

**PASAI**



*“Pacific Auditors Working Together”*

# **Pacific Association of Supreme Audit Institutions**

## **Reporting Guidelines**





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# **PACIFIC ASSOCIATION OF SUPREME AUDIT INSTITUTIONS**

## **Reporting Guidelines**

This Manual has been developed by the Pacific Association of Supreme Audit Institutions (PASAI) as a resource for SAIs to use when developing reporting systems in their respective jurisdictions. The Manual is designed as a reference tool based on international best practices as they existed at the time the Manual was developed.

Use of the Manual is the responsibility of an individual SAI, having regard to its mandate, capacity, and country circumstances. PASAI disclaims any responsibility or liability, whether direct or indirect, as a consequence of the use or application of the Manual.

## FOREWORD

An output of the Pacific Regional Audit Initiative (PRAI) is to build and sustain public auditing capacity through the preparation of guidance and training materials. This includes best practice guidance materials for audit reporting. These reporting guidelines provide staff of Supreme Audit Institutions (SAIs) with a structured process for producing a range of different audit reporting products.

Much of the success of a SAI is dependent on the independence and capacity of its staff . But it is also dependent on the quality of its reports. Reports that are clear and simple enable better engagement with the results of an audit engagement.

The manual outlines:

- the characteristics of a good report as well as report writing techniques;
- how to report on financial statement and performance audits in keeping with relevant audit reporting standards;
- how to produce special reports which contribute to improved public sector governance;
- how to produce annual reports.


These guidelines incorporate templates, checklists, and samples that serve as useful aids.

As part of a project undertaken by PASAI, this manual has been collectively developed by a working group team in the region:

- Isaako Kine - Tuvalu (Leader);
- Peter Robinson - Solomon Islands;
- Jeremiah Ten - Papua New Guinea;
- Erwhine David - Federated States of Micronesia (National);
- Camilo Fuimaono Afele - Auditor General of Samoa (Champion).

PASAI expresses sincere gratitude to the working group for their effort and also the SAIs for facilitating the production of the manual. In addition, PASAI acknowledges the contributions of the various SAIs for sharing their materials.

PASAI hopes that this manual will be constructive in improving audit reporting in the region.



Mrs Lyn Provost

Secretary-General of PASAI and Controller and Auditor-General of New Zealand



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## ACRONYMS AND ABBREVIATIONS

**Audit Mandate** The auditing authority, responsibilities, discretions and duties conferred on a Supreme Audit Institution under the constitution or other lawful authority of a state.

**Audit Office** Refers to a Supreme Audit Institution, or SAI.

**BPG** Better practice guide.

**Court of Accounts** In a Court of Accounts model the Supreme Audit Institution is an integral part of the judicial system operating independently of the executive and legislative branches. It is likely to have only a limited relationship with the national Parliament. The Supreme Audit Institution is normally known as the Court of Accounts (or Court of Audit) and is generally a self-standing Court dealing only with financial matters. Less commonly, it may be part of the Supreme Court, and is then normally known as a Chamber of Accounts.

Some key features are: the Supreme Audit Institution is a court and its members are judges who can impose penalty corrections on audited officials; professional staff in the Supreme Audit Institution tend to have legal rather than accounting or auditing backgrounds; and there is limited follow up of the Court's reports by Parliament.

There can be variations from one State to another within the broad judicial model described. (ISSAI 1003, pp 4)

**Financial Audit** An independent assessment, resulting in a reasonable assurance opinion, of whether an entity's reported financial condition, results, and use of resources are presented fairly in keeping with the financial reporting framework. (See *Regularity audit*) (ISSAI 1003, pp 5)

### **Financial Reporting Framework**

The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation. The term fair presentation framework is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

(a) acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

(b) acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term compliance framework is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above. (ISSAI 1003)

|                         |   |
|-------------------------|---|
| <b>GAAP</b>             | General Accepted Accounting Practice (issued by the American Institute of Certified Public Accountants).  |
| <b>GAGAS</b>            | Generally Accepted Government Auditing Standards (issued by the United States General Accounting Office).   |
| <b>Head of SAI</b>      | May refer to Auditor General, National Public Auditor, State Public Auditor, Controller and Chief Auditor.  |
| <b>IAS</b>              | International Accounting Standards (issued by the International Federation of Accountants).   |
| <b>IFRS</b>             | International Financial Reporting Standards (issued by the International Federation of Accountants).  |
| <b>IIA</b>              | Institute of Internal Audit.  |
| <b>INTOSAI</b>          | International Organisation Of Supreme Audit Institutions.   |
| <b>ISA</b>              | International Standards on Auditing (issued by the International Federation of Accountants).  |
| <b>ISQA</b>             | International Standards on Quality Control.   |
| <b>ISSAI</b>            | The International Standards of Supreme Audit Institutions (issued by INTOSAI).  |
| <b>IT</b>               | Information technology.   |
| <b>Jurisdiction</b>     | The right and power to interpret and apply the law.   |
| <b>Legislature</b>      | An officially elected or otherwise selected body of people vested with the responsibility and power to make laws for a sovereign unit, such as a State or Nation.   |
| <b>Legislation</b>      | A law or set of laws proposed by a government and made official by a parliament.  |
| <b>PASAI</b>            | Pacific Association of Supreme Audit Institutions.  |
| <b>PRAI</b>             | Pacific Regional Audit Initiative.  |
| <b>Regularity Audit</b> | According to ISSAI 1005, a regularity audit includes:<br><br>(a) attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;<br><br>(b) attestation of financial accountability of the government administration as a whole;<br><br>(c) audit of financial systems and transactions, including evaluation of compliance with applicable statutes and regulations;<br><br>(d) audit of internal control and internal audit functions; |

(e) audit of the probity and propriety of administrative decisions taken within the audited entity; and

(f) reporting of any other matters arising from or relating to the audit that the Supreme Audit Institution considers should be disclosed.

The terms regularity audit and financial audit are often used interchangeably. Such references to audits includes an audit of financial statements, and some or all of the elements set out.

**SAI**

Supreme Audit Institution, the public body of a State that, however designated, constituted or organised, exercises by virtue of law, the highest public auditing function of that State. In some Supreme Audit Institutions there are a single appointed Head of SAI who acts in a role equivalent to that of, engagement partner and who has overall responsibility for public sector audits. Other Supreme Audit Institutions may be organised as a Court of Accounts or having a collegiate or board system. (ISSAI 1003, pp.7)

**SAS**

Statement on Auditing Standards.



## 1. INTRODUCTION

### About these guidelines

1.1 The Pacific Regional Audit Initiative identified the need to develop best practice guidance materials to enable Supreme Audit Institutions (SAIs) to improve the contents and structure of their reports and how they convey their findings. These guidelines have been developed to help SAIs in producing audit reports in line with relevant audit reporting standards and to provide guidance in preparing other SAI reporting products.

1.2 The aim of the Pacific Association of Supreme Audit Institution (PASAI) is to enhance the institutional capacity of SAIs. These guidelines have been developed with that mission in mind. Therefore, the aim of these guidelines is to formulate guidance that enables SAIs to prepare audit reports that effectively communicate audit findings.

1.3 The objectives of these guidelines are to:

- provide simple and user-friendly guidance to assist SAIs in improving their audit report products;
- provide templates, checklists, and samples that serve as useful aids;
- provide guidance to those SAIs that have challenges in meeting relevant audit reporting standards; and
- share knowledge and experiences in the PASAI community.

1.4 SAIs can use these guidelines to assist them during the audit reporting process. They can also be used as quick reference materials by:

- Heads of SAIs who are committed to ensuring that the results of their audits are effectively communicated to stakeholders;
- managers and staff of SAIs, to carry out their audit work; and
- SAI training officers, to improve the skills of managers and staff.

1.5 Chapter 4 of these guidelines covers the characteristics of a good report as well as effective report writing techniques. The suggestions in this chapter are intended as a guide to foster better report writing practices within SAIs and should be interpreted within each SAI's mandate and operational framework.

1.6 Chapter 5 covers how to report on financial statement audits in keeping with the SAI's relevant audit reporting standards. In addition, it provides guidance on how to summarise audit findings for audited entities and the management of the reporting phase of outsourced audits.

1.7 Chapter 6 covers how to report on performance audits in keeping with relevant reporting standards. This chapter outlines the characteristics of performance audit reports,

the processes by which these reports are produced, and some techniques for constructing quality reports. The chapter has been designed to provide general guidance to public sector auditors in planning and writing performance audit reports.

1.8 SAs produce a number of different audit reporting products other than financial or performance audits. These products may, by strict definition, not qualify as audit reports. However, these special reports contribute to improved public sector governance and operations and are described in Chapter 7.

1.9 Chapter 8 focuses on how an SA should report on its performance through the use of annual reports and quality assurance reports to stakeholders. It provides a guide on how to develop performance indicators and highlights links to SA budgets and strategic planning.

### **Audit reporting legal and regulatory framework**

1.10 SAs in the Pacific region operate under three distinctive models – the legislative-parliamentary model, the legislative-congressional model, and the judicial model. These guidelines focus primarily on the parliamentary and congressional systems. The major features of each model are identified below.

#### *Legislative-parliamentary model (Commonwealth system)*

1.11 Under this model, the SA's work is linked closely to the system of parliamentary accountability, with reports presented to the Speaker. A parliamentary committee may review the SA's reports. Typically, the SA is designated the "national audit office" and has a single head (Auditor General) who may be an officer of the legislature. The work focus is on financial and performance audits. Staff have professional financial backgrounds, most being accountants and auditors. The countries using this system include: Australia, Cook Islands, Fiji, Kiribati, Nauru, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Tuvalu.

#### *Legislative-congressional model (United States system)*

1.12 The SA's work is linked closely to the legislative obligations of government, with reports presented by the SA to the Speaker, Governor, and relevant agency. Typically, the SA is the designated "office of the public auditor" and has a single head (Public Auditor) who is appointed by the governor with the legislature's support. The focus of the Public Auditor is on performance audits and forensic work with most financial audits being contracted to the private sector. SA staff – auditors and investigators – have generalist and performance audit backgrounds, with a few being professional accountants. Depending on the government structure, these SAs may report to the legislature and/or other government oversight bodies. The countries using this system include: American Samoa, Commonwealth of the Northern Mariana Islands, Federated States of Micronesia and each of its states (Chuuk, Kosrae, Pohnpei, and Yap), Guam, Marshall Islands, and Palau.

### *Judicial model (French system)*

1.13 The SAI is an integral part of the judicial system, operating independently of the executive and legislative branches. The SAI is known usually as the Court of Accounts (or Audit). Its members are judges and are typically appointed for an unlimited term, until retirement age, with one member selected to act as its President. The work focus is on financial and performance audits, with specific attention paid to the regularity of transactions. Staff have legal or generalist backgrounds. There is often no parliamentary committee to which the court reports. The court itself holds officials to account, and is able to impose penalties on audited officials. The countries using this system include: French Polynesia and New Caledonia.

### *SAIs' enabling legislation*

1.14 It is important that SAI staff have a good understanding of the legal and regulatory framework applicable to audit reporting. Everything that the SAI does must be in compliance with its relevant statutory and regulatory framework. Of utmost importance to each individual SAI is its country's Constitution – the document that, along with enabling legislation, establishes the SAI. Enabling legislation often describes the duties, powers, and independence of the SAI. This mandate enables the SAI to conduct and report on different types of audits. Enabling legislation sometimes provides for the establishment of the Audit Office, sets out the powers of the Head of SAI, employment terms and conditions, functions, and the general operations of the office, including the deadlines for SAI reports.

1.15 Some countries also promulgate regulations that set out public sector financial and regulatory requirements, including reporting requirements. These requirements may have implications for SAI reporting. Such legislation may include an Audit and Finance Act, which often has reporting requirements for State-owned enterprises/government business enterprises, local councils, and other government agencies.

### *Audit reporting standards*

1.16 The auditing standards, together with the legal and regulatory framework, provide the basis for each SAI's policies and procedures. Together, the various elements of the regulatory framework provide a detailed structure by which auditors can write high-quality audit reports. Audit reporting standards are important because they guide auditors in preparing their audit reports. Therefore, it is important for auditors to adhere to these standards to ensure that they produce high-quality reports and uphold the credibility of the SAI. Professional audit reporting standards should govern an SAI's audit reporting policies and procedures for all types of audits including financial and performance audits, and special investigations.

1.17 Most of the SAIs in the PASAI region have adopted the standards of the International Organisation of Supreme Audit Institutions (INTOSAI) as the basis for their work. However, this also means that they must apply the International Standards on Auditing (ISA) because the INTOSAI Professional Standards Committee has adopted these standards as the basis for

their Financial Audit Guidelines. Other relevant audit reporting standards for some SAs in the Pacific region include those contained in the United States' Generally Accepted Government Auditing Standards (GAGAS); Institute of Internal Audit (IIA) Standards; and International Standards on Quality Control (ISQC).



## **2. EFFECTIVE REPORT WRITING**

### **Introduction**

2.1 This chapter will outline the characteristics of a good report as well as some techniques for constructing a useful report.

2.2 SAIs produce a range of different reporting products, from opinions on financial statements to complex performance audit reports and associated discussion papers, brochures, and media releases. Each of these products may vary in their structure, content, and writing process. This chapter will cover the aspects of effective report writing that are more general in nature and are therefore applicable, in varying degrees, for all of these products.

### **Characteristics of a good report**

#### *Stakeholder needs*

2.3 Audit reports must be able to meet the different information requirements of the stakeholders involved with the report. Stakeholders include the users of the report, such as members of the legislature, auditee representatives, other government institutions, the media and the public, as well as the SAI itself. The auditee representatives can include the head of the agency being audited as well as managers and specialists responsible for functions within the organisation. The SAI will also have particular communication requirements for its products. Examples include the SAI's own annual report, where the SAI will want to fulfil accountability requirements, and press releases, where it needs to provide a brief summary of significant audit findings to the media. A good report is one that meets the needs of all its stakeholders.

2.4 It could be argued that the audit report is the primary accountability product of the audit process as it provides a summary of the audit activity, including the audit conclusions, supporting evidence, accountability requirements, and recommendations for improvement. Therefore, it is essential that audit reports bring these matters to the attention of stakeholders in a clear and persuasive way. The persuasiveness of a report for initiating change or simply in conveying information to the reader often comes down to how well written and understandable the report is.

2.5 Although the presentation and contents of audit opinions on financial statements are largely established by auditing standards, the management letter on a financial audit and the report on a performance audit are much more varied in structure, content, and potential impact. Performance audit reports in particular require significant critical thinking on the part of the audit team.

### *Features of a good report*

2.6 The features of a good report include aspects such as the relevance and accuracy of the information it contains, the soundness of its arguments, its readability, and the significance of the matters it covers. Such aspects are generally covered in audit reporting standards such as the International Standards of Supreme Audit Institutions (ISSAI) 400, *Reporting Standards in Government Auditing*, and will be outlined in more detail in the following paragraphs.

2.7 A good report structure should contain a meaningful title to help the reader readily identify the report contents. It should also clearly identify the audit objective and scope to establish the purpose and boundaries of the audit. The report should articulate the audit processes that were carried out, the evidence collected, and the analysis undertaken. The report should also be dated to provide a timeframe and context to the reader about the report findings. Other useful "reader aids" to use in a report are the inclusion of a contents page (a list of report headings against page numbers), a keyword index, and a glossary (an alphabetical list explaining terms and abbreviations used in the report).

2.8 To readily convey its message, a report should be easy to read. Therefore, it should be written using clear and concise language to avoid any ambiguity in interpretation or misrepresentation of the facts. Using positive language will help with clarity, negative language may confuse – for example, be careful not to use two or more negatives in one sentence, and express positive ideas in positive terms.

2.9 The audit fieldwork and, therefore, the contents of the report should be tightly focused on the subject matter that is relevant to the audit. In constructing the report, use headings that are meaningful, a font that is easy to read, and ensure that reasonable spacing is used between the sections of the report – this is sometimes referred to as the use of sufficient "white space".

2.10 The reputation of an SAI rests to a large extent on the reliability of information and significance of matters covered in its reports. Therefore, report contents must be complete (covering all relevant matters and containing enough information to support conclusions), factual, arithmetically accurate, and objectively determined. The findings should be supported by logical and verifiable analysis. It is also important to identify in the report any limitations that have restricted the audit team in obtaining any necessary information. The findings and conclusions must be fully defensible when exposed to external scrutiny.

2.11 An audit should foster rational debate on contentious issues. Therefore, the report must comprise well developed audit conclusions that are presented in a soundly argued manner. The report should be written in a neutral tone and should avoid emotive language. It should also take into account auditee comments, especially where the report includes disagreements over issues or audit conclusions. Natural justice<sup>1</sup> issues should also be

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<sup>1</sup> Natural justice is a legal philosophy for procedural fairness.

addressed by inviting comment from individuals or organisations mentioned in the report, before it is published.

2.12 Given the fundamental requirement for SAIs to be independent of external influence, audit work should be carried out in a professional and unbiased manner, and this should be reflected in the report. Therefore, audit reports should be balanced and constructive, conveying all the findings of the audit, both positive and negative.

2.13 Recommendations should be practical in nature and limited in number to the more important issues, so that lower level matters do not detract from the primary report focus. Some report writing processes that will help to achieve these outcomes are discussed in the section on report writing techniques.

## **Report writing techniques**

### *Planning*

2.14 A well planned audit focused on achievable objectives and with effective test programs will greatly facilitate the report writing process. It is impossible to write a good report if the underlying audit processes are flawed. The audit planning process also extends to the production of the report itself. Although individual team members will have a responsibility for writing up their fieldwork topics and for preparing particular parts of the report, the whole team should be involved in structuring the report. If individual team members understand the overall structure and thrust of the audit, they are more likely to write their segments of the report in a consistent manner and with a better "fit" into the report.

2.15 It is a good idea to plan the required contents and structure of the audit report as soon as the audit is under way. As information is collected, it can be recorded in a draft document or discussion paper that eventually can be incorporated into the final report. It is a lot easier and more accurate to write up sections of the audit work as you go along. Doing this will help the writer understand the links between different elements of the information collected, as well as the relative importance of the conclusions being drawn. It will also highlight areas where additional information needs to be collected. This ongoing production of a report in parallel with the audit process is sometimes referred to as "continuous report writing".

2.16 The planning phase of the audit should involve preparatory research on the topic to develop the scope and to identify priority areas for audit fieldwork that will contribute most to the audit report. At this stage, the audit team will gather information, consult, and brainstorm ideas with peers. The impact of the audit report will be maximised if it is focused primarily on the significant issues raised during the audit. As part of the preparatory research on the audit, relevant information should be gathered from past audits, reviews, and publications on the topic.

2.17 As part of the planning process, ensure that the budget includes adequate resources and enough time to successfully write the report. Allocate appropriately skilled people and develop realistic timeframes to cover the required report writing processes, including the necessary iterations for redrafting the report, undertaking a quality-review process, and formal management clearance processes. If a report is rushed, it is likely that this will be reflected in its quality and readability. Equally, the SAI should ensure that the audit deadlines are met once milestones have been set. Meeting the reporting timetable will ensure that information in the report is as current and up-to-date as possible. Timely publication of the report ensures that it will be of most use to readers.

#### *Developing the report structure and contents*

2.18 As noted in the "Stakeholders" section, an important aspect of a report is that it should be structured to best meet the needs of the potential readership. Therefore, as part of the report writing process, the writer must constantly consider the users of the report when deciding on issues such as the report structure, whether or not to include material, and the emphasis to be placed on specific points being made. This is a primary consideration for report writing, no matter what type of report is being produced.

2.19 Structure the report based on the type of report being written, the audit topic, and its intended audience. Once this report "skeleton" has been developed, "flesh" may be added to the "bones" – that is, each of the areas may be filled in as information is gathered and analysed. The structure can be developed by answering questions such as:

- What is the most effective report structure to convey information about the topic?
- What is the nature of processes and systems involved in the topic?
- What data needs to be collected and how should it be presented?
- What charts and diagrams will be used to complement the report text?

2.20 Generally, a report of an analytical nature (for example, a performance audit report, annual report, or some accounts and records reports) will start with an executive summary, an introductory chapter, and then the body of the report followed by appendices.

2.21 The executive summary provides the overall conclusions and important messages that the author wishes to convey to the reader up front.

2.22 The introductory chapter provides a background to the audit topic along with other matters such as the SAI mandate, audit objective, and methodology used.

2.23 The body of the report contains a set of chapters that outline the major areas of the audit, evidence gathered, analysis undertaken, audit findings, and conclusions. Recommendations will also be made in the body of reports such as performance audits.

2.24 Appendices are normally used to store detail that may support the audit argument, but that would clog up the body of the report, for example, raw data supporting a piece of analysis.

2.25 Each of the report chapters should be structured in a logical way and build up the reporting picture that you wish to portray. A good structure will reflect the audit objective, develop supporting arguments that lead to the audit conclusions, and will make writing chapters and individual paragraphs easier. A clearly defined and logically sound structure will also make the report easier to read and will convey the information in a more persuasive and understandable way.

2.26 Chapters divide the report into logical areas that develop the overall argument of the report. Each paragraph generally contains only one main idea (known as paragraph unity), and paragraphs are used to build up the set of issues within a chapter. The main idea from one paragraph should logically flow into the main idea in the next paragraph. Wherever possible, place the important issues towards the front of a report chapter or section. This should be balanced with the need to "set the scene" with information that may be crucial to understanding latter points.

2.27 The supporting evidence collected by the team must be verifiable and strong enough to support the audit arguments. Evidence should be confirmed by cross-checking between different sources. Data validation and verification techniques should be used to test the accuracy of numerical data used in the report. Such techniques include the use of proofreading, checksums, parity checking, and double keying. Working papers should contain all relevant information relating to the audit findings and should be indexed to allow ready access to supporting documentation. On occasion, where the audit covers topics that require specialist knowledge, experts should be consulted to ensure the accuracy of the audit report.

#### *Report writing hints*

2.28 The style of writing for an audit report should focus on clarity and simplicity – use plain language and simple grammatical structures. For example, use: "since" rather than "due to the fact that"; "can" rather than "have the capacity to"; and "if" rather than "in the event that". The report should have a professional tone without using jargon or too many acronyms and it should not be unnecessarily formal.

2.29 The report should contain enough detail to successfully argue the points being made, but avoid duplication and unnecessary detail as this makes reading more difficult and can confuse the message being delivered.

2.30 Sentences should be structured logically, generally in the following order: the subject (somebody or something) does or is something (object or complement), followed by extra information, if any. One idea in a sentence is enough, two is plenty, and three may cause confusion.

2.31 The readability of a report can be degraded by the use of excessively long sentences. Where possible, write short sentences and use bullet points to list a series of points. Where a longer sentence is required to group related matters, use punctuation such as commas to break up the sentence into easily understood components. Use semicolons to separate phrases containing commas or where a stronger break than a comma is required.

2.32 Paragraphs should start with a topic sentence. A good topic sentence consists of a subject (which is the main idea or focus) and a controlling idea (which indicates how the paragraph will support and develop the subject). For example, "The audit had three main objectives".

2.33 Generally write in the past tense, not the present tense. You are describing an audit process that occurred in the past so you should note that you "analysed" and "concluded" during the audit.

2.34 Use of the active voice helps to make the language in the report more direct and easier to understand. For example, an active voice would say "The audit team examined the invoices", whereas a passive voice would say "The invoices were examined by the audit team".

2.35 Parallel grammatical structure should be used to improve readability. By stating similar ideas in the same grammatical format, it is easier to understand that two or more ideas are of the same importance. An example of parallel structure would be, "*Designing* the audit plan was easy, but *executing* the audit was difficult". When constructing a list and using bullet points, be sure that the items listed are written in a parallel structure.

2.36 Capital letters should only be used sparingly as their overuse can make text harder to read. Capitals should be used for proper nouns such as "the Ministry of Finance", however "the ministry" would be lower case.

2.37 Quotations are generally placed on a separate line, indented, and italicised. For example: The minister stated:

*The ministry welcomes this performance audit report on government motor vehicles, noting that it will improve the effectiveness of fleet management.*

2.38 Numbers greater than nine are generally expressed in figures. If a number is used to begin a sentence then it should be expressed as a word. For example you would say, "Twenty invoices were selected" or "Audit selected a sample of 20 invoices".

### *Data analysis*

2.39 When presenting the results of data analysis, it is not necessary to display the results as both graphs and tables of data. Some results are better presented as statistics (numbers, percentages, ratios), others are better in tables, and others still are clearer when they are presented visually on a graph. Again, think of your audience. Senior management often does not have the time to wade through extensive data sets and may prefer a few key statistics or a meaningful trend graph.

2.40 When writing up the results of an analysis, it is not always necessary to include all of the raw data in the report. Information should be included in the body of the report only if it is necessary to support the argument being made. If supporting data is considered useful, but too detailed for the body of the report, then place it in an appendix.

2.41 Tables and figures should have an informative title and number, axes and legends should be labelled, and symbols and units should be defined. The table or figure should also be referred to in the text in enough detail to explain its context, purpose, and significance.

#### *Quality control and the review processes*

2.42 Always proofread the contents when writing a report. Proofreading should specifically check for spelling and grammatical errors in the text, typographical errors in tables and graphs, and omissions of headings or captions. The report should also be reviewed from the perspective of its meaning and from the accuracy of its information. Do the sentences make sense? Is the structure logical and does it flow well? In particular, the conclusions made in the report should be reviewed to ensure that they are sound, and that the recommendations are workable and will solve the problems identified.

2.43 SAIs should ensure that audit reports are prepared by experienced teams with proper supervision, as this will provide a sound basis for producing the report. Report drafts should be peer reviewed within the SAI wherever possible. Such examinations provide an objective view separate to that of the audit team and alternate perspectives on the conclusions reached. This process should foster debate and discussion on the interpretation of contentious audit issues throughout the audit, to refine the conclusions.

#### **Conclusion**

2.44 The above suggestions for effective report writing will not necessarily be applicable to all reporting products that an SAI may produce. They have been focused on more general report writing techniques and may not fully cover aspects of report writing relevant to specific reporting products or topics within SAIs. They are only intended as a guide, to foster better report writing practice within SAIs, and should be interpreted as such within the particular mandate and operational framework of each SAI.

## **Summary of tips and tricks for effective report writing**

SAI audit reports should:

- meet stakeholder needs – always keep stakeholders in mind when writing the report;
- be complete, covering the planned areas and using relevant and accurate information;
- be written using clear and concise language to avoid any ambiguity;
- be tightly targeted on relevant subject matter;
- contain soundly argued analysis and objectively determined audit conclusions;
- be written in a neutral tone, avoiding emotive language, and taking into account auditee comments;
- be balanced and constructive, conveying all findings, both positive and negative;
- contain recommendations that are practical in nature and limited to the more important issues;
- contain a meaningful title and be dated, and clearly identify the audit objective and scope, evidence collected, audit processes, and analysis undertaken;
- be well planned with achievable objectives;
- be written in parallel with the audit process – known as "continuous reporting writing";
- have a realistic budget and reporting milestones that must be met;
- be well researched – the writer should consult and brainstorm ideas with peers;
- be focused primarily on the significant issues raised during the audit;
- be structured based on the type of report, the audit topic, and its intended audience;
- be developed in a logical way that builds up the reporting picture that you wish to portray;
- wherever possible, have the important issues towards the front of a chapter or section;
- use supporting evidence that is verifiable and strong enough to support the arguments;
- have a clear and simple style – using plain language and simple grammatical structures;
- avoid duplication and unnecessary detail as this makes reading harder;
- contain logically structured sentences, generally in the following order: the subject does or is something, followed by extra information, if any;
- be written with short sentences and use bullet points to list a series of points;
- have paragraphs starting with a topic sentence consisting of a subject and a controlling idea;
- generally be written in the past tense, not the present tense;
- mostly use the active voice, as it makes the language more direct and easier to understand;
- use parallel grammatical structure to improve readability;
- use capital letters only sparingly, as their overuse can make text harder to read;
- have quotations indented, italicised, and generally placed on a separate line;
- only include information in the body of the report necessary to support the argument – other supporting data can be placed in an appendix; and
- always be proofread and, wherever possible, peer reviewed within the SAI.



### 3. FINANCIAL STATEMENT AUDIT REPORTS

#### Introduction

3.1 This chapter provides guidance on financial statement audit reports produced by SAIs. The three regional SAI models have one common objective and that is to report on the performance of government agencies and on their stewardship of public assets.

3.2 SAIs have mandates to conduct financial statement audits and are bound by those mandates, enabling legislations, regulatory frameworks, and standards. Financial statement audits in the public sector often have a focus on the auditee's compliance with legislative and regulatory requirements.

3.3 This chapter establishes reporting guidelines and provides guidance for financial statement audit reports carried out in keeping with applicable and accepted reporting standards and frameworks. This section uses the following auditing standards as a basis for providing guidance on compiling, reviewing, and distributing audit reports:

- International Standards of Supreme Audit Institutions (ISSAI) 1700 (*Forming an Opinion and Reporting on Financial Statements*);
- International Standards on Auditing (ISA) 700, (*Independent Auditors Report on a Complete Set of General Purpose Financial Statements*);
- International Standards of Supreme Audit Institutions (ISSAI) 1705 (*Modifications to the Opinion in the Independent Auditor's Report*); and
- International Standards on Auditing (ISA) 705, (*Modifications to the Opinion in the Independent Auditor's Report*).

3.4 This chapter only includes the general requirements of financial statement audit reports. Therefore, auditors should consider the relevant auditing standards in their jurisdictions for any specific considerations regarding financial statement audit reports.

#### *Quality of financial statement audit reports*

3.5 Management letters and other financial statement reports must be accurate, objective, clear, concise, constructive, complete, and timely.

- a. Accurate – free from errors (for example, of substance, grammar, or punctuation) and the data and evidence gathered are presented with care and precision.
- b. Objective – fair, impartial, and unbiased, and the result of a fair-minded and balanced assessment of all relevant facts and circumstances.
- c. Clear – easily understood and logical. All significant and relevant information is provided and unnecessary technical language and jargon are avoided. Clarity can be improved by the use of tables, graphs, diagrams, and pictures.

- d. Concise – to the point and avoids unnecessary elaboration, superfluous detail, redundancy, and wordiness.
- e. Constructive – helpful to the audited entity and leads to improvements where needed.
- f. Complete – includes all significant and relevant information and observations necessary to support recommendations and conclusions.
- g. Timely – opportune and expedient. Audit reports should be presented to the audited entity without undue delay to enable prompt, effective action for careful consideration by those tasked with implementing the recommendations.

3.6 Audit reports should demonstrate what was accomplished during the audit and auditors should make every effort to minimise the number of pages needed to communicate the audit results.

### **Financial statement audit reports**

3.7 The end result of the financial auditor's work is a report in which findings/conclusions are communicated to the audit entity.

3.8 This type of report will generally fall into one of the three categories:

- Audit opinion – In the audit opinion, the auditor reports whether or not the financial statements give a fair presentation of the financial position of the audited entity and the results of its operations.
- Management letter – This involves reporting the auditor's findings on any weaknesses in internal controls and procedures discovered during the audit.
- Report to Parliament or Oversight Authority – The auditor reports significant issues arising from the audits and results of any special reviews and/or performance audits. The nature and content of this type of report will depend on each SAI's mandate and legislative requirements.

### **Audit opinion report**

3.9 After the auditor has evaluated the relevant audit evidence and made conclusions, the auditor is in a position to relay those conclusions by means of an auditor's opinion. The content and manner of expressing that opinion are dealt with in the INTOSAI Reporting Standard 400:

*At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form, its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.*

3.10 From the above standard, the following are attributes of an audit opinion:

- easy to understand;
- free of vagueness and ambiguity;
- includes only information that is supported with audit evidence;
- independent and objective;
- timely; and
- fair and constructive.

*Easy to understand*

3.11 The opinion should be simple for a reasonable reader to understand. It is also important to inform the reader about who prepares the financial statement and the role of the auditor.

*Free of vagueness and ambiguity*

3.12 The auditor should ensure that the opinion communicates what was intended and provides no room for misinterpretation. Use of standard wording, applying generally accepted terms, may be useful. The auditor should clearly state whether the opinion is unqualified or qualified and, if the latter, whether it is qualified in certain respect or is adverse or a disclaimer of opinion.

*Includes only information that is supported with audit evidence*

3.13 It is of crucial importance that the opinion is supported by documented evidence. Evidence provides justification of the opinion arrived at. How the evidence is collected should be stated.

*Independent and objective*

3.14 The opinion should not be biased nor should there be any circumstances that would allow it to be viewed as being biased. If the auditor has a relationship or interest in the audited entity, the opinion's independence and objectivity may be questioned.

*Timely*

3.15 To be most useful and meaningful, the opinion should be produced as soon as possible after the audit has been finalised. Delay in relaying the opinion not only makes it out of date but also makes it lose its constructive basis.

*Fair and constructive*

3.16 The auditor must be fair and constructive in their work. Here the INTOSAI Standards are referring more to management reports and reports to Parliament than the audit opinion issued in the certification audit.

### *Format and content*

3.17 Although the basic elements of an auditor's report, as presented in these guidelines, apply to the audit of financial statements in the public sector, the legislation giving rise to the audit mandate may specify the nature, content, and form of the auditor's report. The auditor's report includes the following basic elements, ordinarily in the following layout:

- (a) title;
- (b) addressee;
- (c) opening or introductory paragraph:
  - identification of the financial statements audited; and
  - a statement of the responsibility of the entity's management and the responsibility of the auditor;
- (d) scope paragraph (describing the nature of an audit):
  - a reference to the ISAs or relevant national standards or practices; and
  - a description of the work the auditor performed;
- (e) opinion paragraph containing:
  - a reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not IAS); and
  - an expression of opinion on the financial statements;
- (f) date of the report;
- (g) auditor's address; and
- (h) auditor's signature.

### *Auditor's responsibility*

3.18 The auditor's report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.

3.19 The auditor's report should state that the audit was conducted in keeping with International Standards on Auditing or other relevant auditing standards adopted by the SAI. The auditor's report should also explain that those standards require that the auditor comply with ethical requirements and that the auditor plans and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. The auditor's report should state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

### *Unqualified opinion<sup>2</sup>*

3.20 An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in keeping with the applicable financial reporting framework. When expressing an unqualified opinion, the opinion paragraph of the auditor's report should state that the financial statements give a true and fair view or are presented fairly, in all material respects, in keeping with the applicable financial reporting framework (unless the auditor is required by law or regulation to use different wording for the opinion, in which case the prescribed wording should be used). When the International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework.

### *Modified opinions<sup>3</sup>*

3.21 An auditor's opinion is considered to be modified in the following situations:

(a) The following matters do not affect the auditor's opinion:

- An emphasis of matter should be expressed when the auditor modifies the auditor's report by adding a paragraph to highlight a material matter regarding a going concern or a significant uncertainty that depends on future events and may affect the financial statements.

(b) The following do affect the auditor's opinion:

- A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope, is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being "except for" the effects of the matter to which the qualification relates (ISA 705, paragraph 7).
- A disclaimer of opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain enough appropriate audit evidence, and, accordingly, is unable to express an opinion on the financial statements (ISA 705, paragraphs 9-10).
- An adverse opinion should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statement (ISA 705, paragraph 8).

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<sup>2</sup> ISSAI 1700 – *Forming an Opinion and Reporting on Financial Statements*.

<sup>3</sup> ISSAI 1705 – *Modifications to the Opinion in the Independent Auditor's Report*.

3.22 Whenever the auditor expresses an opinion that is other than unqualified, the report should include a clear description of all the substantive reasons and, unless impracticable, a quantification of the possible effect(s) on the financial statements.

3.23 When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.

### **Management letter**

3.24 In the reporting stage of the audit process, the auditor is required to form a view on the audited entity's accounting records and its systems of internal control. This requires the auditor to identify areas of weaknesses and also to provide recommendations for improvements. The manner in which the auditor reports these weaknesses and deficiencies rests with the strength of their criticism.

3.25 A management letter is usually issued for audits where reporting of significant discoveries is necessary. Management letters are written audit reports addressed to the management of the audited entity on the findings of the auditor.

3.26 The management letter:

- reports weaknesses in the systems of internal control discovered during the audit and recommendations on how weaknesses might be overcome;
- provides management with benefits derived from an independent assessment of matters within the competence of auditors;
- identifies matters for inclusion in the SAI's annual report to Parliament;
- improves communication and provide basis for follow up;
- stimulates a business-like approach to auditing; and
- includes management responses to the recommendations made by the auditor that may be used as a basis for follow up.

3.27 Generally, the auditor and audited entity share a common interest in implementing improvements to accounting systems and financial controls. This procedure of informing management about the audit findings protects the SAI from future criticism of not having raised significant issues.

### *Procedure for compiling management letters*

3.28 When preparing management letters, it is usual for auditors to follow the following procedures:

- obtain and review the internal control memorandum that contains the auditor's findings and recommendations;
- prepare the draft management letter for review by the audit manager;
- submit observations to the audited entity and obtain management's comments to the audit findings where appropriate;
- discuss findings and recommendations with the audited entity at an exit meeting;
- amend the draft management letter resulting from discussions at the exit meeting;
- submit to the Head of SAI for review and obtain comments;
- amend where appropriate and finalise management letter;
- submit to Head of SAI for final approval and signature;
- distribute final management letter to audited entity; and
- evaluate significant issues to be included in other government reports, if significant and required.

3.29 However, it is up to each SAI to determine whether this approach is adopted. As with all SAI audit products, all audit findings in the management letter should be adequately supported with sufficient audit evidence, as documented in the working paper file.

### *Review of the management letter*

3.30 An SAI's review of a management letter should focus on the readability, correctness, and appropriateness of the report.

*Readability* – The SAI should ensure that the structure of the report is appealing, individual sentences are well constructed, and the language is free of jargon. Thoughts should flow freely and logically and the message should be clear.

*Correctness* – Grammar, spelling, and punctuation are correct and SAI reporting policies should be followed. The report should accurately reflect the evidence gathered and the working papers should support the findings, conclusions, and recommendations.

*Appropriateness* – The tone of the report should be tactful, objective, and constructive. Opinions should be separated from facts and there should be proper balance between major and minor deficiencies.

3.31 Additionally, the SAI should ensure that the report addresses the audit objectives; the scope and methodology are adequately described; and the recommendations address

the causes of the findings and are stand-alone, practical, action-oriented, and directed at the appropriate officials. The SAI should provide detailed feedback about any improvements required or revisions arising from the review. This would not only enable the SAI to correct the report but can also be used as feedback for staff to enhance writing skills.

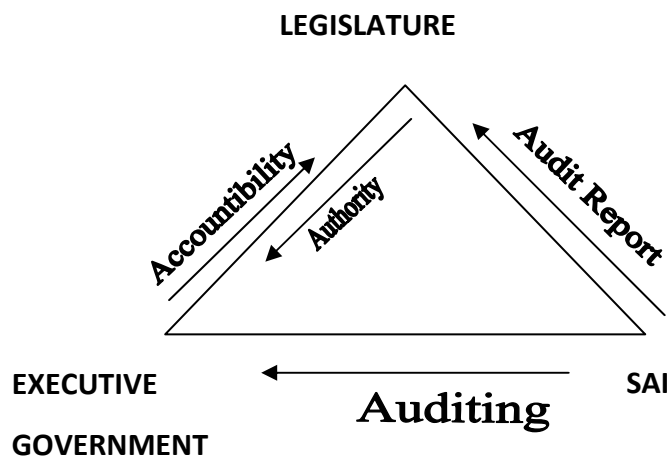
## Report to Parliament

### *Legal and accountability requirements*

3.32 The objective and scope of the audit report(s) are set in keeping with the legal mandate of the SAI. The SAI has an important position in the accountability framework established by the laws and conventions of the State. The accountability cycle has the following elements:

- Parliament appropriates funds and authorises the executive to execute programs.
- The executive spends the funds as per parliamentary appropriation/authorisation.
- The executive/government is accountable to Parliament for the manner in which the funds were spent and prepares the accounts for the purpose on the basis of Generally Accepted Accounting Principles (GAAP).
- The Head of SAI audits the accounts and reports to Parliament as an independent agency on the basis of auditing standards.

3.33 This relationship may be illustrated with the help of the following diagram:



### *Report from the Head of SAI*

3.34 The Head of SAI's powers to examine the accounts are derived from the constitution and/or enabling legislation. The statutory responsibility to examine the accounts and reports are more or less identical amongst different countries. These responsibilities generally include:

- expressing an opinion on the accounts or issuing a certificate; and



- issuing reports to Parliament/Congress.

3.35 The form of the report and its addressee may vary from SAI to SAI. The report from the Head of SAI to the Parliament/Congress generally covers and comments on whether:

- the accounts are properly maintained;
- public money is spent in keeping with legislative relevant laws and are properly accounted for;
- the essential records are maintained in keeping with laid down rule;
- the money is spent with due regard to economy and efficiency;
- satisfactory procedures have been established to measure and report the effectiveness of the program;
- the expenses are within the voted amounts;
- the expenditure conforms to the canons of financial propriety and normal prudence; and
- the expenditure conforms to the relevant legislation and regulation of the entity.

## **Outsourced/contract audits**

### *Introduction*

3.36 Some SAIs contract audits to private service providers where there is prima facie evidence that the private sector can carry out the audit more efficiently. Such prima facie evidence might include indications that:

- the SAI will face costs (overhead or direct) that would not be borne by the private sector;
- the audit can be managed more efficiently by the private sector (because of the variability of the transactions or because of the sudden extension of mandate);
- the audit experience and capacity available to the private sector would enable it to perform more efficiently.

3.37 The decision to contract/outsourced audits can only be made by the Head of SAI and should be fully documented through a written contract.

### *Outline of the audit engagement*

3.38 The outline of the audit engagement should contain the reporting requirements of the SAI, quality control procedures, and any specific information required by the SAI.

3.39 An ongoing relationship must be fostered between the SAI, the contract auditor, and the audited entity to ensure that outsourced audits are managed accordingly. The management of the audits should cater for:

- quality control;
- review of audit plans;
- final review;
- additional services provided by contracted audit agent; and
- miscellaneous matters.

#### *Quality control*

3.40 The SAI is responsible for forming and expressing the opinion on the general purpose financial report and should obtain reasonable assurance that the work performed by contracted audit agents is adequate for this purpose. Quality controls have been established in keeping with professional auditing standards (ISSAI 1610).

#### *Review of audit plans*

3.41 After the contract auditor has completed the audit plan, and before they begin the interim work, the SAI should review the plan to ensure that enough work will be performed to meet the audit objectives and the reporting deadlines. Once the SAI has reviewed the audit plan, an engagement letter should be prepared and sent to the audited entity.

#### *Final review*

3.42 The final review will consist of an appraisal of the work performed between the time of the interim review and the year-end, and a review of the final accounts audit procedures/working papers.

3.43 The SAI should ensure that all procedures outlined in the plan have been performed satisfactorily and that the work papers produced by the contract auditor support the recommended audit opinion.

#### *Miscellaneous matters*

3.44 The SAI should encourage both the contract auditor and the audited entity to approach it with any problems encountered as part of the audit process. When problems are identified, the SAI should ensure that they are resolved as soon as possible.

#### *Audit client dissatisfaction*

3.45 If the SAI becomes aware that the audit client is dissatisfied with the quality of the audit report and the audit services being provided by a contract auditor, the SAI should investigate. Where it is found that the audit entity has a valid complaint, the contract auditor should be advised of the complaint and the action required for rectification.

3.46 If the contract auditor does not undertake appropriate corrective action, consideration should be given to terminating the contract.

## **4. PERFORMANCE AUDIT REPORTS**

### **Introduction**

4.1 This chapter outlines the characteristics of performance audit reports produced by SAIs, the processes by which these reports are produced, and some techniques for constructing quality reports.

4.2 The chapter has been designed to provide general guidance to public sector auditors in planning and writing performance audit reports. The PASAI Performance Audit Manual contains a detailed chapter on performance audit reporting. Therefore, these guidelines will provide only a brief overview of the topic to minimise duplication.

4.3 Relevant reporting standards have been outlined elsewhere in these guidelines. However, it should be noted that the INTOSAI Performance Auditing Standards (ISSAI 3100), section 2.4.3 and INTOSAI Reporting Standard in Government Auditing (ISSAI 400), sections 4-8 and 21-26 contain references relevant to performance audit reporting. Auditors may also refer to US Government Auditing Standards (GAGAS Ch 8) if those apply to their SAI.

### **SAI performance audit reports**

4.4 SAIs in the Pacific region carry out a wide range of audit activities under the performance audit banner and, therefore, produce a variety of different performance audit products. Generally speaking, a performance audit will review economy, efficiency, and effectiveness aspects of the way an auditee uses its resources in carrying out its responsibilities. The audit may also look at the auditee's compliance with enabling legislation or other relevant regulations. A performance audit often covers governance structures, management systems, information technology (IT) systems, and human resource management processes. The scope of a performance audit may range from special purpose reviews with a narrow focus to complex multi-agency audits covering a wide set of effectiveness issues across different government programs. Associated performance audit products include reports internal to an SAI, such as discussion papers, as well as external products, such as brochures and media releases. These performance audit products may vary in their structure, content, and production processes.

4.5 Another form of performance audit that SAIs carry out is the environmental audit. SAIs may audit their government's environmental management and, in doing so, play an important part in environmental governance. Environmental audits are carried out on a wide range of topics, such as waste management, water pollution, air pollution, and biodiversity. An environmental audit report ideally contains a statement of environmental performance and environmental position, and may also define what needs to be done to sustain or improve the position or enhance associated environmental performance indicators. In addition, SAIs may audit their government's compliance with ratified international environmental agreements such as the "Convention on Biological Diversity".

4.6 Peer reviews by partner SAIs may also be considered to be a type of performance audit. Peer reviews may cover the audit work and/or organisational functions of the SAI in general or be limited to a functional area such as the SAI's conduct of regularity/compliance audits. They may cover a range of activities within the selected area of the SAI, including functions such as financial management, strategic planning, internal control, information systems, human resource management, and training. SAIs volunteer to conduct such reviews and as such do not have any powers to enforce the results of the peer review. The participating SAIs are free to decide on the contents and exercise of the peer review as well as on the use of the findings that it generates.

4.7 Performance audits may also be co-operative in nature. Co-operative audits carried out by PASAI members have involved multiple institutions working together on a single audit topic, often with the guidance of international experts. Not all co-operative audits require the guidance of international experts if the expertise can be sought from within the co-operative audit teams. This not only raises the capacity of individual SAIs, but also produces high-quality joint audit reports and individual national reports. Heads of SAIs authorise individual audits. The joint co-operative audit report might identify common regional matters that regional governments, fund donors, and other stakeholders may wish to address through regional co-operation. In the case of PASAI, the topics for co-operative audits are determined by the participating SAIs. Although co-operative audit team members work mainly in their own jurisdiction, the team comes together at the planning and reporting stages to obtain maximum synergy for the activity.

4.8 Congressional SAIs carry out three types of performance audits: operations audits, program audits, and management audits. An operations audit focuses on the efficiency and economy with which an agency operates. It examines the agency's organisational structure, systems, policies, and practices. A program audit focuses on how effectively a program area achieves its objectives and may stand alone or be combined with an operations audit. A management audit is an audit that combines aspects of program and operations audits. A management audit examines the effectiveness of a program or the efficiency of an agency in implementing the program, or both.

4.9 These guidelines focus on the production of the more complex mainstream performance audit reports. However, they may be applied in producing any performance audit product. For the purpose of these report writing guidelines, a performance audit report is defined generically as an SAI product for an audit process that makes judgements on effectiveness or efficiency.

## **Producing performance audit reports**

### *Planning*

4.10 The performance audit planning process should involve careful consideration of the process required to produce the report. In particular, it should identify responsibilities for

the drafting process, the timing of report drafts, and the structure and contents of the final report.

4.11 Report planning should start when the performance audit starts. It should take into account the objectives and requirements of the audit program. As the audit progresses and more information is gathered, the detail of the audit plan may need to be amended. As such, aspects of the plan relating to producing the report will also need to be refined. The planning process should be reviewed throughout the audit to ensure that it remains relevant and that the performance audit report reflects the findings and remains a persuasive document for delivering program improvements.

4.12 For the more complex performance audits, a preliminary study may be carried out to gather information on the topic and to identify significant issues for the audit. This information is then fed into the planning process for conducting the audit and for producing the performance audit report.

#### *Drafting reports and discussion papers<sup>4</sup>*

4.13 When drafting a performance audit report, auditors should keep in mind the various stakeholders. The report should be produced taking into account:

- the SAI's objectives for the audit report; and
- the specific needs of the readers. A report will be read by a range of users with different information needs including the auditee's management, senior government officials, the legislature, the media, and the public.

4.14 The chapters of the report should be structured in a logical manner, by developing supporting arguments that lead to sound audit conclusions. A clearly defined and logically sound structure will also make the report easier to read and will convey the information in a more persuasive and understandable manner. In developing the report contents and chapter structure, a range of factors should be considered, including:

- the objective of the audit program – for example, the higher priority areas could be addressed in the earlier chapters;
- the subject matter being reviewed – if the audit is focused on a process then the chapters could address the sequence of process steps in the order they occur; and
- the criteria against which the audit is being conducted – if the audit analysis is being carried out against a set of criteria, the analysis based on each criterion could form separate chapters, each with a conclusion as to whether the criterion was met.

4.15 Because of their complexity, performance audit reports are generally best produced on an ongoing basis throughout the audit. As information is collected, it can be recorded in

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<sup>4</sup> ISSAI 3100, section 2.4.3, paragraphs 30-33.

a draft document or set of discussion papers that are eventually incorporated into the final report. It is easier and more accurate to write sections of the audit work as you go along, as this facilitates an understanding of the links between different elements of the information collected, as well as the relative importance of the conclusions being drawn. It also helps to highlight areas where additional evidence or information may need to be collected as part of the audit fieldwork. This continuous report-writing process helps to formulate, test, and revise the audit conclusions. It also helps to determine issues such as the expected impact of the audit, the likely improvements and savings flowing from the audit, and the desired methods of communicating audit conclusions.

4.16 Once refined, the discussion papers can be released to the auditee's management as a basis for discussion at the exit meeting/conference. The exit meeting forms part of the reporting process in that it enables the auditee's management to raise any issues it may have with the content of the report and allows the audit team to discuss the audit findings and to explain the advantages of the audit report to them. It also provides an opportunity to correct any factual errors and misunderstandings between the audit team and the auditee's management.

4.17 Some SAIs may be required under their enabling legislation to provide the auditee with a copy of the draft report and a minimum period of time to review the draft. Even if this is not the case, the auditee should be given a reasonable amount of time to review the draft report and respond to its findings. Many jurisdictions require SAIs to include auditee comments in the final report. Therefore, it is in the interests of the SAI to give the auditee every chance to respond to the findings before the report is finalised. Reasonable auditee requests for change can then be incorporated into the final report (ISSAI 3100, section 2.4.3, paragraph 34).

#### *Structure of a performance audit report*

4.18 Although terminology and the specifics of report structures may differ between SAIs, the higher level structure of a performance audit report tends to follow a pattern similar to the generic model below:

- Executive Summary – Most reports will have a summary at the front designed to grab the reader's attention by encapsulating the objectives and overall conclusions of the report.
- Key Findings and Recommendations – This section summarises in one area the key audit findings (generally in chapter order) and consequent recommendations.
- Report Body – This should open with a background section that provides the reader with enough contextual information to understand the subsequent findings. The background information should include (as appropriate) the history, mission, authorisation, budget, and organisation of the program being audited. These chapters should be structured in a logical way to lead the reader through a description of the information gathered, the

analysis undertaken, the conclusions drawn, and the recommendations proposed to resolve the issues identified.

- Appendices – These generally contain information that would be too detailed to incorporate in the body of the report and is not essential to understanding the key messages, but provides further support for the findings. It is generally provided for operational personnel who may need lower level detailed information to implement required changes.

#### *Report clearance processes and distribution*

4.19 To ensure that a quality report is produced, SAI management should institute appropriate review procedures at key points during the audit. The report clearance processes should ensure that each stage of the report production is monitored against a delivery timetable and that appropriate quality control processes are applied. Often this involves an iterative process of review and clearance by SAI management and senior staff.

*Distributing audit reports widely can support the credibility of the audit function. SAs should decide about the method of distribution in conformity with their respective mandates. The reports should be distributed to the auditee, the Executive and/or the Legislature, and where relevant, made assessable to the general public directly and through the media and to other interested stakeholders, unless prohibited by legislation or regulations. (ISSAI 3100, section 2.4.3, paragraph 35)*

#### *Report quality control and associated criteria<sup>5</sup>*

4.20 Performance audit reports should be proofread before their release to ensure accuracy of their contents. Proofreading should check for spelling and grammatical errors in the text, typographical errors in tables and graphs, and omissions of headings or captions. The report should also be reviewed from the perspective of its meaning and the accuracy of information. In particular, conclusions should be reviewed to ensure that they are sound and that the recommendations are practical enough to solve the issues identified.

4.21 SAs should ensure that the audit team has the appropriate skills to carry out the performance audit and that the audit is appropriately supervised. This will provide a sound basis for the production of the report. Report drafts should be peer reviewed within the SAI wherever possible, as such examinations provide an objective view separate to that of the audit team, as well as alternate perspectives on the conclusions reached. This process should foster discussion on the interpretation of contentious audit issues to refine the conclusions.

4.22 SAI management should monitor the progress of performance audit reports as another important aspect of quality control. Measures should be in place to ensure that reports are produced in a timely manner and within agreed budgets. Senior SAI managers

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<sup>5</sup> ISSAI 3100, section 2.5, paragraph 38.

should be involved in assessing the quality and value to the SAI of the produced performance audit reports.

4.23 For these assessments to be of value, they must be made against a standard set of criteria. SAI assessments of their performance audit reports could include quality criteria such as:

- strength of the arguments and conclusions reached;
- clear articulation and focus on material issues;
- conciseness and readability;
- cohesiveness of structure;
- quality and clarity of the summary in outlining the major issues;
- quality of recommendations in terms of their substance and practicality;
- degree to which the auditee accepts the audit findings and implements the report recommendations;
- demonstrated understanding of the program under review; and
- use of statistical analysis, benchmarking, and international best practice in supporting the audit findings.

#### *Report summary brochure and media release*

4.24 Some SAIs also issue media releases or summary brochures to accompany performance audit reports. Although these are not specifically part of a report, they are based on the audit report and drafted at the end of the report writing process. A brochure provides a short, sharp summary (generally on a single page) that busy senior officials can readily digest. The media release tends to be in a bullet point form that lists the primary objectives, analysis, and findings of the report, and that readily captures media interest.

#### **Considerations for constructing useful performance audit reports**

4.25 If a performance audit report is to achieve its objectives of improving management accountability and effectiveness, the final report must be credible and its findings accepted by the reader. Therefore, the report must:

- Be persuasive and credible – The report must logically develop its analysis and findings, have well argued conclusions, and make a strong case for change. The report must be objective and present evidence in an unbiased and balanced manner, in content and tone. Its contents must be timely, as out-of-date information will weaken any arguments being made. It must also contain relevant yet practical recommendations for improvement, that is, it must have a value-added impact.



- Be easily understood – Reports should be clearly written without ambiguity or unnecessary complexity in language or structure. Report contents should be tightly targeted on subject matter relevant to the audit and written in a concise manner that is consistent with developing a sound set of arguments. To make reports more readable, headings must be meaningful, the report printed in an easily readable font, and adequate spacing should be allowed between report sections. The targeted use of charts, graphs, and pictures can be very effective in drawing the reader’s attention to specific findings and to making a report easier to understand.
- Address readership needs – As a report will have readers with different requirements, it must address these in a layered fashion. For example, a short summary at the front encapsulating the key findings is useful for senior management who need to understand the major issues but who have limited time to read the report.

4.26 Performance audit reports will be subject to scrutiny and, therefore, must be soundly supported with evidence. Supporting evidence must be verifiable and sufficient to support the audit arguments. Evidence should be confirmed by cross-checking between different sources. Where an audit covers areas requiring specialist knowledge, experts may be consulted to maintain the accuracy of the report.

4.27 Performance audits vary greatly in their focus, subject matter, and complexity. As such, audit teams with appropriate skills need to be selected to carry out performance audits on a variety of auditees and with widely differing subject matters. Auditors will often need to exercise professional judgement in planning the report structure, summarising the results of test programs, and developing conclusions and recommendations. Performance auditors must also have the ability to construct easily understood reports, often on quite complex topics.

## **Conclusion**

4.28 Because of the wide variety of SAI performance audit products, this chapter has been designed to provide general guidance to public sector auditors on producing performance audit reports.

4.29 The chapter contains suggestions that should be applicable to most performance audit products that SAIs produce. The suggestions are intended only as a guide, to foster the development of performance audit reporting in SAIs in the Pacific region. As such, they may need to be adapted to suit the particular mandate and operating environments of each SAI.

## **5. SPECIAL AUDIT REPORTS**

### **Introduction**

5.1 Special audits are generally defined as those reviews or special studies that are outside the normal financial and performance audit activities of an SAI. They may be designed to answer specific questions or explore issues to help the executive and/or legislative branches and to develop solutions to identified problems. Special audits may result in reports that, by strict definition, do not qualify as audit reports, but that contribute to improved public sector governance and operations. These audits are often initiated at the specific request of external stakeholders to an SAI, such as the Parliament or a central government department/ministry. Auditees that can be subject to special audits include almost any government agency, department/ministry, State-owned enterprise, government-controlled company, and financial institution. In congressional model SAIs, requests for special audits can be made through laws, concurrent resolutions, and conference committee reports.

5.2 Special audit reports provide valuable information to decision-makers and often have a high profile within government. Therefore, they should be carried out with an emphasis on producing a high-quality report. For the purposes of these guidelines, special audit reports are treated as all audit products that are not of a financial statement audit or performance audit nature. They include:

- internal controls audit reports;
- special reports on financial statements (overview with limited auditing procedures);
- fraud investigation reports;
- better practice guides;
- inspection audit reports;
- letters of comfort; and
- due diligence reports.

### **Internal controls audit reports**

5.3 Many SAIs have moved from a traditional transaction-oriented audit approach towards system-based auditing, with an emphasis on identifying weaknesses in internal control systems rather than merely highlighting irregularities in individual transactions. An audit opinion provided on an auditee's internal controls may be considered to be a special report, for example, an audit of disaster recovery controls in an agency's IT systems is one such audit.

5.4 Given the need for cost-effectiveness in systems, there will always be deviations and some weaknesses in those systems. However, the system may still function well enough to prevent material errors from occurring, or detect those that do occur. What internal

controls audits focus on is deviations that happen so often, or weaknesses that are so severe, that material errors can occur and are not detected.

5.5 Audit opinions expressed on internal controls may be unqualified, except for, and adverse. Appendix 1 provides examples of reports with these three types of opinions (Source: *Control Audit Manual*, Office of Federal Auditor General, Ethiopia). In the reports, the term "weakness" means a design flaw – that is, there is a weakness in the system as it is designed. For example, the system may not require the approval of supplier invoices by the chief accountant before payment. The term "deviation" is the failure to follow the control. For example, all supplier invoices are supposed to be approved, but some may not be. Please refer to Appendix 1 for examples of reports with wording for different internal controls audit opinions.

### **Special reports on financial statements**

5.6 Several types of reports exist where an auditor can examine information presented not in the form of financial statements. This section highlights these types of reports that are stipulated under the International Standard on Auditing (ISA) 800 and the Statement on Auditing Standards (SAS) 62. ISA 800 refers to these engagements as "special purpose audit engagements", while SAS 62 calls them "special reports". For the purposes of this section, we will refer to them as "special reports". Only the generic considerations of special reports have been included in this section. The auditor should consult applicable auditing standards (and the legal and regulatory framework) for any specific considerations with reference to special reports.

5.7 This section discusses the following engagements upon which special reports are issued:

- financial statements that are prepared in keeping with a comprehensive basis of accounting other than generally accepted accounting principles;
- a component of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement;
- compliance with contractual agreements; and
- summarised financial statements.

5.8 The nature, timing, and extent of work to be performed for special engagements will vary with the circumstances. In planning the audit work, the auditor will need a clear understanding of the purpose for which the information being reported on is to be used, and who is likely to use it. To avoid the possibility of the auditor's report being used for purposes for which it was not intended, the auditor may wish to indicate in the report the purpose for which the report is prepared and any restrictions on its distribution and use.

The following paragraphs provide some details on the four types of special reports.

*Financial statements that are prepared in keeping with a comprehensive basis of accounting other than generally accepted accounting principles*

5.9 A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements that are prepared to meet the financial information needs of specific users. The information needs of such users will determine the applicable financial reporting framework in these circumstances. Financial statements prepared in keeping with such financial reporting frameworks may be the only financial statements prepared by an entity and, in such circumstances, are often used by users in addition to those for whom the financial reporting framework is designed. Examples of financial reporting frameworks that are designed to address the needs of specific users include the following:

- the tax basis of accounting for a set of financial statements that accompany an entity's tax return;
- the cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare by creditors; and
- the financial reporting provisions of a government regulatory agency for a set of financial statements prepared for regulatory purposes.

5.10 The auditor's report on financial statements prepared in keeping with another comprehensive basis of accounting should include a statement that indicates the basis of accounting used or should refer to the note within the financial statements giving that information.

5.11 The auditor's report on a special audit engagement, except for a report on summarised financial statements, should include the following basic elements, ordinarily in the following layout:

a) title;

(It may be appropriate to use the term "Independent Auditor" in the title to distinguish the auditor's report from reports that might be issued by others, such as officers of the entity, or from the reports of other auditors who may not have to abide by the same ethical requirements as the independent auditor.)

b) addressee;

c) opening or introductory paragraph, including:

- identification of the financial information audited; and
- statement of the responsibility of the entity's management and the responsibility of the auditor;

d) a scope paragraph (describing the nature of an audit), including:

- reference to the auditing standard applicable to special audit engagements or relevant national standards or practices; and

- a description of the work the auditor performed;
- e) opinion paragraph containing an expression of opinion on the financial information;
- f) date of the report;
- g) auditor's address; and
- h) auditor's signature.

5.12 A measure of uniformity in the form and content of the auditor's report is desirable because it helps to promote the reader's understanding.

5.13 Other areas of consideration may include:

- When requested to report in a prescribed format, the auditor should consider the substance and wording of the prescribed report and, when necessary, should make appropriate changes to conform to the requirements of the applicable auditing standards, either by rewording the form or by attaching a separate report.
- When the information on which the auditor has been requested to report is based on the provisions of an agreement, the auditor needs to consider whether any significant interpretations of the agreement have been made by management in preparing the information. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the financial information.
- The auditor should consider whether any significant interpretations of an agreement on which the financial information is based are clearly disclosed in the financial information. The auditor may wish to make reference in the auditor's report on the special audit engagement to the note within the financial information that describes such interpretations.

#### *Reports on a component of financial statements*

5.14 The auditor may be requested to express an opinion on one or more components of financial statements, for example, a single financial statement such as a balance sheet, accounts receivable, inventory, an employee's bonus calculation, or a provision for income taxes.

5.15 The component might be prepared to meet the financial information needs of specific users and have limited distribution. Otherwise, it may be intended to meet the information needs of a wide range of users and, therefore, be prepared in keeping with the relevant requirements of an applicable financial reporting framework. This type of engagement may be carried out as a separate engagement or in conjunction with an audit of the entity's financial statements.

5.16 These types of engagements do not result in a report on the financial statements taken as a whole and, accordingly, the auditor would express an opinion only on whether

the component audited is prepared, in all material respects, in keeping with the identified basis of accounting.

#### *Compliance with contractual agreement*

5.17 The auditor may be requested to report on an entity's compliance with certain aspects of contractual agreements, such as bond indentures or loan agreements. Such agreements ordinarily require the entity to comply with a variety of covenants involving such matters as payments of interest, maintenance of predetermined financial ratios, restriction of dividend payments, and the use of the proceeds of sales of property.

5.18 Engagements to express an opinion on an entity's compliance with contractual agreements should be carried out only when the overall aspects of compliance relate to accounting and financial matters within the scope of the auditor's professional competence. However, when there are particular matters forming part of the engagement that are outside the auditor's expertise, the auditor would consider using the work of an expert.

#### *Reports on summarised financial statements*

5.19 An entity may prepare financial statements that summarise its annual audited financial statements for the purpose of informing user groups interested in the highlights only of the entity's financial position and the results of its operations.

5.20 Summarised financial statements are presented in considerably less detail than annual audited financial statements. Therefore, such financial statements need to clearly indicate the summarised nature of the information and caution the reader that, for a better understanding of an entity's financial position and the results of its operations, summarised financial statements are to be read in conjunction with the entity's most recent audited financial statements, which include all disclosures required by the relevant financial reporting framework.

5.21 The auditor's report on summarised financial statements should include the following basic elements ordinarily in the following layout:

a) title;

(It may be appropriate to use the term "Independent Auditor" in the title to distinguish the auditor's report from reports that might be issued by others, such as officers of the entity, or from the reports of other auditors who may not have to abide by the same ethical requirements as the independent auditor.)

b) addressee;

c) identification of the audited financial statements from which the summarised financial statements were derived;

d) reference to the date of the audit report on the unabridged financial statements and the type of opinion given in that report;

- e) an opinion as to whether the information in the summarised financial statements is consistent with the audited financial statements from which it was derived. When the auditor has issued a modified opinion on the unabridged financial statements but is satisfied with the presentation of the summarised financial statements, the auditor's report should state that, although consistent with the unabridged financial statements, the summarised financial statements were derived from financial statements on which a modified auditor's report was issued;
- f) a statement, or reference to the note within the summarised financial statements that indicates that, for a better understanding of an entity's financial performance and position and of the scope of the audit performed, the summarised financial statements should be read in conjunction with the unabridged financial statements and the auditor's report thereon;
- g) date of the report;
- h) auditor's address; and
- i) auditor's signature.

### **Fraud investigation report**

5.22 When fraudulent activity is discovered in the public sector, either by auditors in the performance of their duties or by other parties, the SAI may seek to investigate or may be requested to investigate the alleged offence. The objective of a fraud investigation audit is to gather information on the alleged activities and present the findings and associated evidence in a special audit report to competent authorities for further action. When conducting fraud investigations, SAIs may sometimes need to seek a legal opinion, where there are concerns about the sensitivity or accuracy of the report contents.

5.23 In a fraud audit, the SAI may end up handing over the matter to the police to conduct a criminal investigation. Generally, the standards for evidence in a criminal investigation are different from the standards of evidence used in conducting audits. Auditors must exercise caution so that they do not compromise a criminal investigation.

#### *Format of a fraud investigation report*

5.24 It is important to gather enough information to understand the background and details of the alleged offence, and to collect enough evidence to support the findings of the investigation. This is particularly important as a finding of fraudulent activity may result in the pursuit of criminal proceedings by appropriate authorities. These reports will generally follow a similar form as outlined below:

**Executive Overview:**

- background to the audited entity and circumstances of the alleged activities;
- objectives and start date of the investigation; and
- conclusions and proposed control actions.

**Findings and Recommendations:**

- date of the alleged offense;
- description of the act or alleged criminal conduct;
- the names of those involved in the alleged criminal conduct, the causal relationship of each person's activities to the alleged offence, and the expression of economic involvement or damage attributable to each person;
- details of legal provisions, rules, and procedures that have been violated;
- quantification of the total economic involvement, stating costs and damages where possible;
- documentary evidence in support of the findings; and
- recommended actions.

**Annexes:**

- detailed supporting documentation.

5.25 The fraud investigation analysis will focus on the alleged criminal act, responding to questions such as:

- How did the incident occur?
- Who did it?
- Why did they do it and for what purpose?
- Where did it happen?

5.26 Some types of issues that may need to be addressed by audit teams in a fraud investigation include:

- non-compliance with required tender processes, in particular, collusion resulting in a lack of open competitive bidding and transparency of the tender process;
- conflicts of interest in awarding contracts;
- lack of documentation and authorisation for requisitions and payment vouchers;
- misuse of political influence in the allocation of funds;



- breaches of memoranda of understanding and contracts;
- excessive expenditure on assets acquired from associates of the accused;
- variations between amounts in payment vouchers and general ledger;
- lack of segregation of duties and complicit fraudulent behaviour;
- payments made in advance to suppliers;
- excessive allowances paid to officers;
- salaries paid to payroll "ghosts";
- lack of compliance with procurement procedures; and
- inadequate controls over revenue processes.

5.27 In a fraud investigation report, it is important to detail what happened, what the alleged criminal act was, what the methods employed were, the names of those involved, their duties and functions, and the role that each one of them played. Factors that contributed to the occurrence of the events should be identified, such as lack of supervision, control, and separation of functions.

5.28 For a report to be effective it should:

- contain thoroughly researched and reliable information that can be verified;
- anticipate questions that may arise and strive to provide the required answers without leaving room for doubt;
- detail all relevant facts; and
- logically connect the elements of the case to each other.

5.29 In summary, the report must provide accurate detail and the auditor must:

- check the sources of information;
- cross-check the report against the supporting notes;
- quote references correctly; and
- ensure that data and supporting information is accurate.

5.30 The auditor should prepare a report that is precise and objective, and the wording should be reasonably brief and clear. The goal is to produce reports that respond to the needs of the officials of the audited entity, legislative officials, and other users. The report should present the findings and conclusions in a persuasive manner so readers can see the rationale behind the recommendations.

## Better practice guides

5.31 Better practice guides (BPGs) aim to improve public administration by outlining better practices that organisations should use when carrying out specific activities. BPGs can cover a wide range of practices relevant to both public and private sectors, such as the management of assets, organisational performance, procurement processes, and project management. A BPG will endeavour to identify, assess, and articulate good practice based on the SAI's knowledge and understanding of the public sector, as well as international best practice.

5.32 BPGs may be produced in conjunction with an audit or prepared as a result of a perceived need to provide guidance material in a particular area of public administration. SAIs publish BPGs so that they are readily accessible for use by all public entities and government departments. Examples of BPGs issued by the Australian National Audit Office (ANAO) are highlighted in the following five case studies.

### BPG Example #1: Strategic and Operational Management of Assets by Public Sector Entities, 13 September 2010

Asset management is an essential component of good governance in both the public and private sectors, and should be aligned to, and integrated with, an entity's strategic, corporate and financial planning.

For entities that manage large asset holdings, a well-structured, practical asset management framework can assist in providing clarity for stakeholders about the links between asset levels and the outcomes expected of the entity, and, therefore, help make decisions on asset management. Entities with smaller asset holdings will also benefit from understanding how they can better align these resources with expected outcomes. The main message is to ensure that entities have a disciplined approach to match their investment in assets to program requirements, and to plan for asset replacement in a strategic way that accords with the Government's capital budgeting framework where applicable.

The aim of this guide is to provide a practical asset management framework that can be adopted by government entities to help effectively manage, maintain, and use assets to achieve their goals and agreed program delivery outcomes. In particular, the guide draws together and illustrates the practical application and essential inter-dependencies of a strategic asset management framework – being asset management, planning, and the strategic goals of an entity.

The concept of asset performance indicators is introduced to guide entities on how to establish the condition of major assets, and the necessary level and frequency of maintenance. These indicators represent the parameters required for optimum efficiency and management of an entity's asset portfolio.

For entities whose asset base is critical to program delivery, a capital management plan is a

key component of their strategic outlook that provides a snapshot of asset health and documents how to achieve better practice asset management. Such a document provides a clear blueprint, approved by the executive leadership group, to drive strategic asset management throughout the organisation.

BPG Example #2: Implementing Better Practice Grants Administration, 21 June 2010

In 1994, the ANAO published a BPG on the administration of grants to encourage better administrative outcomes. The 2010 version of the guide was prepared to reflect an enhanced legislative and policy framework for grants administration that subsequently came into force. The new framework includes a number of mandatory requirements, as well as outlining various better practice principles.

The revised BPG was designed to provide a reference point to assist decision-makers and administering agencies to implement new policy requirements and related guidance for the awarding of grants.

BPG Example #3: Planning and Approving Projects – an Executive Perspective, 11 June 2010

The successful delivery of government programs requires the projects that underpin their implementation to be well managed from the point of inception through to full implementation.

This BPG provides an executive perspective on the planning and approval stage of projects for Australian Government entities. The guide focuses on the most common types of projects – those aimed at program delivery and on internal business operations. The guide:

- discusses the role of executives in project planning and approval and typical elements of the project lifecycle;
- describes better practices in the overall arrangements of an entity for the planning and approval of projects, including aspects of strategic planning, people and culture, and governance;
- describes better practices for senior executives in the planning and approval of individual projects, including clarifying the project concept, preparing a business case, and project approval;
- and provides an overview of implementation issues for projects.

BPG Example #4: Business Continuity Management – Building resilience in public sector entities, 4 June 2009

Business continuity management is an essential component of good public sector governance. It is part of an entity's overall approach to effective risk management, and should be closely aligned to the entity's incident management, emergency response management, and IT disaster recovery. Successful business continuity management requires a commitment from the executive to raising awareness and implementing sound approaches to build resilience.

This BPG was produced following consultation with Australian Government and private sector entities. The BPG is presented in a user-friendly format and includes contemporary practical advice, case studies, and references. It also explores issues within the business continuity environment. The ANAO considered the guide to be a useful reference document for boards, chief executives, and senior management in public sector entities.

BPG Example #5: Developing and Managing Internal Budgets, 27 June 2008

The internal budget is a fundamental element of an organisation's financial management framework. Specifically, well-designed and managed internal budgets help establish clear financial strategies, identify realistic financial controls, understand costs, and monitor and report financial performance.

The purpose of this BPG is to help organisations better manage internal budgeting activities. It discusses a range of principles and techniques designed to embed internal budgeting in an organisation's planning, control, and accountability systems. It also discusses the importance of direct input from operational managers in the development and management of the internal budget.

## **Inspection audit report**

5.33 An inspection audit is an independent review where the auditor evaluates, reviews, studies, and/or analyses the programs and activities of a department/agency for the purpose of providing information to managers for decision-making; making recommendations for improvements of programs, policies, or procedures; and identifying where administrative action may be necessary.

5.34 This category of audit may involve inspection of a wide range of different topics including programs, operations, or management controls. However, an individual inspection audit report will have a tight focus on the specific area chosen. Inspection audits generally have a focus on specific financial records, such as loss of earnings due to a fire.

5.35 Inspection audits may also be considered to include a type known as "forensic audits". Forensic auditing is defined as the application of auditing skills to situations that have legal consequences. In congressional model SAIs, inspections audits are done using the Quality Standards for Inspections issued by the US President's Council on Integrity and Ethics and the Executive Council on Integrity and Ethics, January 2005.

5.36 Refer to Appendix 2 for an example of an inspection report. The example is an extract from an Inspection Audit Report by the Office of the National Public Auditor of the Federated States of Micronesia.

### **Letter of comfort**

5.37 A letter of comfort from an independent auditor included in a preliminary prospectus states that, while a full audit has not been carried out, the auditor has done a "review" that is sufficient to assure that financial statement information in the preliminary prospectus is correctly prepared to the best of the auditor's knowledge. The auditor in effect states that, had a full audit been done, they are comfortable that the audited financial statements would not be materially different from the ones presented in the preliminary prospectus. This is sometimes used in connection with an initial public offering. Letters of comfort are also sometimes provided by those involved in evaluating a company's assets, for instance, in the case of oil and gas companies or third-party reserve engineering firms.

5.38 A letter of comfort may also be used as written assurance by a subsidiary's parent company or bank to offer "comfort" to the buyer about the seller's ability or willingness to perform its obligations. Letters of comfort are often used because the seller is unable or unwilling to provide a guarantee on a certain outcome, such as the performance of a security. Letters of comfort are typically signed before the pricing decision or closing date for a given public offering or other transaction, as a part of the due diligence process. Subsequently, a "bring-down" letter is used to re-verify, as of a later date, that the original letter of comfort is still valid. A sample of a letter of comfort can be found in Appendix 3.

### **Due diligence report**

5.39 A due diligence review generally involves an investigation of either a business or person before making a significant business decision, such as the signing of a contract. Therefore, due diligence activities may include: the checks that are carried out before a major financial transaction; a process undertaken before an acquisition of a business to ensure all significant risks, rewards, and issues are identified before the acquisition takes place; and the process of making sure that someone is who they say they are and can do what they claim (for example, does the product really work, do they really have customers).

5.40 SAIs may be required to conduct a due diligence study of government/State-owned enterprises. The financial condition of the business may form a big part of the report.

## **6. REPORTING ON SAI PERFORMANCE**

### **Introduction**

6.1 SAIs in the Pacific region need to be accountable to their stakeholders. Therefore, they have a responsibility to regularly report on their performance. The transparency of an SAI's activities is fundamental to the principle of accountability to key stakeholders such as the legislature (Parliament/Congress), executive government, media, and the public. Annual reporting to the legislature is mandated for most SAIs in the Pacific region.

6.2 SAIs should develop a credible reporting framework that is appropriate for reporting to their respective stakeholders. Such reporting should satisfy the performance information needs of stakeholders. To be of maximum use, a report on SAI performance should provide information that is relevant and timely. A report on SAI performance should be based on relevant performance criteria and should provide a balanced and reasonable representation of the SAI's performance over the preceding year, including the positive and negative aspects. These annual reports on SAI performance are outlined in more detail later in this chapter.

6.3 Useful elements for reports on SAI performance may include:

- significant activities and outcomes during the reporting period;
- initiatives;
- key performance indicators;
- target achievements;
- links to strategic planning goals;
- a summary of corporate activity; and
- audited financial statements.

6.4 SAIs must take into account the requirements of their respective enabling legislation and reporting mandate, as well as the interests of their stakeholders, when defining the content of these reports. This is to ensure that the report presented is useful and balanced. SAIs should identify the significant areas of their operations that are relevant to making judgements on the overall performance of the SAI. The report should take into account both the positive and negative aspects of the SAI's performance and operating environment.

### **Annual reports on SAI performance**

6.5 Annual reports are important vehicles by which the legislature and the community are able to hold SAIs accountable for their performance. Many SAIs are required to present annual reports to the legislature, through government, in keeping with the relevant legislative requirements in each country. After the report has been presented to the

legislature, methods of information dissemination may include printed reports, media releases, and online information services.

6.6 Parliamentary model SAIs are generally required under legislation to submit a report summarising their activities and level of performance on an annual basis. There is generally a legally specified timeframe in which the SAI is required to present the report to the legislature.

6.7 SAIs using the congressional model are expected to produce a performance and accountability report to Congress. The performance and accountability reports should provide the program results and the financial information to help Congress, the President, and the public assess the SAI's performance relative to its mission and the stewardship of its financial resources. These reports are not time bound, however, are produced under legislative reporting requirements.

6.8 Features of annual reports that are generally considered to represent better practice include:

- Clear and measurable objectives – Specific and measurable objectives should be stated that reflect the SAI's enabling legislation and government policy.
- Results and outcomes oriented – A clear statement should be provided on what the SAI planned to achieve, actually achieved, and what it plans to achieve in the future.
- Discussion of results against expectations – Targets should be set to provide measures against which stakeholders can assess the SAI's performance. These targets must be specific with numerical values assigned and set at an achievable but challenging level. SAIs then need to report actual results against the target, reasons for any significant variance from the target, and action plans to address these variances.
- Complete and informative reporting – Reporting should cover the key functions and activities of the SAI, use key performance indicators, cover both successes and failures, include trend data for multi-year comparisons, and contain a summary of financial, operational, and corporate performance.
- Explanation of changes over the reporting period – SAIs should report performance information consistently from one year to the next to facilitate multi-year comparisons. Current performance should be linked to targets published in previous annual reports. When performance indicators are changed, SAIs should clearly describe the change and explain the reasons for the change.
- Provision of value for money and benchmarking evidence – In reporting value for money, SAIs should outline their client base, identify their primary outputs and outcomes, disclose the associated costs, and benchmark their operations against similar organisations. When benchmarking performance, SAIs should select key

activities to benchmark, identify appropriate indicators, and explain the differences identified.

- Discussion of strategies, risks, and external factors – Annual reports should discuss the SAIs operating environment, internal and external factors that might affect success (including factors beyond the agencies control), the SAI’s response to issues of public interest, future operating environment and developments, major features of corporate governance, and the effectiveness of risk management systems.

## **Other reports**

### *Internal quality assurance reports*

6.9 Another form of report on SAI performance is the quality assurance report. The term quality assurance is often used interchangeably with quality control. However, it is a wider concept that covers all policies and systematic activities implemented within a quality system. SAI quality assurance reporting frameworks may include:

- determining adequate technical requirements for the conduct of audits;
- testing specific audits for their compliance with established standards for quality, timeliness, and evidential support;
- identifying strategic planning processes, audit work programs, and audit coverage;
- certifying and rating audit training; and
- evaluating existing audit processes to establish areas for improvement.

6.10 For SAIs, quality assurance can be defined as a systematic process of checking to see whether audits and audit processes are meeting specified requirements. SAIs should have a separate area devoted to quality assurance to carry out these reviews. A quality assurance system will improve work processes and efficiency, increase stakeholder confidence, and improve the SAI's credibility.

### *SAI quality control policies*

6.11 SAIs should consider developing policies on implementing quality control measures and procedures. The objectives of these policies would be to adopt a quality control regime to ensure that all audits are conducted in keeping with appropriate international auditing standards, such as:

- Professional Independence (ISA 220a);
- Employment (ISA 220b);
- Assignment of Personnel to Engagements (ISA 220c);
- Delegation (ISA 220d);
- Consultation (ISA 220e); and



- Monitoring (ISA 220g).

6.12 Quality control consists of supervision and review to ensure that audit work is carried out efficiently, effectively, and economically in keeping with the appropriate auditing standards. To meet the obligations that specifically relate to the quality of work carried out on attest audits, the SAI should establish a Quality Audit Review Committee.

#### *Monitoring of quality*

6.13 SAIs should establish policies and procedures to monitor quality in SAI products and effectiveness in SAI activities. Monitoring of quality is an ongoing, periodic assessment of work completed on audits and attestation engagements. It is designed to provide management with reasonable assurance that the policies and procedures for its system of quality control are suitably designed and operating effectively in practice. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of whether the:

- professional standards and legal and regulatory requirements have been followed;
- quality control system has been appropriately designed; and
- quality control policies and procedures are operating effectively and complied with in practice.

6.14 Monitoring procedures will vary between SAIs, depending on the audit organisation's circumstances. The SAI should perform monitoring procedures that enable it to assess compliance with applicable professional standards and quality control policies and procedures. Entities that monitor performance should collectively have enough expertise and authority for this role.

6.15 The SAI should analyse and summarise the results of its monitoring process at least annually. This process should identify any systemic or repetitive issues needing improvement and make recommendations for corrective action. The SAI should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.

#### *External peer reviews*

6.16 The SAI should consider requesting external peer reviews to be carried out periodically by its peers. The scope of a peer review should provide a reasonable basis for determining whether, for the period under review, the reviewed SAI's systems were suitably designed and operating effectively, and whether the SAI is complying with applicable professional standards.

6.17 The peer review team should include the following elements in the scope of the peer review:

- review of selected audit and attestation engagement reports and related documentation;
- review of other documents necessary for assessing compliance with standards, for example, independence documentation, continuing professional development (CPD) records, and relevant human resource management files;
- interviews with a selection of the reviewed SAI's professional staff at various levels to assess their understanding of, and compliance with, relevant quality control policies and procedures;
- review of the SAI's quality control policies and procedures; and
- consideration of the adequacy and results of the SAI's internal monitoring procedures.

## 7. APPENDICES

### Appendix 1: Reports on internal controls

#### a) Example of a report where controls are assessed as excellent, good, or effective

##### Independent auditor's report on internal controls

We have audited the following aspects of the internal control systems of (name of auditee) for the year ended (day, month, year):

[Then insert a description of the internal control systems examined. Among other things, it would be helpful to identify:

- whether the internal control systems examined included the financial reporting, budget, compliance with authorities, and/or operating systems;
- the specific departments, divisions, transaction cycles (for example, purchases/payables/payments or revenue/receivables/receipts) subject to audit (if not auditing the controls for the entire entity); and
- the overall control objectives that the controls audited were designed to achieve (for example, "The objectives of the internal control systems audited were designed to provide management with reasonable assurance that [insert the applicable objectives]").

The management of (name of auditee) is responsible for establishing and maintaining the internal control systems. In fulfilling this responsibility, management is required to make estimates and judgments about the expected benefits and related costs of specific controls. Because of the inherent limitations in any internal control system, errors or irregularities may occur and not be detected.

We carried out our audit in keeping with international auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the internal control systems that we examine provide reasonable assurance that material weaknesses and deviations have been prevented and detected on a timely basis. A material weakness or deviation is a reportable condition in which the design or operation of one or more controls does not reduce, to a relatively low level, the risk that errors or irregularities that would be material to the entity size and operations are not prevented or detected on a timely basis by employees in the normal course of performing their assigned functions.

In planning and performing our audit, we obtained an understanding of the internal control systems. We then developed and performed audit procedures to determine if the controls were operating as designed.

In our opinion, the internal control systems that we examined provide reasonable assurance that material weaknesses and deviations have been prevented and detected on a timely basis. We noted no matters involving the design or operation of the internal control systems that we consider to be material weaknesses or deviations.

However, we noted certain less significant matters involving the design and operation of the internal control systems that we have reported to the management of (name of auditee) in a separate letter dated (day, month, year). [Exclude this paragraph if there are no non-reportable conditions].

SAI signature and date

#### **b) Example of a report with an "except for" opinion because of the reportable conditions**

##### **Independent auditor's report on internal controls**

[Paragraphs up to opinion paragraph identical to example a)]

During our audit, we noted certain matters involving the design and operation of the internal control systems that we consider to be material weaknesses and deviations. [The text should clearly distinguish between weaknesses and deviations and, if only one of the two are identified, the text should be amended accordingly. If, for example, only weaknesses are identified, references to "operation" and "deviations" would be omitted]. These matters are:

[Include paragraphs summarising the material weaknesses and/or deviations, with reference to an attachment that fully describes the matters.]

In our opinion, except for the material weaknesses and deviations referred to above, the internal control systems that we examined provide reasonable assurance that material weaknesses and deviations have been prevented and detected on a timely basis.

We also noted certain less significant matters involving the design and operation of the internal control systems that we have reported to the management of (name of auditee) in a separate letter dated (day, month, year). [Exclude this paragraph if there are no non-reportable conditions].

SAI signature and date

#### **c) Example of a report with a conclusion that the system was poor/ineffective because of the reportable conditions**

##### **Independent auditor's report on internal controls**

[Paragraphs up to opinion paragraph identical to example a)]

During our audit, we noted certain matters involving the design and operation of the internal control systems that we consider to be material weaknesses and deviations. [The text should clearly distinguish between weaknesses and deviations and, if only one of the two are identified, the text should be amended accordingly. If, for example, only weaknesses are identified, references to "operation" and "deviations" would be omitted]. These matters are:

[Include paragraphs summarising the material weaknesses and/or deviations, with reference to an attachment that fully describes the matters.]

In our opinion, because of the significance of the weaknesses and deviations referred to above, the internal control systems that we examined do not provide reasonable assurance that material weaknesses and deviations have been prevented and detected on a timely basis.

We also noted certain less significant matters involving the design and operation of the internal control systems that we have reported to the management of (name of auditee) in a separate letter dated (day, month, year). [Exclude this paragraph if there are no non-reportable conditions].

SAI signature and date

## **Appendix 2: Extract from inspection report by the Office of the National Public Auditor – Federated States of Micronesia**

### **OFFICE OF THE NATIONAL PUBLIC AUDITOR – FEDERATED STATES OF MICRONESIA (FSM) REVIEW OF KITTI COUNCIL ALLEGATIONS, ELECTION DISTRICT #2 IN POHNPEI REPORT NO 5. 2009**

#### **BACKGROUND**

This inspection was initiated because of a letter of complaint sent to the Office of the National Public Auditor (ONPA) by the Isokohnedi En Wein Kitti (*hereinafter referred to as Kitti Council*) dated March 17, 2009. (Refer to the synopsis of the complaint letter in Appendix I, page 6.) The letter made allegations of the FSM Congressman representing Pohnpei Election District #2 (ED #2)<sup>6</sup> regarding misuse and abuse of publicly funded projects. The allegations centered on the matter of post-legislative involvement in the awarding of projects to gain voter support in the election held in March 2009. The FSM Supreme Court made such activity, *if true*, illegal (see *Udot Municipality vs. FSM*, 10 FSM Intrm. 354 (Chk. 2001)).

The National Public Auditor (NPA) addressed a response letter dated March 30, 2009 to the speaker of the Kitti Council advising that a review was to be initiated to test the merits of the allegations. On May 1, 2009, ONPA interviewed three members of the Kitti Council to request clarification and discussion of the allegations.

The Senator representing ED #2 (the Senator) addressed a letter on June 1, 2009, to the NPA in response to the Kitti Council complaint letter. The Senator refuted the allegations and claimed the Kitti Council members attacked his character. (Refer to the synopsis of the Senator's response letter in Appendix I, page 6).

Eight years earlier on July 27, 2001 the FSM Supreme Court issued a judgment in *Udot Municipality vs. FSM*, 10 FSM Intrm. 354, 362 (Chk. 2001) stating '[t]he involvement of congressmen (either consultation or approval) in deciding which projects are to be funded after Congress has already appropriated the money is unconstitutional and is permanently enjoined.' In a letter addressed to NPA dated October 16, 2006, the Department of Justice stated again, '[w]hat Congress, or individual congressmen, may not do is involve themselves in the administrative and executive process of determining which projects are to be funded after the money has already been appropriated.' *Id.*

Results of recent audits conducted by this Office reveal that the problems continue to exist whereby individual congressmen are involved in the administrative and executive process of determining which projects are to be funded after the money has been appropriated, as prohibited by *Udot Municipality vs. FSM*.

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<sup>6</sup> Pohnpei Election District Two (ED#2) is comprised of the municipalities of Kitti and Madolenihmw. Staff of the ED#2 Office, reporting to the FSM Executive Branch, administer and direct the execution of public projects.

## **Prior Audit Coverage**

This Office recently completed a series of audits of public projects, projects funded by the Congress of FSM (CFSM). Each audit focused on one state, e.g. one audit report per state. Common findings revealed that:

- a) Congress was involved in activities outside their legislative oversight function because it funds election district offices to oversee project implementation;
- b) Project Control Documents were not sufficiently clear or complete; and
- c) Projects were selected without clarity of purpose, proper justification, or transparency.

## **Objective**

The objective of this inspection was to validate whether the Kitti Council allegations have merit to warrant further investigation.

The allegations are as follows:

1. Coral and PVC pipes were given to individuals, households, and churches by the Senator in exchange for votes;
2. Public funds designated for projects located in ED #2 were used for purposes of campaign travel to Guam in the month of January, 2009;
3. Wone Elementary School Road project was suspended prior to completion, hours after the election because the Senator was upset at the low number of votes he received in the area and, as a result, the Senator relocated the equipment to Nan Mand;
4. A mini truck (flatbed) purchased in 2005 or 2006 with public funds designated for Kitti Municipal Government was never delivered to date;
5. No line item in any appropriation law existed for the purchase of a 30 hp outboard engine;
6. Funds were allotted to selected churches to refurbish synagogues under the disguise of civic centers; and,
7. Funding for Kitti Fish Market may have been used for other purposes.

## **Scope and Methodology**

The scope of this review is the specific allegations set forth in the letter from the Kitti Council. ONPA's methodological approach included interviews with staff of the ED #2 Office, the Mayor of Kitti, recipients of project materials, members of the Kitti Council, and contractors. We reviewed records at the Department of Finance and Administration for project expenditures alleged in the complaint letter. We reviewed Project Control

Documents<sup>7</sup> (PCD) and expenditure records for public projects titled as civic centers, Kitti Fish Market, Secondary Road Improvement, Outboard Motor for Kitti Police, and Water Delivery Services. We also conducted site visits and took photographs in Kitti.

ONPA conducted this review pursuant to Title 55 FSM Code, Chapter 5, which states in part:

*'The Public Auditor shall inspect and audit transactions, accounts, books, and other financial records of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organisations receiving public funds from the National Government.'*

ONPA, furthermore, performed this review in accordance with the Quality Standards for Inspections, promulgated by the U.S. President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, 2005 revision.

## **CONCLUSION**

Of the seven allegations made by the Kitti Council, ONPA established that two of the following allegations warrant further investigation:

- *Coral and PVC pipes were given households and churches by the Senator as gifts in exchange for votes*
- *Wone Elementary School Road project was suspended prior to completion hours after the election because the Senator was not satisfied with the number of votes he received in the area.*

## **ALLEGATIONS & FINDINGS**

**Allegation:** *Coral and PVC pipes were given to individuals, households, and churches by the Senator in exchange for votes*

### **Finding:**

Interviews with recipients, contractors, staff of the ED #2 Office and site visits indicated that the Senator more probably than not distributed coral and PVC pipes to households and churches. ONPA concludes that this allegation warrants further investigation by CID.

**Allegation:** *Public funds designated for projects located in ED #2 were used for purposes of campaign travel to Guam in the month of January, 2009*

### **Finding:**

We interviewed three members of the Kitti Council and the traveler. The Senator's letter of June 1, 2009 indicated that the traveler's airline ticket was procured using his (Senator's) One Pass account. As of this report date, the Senator has not provided the authorization we requested to access the One Pass information at the Continental Office, as a result the

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<sup>7</sup> Project Control Documents are legal documents that enable the allotments of appropriated project funds. In general, project control documents include the project budget, project description, the project inspection officer, and others.



inspection process of this allegation was not completed. ONPA concludes that this allegation warrants further investigation by CID.

**Allegation:** *Wone Elementary School Road project was suspended prior to completion, hours after the election because the Senator was upset at the low number of votes he received in the area and, as a result, he relocated the equipment to Nan Mand*

**Finding:**

We interviewed the contractor for this project and he confirmed receiving a phone call at his office hours after the election from the Senator to 'pull out' from the road-capping project. The contractor shared that the Senator wanted him to relocate his equipment to Wenik to complete a road around the Nan Mand area and another in Salapwuk.

FSM Election Office results indicate that the Senator garnered 46 votes while his opponent received 277 in this area.

We conducted a site visit to Wone Elementary School Road to verify evidence of coral capping and project termination point. We confirm that the road improvement project was not completed.

ONPA concludes that this allegation warrants further investigation by CID.

**Allegation:** *A mini truck (flatbed) purchased in 2005 or 2006 with public funds designated for Kitti Municipal Government was never delivered to date*

**Finding:**

We found that the staff of the ED #2 Office purchased three flat bed trucks, two in FY 2005 and one in FY 2006. The PCD's and expenditure documents did not specify which of the two municipalities comprising ED #2 would have the legal title to these vehicles.

We do not see a basis in this allegation as control and use of the flat bed trucks were decided by the staff of the ED #2 Office, as is normal procedure.

**Allegation:** *No line item in any appropriation law existed for the purchase of a 30 hp outboard engine*

**Finding:**

Line item section 1(3) (c) (x) of Public Law 15-44 indicates that funds were appropriated for an outboard motor for the Kitti Police for \$3,000. This appropriation became law in June of 2008. The outboard motor was purchased in December of 2008. This allegation lacks a basis for further investigation.

**Allegation:** *Public funds were allotted to selected churches to refurbish synagogues under the disguise of civic centers*

**Finding:**

Public funds were allotted for the building and repair of civic centers located in ED #2. We observed that two different civic centers were located adjacent to churches, one in Rohng Kitti and the other in Nan Mand. Expenditure documents show that public funds were used for the repair of the Rohng Kitti civic center. Both were located on private properties.

We determined that funds for civic centers did not refurbish the adjacent churches. This allegation lacks a basis for further investigation.

**Allegation:**    *Funding for Kitti Fish Market may have been used for other purposes*

**Finding:**

Although funds were appropriated per Public Law 15-30, President Mori declared an emergency in December 2008 and funding for this law was repealed.

We therefore do not find a basis for further investigation.

### Appendix 3: Sample letter of comfort

[DATE]

[Name]

[Title]

[Name of entity]

[Address]

Dear [Name]

#### **Letter of support for [Name of entity that is receiving support]**

We confirm that the [Name of entity that is providing support] will provide financial support to [Name of entity that is receiving support] as follows:

- The financial support will continue at least one year from [date of audit opinion].
- The financial support will be sufficient for [Name of entity that is receiving support] to continue its operations at their current level for the foreseeable future. That is:
  - Expenses will be paid and liabilities met as they fall due.
  - There will be no intention or necessity to liquidate or significantly curtail the scale of the entity's operations.
  - [Name of entity that is providing support] will not demand repayment of the loan granted to [Name of entity that is receiving support] to fund its operations.
- This letter of support has the formal approval of the [Name of Governing Body of entity that is providing support] of the [Name of entity that is providing support]. A resolution to this effect was approved at the [Name of Governing Body of entity that is providing support] meeting on [Date support was approved]. A copy of the resolution will be attached as evidence of this approval.

We are aware that [Name of auditing firm] will be relying on this letter of support when conducting their audit of [Name of entity that is receiving support].

Yours sincerely

[Name]

[Chair of Governing Body]

## **8. REFERENCES**

Audit Manual, October 2006, Office of the National Public Auditor, FSM

Better Practice in Annual Performance Reporting, April 2004, ANAO

Business Continuity Management - Building resilience in public sector entities, June 2009, ANAO

Developing and Managing Internal Budgets, June 2008, ANAO

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Planning and Approving Projects - an Executive Perspective, June 2010, ANAO

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