which ensure that the auditor will maintain objectivity and independence throughout the conduct of the audit. It sets out the overall objectives of an audit and explains the nature and scope of an audit designed to enable the auditor to meet those objectives.

ISSAI 4000.45: The auditor shall comply with the relevant procedures relating to objectivity and ethics, which in turn shall comply with the related ISSAIs on objectivity and ethics.

ISSAI 4000.48: The auditor shall take care to remain objective so that findings and conclusions will be impartial and shall be seen as such by third parties.

2.5.4Professional Judgment and Scepticism

Refer Section 3.4.4 on "Professional Judgment and Skepticism" in the Volume I of Financial Attest Audit Manual.

Professional judgement and skepticism are used throughout the Detailed audit to assess the elements of the audit, the subject matter, suitable criteria, the audit scope, risk, materiality and the audit procedures to be used in response to the defined risks. The two concepts are also used in the evaluation of evidence and instances of non-compliance, in reporting and in determining the form, content and frequency of communication throughout the audit. Specific requirements for maintaining professional judgement and skepticism in Detailed auditing is the ability to analyze the structure and content of public authorities as a basis for identifying suitable criteria or gaps in legislation, in the event that laws

and regulations are entirely or partially lacking, and to apply professional audit conception in the approach to known and unknown subject matter.

Refer Annexure 11.1.1 for 'Declaration Regarding Adherence to the Code of Ethics.'

2.6Risk Assessment

An overall risk assessment process will seek to identify and assess risks at a high level. It can be connected to a Scheme, an area of responsibility of a particular ULBs/RLBs. To identify and assess risks, the DoA must have a systematic approach to gather data of the Local Government about its areas of responsibility and methods of implementing the policies. To conduct detailed audit, DoA has the discretion to select the subject matter, and the procedures necessary to identify significant areas and/or areas with a potential high risk of non-compliance. In performing these procedures, the auditor may take into consideration any of the following:

- Public or legislative interests or expectations.
- Impact on citizens.
- Projects with significant public funding.
- Beneficiaries of public funds.
- Principles of good governance.
- Non-compliance with internal controls, or the absence of an adequate internal control system and
- Findings identified in previous detailed and financial attest audits.

2.7Quality Control

The audit team is responsible for the efficient execution of the audit and should implement quality control procedures throughout the audit process. Such procedures should be aimed at ensuring that the audit complies with the applicable standards and that the audit report and conclusion is appropriate given the circumstances.

Audit team management and skills

The audit team should collectively possess the knowledge, skills, and expertise necessary to successfully complete the audit. This includes an understanding and practical experience of the type of audit being undertaken, familiarity with the applicable standards and authorities, an understanding of the auditee's operations and the ability and experience to exercise professional judgement.

2.8 Documentation

Documentation takes place throughout the entire audit process. Auditors prepare detailed audit documentation on a timely basis, and maintain such documentation which records the criteria used, the work done, evidence obtained, judgements made, and review performed. Auditors prepare relevant audit documentation before the auditor's report is issued. Audit documentation is retained for an appropriate period.

Sufficient audit documentation is important within all steps of the detailed audit. This is to ensure that all steps taken, and decisions made during an audit are properly justified and documented in such way that, if a new auditor who does not have connection with the previous year's audit, review the audit documentation and will be able to understand the audit conducted.

2.9Communication

ISSAI 400, 49: Communication takes place at all audit stages: before the audit starts, during initial planning, during the audit execution, and at the reporting phase. Any significant difficulties encountered during the audit, as well as instances of material non-compliance, should be communicated to the appropriate level of management or those charged with governance. The auditor should also inform the responsible party of the audit criteria.

ISSAI 4000, 96: The auditor shall communicate in an effective manner with the auditee and those charged with governance throughout the audit process.

Communication with the auditee should be maintained during the complete audit life cycle, which includes obtaining information relevant to the audit and providing HoD and Administrative Head with timely observations and findings throughout the engagement. Any significant difficulties encountered during the audit, as well as instances of material noncompliance, should also be communicated at an earlier stage.

2.10 Audit Evidence

The International Standard on Supreme Audit Institutions (ISSAI) 2500, "Audit Evidence" explains what constitutes audit evidence in an audit of Financial Statements and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. This ISSAI is applicable to all the audit evidence obtained during the audit.

For purposes of the ISSAIs:

- Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and by the quality of such audit evidence.
- Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

Audit evidence is the information used by the auditor in arriving at conclusions on which the auditor's overall conclusion is based. The audit evidence available is usually persuasive (i.e., pointing the auditor in a particular direction) rather than conclusive (i.e., giving a definitive answer).

Sufficiency of audit evidence: Sufficiency is a measure of the quantity of evidence needed to support the audit findings and conclusions. For example, to form a conclusion with reasonable assurance, the auditor needs to obtain more evidence than in a limited assurance engagement. A wider audit scope normally requires more audit evidence than a narrower scope.

Appropriateness of audit evidence: Appropriateness is a measure of the quality of the audit evidence. It encompasses relevance, validity, and reliability.

- Relevance refers to the extent to which the evidence has a logical relationship with, and importance to, the issue being addressed. For evidence to be relevant, it should help to answer the individual audit objective. Relevance also requires that the evidence apply to the period under review.
- Validity refers to the extent to which the evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which the evidence represents what it is purported to represent.
- Reliability refers to the extent to which the audit evidence has been gathered and produced by a transparent and reproducible method. Evidence is dependable if it fulfils the necessary requirements for credibility. The reliability of audit evidence is affected by its source—whether internal or external to the audited entity, and type—whether physical, documentary, oral or analytical, and is dependent on the circumstances under which it is obtained.
- Audit Evidence should be relevant, sufficient and objective.

- Evidence may be photography of a record from the audited entity, copy of external but authentic record, printout of an electronic database /web / page, photograph, extract from an authentic report / book, result of a survey conducted by audit / other agency analysis of data, physical verification, discussion paper.

2.10.1 Methods of obtaining Audit Evidence

Refer Section 3.8.3 on "Techniques for Collection of Audit Evidence" in the Volume I of Financial Attest Audit Manual.

Professional scepticism and professional judgement in gathering audit evidence

The evidence gathering process continues until the auditor is confident that sufficient and appropriate evidence exists to support the agreed level of assurance that will support the auditor's conclusion or opinion. Auditors need to maintain professional scepticism throughout the audit to reduce the following risks:

- Overlooking unusual circumstances.
- Over generalizing when drawing conclusions from observations.
- Using inappropriate assumptions in determining the nature, timing and extent of procedures and evaluating the results thereof.

2.11Assurance

ISSAI 400: Compliance audit standards state that compliance auditing may cover a wide range of subject matters and can be performed to provide either reasonable or limited assurance, using several types of criteria, evidence gathering procedures and reporting formats. Compliance audits may be attestation or direct reporting engagements, or both at once. This section describes the concept of assurance.

Assurance level will be determined by DoA but must be based on the needs of the intended user(s). The audit report provides either reasonable or limited assurance.

2.11.1Reasonable and Limited Assurance

ISSAI 400: 41, In compliance auditing there are two levels of assurance: reasonable assurance, conveying that, in the auditor's opinion, the subject matter is or is not in compliance, in all material respects, with the stated criteria; and limited assurance, conveying that nothing has come to the auditor's attention to cause him/her to believe that the subject matter is not compliant with the criteria. Both

reasonable and limited assurance are possible in both direct reporting and attestation engagements in compliance auditing.

ISSAI 4000: 33, Reasonable assurances: Reasonable assurance is high but not absolute. The audit conclusion is expressed positively, conveying that, in the auditor's opinion, the subject matter is or is not compliant in all material respects, or, where relevant, that the subject matter information provides a true and fair view, in accordance with the applicable criteria.

Normally a reasonable assurance would require more audit evidence than a limited assurance, which often means more extended audit procedures, for example, in matters of risk assessments, a better understanding of the entity environment, the evaluation of the design of the internal control system etc.

ISSAI4000:35. **Limited assurance:** When providing limited assurance, the audit conclusion states that, based on the procedures performed, nothing has come to the auditor's attention to cause the auditor to believe that the subject matter is not in compliance with the applicable criteria. However, if the auditor believes that the subject matter is not in compliance with the criteria, s/he must perform limited procedures to conclude whether the subject matter follows the criteria or not.

The procedures performed in a limited assurance audit are limited compared with what is necessary to obtain reasonable assurance, but the level of assurance is expected, in the auditor's professional judgment, to be meaningful to the intended user(s). A limited assurance report conveys the limited nature of the assurance provided.

At the concluding stage of detailed audit, auditor shall select level of assurance obtained from performing audit procedures. There are two levels of assurance: reasonable assurance and limited assurance. In reasonable assurance the audit conclusion is expressed positively, conveying that, in the auditor's view, the subject matter is or is not compliant in all material respects, or, where relevant, that the subject matter information provides a true and fair view, in accordance with the applicable criteria.

In limited assurance, the audit conclusion states that, based on the procedures performed, nothing has come to the auditor's attention to cause the auditor to believe that the subject matter is not in compliance with the criteria.

Audits can be categorised as two different types of audit engagements: Attestation Engagements and Direct Reporting Engagements.

Direct Reporting Engagement

ISSAI 4000:37, In direct reporting engagement, it is the auditor who measures or evaluates the subject matter evidence against the criteria. The auditor is responsible for producing the subject matter information. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. By measuring the subject matter evidence against the criteria, the auditor can form a conclusion. The conclusion is expressed in the form of findings, answers to specific audit questions, recommendations or an opinion.

ISSAI 4000:38, In a direct reporting engagement performed with reasonable assurance, the audit conclusion expresses the auditor's view that the subject matter is or is not compliant in all material respects with the applicable criteria.

ISSAI 4000:39, When providing limited assurance, the conclusion conveys that nothing has come to the auditor's attention that the findings are not in compliance with the audit criteria. When the auditor has been aware of instances of noncompliance, the conclusion needs to reflect this.

In Direct Reporting Engagements, it is the DoA who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. The outcome of measuring the subject matter against the criteria is presented in the audit report in the form of findings, conclusions, and recommendations. The audit of the subject matter may also provide new information, analysis or insights. The conclusion may also be expressed as a more elaborate answer to specific audit questions

All detailed audits conducted by the DoA shall be direct reporting engagements. The auditor shall decide whether the engagement should be reasonable or limited assurance engagement based on the nature of assignments.

Chapter 3: Audit Life Cycle

The audit life cycle starts with audit planning and continues till the follow-up and closure of audit paras mentioned in the audit report. The following figure depicts the components of audit life cycle of Detailed Audit of Rural Local Bodies (RLBs) and Urban Local Bodies (ULBs)in State.

Audit Planning & Preparation: Planning is an important step to ensure that the engagement is performed in an efficient and effective manner and that audit risk has been reduced to an acceptable level. The Directorate of Audit shall establish an overall audit planning that sets the scope, timing and direction of the audit and guides for the development of the audit plan. The activities involved under this phase are listed below.

- Prepare Overall Annual Audit Plan
- Allocate Audit Team
- Allocate Man-days to each Audit Unit
- Prepare Annual and Quarterly Audit Calendar
- Intimate Audit Plan to Audit Units and Audit Teams
- Prepare Audit plan for Individual Audit

Audit Execution: Under this stage quarterly audit plans will be executed, and observations are noted through systematic application of the audit procedures. This stage also involves on-field review of the audit work done to ensure that the conclusions or observations arrived are based on facts and necessary documents have been collected and documented to validate these observations. It also explains the nature of evidence to be gathered during execution of Detailed Audit. The activities involved under this phase are:

- Conduct Field work.
- Organize entry conference meeting with auditee
- Revise Audit planning memorandum, as required
- Distribute work among the team members
- Perform controls testing procedures
- Perform substantive audit procedures and analytical procedures
- Derive conclusions by evaluating audit findings and evidences
- Issue Initial Memorandum
- Exit conference meeting
- Review and document working papers on OAMS

Audit Reporting: This phase covers conversion of initial memorandum to audit finding matrix based on the reply submitted by the auditee or where no reply submitted by the auditee against the initial memorandum. The activities covered under this phase are as under:

- Conversion of initial memorandum to audit finding matrix based on the reply submitted by the auditee or where no reply submitted by the auditee.
- Preparation of Detailed Audit Report
- Issuance of Detailed Audit Report to auditee after review and approval.
- Audit Documentation

Audit Monitoring, Follow-up & Compliance: It includes audit monitoring and receiving first compliance, sending reminders to ensure response to audit paras is received in time, procedure for non-compliance, steps to improve compliances to audit reports and marking audit paras as complied.

Quality Assurance Framework: This chapter includes the responsibility of the supervisory authorities, i.e. **Officer Authorised by the Director, Audit** to review and submit the "**Quarterly Progress and Performance Report"** to DoA. DoA is also required to prepare annual training calenda~~r.~~ This includes the minimum number of hours of training, required to be completed by each member of the audit team.

3.1 Characteristics of Detailed audit

The DoA may consider the strategic plan when determining the characteristics of an audit. It includes an introductory description about the audit and its background.

Audit Objective

The DoA shall ensure objectivity in formulating the audit objectives, including identifying the criteria. Audit findings depend entirely on the objectives of the audit, and findings are complete to the extent that the objectives of the audit are satisfied. Audit objective should be answerable, and should identify the audit subject matter, the entity, or activities under the audit.

Subject matter, scope, criteria

The DOA should identify the subject matter, scope, and criteria. The DoA should identify the subject matter in such a manner that it is sufficiently covered to conduct a meaningful audit, and to add value for the intended users. It should be of a nature that enables the auditor to conclude with the required level of assurance.

The DoA should determine audit scope which refers to the area, extent and time covered in the audit of a given subject matter. Scop involves narrowing the audit subject matter to fewer matters of significance that pertain to the audit objective and that can be audited with the resources available. In a multi-entity or thematic detailed audit, the scope includes identifying the entities that will be included in the audit. Clearly defining the audit scope is important in determining the budget, human resources, and time required for the audit; and in determining what the auditor will include in the report.

The statement of scope should be clear about any areas that are related but not included in the audit. The scope of a detailed audit may change while conducting the audit, if the auditors identify material information that makes it necessary to reconsider the scope.

Since the Government of Uttarakhand (GOUK) has decided to adopt direct reporting engagement, the auditor should ensure that there are corresponding audit criteria. The auditor should identify criteria against risk identified and document it in the audit planning and finding matrix.

The DoA should derive criteria from relevant rules, regulations, orders, GOs, guidelines and agreed upon terms and conditions for regularity aspects of detailed audit. For propriety aspects, the criteria can be drawn from accepted principles, or national/international best practices.

The below case demonstrates the relationship between the subject matter, scope, and criteria:

Identifying the Subject matter, Scope and the Criteria from the case below:

The audit aims to review the procurement practices against Uttarakhand Procurement Rules 2017, as amended from time to time and the extent to which the procurement practices followed by Zila Panchayats comply with the Rules. In this respect, the audit will cover the procurement policy, planning and sourcing stages of the procurement lifecycle. It will encompass an assessment of all procurement activities for one-year period. From the above paragraph we can identify the subject matter, scope and the authorities from which audit criteria are taken.

- **Subject matter:** The subject matter is the activity, project, process or program that auditor decides to examine. In the above case subject matter can be "The procurement policy and procurement practices of Zila Panchayats."
- **Audit Scope:** Audit scope explain the coverage and the extent of the audit examinations. In the above case, the audit scope may be "The procurement policy, planning and sourcing stages of the procurement lifecycle covering all procurement activities for one-year period."
- **Criteria Audit:** Audit criteria are the benchmarks used to measure the subject matter. Criteria are taken from authorities (laws and regulation, policies, guidelines etc.). In the above case the criteria will be "Uttarakhand Procurement Rules 2017" or as amended from time to time.

3.2. The entities covered by audit.

The DoA should identify entities related to the subject matter and ensure adequate coverage to reach an audit conclusion.

Types and Level of assurance engagement

Detailed audits conducted by the DoA shall be "direct reporting engagement". The auditor shall decide whether the engagement should be reasonable or "limited assurance engagement" based on the nature of the subject matter.

Composition of the audit team

The DoA shall ensure that the team is composed of skilled resources to conduct the audit. DoA shall determine if there is a need for external experts for specific skills that are not available within the team.

Quality control mechanisms

The Supervisors should ensure regular supervision, review and consultation of audit works throughout the audit as per the quality control process defined in this guideline and AG's Standing Instructions and document adequately.

Communication

The auditor should determine how to communicate with the auditee throughout the audit process.

Reporting responsibilities

The auditor shall prepare the audit reports as per the approved templates and identify the responsible parties to whom the reports are to be issued.

Chapter 4: Audit Planning and Preparation

This chapter deals with approach and methodology for identification of detailed audit cases, risk assessment for selection of subject matter, criteria, and scope for the audit. The audit planning is the responsibility of "Directorate of Audit."

The following are the activities participate in preparation of annual audit plan.

Figure: Audit planning and preparation.

4.1 Identification of Detailed Audit cases

The Detailed Audit is not conducted like the routine audit or Financial Attest Audit. It involves reviewing the activities, processes, and internal controls of organisation in depth, to identify whether operations of the audit units are being conducted in accordance with the objective, vision and mission of the organisation and considering the principles of regularity, propriety and value for money.

The DoA shall identify the cases wherein Detailed Audit shall be conducted in accordance with guidance provided in Section 1.2 –Applicability of this manual and its users.

The basic principles for the conduct of Detailed Audit, will be as follows:

Where detailed audit is required to be conducted based on Audit Findings and Independent Auditor's Opinion reported in Financial Attest Audit.

a. **If the Auditor's Opinion is Qualified or Adverse**: In this case the areas for Detailed Audit would be the points on which Auditor had issued in its Independent Auditors' report, or at the discretion of Director, Audit.
b. **If the Auditor's Opinion is Disclaimer:** In this case the areas for Detailed Audit will be determined in the following manner.

Basis of Disclaimer	Auditable Area/Subject matter
Audit unit has not maintained appropriate accounts (i.e., books of accounts/ records/ registers/ documents and information etc.) as prescribed in the rules and regulations which govern the auditee or auditee refuses to produce books of accounts for audit.	In such circumstances there may be possibilities for serious findings. Therefore, in this case the areas for Detailed Audit should be decided by the DoA in consultation with HoD Panchayati Raj / Directorate Urban Development.
There has been limitation on the scope of audit (which may occur due to circumstances beyond the control of auditee or nature and timing of audit or limitations imposed by auditee) e.g., books and accounts destroyed in fire or flood etc	In such circumstances, the areas for Detailed Audit should be decided by DoA.

1. Where Detailed Audit is required to be conducted based on request of the concerned HoDs, areas for such audit would be the issues, which has been flagged off. However, if there are no such specific indication is available then the areas for Detailed Audit should be decided by the DoA on the basis of following points. Financial Attest Audit reports of previous three financial years.
2. Previous AG audit reports
3. Latest Internal Audit reports wherever applicable
4. Any Media Reports w.r.t the audit unit
5. Any Serious observations identified by the department in recent years.
6. Social Audit Reports

4.2Allocation of Audit Team

Allocation of Audit Team for Detailed Audit shall be done at the DoA level. Selection of the audit team is one of the important factors for achieving the objective of Detailed Audit of ULB and RLB. The audit team consists adequate number of members, with one team leader, depending on nature, extent, and timing of the audit procedure. The following key considerations must be kept in mind while allocating audit team for Detailed Audit.

- Personnel assigned to an audit should have the required skills to perform the work allocated to them as well as required background & experience to conduct the audit. This will help in conducting audit in effective & efficient manner.
- If detailed audits incidental to Audit findings from **Financial Attest Audit** of the previous year (there are significant qualifications/audit report is Qualified or adverse or disclaimer), priority may be given to audit team which conducted earlier audit.

UOAMS Functionality:. Team for the Detailed Audit would be constituted on the UOAMS portal.

4.3Number of Days to be Allocated for Detailed Audit

Number of days to be allotted for Detailed Audit shall vary from case to case, as scope of Detailed Audit will vary based on determination of subject matter, criteria, and scope. The DoA need to evaluate each case and accordingly decide the number of days to be allotted.

*Note: *The above framework for allocation of days is indicative which can be modified based on Areas selected for audit, risk assessment of the auditee and experience gathered from previous audit.*

OAMS Functionality: The number of days to be allocated for each type of auditee in accordance with its risk assessment will be pre-fed in OAMS and then OAMS will automatically allocate the number of days to each auditee based on its risk rating.

4.4Finalization of Annual Detailed Audit Plan

After identification of detailed audit cases and deciding respective subject matter, criteria and scope, the DoA shall prepare annual audit plan covering the following details:

- Detailed Audit cases selected together with categorization as applicable and reasons thereof.
- Subject matter, criteria and scope for each Detailed Audit
- No of audit units selected under each case.
- Details of the audit team member assigned
- Period for which Detailed Audit is to be conducted

- Number of days to be allotted for conducting each Detailed Audit

The annual audit plan will be prepared in the first quarter of the audit year. The approved annual audit plan shall be uploaded on the website of the Directorate of Audit and on the OAMS. Based on the annual audit plan, quarterly audit plan will be prepared by the DoA. Any amendment/change in the approved annual audit plan as well as in the quarterly audit plan can be done with the prior approval from the Director, Audit. ***Refer Annexure 11.1.3 for 'Format of Annual Audit Plan'***

Particulars	Cut Off Date
All completed Financial Attest Audit Report to be considered	31st March of the preceding financial year
Annual Audit Plan	30th April of the current financial year
Intimation to the Auditee	15th June of the financial year
Audit Execution	From 1st July of the financial year

4.5Communication to Departmental Head

Once the annual audit plan is finalised and approved, the next step is to make a communication about detailed audit to HoD and HoO of the auditee. A letter will be issued to HoD and HoO of the auditee providing basic details (i.e., start date of audit, subject matter selected, and preliminary list of documents required for the review etc. a week prior to the start date of audit. This will enable the audit unit to arrange necessary records/documents and to identify the concerned official for coordination with the audit team for smooth conduct of the Detailed Audit. ***Refer Annexure 11.1.4 for 'Intimation letter.'***

OAMS Functionality: Approved annual detailed audit plan will be uploaded on OAMS. The audit plan will include all the information such as detailed audit cases categorized as such, subject matter selected, name of the audit units selected for audit, period of accounts to be audited, name of the audit team members and number of working days allotted for completion of audit. As soon as the audit plan is approved, intimation is shared with the auditee through email. This information will be sent to the auditee at least one week before the start of the audit. The Auditor can also view his schedule on OAMS and can plan their visit accordingly.

4.6Preparation of Individual Audit Plan

ISSAI: 4000.140, The auditor develops an audit plan for the compliance audit. The audit strategy is an essential input to the audit plan. The audit plan may include:

a) Nature, timing and extent of planned audit procedures and when they will be performed.

b) An assessment of risk and of internal controls relevant for the audit.
c) The audit procedures designed as a response to risk.
d) The potential audit evidence to be collected during the audit.

ISSAI: 4000.141, The auditor updates both the audit strategy and the audit plan as necessary throughout the audit.

In general, audit planning has two aspects. first, DoA develops an overall audit plan where detailed audit area is decided, risk assessment of subject matter is done based on which resource are allocated. And second, based on that overall Audit Plan, auditors prepare an individual audit plan that shows a detailed approach and specific steps for the nature, timing, and extent of procedures to be performed, and the reasons for selecting them.

The following activities shall be undertaken under this stage.

Planning also involves:

a) Obtaining a general understanding of the legal, regulatory and appropriations framework, as well as relevant, agreed upon terms and conditions applicable to the scope of the audit and to the audited entity
b) Obtaining an understanding of management's assessment of applicable laws and regulations including management's internal controls that help ensure compliance with authorities
c) Obtaining an understanding of the relevant authorities, including rules, laws, regulations, policies, codes, significant contracts or grant agreements etc. and
d) For audits of propriety – obtaining an understanding of relevant principles of sound public sector financial management and expectations regarding the conduct of public sector officials

4.6.1Understand Subject Matter and Criteria

ISSAI: 4000.110, Where the SAI has discretion to select the coverage of compliance audits, the auditor shall identify relevant audit criteria prior to the audit to provide a basis for a conclusion/an opinion on the subject matter

ISSAI: 4000.111, The subject matter and audit criteria are linked and consistent. Therefore, identifying the corresponding audit criteria is an iterative process.

ISSAI: 4000.112, When auditing a subject matter, the auditor must make sure that there are corresponding audit criteria.

ISSAI: 4000.115, A compliance audit may be concerned with regularity or with propriety (observance of the general principles governing sound financial management and the conduct of public officials). While regularity is the focus of compliance, propriety may also be pertinent given the public-sector context, in which there are certain expectations concerning financial management and the conduct of public officials.

Depending on the mandate of the SAI, audits may also examine compliance with accepted principles and acknowledged best practice governing the conduct of public officials (propriety).

Suitable audit criteria for a compliance audit of propriety will be either accepted principles or national or international best practice.

ISSAI: 4000.116, Suitable propriety criteria may derive from:

a) Public financial management expectations such as compliance with effective and efficient internal control system.

b) Beneficiaries' expectations regarding the utility of goods, or the quality of the services and works.

c) Requirements for a transparent and unbiased allocation of public funds and human resources.

Determination of subject matter and criteria is one of the first steps to be conducted in planning individual detailed audit. The auditor should derive criteria from relevant rules, regulations, statutory instruments, orders, governmental or ministerial directives, guidelines and agreed upon terms and conditions for regularity aspects of detailed audit. For propriety aspects, the criteria can be drawn from accepted principles, or national/international best practices.

The below case demonstrates the relationship between the subject matter, scope and criteria.

Identifying the Subject matter, Scope and the Criteria Case, the audit aims to review the procurement practices against Uttarakhand Procurement Rules, 2017 as amended from time to time and the extent to which the procurement practices followed by public procuring agencies comply with the Rules. In this respect, the audit will cover the procurement policy, planning and sourcing stages of the procurement lifecycle. It will encompass an assessment of all procurement activities for one-year period from 1st April –31st March.

From the above paragraph we can identify the subject matter, scope and the authorities from which audit criteria are taken.

- **Subject matter:** The subject matter is the activity, project, process or program auditor decides to examine in the above case can be as follows: The procurement policy and procurement practices of procuring agencies.
- **Audit Scope:** Audit scope explain the coverage and the extent of the audit examinations. In the above case, the audit scope can be as follows: the procurement policy, planning and sourcing stages of the procurement lifecycle covering all procurement activities for one-year period from 1st April –31st March.
- **Criteria** Audit criteria are the benchmarks used to measure the subject matter. Criteria are taken from authorities (laws and regulation, policies, guidelines etc.). In the above case the criteria will be taken from the following.
  - Uttarakhand Procurement Rules, 2017 as amended from time to time.
  - Guidelines for Government Procurement and Contracting
  - Other procurement guidelines

The DoA always try to find:

a) Significant aspects of a subject matter; and

b) Whether suitable criteria are available for measurement of the subject matter

Some examples of subject matter are mentioned below as reference:

- Financial performance: use of appropriated funds (budget execution)
- Revenue collection, e.g., Property taxes, application of fines and penalties
- Use of grants and funds
- Procurement of Goods, work and Services
- Expenditures
- Service delivery – medical, education, etc.
- Public complaints
- Propriety of auditee officials/decision making

4.6.2 Understand the Audit Units and Its Environment

A detailed understanding about the audit unit and its environment is essential for conducting Detailed Audit efficiently and effectively. Therefore, it is important for each audit team member to have knowledge about the audit unit and its operations before start of the audit. Although scope of detail audit will be decided

through selection of subject matter, however, following table would help the auditor to gain a brief understanding about the auditee and its environment.

S. No	Checkpoint	Response
1.	Brief background of audit unit, organisation structure and activities undertaken by the audit unit	Yes / No
2.	The accounting policies, books of accounts required to be maintained	Yes / No
3.	The Accounting treatment for revenues, expenditure, grant received, assets and liabilities created.	Yes / No
4.	Charts of accounts, any new heads of account introduced by audit unit	Yes / No
5.	Source of funding of audit unit	Yes / No
6.	Main contacts for audit at the audit unit	Yes / No
7.	Key officials of the audit unit and what are their responsibilities	Yes / No
8.	Key focus areas as per act, policy and procedural manuals, internal audit reports, budgets, revised budget, and minutes of management meetings; interim accounts, if any;	Yes / No
9.	Key points from Annual Administrative Report of ULB and RLB	Yes / No

OAMS Functionality: Audit team should use the documents uploaded by audit unit on OAMS together with intimation letter, to gain an understanding about the auditee and its operations.

4.6.3 Understand Legal and Regulatory Framework

It is the responsibility of the Head of Department (HoD)/ Head of Office (HoO) to ensure that entity's operations are conducted in accordance with the provisions of the applicable laws and regulations. Any breach related to laws and regulations could have an impact on the financial and reputational risk on auditee. Therefore, the audit team needs to have an understanding about the legal and regulatory framework of the auditee. This may include review of the following information.

- Primary and Secondary Legislation (like any Governing Legislation, Financial Rules, Notification) including recent changes and amendments

- Financial and Legal reporting framework and any recent changes in the reporting framework or formats of accounts.
- Guidelines/ amendment issued by the regulatory authority for preparation and presentation of Financial Statements and reporting structure.
- Identify the legislative interest and public interest in the entity in terms of level of assembly questions, complaints from public directly or to the public representatives and
- Any instructions issued by Finance Department or Controlling Department.

4.6.4Understanding the control environment and internal control system

ISSAI: 4000. 131, The auditor shall understand the audited entity and its environment, including the entity's internal control, to enable effective planning and execution of audit.

Explanation. 134, The auditor needs to obtain an understanding of the entity's internal control relevant to the audit. When the subject matter is determined, the auditor identifies the internal controls that are in place to reduce the risk of noncompliance with criteria or material misstatements in the subject matter information. By using professional judgment, the auditor decides whether a control is relevant to the audit or not.

Explanation. 135, An internal control system is composed of policies, structures, procedures, processes and tasks that help the audited entity to respond appropriately to risks of non-compliance with the criteria. An effective system may safeguard the audited entity's assets, facilitate internal and external reporting and help the audited entity to comply with relevant authorities. The auditor needs to obtain an understanding of all components of an internal control system: the control environment, the entity's risk assessment process, the information system, the control activities relevant to the audit and the monitoring of control relevant to the audit.

Auditors' understanding of the auditee and subject matter would not be complete unless internal controls of the auditee are thoroughly studied. The auditee establishes internal controls with the aim of achieving efficient compliance with applicable act, rules regulations in its operations.

Auditors need to understand about:

a) what these controls are,
b) whether the controls are adequate and can detect, prevent, and correct instances of non-compliance and most importantly, whether the controls are working as intended.

Internal control system is composed of policies, structure, procedures, and processes that help the auditee to respond appropriately to risks of non-compliance with the compliance requirements. An effective system

should safeguard the auditee's assets, facilitate internal and external reporting, and help auditee to comply with relevant legislation.

4.6.5Assessing control environment:

In general, the auditors examine whether the ULB and RLB has created strengths in the control environment elements and collectively provide an appropriate foundation for the other components of internal control and whether those other components are not undermined by deficiencies in the control environment. Auditors can conduct control assessment by gathering and analysing following information of the entity:

- Policies and procedures including a code of conduct are clearly written and communicated.
- Duties are properly segregated between preparer, reviewer, and record keeping of tasks.
- Key officials have adequate knowledge and experience to discharge their responsibilities.

The controls evaluated depends on the subject matter, and the nature and scope of the Detailed audit. In evaluating internal control auditors assess the risk that the control structure may not prevent or detect material non-compliance. The internal control system in an entity may also include controls designed to correct identified instances of non-compliance.

Illustration: The following internal controls shall be observed by the **ULB** in respect of **Property Tax** related transactions:

a) Has Head of the Accounts Department ensured that taxes are accrued in the month in which it is due and journalisation of all the demands/bills raised for property & other taxes before accounting for the collection.

b) In case of self-assessment, it is to be ensured that demand booking is made based on Scrutinized and approved self-assessment forms on cut-off date.

c) Has officers designated by the ULB for operating the Designated Property Tax Bank Account(s) coordinated with the banks daily and ascertain the status of the cheques/drafts deposited by them.

d) had Tax Department shall ensure that the Receipt / Summary of daily collection prepared, provides reference to the Tax Collection Register.

e) Reconciliation:

i. The Head of the Accounts Department and the Head of the Tax Department shall reconcile the balance at the beginning of the accounting year in respect of the year-wise Property and Other Tax Receivables (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded in the Demand Register.

ii. A yearly reconciliation shall be conducted by the Head of the Account Department and the Head of the Tax Department in respect of the amount collected and the year-wise amount outstanding between the

balances in the Ledger Accounts maintained at the Accounts Department and the Demand Register maintained at the Tax Department.
iii. Reconciliation of bank receipts with sub ledgers.

4.7 Risk Assessment of the Subject Matter/Auditee

ISSAI: 400, 46, on Audit Risk- Audits should be conducted in such a way as to manage or reduce the audit risk to an acceptable level. The audit risk is the risk that the audit report or more specifically the auditor's conclusion or opinion will be inappropriate in the circumstances of the audit.

ISSAI: 400, 54, on Risk Assessment- the audit scope and the characteristics of the audited entity, the auditor should perform a risk assessment to determine the nature, timing and extent of the audit procedures to be performed. In this the auditor should consider the risks that the subject matter will not comply with the criteria. Non-compliance may arise due to fraud, error, the inherent nature of the subject matter and/or the circumstances of the audit. The identification of risks of non-compliance and their potential impact on the audit procedures should be considered throughout the audit process. As part of the risk assessment, the auditor should evaluate any known instances of non-compliance to determine whether they are material.

ISSAI: 4000.52, The auditor shall perform procedures to reduce the risk of producing incorrect conclusions to an acceptable low level.

Explanation 53: Reducing audit risk includes the following aspects: anticipating the possible or known risks of the work envisaged and consequences thereof, developing procedures to address those risks during the audit and documenting when and how those risks will be addressed. The auditor needs to evaluate whether the scope of the work performed is sufficient. In addition, when concluding, the auditor needs to evaluate whether s/he has sufficient and appropriate audit evidence when assessing subject matter against criteria to form conclusion(s), based on the level of risk involved.

Explanation55: In a direct reporting engagement, the auditor participates in producing the subject matter information. The auditor may apply the audit risk model in forming a conclusion on the subject matter.

Risk assessment guides the auditor to focus on the key issues of the audit, considering the resource and time constraint. The outcomes of the risk identification activities are documented using the **'understanding the**

entity' 'understand the subject matter and criteria' and '**understanding the entity's internal control system'** templates. It includes identifying the inherent risks and control risks and determining the detection risks.

Risk assessment activities include, among others, inquiry (with officials, internal audit), inspection (of entity premises, internal documents and records, website and media, previous audits), observation (of entity's operations being conducted) and analysis (of financial and non-financial information with analytical procedures).

The risk assessment of the subject matter at entity level: In assessing the risks of material non-compliance, you may consider the following factors:

- The complexity of the applicable compliance requirements.
- The susceptibility of the applicable compliance requirements to non-compliance.
- The length of time the entity has been subject to the applicable compliance requirements.
- The auditor's observations about how the entity has complied with the applicable compliance requirements in prior years.
- The potential effect on the entity of non-compliance with the applicable compliance requirements; and
- The degree of judgement involved in adhering to the compliance requirements.

Some examples of situations in which there may be a risk of material non-compliance, which is pervasive in the entity's non-compliance are:

- An ULB that is experiencing financial difficulty and for which there is an increased risk that Grants -were diverted for payment of salaries
- An entity that has a history of poor record keeping of its schemes.

1. Inherent Risk

Auditors should estimate the inherent risk based on their understanding of the entity's activities and its operations. Inherent risk is described as the 'risk in the absence of controls.' In audit terms, inherent risk is the risk related to the nature of the activities, operations and management structures - those non-compliances will occur if not prevented or detected and corrected by the internal control.

In case of ULB, the Head of the Accounts Department has not conducted physical verification of fixed assets throughout two years so that each fixed asset is verified at least once during the year. Such physical verification is to be conducted under direct monitoring of HoD's of respective departments and Head of Accounts department.

2. Control Risk

Control risk is the risk that the relevant internal controls associated with the inherent risks are inappropriate or do not work properly; and as a result, the entity will fail to prevent material non-compliances or detect and correct them on a timely basis. The auditor assesses the control risk based on the understanding and evaluation of the entity's internal control system.

To determine proper functioning of a control, the auditor should conduct 'walk-through tests' of a small number of transactions (if the subject matter of the audit is budget execution/expenditure), or the operations of the entity under audit. The auditor should consider only those controls that are relevant to the audit objective

3. Detection Risk

Detection risk is under the control of the auditor. It is the risk that the auditor will not be able to detect non-compliance that has not been corrected by the organization's internal controls. The auditor should perform procedures to reduce the risk of producing incorrect conclusions to an acceptable low level.

The auditor can reduce detection risk by auditing the subject matter in a planned and structured manner, and by identifying the inherent and control risks to the greatest extent possible. In the audit assurance model, 95% confidence is required through substantive procedures or in combination with tests of controls. The assurance level of 95% corresponds to an audit risk of 5%.

The risk assessment of the subject matter at entity level: In assessing the risks of material non-compliance, one may consider the following factors:

- The complexity of the applicable compliance requirements.
- The susceptibility of the applicable compliance requirements to non-compliance.
- The length of time the entity has been subject to the applicable compliance requirements.
- The auditor's observations about how the entity has complied with the applicable compliance requirements in prior years.
- The potential effect on the entity of non-compliance with the applicable compliance requirements; and
- The degree of judgement involved in adhering to the compliance requirements.

Some examples of situations in which there may be a risk of material non-compliance, which is pervasive in the entity's non-compliance are:

- An ULB that is experiencing financial difficulty and for which there is an increased risk that Grants -were diverted for payment of salaries

- An entity that has a history of poor record keeping of its schemes

Performing risk assessment procedures, obtaining an understanding of the entity, the applicable compliance requirements, and the entity's internal control over compliance establishes a frame of reference within which the auditor, plan the compliance audit.

Inherent Risk	Risk Response	Audit Approach
High	Low levels of controls	Audit response to be focused on improving internal controls through assessment of improved plans
High	Controls are asserted by the management to be adequate	Focus on obtaining assurance that controls continue to operate as designed and that there is consistency in risk management.
Low	Low level of controls that may be consciously accepted by management	Evaluate and monitor the development of risk level
Low	High level of control	Audit response to be focused on compliance issues
If the auditor identifies risks of material non-compliance the auditor should develop an overall response to such risks. The auditor should design further audit procedures, including tests of details (which may include tests of transactions) to obtain sufficient appropriate audit evidence about the entity's compliance with each of the applicable compliance requirements in response to the assessed risks of material noncompliance.		

Examples of non-compliance

The ULB health officer has not performed inspections for the past five years. This noncompliance may be significant due to qualitative aspects such as safety implications. Although no monetary amounts are involved, the non-compliance may be material due to the potential consequences it may have for the safety on health of citizens. In the event of a health there is also a risk that the non-compliance may result in significant liability claims which could have material financial implications for the ULBs as well.

4.8 Understand the Significant Audit Areas

ISSAI: 4000.67, Where the SAI has discretion to select the coverage of compliance audits, it performs the procedures necessary to identify significant areas and/or areas with potential risk of non-compliance. In performing these procedures, the auditor may take into consideration any of the following:

- Public or legislative interests or expectations.

- Impact on citizens.
- Projects with significant public funding.
- Beneficiaries of public funds.
- Significance of certain provisions of the law.
- Principles of good governance.
- Roles of different public sector bodies.
- Rights of citizens and of public sector bodies.
- Potential breaches of applicable laws and other regulations which govern the public entity's activity, or the public debt, public deficit and external obligations.
- Non-compliance with internal controls, or the absence of an adequate internal control system.
- Findings identified in previous audits
- Risks of non-compliance signaled by third parties

In the following situation the possibility for risks of material misstatement is greater. Therefore, a due consideration should be taken while preparing the audit plan.

S. No.	Questions	Analysis
1.	Greater management intervention to specify the accounting treatment	
2.	Greater manual intervention for data collection and processing of data e.g., systems requiring a significant level of manual intervention.	
3.	Complex calculations or accounting principles e.g., this may occur either due to a misunderstanding or a misinterpretation of the regulation or through simple error in application.	
4.	Non-routine transactions, which may make it difficult to implement effective controls	
5.	Significant judgmental matters that require the development of accounting estimates e.g., any estimates rarely be conclusive and require involvement of judgement which may be subjective therefore carrying high risk	
6.	Significant related party transactions :e.g., unusual, related party transaction may carry higher risk	
7.	Transactions that are outside the normal course of entity's activity or appear to be unusual e.g., Transactions not in the	

	normal course of business and/or exceptional transactions may carry higher risk.	
8.	Recent significant developments (e.g., accounting reforms, political or economic instability, new contract arrangements of significant amount, etc.) that require specific attention to the risk	

The following information may be useful for conducting Risks Assessment:

- Past audit experiences, audit observations of the previous audits and pending audit paras yet to be complied.
- Financial problems being faced by the entity.
- Any new activities undertaken during the period under audit.
- Effectiveness of internal controls and management's response to any weaknesses in internal controls.
- Complexity of accounting principles and calculations, any judgement involved.
- Complexity of operations and underlying regulations/ regulatory environment.
- Susceptibility of assets to material fraud/misappropriation.
- Competencies of Staffs specially accounting personal and frequencies of changes in last three years and reason for such changes.
- The history in production of records of the audited unit or non- preparation of records.
- Any complaints about the audit unit.
- Any newspaper/other media information about the audit unit in last one year.
- Nature and complexity of accounting process and use of IT in accounting; mix of IT and manual controls in place; accounting policies and changes to accounting policies.
- Other Risk Indicators like Expenditure trends, Persistent and unexplained excess drawls, Unadjusted account bills, Transfers to Personal Ledger Accounts etc.
- Expenditure trend in last three years.
- Persistent and unexplained budget problems and excess spending.
- Transfers to Personal Ledger Accounts.
- Unadjusted bills.
- Large purchase

4.9Preparation of Audit Planning Memorandum

Planning Memorandum: The overall Detailed audit plan should be summarized in a memorandum containing a summary of the scope of the Detailed audit and planned Detailed audit procedures. The planning memorandum shall be prepared at the department level and shall present an analysis of the key Detailed audit areas and a summary of the key planning decisions. The DoA shall appoint the audit teams who shall prepare audit planning memorandum for various selected audit cases. This will enable the audit team members to understand the goal and mission of the department, associated risk with the department and auditable area which need more focus during the audit. The content of the audit planning memorandum at the department level shall include:

- A brief outline of the audit department activities based on the understanding of the Department.
- Assessment of areas to be audited
- Methodology
- Administrative Planning
- Extent of check for the areas to be audited

OAMS Functionality: At the end of preparation phase, audit team need to prepare an audit planning memorandum in OAMS which states scope of audit, nature and timing of audit procedure and the overall strategy for the audit execution.

Refer Annexure 11.1.5for 'Format of Audit Planning Memorandum.

Chapter 5: Audit Execution

Following are the revenant auditing standards which need to be applied by the audit team in audit execution phase.

ISSAI: 4000.144, The auditor shall plan and perform procedures to obtain sufficient and appropriate audit evidence to form a conclusion with the selected level of assurance.

Explanation: 145 The nature and sources of the necessary audit evidence shall be determined by the desired level of assurance, the criteria, materiality, the subject matter and the scope of the audit.

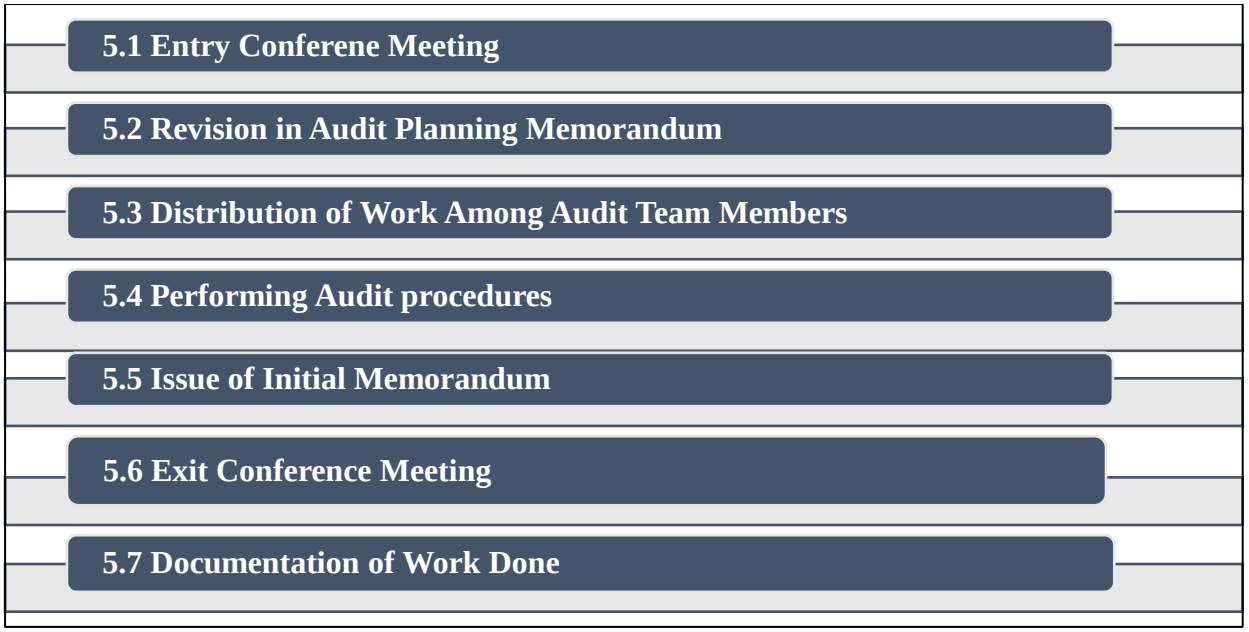
Explanation: 146 Sufficient audit evidence is related to the decision about the level of assurance. To form a conclusion with reasonable assurance, the auditor needs to obtain more evidence than in a limited assurance engagement. The nature of audit evidence is also different for the two types of audits. For limited assurance engagements the audit evidence is mostly analytical procedures and inspections while for reasonable assurance engagements the auditor normally needs to perform mostly all the audit techniques.

Explanation: 147 Sufficiency is a measure of the quantity of evidence needed to support the audit findings and conclusions. In assessing the sufficiency of evidence, the auditor needs to determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.

In this stage quarterly audit plans are executed, and observations are noted through a systematic application of the audit procedures. The prime focus under this stage is to ensure completion of the audit program in accordance with the designed audit execution strategy. This stage also involves, on field review of the audit work done, ensure that conclusion drawn, or observations made are based on the facts. And the relevant documents have collected to validate the observations.

Under this stage audit team are required to visit to auditee and verify the relevant records, compliance with rules, codes and various other orders issued from time to time. However, the responsibility of the audit team is not limited to verification of accounts and procedures but also to give recommendations to improve the financial management system and internal control system of the audit unit.

The following eight steps illustrates the various activities to be conducted at the audit execution stage of audit life cycle:



5.1. Entry Conference Meeting

The purpose of entry conference meeting is to establish effective communications between the audit team and the auditee at the beginning of the audit. The entry conference meeting will be held after completion of individual audit plan prepared in planning phase and before commencement of actual audit work at the field. The entry conference meeting will be held among the audit team members, auditee's head and key officials of the auditee being audited. The entry conference meeting will facilitate to build a good relationship between the audit team and official of the auditee. Following are the main points need to be discussed in the entry meeting.

a) Objectives and Scope of Work

There should be clear communication about the objective and scope of the audit. The objective and scope of audit will include approach and methodology to be used to evaluate effectiveness of entities processes and internal controls over subject matter selected for detailed audit.

b) Collecting Data and Seeking Cooperation from Auditee

Discuss and seek the data on problem areas where the auditors can be of assistance to the auditee. Careful consideration must be given to any suggestions and requests to ensure that there is need of audit attention. Inquire about working hours, access to records, available work area for participating auditors, the auditee's work deadline and any other information which would help schedule the audit activities to fit into the office routine with minimal interruption to the auditee's routine activities.

c) Communicating audit progress

Establish a clear understanding with the audit unit and regularly update them regarding audit progress and findings. Determine the frequency of progress updates and officials' levels to be updated.

d) Audit Observations

Discuss how the audit findings will be managed, e.g., resolution of minor findings, the discussion on all findings on a concurrent basis to enable the auditee to take timely and corrective action and other actions relating to closing meeting etc. and also discuss the status of prior audit findings.

e) Debriefing and Reporting

The audit team will discuss the procedures for verifying and reporting audit findings with the audit unit. Immediately after the entrance meeting the audit team will submit an additional list of records required for the execution of audit and enhance their understanding about the subject matter selected for the audit.

One team member of audit team member should be assigned to fill up all the details of the entry Conference meeting into OAMS under entry conference tab and need to be duly approved by both the parties. Wherever practicable the entry conference meeting must be attended by person responsible for preparation of detail audit report with respect to the urban local bodies and rural local bodies and official responsible for execution of audit program.

Refer Annexure 11.1.6 for 'Format of Minutes of Entry Conference Meeting'

OAMS Functionality: Under the entry conference tab in OAMS, the audit team update all the necessary details relating to auditees like head's name of ULBs and RLBs, understanding on subject matter selected, period of audit, audit start date, audit end date, audit month, auditee name, mobile number of concerned officials etc. and that will be duly signed by the both the parties.

5.2 Revision in Audit Planning Memorandum

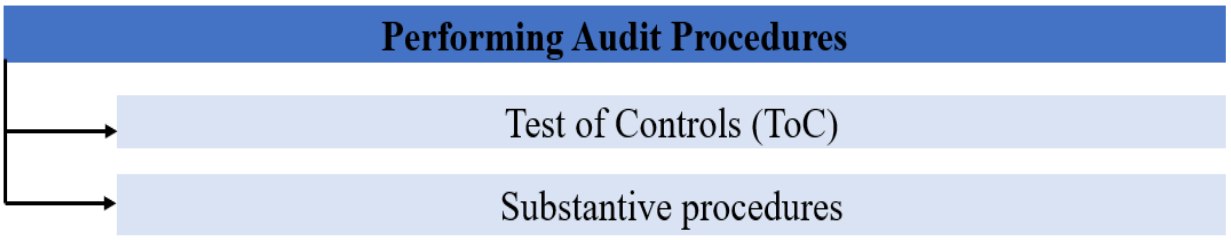
Based on the entry conference meeting if any new/revised information comes out then the audit planning memorandum prepared during the audit planning stage shall be reviewed and updated for effective conduct of the Detailed Audit.

5.3 Distribution of Work Among Audit Team Members

Post entry conference meeting and updating of audit planning memorandum, the team leader shall divide the audit work among team members and according to the work distribution the team members shall carryout the detailed audit work. For example, one team member may be verifying non-compliance of various legal & statutory compliance, the another may start verifying whether the expenditures have been incurred following principle of regularity and propriety. The audit team leader should accept the more significant items along with the supervision of the work of the team members. Each member of the audit team needs to maintain an updated record of the work performed on daily basis in prescribed format in the OAMS.

OAMS Functionality: Post entry conference meeting and updating of individual planning memorandum, the team leader shall distribute the audit work among the team members using the functionality available on OAMS.

5.4Performing Audit Procedures



5.4.1 Performing Tests of Controls

The auditor performs tests of controls to confirm the preliminary assessment of those key controls upon which he intends to rely. The objective of tests of controls is to evaluate whether those key controls operated effectively and continuously during the period under review. If the tests of controls confirm that the controls have operated continuously and effectively throughout the period under review, then reliance can be placed on these controls and minimum substantive testing can be performed. When these controls are found not to have operated continuously and effectively throughout the period under review, the auditor should reassess the audit approach, and increase the extent of substantive testing to be performed. The operating effectiveness of key controls can be evaluated as explained below:

How to evaluate the operating effectiveness of key controls

Obtain evidence of:	**By performing these audit tests:**
The **quality** of the controls and data input	**<u>Testing application controls</u>** - Based on mapping of application controls, identify the key processes, master files, interfaces with other modules and systems, the link to the accounting records and management reports. The control objectives (completeness, accuracy, validity, restricted access) addressing the specific risks (access, Input, rejection, processing) for each component should be determined. - The key controls designed to meet these control objectives should be evaluated through enquiry, observation, inspection and some re-performance.
The **completeness and reliability** of the transactions the controls are expected to cover.	**<u>Evaluating the assertions addressed</u>** - Identify key controls that ensure completeness and reliability of transactions and ensure that they are effective, through re-performance if needed.

How controls were **applied**, and their **consistency**, at relevant times during the period.	**Walk through testing of controls** - Understand/document the transaction flow and policies & procedures of the control. - Confirm the process, data used for controls, and time the control is in place. - Interview Individuals performing the control about the type of information they look for, how they detect errors, non-compliance and/or anomalies, and how they treat them. **Testing Individual items** - If the auditor cannot obtain sufficient audit evidence using walk-through testing, then (s)he can use sampling procedures to evaluate Individual Items. - The sample used is either drawn for controls alone (single -purpose testing) or is the same as for substantive testing (multi-purpose testing).
The correction of detected **errors.**	Review of corrective actions and enquiry about their follow-up.

5.4.2 Substantive procedures

Substantive procedures include

a. Tests of details

b. Analytical procedures

Tests of details

Tests of details involve testing detailed transactions or activities against the subject matter selected with audit criteria. In most direct reporting engagements, auditors conduct substantive testing. Depending on how well the entity has managed the subject matter, the auditors may decide not to separately evaluate internal controls but rather look into relevant controls along with substantive testing.

In performing tests of details, the substantive procedures are designed during the planning phase to be responsive to the related risk assessment; their purpose is to obtain audit evidence to detect noncompliance. However, irrespective of the assessed risk and level of reliance, the auditor should design and perform substantive procedures (tests of details) for each material area related to subject matter selected. Substantive testing typically includes the following:

Substantive Test	Areas
Computation	▶ Reperformance of calculations regarding claims, grants etc.
Analysis (excluding analytical review)	▶ Analysis of findings of work by internal and other auditors ▶ Analysis of legal and budgetary commitments, eligibility, tendering procedures etc.
Re-performance	▶ Re-performance of already inspected/audited transactions
Inspection	▶ Physical Assets ▶ Contracts ▶ Claims ▶ Ex-ante and ex-post control reports ▶ Audit reports (Internal and External) ▶ Monitoring reports ▶ Supporting documents e.g., invoices, public procurement documents, cost benefit analysis, photos, records of beneficiaries.
Inquiry and Confirmation	▶ Inquiry of auditee management and staff ▶ Circulation of bank balances ▶ Circulation of receivables
Observation	▶ On the spot checks

Analytical procedures

Analytical procedures involve acquiring information from various sources to determine what is expected; comparing the actual situation with that expectation; investigating the reasons for any discrepancies arising; and evaluating the results. It can be used both as part of the risk analysis and when collecting audit evidence. Audit evidence can be collected either by comparing data, investigating fluctuations, or identifying relationships that appear inconsistent with what was expected based on either historical data or the auditor's experience. Regression analysis techniques or other mathematical methods may assist public sector auditors in comparing actual to expected results.

In a limited assurance engagement, analytical procedures and inspections are normally enough to form a conclusion with limited assurance, while a conclusion with reasonable assurance must be formed based on a combination of the audit techniques.

Analytical procedures may, only in certain circumstances, assist the auditor in evaluating compliance. For example, where allowances under a scheme are subject to a maximum value and the number of recipients is known, the auditor may use analytical procedures to establish whether the permitted maximum has been

breached. These techniques or combinations thereof may be used for tests of controls or substantive procedures

The audit team will start the audit by going through the audit checklist which provides a comprehensive guidance for audit. The audit team could use it as a guidance document during the audit and frame their questions for audit.

Reasonable assurances: Reasonable assurance is high but not absolute. The audit conclusion is expressed positively, conveying that, in the auditor's opinion, the subject matter is or is not compliant in all material respects, or, where relevant, that the subject matter information provides a true and fair view, in accordance with the applicable criteria.

Limited assurance: When providing limited assurance, the audit conclusion states that, based on the procedures performed, nothing has come to the auditor's attention to cause the auditor to believe that the subject matter is not in compliance with the applicable criteria. However, if the auditor believes that the subject matter is not in compliance with the criteria, s/he must perform limited procedures to conclude whether the subject matter follows the criteria or not.

Refer Annexure 11.2 for 'Audit Execution Checklist for ULBs RLBs separately'

5.5 Issue of Initial memorandum

While conducting Detailed Audit, the audit team might come across various issues/findings (hereinafter referred as observation) for which a clarification from the auditee is required. For which the audit team issue initial memorandum through OAMS and send it to the auditee for reply.

Initial memorandum shall be prepared by the audit team member during the audit for (i) seeking clarifications from the audit unit regarding any findings or (ii) requirement of any additional information or documents.

The Initial Memorandum is classified as under:

Information Memo: is used to obtain additional information or documents from the audit unit.

Observation Memo: is used where preliminary audit indicates that a draft para can be made.

Information Cum Observation Memo: Initial Memorandum created by team member shall be reviewed and approved by the team leader before sharing it to the audit unit. Initial Memorandum shall be approved or rejected by the team leader only once.

If Initial Memorandum **is approved by the Audit Team Leader**: The approved initial memorandum shall be sent to the audit unit for seeking response. The timeline for providing response against Initial Memorandum is three working days starting from the date of issuance of the Initial Memorandum. The

auditor is required to evaluate the response provided by the audit unit for each of the Initial Memorandum and need to take necessary actions accordingly. Following two outcomes may be for Initial Memorandum:

- **Resolved Initial Memorandums:** In case audit unit provides a response, which is satisfactory as per the auditor, then Initial Memorandum is resolved.
- **Un-resolved Initial Memorandums:** Following are the scenarios:
  - In case audit unit fails to provide response within the stipulated time, then Initial Memorandum is un-resolved and shall be converted to Audit Finding matrix.
  - In case audit unit provides a response, which is not satisfactory as per the auditor, then Initial Memorandum is un-resolved and shall be converted to Audit Finding matrix.

If Initial Memorandum **is not Approved by the Audit Team Leader:** The unapproved Initial Memorandum shall be return to the audit team member along with the comments (reason for rejection) for necessary correction. The team member post rectification is required to resubmit this to the team leader for his/her approval. The Team leader will review all the unresolved Initial Memorandum / uncorrected misstatement before converting the same to Audit Finding matrix.

OAMS Functionality: Initial Memorandum (Initial Memorandum) created on OAMS by team member will be approved by the team leader. Once it is approved by the team leader an automatic intimation will be sent to coordinator of audit unit through SMS/email for reply.

Initial Memorandum once created and submitted to audit unit, cannot be edited. The audit team can add sub–Initial Memorandum for any additional points or for addressing the reply received from the audit unit. However, all the Initial Memorandum must either be closed as resolved or converted to Audit Finding matrix is on OAMS. Information Initial Memorandum must be closed and any discrepancy or limitation faced shall be mentioned in the audit report.

- Audit unit must respond to the Initial Memorandum within three working days. Along with the reply, the audit unit has also to upload all the documents on OAMS as a supporting document which helps to auditor in resolving of Initial Memorandum.
- Based on the response of the audit unit, the audit team either drops the Initial Memorandum or convert the same to Audit Finding matrix. However, in case of non-reply or unsatisfactory reply, the Initial Memorandum must be converted to Audit Finding matrix.

5.6 Exit Conference Meeting

Once the audit team completes the audit and compile all its findings noted during audit execution stage, the audit team shall interact with audit unit for discussion on the conclusion drawn on the audit findings. The audit team leader together with other team member shall be responsible for scheduling of exit conference

meeting with the auditee (HoO or authorised representative), prior to last date of fieldwork to provide an opportunity to the auditee for providing clarification on unresolved Initial Memorandum. The purpose of the exit conference meeting is:

- To Inform the Head of Office (HoO) about the audit findings (discuss the unresolved Initial Memorandum issued during the audit period which have been included in the Initial Memorandum) and reporting process,
- To obtain management response on the unresolved Initial Memorandum.
- To provide adequate guidance about corrective actions to be taken against each Initial Memorandum,
- To Suggest for improvement in accounting and financial management and general performance of the audit unit, If any

One of the audit team members will be assigned to document all the discussion of exit conference meeting and updated the same on OAMS. The minutes of exit conference meeting will be digitally signed by the team leader and the auditee.

Refer Annexure 11.1.7 for 'Format of Minutes of Exit Conference Meeting'

OAMS Functionality: Under the exit conference meeting tab on OAMS, all the discussion of exit conference meeting will be documented. The exit conference meeting template also includes major queries raised and discussed during the exit conference meeting.

5.7 Documentation of Work Executed.

ISSAI: 4000.89–Documentation- The auditor shall prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained, and conclusions reached. The auditor shall prepare the audit documentation in a timely manner, keep it up to date throughout the audit, and complete the documentation of the evidence supporting the audit findings before the audit report is issued.

ISSAI 4000.90 to ISSAI 4000.95 explains the different aspects of documentation and working papers, which are as follows:

- Purpose of documentation
- Sufficient documentation
- Sufficiency at audit planning stage
- Maintaining confidentiality
- Documentation of key decisions
- Organization of audit documentation

ISSAI 4000.90- The purpose of documenting the audit work performed is both to enhance transparency about the work performed, and to enable an experienced auditor having no previous connection with the audit, to understand significant matters arising during the audit, the conclusion(s)/ opinion(s) reached thereon, and significant professional judgments made in reaching those conclusion(s)/ opinion(s). The documentation includes as appropriate:

a) An explanation of the subject matter of the audit.
b) Risk assessment, audit strategy and plan, and related documents.
c) The methods applied and the scope and time covered by the audit.
d) The nature, the time and extent of the audit procedures performed.
e) The results of the audit procedures performed, and the audit evidence obtained.
f) The evaluation of the audit evidence forming the finding(s), conclusion(s) opinion(s) and recommendation(s).
g) Judgments done in the audit process, including professional consultations and the reasoning behind them.
h) Communication with and feedback from the audited entity.
i) Supervisory reviews and other quality control safeguards undertaken.

ISSAI 4000.91- Documentation needs to be sufficient to demonstrate how the auditor defined the audit objective, subject matter, the criteria and the scope, as well as the reasons why a specific method of analysis was chosen. For this purpose, documentation needs to be organized to provide a clear and direct link between the findings and the evidence that support them.

ISSAI 4000.92- Specifically related to the audit planning stage, the documentation kept by the auditor needs to contain:

a) The information needed to understand the entity being audited and its environment which enable the assessment of the risk.
b) The assessment of the materiality of the subject matter.
c) The identification of sources of evidence.

ISSAI 4000.93- The auditor needs to adopt appropriate procedures to maintain the confidentiality and safe custody of the audit documentation and retain it for a period sufficient to meet the needs of the legal, regulatory, administrative and professional requirements of record retention and to enable the conduct of audit follow-up activities.

ISSAI 4000.94- Documenting the key decisions made is important to demonstrate the independence and impartiality of the auditor in his/her analysis. The existence of sensitive issues demands the documentation of the relevant facts considered by the auditor in choosing a particular course of action or in taking a certain decision. In this way, the actions and decisions are explained and transparent.

ISSAI 4000.95- In the context of SAIs with jurisdictional powers, documentation needed to provide proposals of personal liability is outside the scope of this professional standard

According to ISSAI 4000, the purpose of documentation is to enhance the transparency of the work performed, and to enable an experienced auditor with no previous connection to the audit to understand matters arising from audit. It makes significant audit tasks easier and helps the audit supervisor and peer reviewer to provide their review comments. The process of preparing and reviewing audit documentation contributes to the quality of an audit. Audit documentation serves to:

- Provide support for the auditors' report
- Aid auditors in conducting and supervising the audit.
- Allow for the review of audit quality.

Proper working papers make review easier

Auditors consider their supervisors, managers, audit quality reviewers, and peer reviewers to be the primary users of the working papers. Looking at from a user's point of view, the auditor needs to think about what the reviewers want to see and what rules they want to follow. For a compliance audit, the benchmark is the ISSAI 4000.

Elements of documentation

The documentation includes as appropriate:

- An explanation of the subject matter of the audit.
- A risk assessment, audit strategy and plan, and related documents
- The methods applied and the scope and time covered by the audit.
- The nature, the time and extent of the audit procedures performed.
- The results of the audit procedures performed, and the audit evidence obtained.
- The evaluation of the audit evidence forming the findings, conclusions, opinion and recommendations.
- Judgments made in the audit process, including professional consultations and the reasoning behind them.

In determining the nature and extent of the documentation for a typical compliance / Detailed audit, auditors may consider the following:

- Nature of the auditing procedures performed.
- Risk of material non-compliance with the applicable criteria, and auditors' response to the assessed risks.
- Extent to which professional judgment was applied (in making decisions), especially in considering materiality.

OAMS Functionality: All the forms, formats, checklists and annexures used by audit team in audit life cycle process shall be uploaded/updated on OAMS and audit team need to be updated the same using OAMS and the same need to be approved by the audit team and the auditee whenever required.

5.7.1Timely Preparation of Audit Documentation

The audit team shall prepare audit documentations on a timely basis i.e., before issuance of the Auditor's Report.

5.7.2 Documentation of the Audit Procedure Performed and Evidence Obtained

The auditor shall prepare audit documentation, which would be sufficient to enable an experienced auditor, having no previous experience of conducting Detailed Audit to be able to understand:

- The nature, timing and extent of the audit procedures performed to comply with the ISSAIs and applicable legal and regulatory requirements.
- The results of the audit procedures performed, and the audit evidence obtained; and
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

- The identifying characteristics of the specific items or matters evaluated.
- Who performed the audit work and the date of completion of such work?
- Who reviewed the audit work performed and the date and extent of such review?

The auditor shall document discussions of significant matters with audit unit/ senior officials, and others, including the nature of the significant matters discussed including the details of time and participants with whom the discussions took place.

If the auditor identified information that is inconsistent with the auditor's conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

5.7.3 Variance from Relevant Requirement

If, under any exceptional circumstances, the auditor judgement is necessary to depart from a relevant requirement from ISSAI, the auditor shall document how the alternative audit procedures were performed to achieve the aim of the Detailed Audit and the reasons from that departure.

Sufficient documentary evidence supports audit conclusions and confirms that the audit was conducted in accordance with relevant act, rules & regulations and standards. "Adequate documentation is important for several reasons" so that it can.

- Confirm and support to the Auditors' Report.
- Increase the efficiency and effectiveness of the Detailed Audit.
- Facilitate planning and supervision and provide evidence of work done for future reference.
- Serve as a source of information in preparing reports or answering any enquiry from the audited entity or from any other authority.
- Serve as evidence of the auditor's compliance with relevant rules, guidelines and auditing standards.

5.7.4 Audit Working Papers

Maintaining the sufficient and relevant working papers are the responsibility of the audit team. The working papers file should contain all tests conducted, samples drawn, documentary evidence supporting the audit findings and conclusions. The term "audit working paper" in this context applies to both hard copy audit working papers and to files stored in computer readable form.

OAMS Functionality: All the relevant working papers will be uploaded on OAMS before finalization of Detailed Auditor's Report.

5.7.5 General Content of Working Papers

The documents which the auditor needs to refer each year should be placed in Permanent File. This file should contain current information about the organisation itself, such as:

- Information concerning with legal and organization structure of the auditee.
- Governing Acts and Rules.
- Extracts or copies of important documents such as agreement and minutes of the meeting.
- Notes regarding significant accounting policies.
- Short description of the activities carried on by the auditee.
- Details of the standing committees and key personnel along with their designation and contract information.
- Descriptions of accounting systems, internal control environment.
- Any other relevant documents.

The documents relevant to the audit of a particular year should be placed in a manner which brings together related working papers in a series of folders (or in separate sections within the folders).

The audit file should contain a list of working papers referred / prepared during audit and generally consists of the following:

- The names of audit personnel who conducted the Detailed Audit work.
- The dates when the audit work was conducted by the respective audit personnel.
- The sources of the information / evidence obtained.
- Audit Plan/Program.
- Audit Schedule and allocation sheet among the team members.
- Planning memorandum.
- A record of the nature, timing and extent of audit procedures performed and the result of such procedure.
- Previous Internal audit reports.
- Physical verification reports of cash/stock and store etc.
- Data relating to budget provision and actual expenditure for the period of audit.
- Minutes of opening and closing meeting conducted.
- Summary review Memorandum.
- Conclusion reached by the auditors including how exception and unusual matters if any, disclosed by the audit procedure were resolved and treated.
- Copies of communication with other auditors, expert and third parties if any.
- A note of the study and evaluation of the accounting system and related internal control. This could be in the form of narratives description, questionnaire, flowcharts or combination thereof; and
- Analysis of transaction and account balances.

It is important to note that any judgements made, and each audit conclusion reached, on account areas and balances should be recorded clearly. Lead schedules covering each account area should summarise the audit work conducted and the results of the audit

To standardize the working papers headings following key characteristics should be followed:

- It should provide details of Urban Local Body/ Rural Local Body being audited and audit period covered.
- Cross-referencing within work papers should be complete and accurate. Work papers should be cross-referenced to the Audit Findings and Audit Plan.
- The system of indexing audit work papers should be simple. A capital letter (A-Z) should be used to identify each segment of the audit, and Arabic numerals (I, II, III etc.) should be used to identify schedules within the segments.

- The auditor should make full use of the working papers developed in the prior audit. Flow charts, system descriptions, and other data may still be valid. Those papers which remain useful should be made a part of the current working papers.

5.7.6 Review of Working Papers

A timely review of working papers is an important part of the quality control. The audit team leader is required to maintain adequate working papers of the work. These working papers would be reviewed by Audit Team Leader and by supervisory officer or officer authorized by the Director, Audit for this purpose. While discharging their review responsibilities in accordance with ISSAI 2220 'Quality Control for an Audit of Financial statements' they should look whether the working papers are correct and contain reliable and adequate evidence to the support the audit findings. An illustrative checklist for review of working papers is provided in below table:

S. No	Checkpoint	Response
1.	Check that the working papers are appropriately indexed, labelled, and dated	Yes / No
2.	Check whether each of the audit observation is supported with proper evidence which is documented adequately	Yes / No
3.	Check that adequate referencing and cross-referencing of the working papers with the relevant audit observations is made to make it more meaningful and useful for stakeholder	Yes / No
4.	Check that all the documents/ working papers are legible	Yes / No
5.	Check the mode of collection to comment on authenticity and reliability of the documents	Yes / No
6.	Check whether the Audit File (either in hard copy or on OAMS) includes:	Yes / No
7.	Organizational Chart	Yes / No
8.	Description of Schemes, programs, systems, procedures, and business plans	Yes / No
9.	Corrective action plans	Yes / No
10.	Legal and regulatory issues impacting the organization	Yes / No
11.	Risk assessment	Yes / No
12.	Copy of the Detailed Audit Report	Yes / No
13.	Significant findings and issues identified during the audit and how they were resolved	Yes / No
14.	Audit planning documentation	Yes / No

15.	Work Distribution sheet	Yes / No
16.	Administration/correspondence documents	Yes / No
17.	Follow-up of previous audit reports	Yes / No
18.	Updated audit programmes/ planning memorandum	Yes / No
19.	Supporting documentation for the audit conclusions	Yes / No
20.	Minutes of entry and exit meeting	Yes / No
21.	Any other document/evidence collected during audit	Yes / No

Table 1: Illustrative checklist for review of Working paper

5.7.7 Ownership and Custody of Working Papers

The ownership of audit working papers rest with the administrative section of the DoA. Upon completion of the Detailed Audit and issuance of Auditors Report, it would be the responsibility of the team leader to update the audit files and upload the same on OAMS and archive the file of working papers so that they can be retrieved as and when needed.

Audit Documentation serves both as tool to aid the auditor in performing his work, and as written evidence of the work done to support the auditor's report. Documentation of information should be sufficient, competent, relevant, and useful to provide a sound basis for audit findings and recommendations. They help the auditors in convincing the audit about the observations made and recommendations provided. All staff members should ensure that proper work paper files are maintained to support findings. The auditors need to file only those papers that would be of use either to support a finding or better understand any point revealed during the audit.

Chapter 6: Audit Reporting

ISSAI 4000.191- The auditor shall communicate the conclusion in an audit report. The conclusion can be expressed either as an opinion, conclusion, answer to specific audit questions or recommendations.

ISSAI 4000.199- In direct reporting, the auditor can provide assurance either by:

a. making a clear statement of the level of assurance, through conclusions which explicitly convey the level of assurance, or
b. explaining how findings, criteria and conclusions were developed in a balanced and reasoned manner and why the combinations of findings and criteria result in a certain overall conclusion or recommendation.

ISSAI 4000.200-In a reasonable assurance engagement, the auditor gathers sufficient and appropriate audit evidence to conclude whether the subject matter complies in all material respects with identified suitable criteria and provides a report in the form of a positive assurance.

ISSAI 4000.201-In a limited assurance engagement, the auditor gathers sufficient and appropriate evidence to address the engagement objective; however, the procedures are limited compared to what is necessary in a reasonable assurance engagement. The auditor then concludes, if appropriate, that nothing has come to the auditor's attention to cause the auditor to believe that the subject matter is not in compliance with the applicable criteria

The Detailed audit require that a written report, setting out findings in an appropriate form, is prepared at the end of each audit. The conclusion made in a direct reporting engagement should be clear enough to eliminate any risk of misinterpretation. To ensure that the report is made in accordance with the standards of quality and is relevant for all its users, it should conform to the five principles of reporting, in both its form and content. These are completeness, objectivity, timeliness, accuracy and contradiction.

- The principle of objectivity requires the auditor to apply professional judgment and skepticism to ensure that the report is factually correct, and that findings and conclusions are presented in a relevant, fair and balanced manner.
- The principle of completeness requires the auditor to consider all relevant audit findings before issuing the report. The relationship between audit objectives, findings and conclusions needs to be completely and clearly stated.

- The principle of timeliness requires the auditor to prepare the report in due time when the findings are applicable and relevant for the intended users.
- The principle of accuracy and consultation require the auditor to check the accuracy of facts with the audited entity, and to ensure that the findings portray a correct and logical picture.
- The principle of contradiction requires that the auditor incorporate responses from the responsible party as appropriate and give answers to and assessments of the responses.

ISSAI 4000.210- Report Structure - Direct Reporting Engagement

The audit report shall include the following elements:

a. Title.
b. Identification of the auditing standards.
c. Executive summary (as appropriate).
d. Description of the subject matter and the scope (extent and limits of the audit).
e. Audit criteria.
f. Explanation and reasoning for the methods used.
g. Findings.
h. Conclusion(s) based on answers to specific audit questions or opinion.
i. Replies from the audited entity (as appropriate).
j. Recommendations (as appropriate).

6.1 Conversion of Initial Memorandum to Audit Finding matrix

6.1.1 Conversion or Dropping of Initial Memorandum

Based on the response submitted by the audit unit, the audit team either drops the Initial Memorandum or covert the same to draft Audit Finding matrix. And where non-reply or unsatisfactory reply submitted by the audit team, the Initial Memorandum shall be converted to Audit Finding matrix by the audit team.

The converted Initial Memorandum to Audit Finding matrix by audit team member shall be sent to the audit team leader for review and approval. The audit team leader shall either approve, reject, or return the Audit Finding matrix converted by team member for making necessary changes/corrections.

6.1.2 Important Timelines

Action	Time frame
Submission of response to Initial Memorandum by the Audit Unit	Three working days from the date of issue of Initial Memorandum and in case the audit duration for a unit is less than 3 days than all efforts should be made by the unit to submit responses during the audit duration only.
Exit Conference Meeting	Immediately on completion of Detailed Audit or on the Last Date scheduled for the Audit.
Conversion of Initial Memorandum to Audit Finding matrix	Within 03 days of reply of auditee, in case of no reply the final memorandum i.e., Audit Finding matrix shall be finalised by 10th day of the issuance of Initial Memorandum
Submission of Detailed Audit report to Supervisor for review	Within fourteen working days from the date of Exit Conference Meeting
Review, approval or rejection of Detailed Audit report by Supervisor	Within seven working days from the date of receipt of Detailed Audit report from Team Leader
Re-submission of detailed audit report by Team Leader in case returned by Supervisor	Within three working days from the date of return from the supervisor.
Final Review of Detailed Audit Report and presentation of recommendations to Director, Audit, by Expert Committee.	Within seven working days from the date of receipt of Detailed Audit report from Supervisor.
Re-submission of Detailed Audit report by Team Leader in case returned by Expert Committee/ Director Audit.	Three working days from the date of return of the report.
Signature and Issuance of the final Detailed Audit report, after its approval from Director, Audit by the authorised signatory officer,	Within seven working days from the date of approval. However, all efforts should be taken to issue Detailed Audit report to the Audit unit within forty-five working days from date of Exit Conference Meeting

Note- The specified time period for the aforesaid activities may be revised at the discretion of Director Audit.

Based on types of engagement and the degree of assurance provided, compliance audit reports can be one of the following two types:

- Direct reporting–reasonable assurance
- Direct reporting–limited assurance

6.2 Reporting on direct reporting engagements

In direct reporting engagements the auditor might not give an explicit statement of assurance on the subject matter but must provide the users with the necessary degree of confidence by explicitly explaining how the findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the combinations of findings and criteria result in a certain overall conclusion or recommendation.

6.2.1 Direct reporting–reasonable assurance

In a direct reporting–reasonable assurance engagement, the auditor provides assurance by measuring the subject matter against the criteria and forms a conclusion. The audit conclusion expresses the auditor's view that the subject matter is or is not compliant in all material respects with the applicable criteria. The conclusion is expressed in the form of findings, answers to specific audit questions and recommendations.

ISSAI 4000.210: Elements of the audit report structure for direct reporting engagement

The audit report of a direct reporting–reasonable assurance engagement shall include the elements described below.

a) Title:

The title of the report should briefly mention the audit subject matter in a way that can be clearly understood by readers. Identification of the auditing standards applied and level of assurance. In its audit reports the SAI declares which standards it follows when conducting audits; this declaration should be accessible to the users of the reports. The DoA may adopt the Compliance Audit / Detailed Audit Guidelines as the authoritative standards for their work.

In this case, reference may be made by stating, we conducted [Detailed] audit[s] in accordance with the International Standards of Supreme Audit Institutions [on compliance auditing].

b) Executive summary (as appropriate)

The executive summary of the work performed, and methods used helps the intended users understand the auditor's conclusion. Hence, the executive summary needs to give an outside reader a brief explanation of how the audit was performed. The executive summary explains what the audit questions were, how the audit

was done, and the main findings, conclusions and recommendations. It gives the information in a summary form and contains only the most important information of the report.

c) Description of the subject matter and the scope.

Subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria. This should be clearly described in the audit report. The introduction of the report sets out the audit scope in the form of a clear statement of the focus, extent and limits of the audit in terms of the subject matter's compliance with the criteria. It also includes the time covered by the audit.

d) Identified criteria.

The criteria against which the subject matter is assessed should be identified in the auditor's report. Clear identification of the criteria in the report is important so that users of the report can understand the basis for the public sector auditors' work and conclusions. The criteria may be included in the report itself, or the report may refer to the criteria if they are contained in an assertion from management or otherwise available from a readily accessible and reliable source. In cases where the criteria applied in the audit are not readily identifiable, or have had to be derived from relevant sources, the criteria are clearly stated in the relevant section of the auditor's report.

e) Explanation and reasoning for the methods used.

The auditor should make a clear statement of the procedures performed to gather evidence in answering the audit questions. This will enable a user to read and follow the report and have confidence that the conclusions made are correct.

f) Findings.

The findings section comprises the auditor's description of the gathered evidence compared with the criteria. It is structured in a logical manner, based on the identified criteria in a way that assists the reader in following the logical flow of a particular argument. When significant amounts of data are included to support audit findings, such data may be included in appendices.

g) Conclusion(s) or opinion based on answers to specific audit questions.

The auditor's report on compliance subject matters contains a conclusion or an opinion based on the audit work performed. The conclusion or opinion is expressed as an answer to specific audit questions.

h) Replies from the audited entity (as appropriate).

Incorporating responses from the audited entity by reporting the views of the responsible party is part of the principle of contradiction. This involves agreeing on the facts with the audited entity to help ensure that they are complete, accurate and fairly presented. It also involves, as appropriate, incorporating the audited entity's response to matters raised, whether verbatim or in summary.

i) Recommendations (as appropriate).

The auditor's report includes, as appropriate, recommendations designed to result in improvements. While such recommendations may be constructive for the audited entity, they should not be so detailed that the public sector auditor's objectivity may be impaired in future audits.

Conclusions in direct reporting–reasonable assurance engagements

Conclusions provided in the direct reporting reasonable assurance engagement should have a direct link to the subject matter and the evidence gathered. They may clarify and add meaning to specific findings in the report. Non-compliance with criteria should logically flow from the findings. The conclusions reflect the report summary based on these findings. Conclusions might include identifying a general topic or a certain pattern in the findings. Conclusions may also be expressed as a more detailed answer to specific audit questions.

6.2.2 Direct reporting–limited assurance

Summary of the report

Since the extent of work conducted in a limited assurance engagement is less than a reasonable assurance engagement and limited in nature, it is important to present the summary of the work performed to help the intended users understand the extent of work performed and the auditor’s conclusion. The summary of the limited assurance engagement report is more detailed and should identify the limitations on the nature, timing and extent of audit procedures conducted, so that the readers will have a better appreciation of the conclusion reached.

In the summary of work done It may also be important to mention any procedures that were not performed but ordinarily would have been in a reasonable assurance engagement. Since the risk assessment conducted in a reasonable assurance engagement is more than in a limited assurance engagement, identification of all such procedures may not be possible.

Conclusions

The wording of the opinion or conclusion should reflect the “is legal and regular.”

Unmodified conclusion/opinion in a limited assurance engagement- an example of an unmodified opinion can state, “Based on the work performed described in this report, nothing has come to our attention that causes us to believe that the subject matter is not in compliance, in all material respects with the [applied criteria].”

Modified conclusion- A modified opinion can state, “Based on the work performed described in this report, except for [describe exception] nothing has come to our attention that causes us to believe that the subject matter is not in compliance, in all material respects with the [applied criteria].”

Phrasing for other types of audit conclusions such as the adverse conclusion and disclaimer of conclusion are similar for both limited assurance engagements and reasonable assurance engagements.

The Audit Report is the final deliverable of Detailed Audit therefore, the audit team should give utmost care while in drafting the ***Detailed Audit Report***. A Detailed Audit report shall be prepared based on the evaluation and conclusions drawn from the audit evidence obtained during audit execution phase. The Audit reporting stage starts with the conversion of unresolved Initial Memorandum into audit finding matrix and preparation of Detailed Audit Report. The steps to be followed under this stage has been provided below.

Conversion of Initial Memorandum into Audit Finding Matrix

Preparation of Draft Detailed Audit Report

Review, approval, and issuance of detailed audit report

6.3 Review, Approval, and Issuance of Detailed Audit Report

The Process for review, approval, and issuance of Detailed Auditor' Report in **OAMS** has been summarised below:

6.3.1 Audit Team Members

Audit team members shall create the Audit Finding matrix with respect to the audit work allocated to them and send to team leader for review and approval through OAMS.

6.3.2 Audit Team Leader

Team leader shall either drop, edit, or delete the Audit Finding matrices submitted by the team member on merit basis or advise them for making necessary changes. Post consolidation of all draft paras, the team leader

shall prepare the Detailed Audit report in the pre-described format. And then the Detailed Audit report shall be submitted by the team leader to Supervisor for his/ her review and approval.

6.3.3 Supervisory Officer authorised by the Director Audit.

The Supervisor shall review the Detailed Audit report submitted by the audit team leader. The supervisor shall either approve the report or return it to the team leader for incorporating any changes, if required. After approval by the supervisor the Detailed Audit Report shall be sent to the expert committee for final review.

6.3.4 Final Review by Expert Committee.

An Expert Committee will be constituted by DoA to be headed by Additional Director, DoA / Officer nominated by Director, Audit. Other members of the Expert Committee shall be the Supervisor, the Team Leader, and one other member, nominated by the Director, Audit. The Committee will review the draft audit reports and put up the recommendation to Director, Audit.

6.3.5. Approval and issue of Audit Reports for Compliance.

The Director, Audit may give the approval on the Audit Report after perusal of the recommendation submitted by the Expert Committee. After the approval from the Director, Audit, the authorised Officer will put up his signature and issue the audit report, to all concerned and the auditee unit for its compliance.

6.3.5. Passing of combined Detailed and Financial Attest Audit.

In context of Para 2.4 of this Manual, which provides for conduction of Detailed and Financial Attest Audit within one audit process for ULBs/RLBs, such Audit shall be treated as the Detailed Audit for all purposes and accordingly shall be passed as per the provisions of Detailed Audit Report.

Chapter 7: Audit Monitoring, Follow Up and Compliance

This chapter describes the steps that are to be followed for Audit Monitoring, Follow Up and Compliance. It would be responsibility of the auditee to comply with the Audit Finding matrices reported in the Detailed Audit Report and to take appropriate steps to implement the recommendations provided in the Detailed Audit Report in time bound manner, so that similar types of observations could be avoided in future. This chapter has been divided into the following sections.

7.1 Introduction

The audit monitoring and compliance process will be done at two levels:

1. **Supervisor/Officer Authorised by Director, Audit**: Officer Authorised by the Director, Audit (Supervisor) would be responsible to monitor the progress of audit execution work and review about the quality of the Detailed Audit Report prepared and submitted by the team leader. Such Officer as authorised by the Director, Audit would also be responsible for follow up and compliance of Audit Finding matrix as reported in the previous year's Detailed Audit Report. On regular basis such authorised Officer (Supervisor) would also submit "**Quarterly Progress and Performance**

Report" to the DoA on the progress of the Detailed Audit work, quality of the Detailed Audit Report and compliances with the previous year's Audit Finding matrix's. (Role of Supervisor)

2. **Directorate of Audit**: After issuance of the Detailed Audit Report to the auditee, the Authorised Officer of DoA is entrusted to monitor with the compliance of the Audit Finding matrix as reported in the Detailed Audit report and would submit the compliance report to the DoA on monthly basis.

7.2 Audit Compliance Committee and Monitoring Process

It shall be the responsibility of the auditee/HOD to ensure that the audit observations and irregularities reported in Detailed Audit report are addressed within three months form the date of receipt of the Detailed Audit report. The Auditee shall submit replies to DoA against each point raised therein, showing the action taken or proposed to be taken thereon.

Thereafter, the Detailed Audit report along with the comments of the auditee shall be placed before the Compliance committee for review on the adequacy of the response.

Compliance Committee will be constituted by the Director, Audit consisting of 03 members, nominated by the Director. The Committee will review the compliance report and put up its recommendations for further necessary actions to Director, Audit.

Unresolved audit observations/paras and serious irregularities on which proper necessary action has not been taken, will be intimated to the respective HoD as well as the Administrative Department for perusal and further necessary action.

The DoA shall use a standardized classifications system for monitoring and reporting the status of compliance to Audit Finding matrix. A uniform system would help in consolidating the status of compliance to Audit Finding matrix. An indicative classification of the status is provided below:

Status of Compliance to Audit Finding matrix's

Status	Condition
1. Not Received	No compliance has been received until now with ascertaining the reason
2. Received, not verified	The audit unit has sent the compliance, but the same has not been verified
3. Received and verified	The audit unit has sent the compliance and the same has been verified in its completeness.
4. Compliance verified, but not satisfactory	The compliance has been verified but it is not satisfactory. Returned for further clarification.

5. Para Complied	Para is categorized as complied when satisfactory compliance report has been received and approved by the respective committee

OAMS Functionality: The categorization regarding status of the compliance to the Audit Finding matrix shall be conducted through OAMS.

7.2.1 Compliance Committee and Monitoring

The 03 members Compliance Committee, for review of compliance report, as constituted at DoA level, mentioned in para 7.2, shall submit Quarterly Progress and Performance Report to DoA.

'Format of Quarterly Progress and Performance Report' may be referred to Annexure 11.1.10

OAMS Functionality: OAMS will provide MIS for the Quarterly Progress and Performance Report for monitoring the status of audit executed, in progress and yet to start. Once the system stabilizes, the DoA may mandate at least monthly updating of the data so that the report is available with improved frequency. The dashboard of OAMS provides information relating to total number of audit units scheduled, number of audit unit pending for audit, number of audit units where audit is in progress and number of audit units completed for the month.

7.3 Audit Follow Up Process

Follow up is a process which evaluate the adequacy, effectiveness and timeliness of actions taken by concerned officials of auditee on the observations and recommendations reported in the Detailed Audit report. The DoA shall determine the nature, timing, and extent of follow up process based on the following factors:

- Significance (or materiality) of the reported observations or recommendations.
- Degree of effort and cost needed to correct the reported observations or recommendations.
- Impact that may result in case the corrective action is not implemented.
- Complexity of the corrective action.
- Time period required to resolve the observation or act upon the recommendation.

The auditee unit shall send the compliance detail against each of the Audit Finding matrix to the DOA within one month from the date of receipt of Detailed Audit Report. Timeline for follow-up procedure for the Audit Finding matrix's is provided below**:**

Action	Timelines	Responsibility
First reminder for seeking compliance	On completion of one month from the date of issue of Detailed Audit Report	Through OAMS by DoA
Second reminder for seeking compliance	Within thirty working days from the date of first letter of reminder	Through OAMS by DoA
Third reminder: Official letter to the Administrative Department of the Auditee.	Within thirty working days from the date of second letter of reminder	Through OAMS by DoA

Table 2: Timeline for follow-up

The status of compliance would be monitored through OAMS. The OAMS will provide the dashboard on a real time basis about the Audit Finding matrix's pending for compliance and the Audit Finding matrix's which has already been complied by the auditee. The DoA based on the above report will compile common and recurring nature of observations and discuss the same for resolution with the Director UDD or Director Panchayati Raj or with their designated representatives. Such observations will be considered as one and dealt with by the DoA before escalating it at the State Level Audit Review Committee. Such observation can be of the systemic issues, deficiency in some direction or rule or absence of guidelines.

Refer Annexure 11.1.11 for 'Format of Follow-Up Register.'

OAMS Functionality: The Quarterly Progress and Performance Report and Follow up Register shall be prepared and maintained through OAMS. The template for Quarterly Progress and Performance Report would be integrated in the OAMS. The integration of the above formats on the OAMS would be done in such a manner that it would ensure auto populating of maximum data which is already available in the database. Further the follow-up process including sending of reminders shall also be conducted through OAMS to the extent possible.

Inventory of Recommendations

As part of the follow-up procedures, DoA should maintain a comprehensive inventory of recommendations in OAMS. The inventory should be maintained audit wise which must consist of all recommendations, with appropriate grading under 'vital or critical,' 'significant' and 'important.'

The database should also contain other relevant information viz. the year of audit report, status of acceptance viz. accepted, partially accepted, not accepted, and not replied, nominal implementation reported by the entity and the time of such reporting, risk associated with non-implementation or poor implementation, besides follow-up reviews. This inventory should be maintained as a permanent database, which will assist in planning of detailed audits in future.

7.4 Audit Review Compliance Committee

In congruence to Internal Audit Manual Vol. I, para 12.4 rules 290 and 291, to establish coordination in audit work, Audit Review Compliance Committees shall be constituted at 03 different levels, as provided below.

a. Departmental Audit Review Committee at Head of Department Level
b. Departmental Audit Review Committee at Administrative Department Level
c. State Level Audit Review Committee at Chief Secretary Level

The objective of the Audit Review Compliance Committee would be to monitor the compliance submitted by the auditees against the audit paras reported in the Internal, Detailed and Other types of Audit Reports. The roles, responsibilities and members consisting of such Committees will be the same as illustrated in Office Circular of Finance Audit Cell, no. 159/xxvii(26) / 2016, dated 07th October, 2016.

OAMS Functionality: The Compliance report and the actions taken report shall be submitted by audit unit, Departmental Audit Review Committee and Disposal and Settlement Committees through OAMS. The disposal and settlement or return of Audit Finding matrix would also be done through OAMS

7.5 Annual Consolidated Audit Report to be Placed Before the State Assembly

This report will be a consolidated report based on various audit reports issued during the year and will provide a synopsis of systemic and other issues which will help to the Assembly to understand the status of accounts and audit of ULBs and RLBs. The Annual Consolidated Audit report of ULBs and RLBs shall be laid before the State Assembly as per Section 8(3) of the Uttarakhand Audit Act 2012 within a period of 12 months from the end of each financial year. The Annual Consolidated Report shall be prepared by the Director, Audit and shall be submitted to the Finance Department which shall be laid before the State Legislature by Principal Secretary/ Secretary, Finance.

Chapter 8: Quality Assurance Framework

The **International Standards of Supreme Audit Institutions (ISSAI) standard twenty,** Principle 3 states, "SAIs should implement an appropriate system of quality assurance over their audit activities and reporting and subject such system to periodic independent assessment." Additionally, **ISSAI-200 on INTOSAI Auditing Standards-General Standards** paragraph 1.27 states the SAI should establish systems and procedures to:

(a) confirm that integral quality assurance processes have operated satisfactorily.
(b) ensure the quality of the audit report; and
(c) secure improvements and avoid repetition of weaknesses

As per the **International Standards of Supreme Audit Institutions** (**ISSAI)** standard **2220 "Quality Control for an Audit of Financial Statements",** An effective system of quality control must include a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.

8.1 Quality Assurance and Improvement Program (QAIP)

Refer Section 9.1 on "Quality Assurance and Improvement Program (QAIP)" in the Volume I of Financial Attest Audit Manual.

8.2 Quality Review by Supervisor or Officer Authorised by the Director Audit

The **Officer Authorised by the Director, Audit** would be responsible for **quality review** of all the Detailed Audit reports prepared by the audit team. The weakness noted in audit reports would be reported by the **Officer Authorised by the Director, Audit in** its '**Quarterly Progress and Performance Report'** and submitted to Director, Audit.

The DoA based on the recommendation received in '**Quarterly Progress and Performance Report'** would prepare the annual training calendar in accordance with procedures laid down in the **Training Need Assessment (TNA)** Report. The training calendar will be reviewed and approved by the Finance Department. Thereafter, requisite number of trainings would be conducted every year to train the audit staff. Additionally, each audit party is required to complete requisite number of hours training in every year as mandated by the DoA. In future the DoA may formulate **Quality Review Audit Committee** for review of the Detailed Audit report to improve the quality of Financial Attest Audit report.

An illustrative checklist for quality review of the Detailed Audit report is provided below in the table:

Sr No	Checkpoint	Response
1.	Details of entry meeting and exit meeting are documented on OAMS on real time basis	Yes / No
2.	Verification of Subject matter selected for audit has been done	Yes / No
3.	Documentation of Subject matterverified based on professional judgement.	Yes / No
4.	Sufficient and appropriate audit evidence has been obtained	Yes / No
5.	Documentation of working papers as per prescribed in this manual has been done	Yes / No
6.	The structure of the report is as per the template provided in this Manual	Yes / No
7.	If any scope limitation was observed whether that has been clearly brought out in the Detailed Audit report	Yes / No
8.	The Detailed Audit report was reviewed and approved by competent authority as per the process outlined in this audit manual before issuing it to the auditee.	Yes / No
9.	The Detailed Audit report was signed by authority designated for this purpose	Yes / No
10.	The Detailed Audit Report has been addressed to the correct authority	Yes / No
11.	Significant audit observations that require immediate action been highlighted	Yes / No
12.	The report contains the date of audit, period of audit and date of issue of Detailed Audit Report	Yes / No
13.	Overall, in the opinion of the reviewer, the Detailed Audit report is meeting the following: a. Accurate b. Objective c. Clear d. Concise e. Complete	Yes / No

Table 3: Illustrative checklist for quality review of Audit Report