

Supreme Audit office  
**Audit Policy**



د افغانستان د پلیټېر سالۍ نامه  
اداره عوامی فتح و پیش الفاګستان  
SUPREME AUDIT OFFICE OF AFGHANISTAN

year:2020

## **Audit Policy**

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

*(By The Name of Allah, the Most Compassionate and the Most Merciful)*

# **Foreword**

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**Mohammad Naiem Haqmal**  
**Auditor General**  
**Islamic Republic of Afghanistan**

The Supreme Audit Office (SAO), Afghanistan is continuously striving in facilitating accountable and transparent public financial management in Afghanistan and to serve the cause of good governance through external audit and aid to legislative oversight. The Audit Law 1392 (2013) and as amended in 2020 has widened the independence, mandate, and scope of the SAO's audits.

The SAO, Afghanistan is a member of the International Organization of Supreme Audit Institutions (INTOSAI) and strives to adopt and apply the auditing principles, guidelines, and standards issued by the INTOSAI to come at par with the international best auditing practices.

As part of the effort to strengthen our institutional and audit process framework and to effectively implement the mandate and scope underlying the Audit Law, the SAO has reviewed, updated, and prepared manuals, codes, and policy documents. The Audit Policy document is an important step in this direction and seeks to lay down the framework and statements of principles, approach, and good practices that shall guide the entire audit works of the SAO and the audit personnel, including our relationship with audit entities and stakeholders. The Audit Policy document sets forth in clear and simple terms the various steps and practices that are required to fulfill the mandated audit work of the SAO and meet the good practices auditing standards by the INTOSAI. It also sets forth the policies that should guide our prospective engagements and challenges.

This Audit Policy is supported by the top management of my organization and would be reviewed in the light of any developments and challenges that may occur. This will support strategic plan and audit methodologies to achieve our vision, mission, and goals. I am sure this policy document shall serve as a guide for our relentless effort to strengthen our audit practices and commitment towards achieving a strong and professionally sound public audit in Afghanistan.

I express my sincere thanks to all my colleagues for their contribution in developing this policy document.

**Auditor General**  
**Afghanistan**  
\_\_ / \_\_ / 2021

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## Abbreviations

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|           |   |
|-----------|---|
| AFMIS     | Afghanistan Financial Management Information System   |
| AMIS      | Audit Management Information System   |
| ASOSAI    | Asian Organization of Supreme Audit Institutions  |
| ASYCUDA   | Automated System of Custom Data   |
| CAATs     | Computer Assisted Audit Techniques  |
| COSO      | Committee of Sponsoring Organization's Framework for Internal Controls  |
| ECOSAI    | Economic Cooperation Organization SAIs.   |
| PFEM Law  | Public Finance & Expenditure Management Law (GoIRA)   |
| FMIS      | Financial Management Information Systems (e.g., AFMIS, ASYCUDA, HRMIS, SIGTAS including applications such as e-Tazkira, e-Passport, etc.) |
| FRF       | Financial Reporting Framework   |
| GoIRA     | Government of the Islamic Republic of Afghanistan   |
| GUIDs     | Non-mandatory, subject-specific guidelines issued by the INTOSAI  |
| IA & QA   | Internal Audit and Quality Assurance Directorate of the SAO   |
| IDI       | INTOSAI Development Initiative  |
| INTOSAI   | International Organisation of Supreme Audit Institutions  |
| IFPP      | INTOSAI Framework of Professional Pronouncements  |
| ISSAI     | International Standards of Supreme Audit Institutions   |
| ITeS      | IT-enabled Services   |
| MoU       | Memorandum of Understanding   |
| PFM       | Public Financial Management   |
| RBA       | Risk-Based Audit Approach   |
| IS Audit  | Information System Audit  |
| MoF       | Ministry of Finance   |
| PAC       | Public Accounts Committee (of the National Assembly)  |
| QCF       | Quality Control Framework   |
| QMS       | Quality Management System   |
| SAI       | Supreme Audit Institution   |
| SAI-PMF   | SAI Performance Management Framework  |
| SAO       | Supreme Audit Office (Afghanistan)  |
| SIGTAS    | Standard Integrated Government Tax Administration System  |
| SoE / SoC | State-Owned Enterprises / Corporations (Afghanistan)  |

# **1. Audit Policy Objectives, Purpose, Scope & Authority**

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## **1.1 Perspective on & Authority of the Audit Policy document**

The Audit policy document sets forth the policy and principles that shall guide and regulate the SAO auditors and the SAO staff members in the audit process to achieve quality of audit and audit products, including their ethics, relationship with audit entities, other stakeholders, including the steps and practices that are required to fulfill the mandated audit work of the SAO according to the good practices. The SAO has reviewed, updated, and prepared manuals, codes, and toolkits to standardise the audit process and the SAO's governance and shall review them from time to time. Some of them are in the process of development. The Audit Policy document seeks to lay down the framework and statements of principles, approach, and good practices that shall guide the entire audit works of the SAO and the audit personnel, including our relationship with audit entities and stakeholders. It provides the overall framework and policy perspective that shall inform the preparation, review, and updating of the manuals and practices.

As per the international good practices and the principles enunciated by the INTOSAI<sup>1</sup>, public sector audit is concerned with assuring the stakeholders concerning accountability and transparency in the financial management, operations, and performance by the government and its agencies and personnel, including safeguarding the public interest and public assets and in ensuring overall good governance. The stakeholders include legislature and its oversight bodies, government, executive and its agencies, taxpayers, the public at large including media and civil society organizations, donors, etc.

The SAO's Audit Law 2020 provides the mandate, authority, and scope of public audit of the SAO. Article 36 of the SAO Audit Law 2020 provides that "in order to better implement the provisions of this law, SAO may enact manuals, guidelines, and procedures". The Audit policy document draws its authority thereunder.

## **1.2 Objectives and Benefit of the Audit Policy document**

The Audit Policy is meant to:

- Serve as a commitment statement of the SAO and audit personnel for effective public sector audit as per international good practices / INTOSAI – IFPP and ISSAIs and as an institution of public trust;
- State the audit policy perspective and commitment of the SAO as an external auditor and aid and guide to the management of the auditees and GoIRA agencies and the Government as a partner in ensuring accountability, transparency, and good governance in the development of the country through its external audit and audit recommendations;
- Commit to providing all necessary technical and related assistance to the auditees and the government for strengthening their internal control system and internal audit functions for efficient and effective financial management, operations, and performance and to the legislature and its committees in their scrutiny and oversight of the audit reports.

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<sup>1</sup> INTOSAI – International Organization of the Supreme Audit Institutions, to which presently 195 Supreme Audit Institutions (SAIs) including the SAO Afghanistan is a member, is an international organization and guides the country's SAIs in conducting public sector audit in a professional manner. INTOSAI Framework of Professional Pronouncements (IFPP) provides good practices auditing standards.

### **1.3 Scope of the Audit Policy document**

The SAO is responsible for conducting external audits as per the mandate of the Audit Law, 1398 (2020) and special audit engagement audits as required by the National Assembly, the government including the requirements of the donors agreed to by the government and the SAO for the audit of projects. The SAO undertakes audits based on self-determined programs. The audit policy document includes policy with regard to the following audit areas:

- Financial audit
  - Government's annual financial statements (Qatia statements).
  - Annual financial statements of the State-Owned Enterprises and Corporations (SoEs/SoCs) and the Autonomous and other bodies.
  - Financial statements of projects/grants, including as required by the donors.
- Compliance Audit of all budgetary agencies of GoIRA, including agencies abroad (e.g., embassies, posts, and commissions) that shall cover the audit of the transactions of the agencies i.e., implementation of the budget and realization of revenues, the audit of contracts and procurements and public works, public sector commercial agencies, the audit of the projects financed by donors including compliance with the terms and conditions of the financing terms and conditions.
- Performance audit of agencies against economic, efficiency, and effectiveness of administration, operations, and performance.
- IS audit of government IS and IT systems including FMIS.
- Audit with IT tools and techniques (CAATs), by use of information system / electronic database system and financial management information system (FMIS) in the government/ government agencies.
- Audit of revenue agencies – Tax and Customs
- Audit of Public Works.
- Special and emerging areas audit<sup>2</sup> including the audit of any agency or subject that the national assembly or the government may deem necessary for ensuring public accountability, transparency, and good governance.
- Forensic audit as per red flags and risks identified in the audit and or external inputs.

The policy document covers policy towards good practices auditing standards / ISSAIs/IFPP, audit approach, methodology, professional capacity, and ethical requirements, quality assurance and areas of engagements as well as the relationship with stakeholders.

The policy applies to all the personnel of the SAO, who, in their respective areas of work, are responsible to apply the policy in the performance of their work. The respective supervisory officials/directories are responsible for ensuring compliance with the audit policy. The quality assurance directorate shall monitor compliance with the policy in all areas of audit works. The policy applies to manuals, codes, regulations, standards, procedures, etc., that are in effect at the time this policy is approved or to manuals, codes, regulations, standards, procedures, etc., that shall come in effect in the future.

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<sup>2</sup> Emerging areas audits may include the audit of the areas / subject matters that relate to environmental and climate change matters, sustainable development, SDGs, public debt, PPPs, disaster management, corruption prevention, development and use of national indicators, evaluation of public policies, management of public assets, etc.

## **2. Mandate & Overall Policy**

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### **2.1 Audit Law 2020 & Other Authorities**

The Audit Law is the statutory basis for the mandate, authority, duties, and responsibilities of the SAO as the highest institution of public audit in the country. The SAO management and the audit and non-audit personnel of the SAO are required to implement the mandate and perform the duties required.

The PFEM Law, *inter alia*, requires the audit of the Government's Annual Accounts (Qatia Statements) by the SAO within a specified period and submission of the audit report to the President and the National Assembly. This requirement is also contained in the Audit Law.

As per a separate dispensation agreed upon between the World Bank, the MoF, and the SAO, the latter undertakes an audit of the financial statements of the World Bank's grants projects and provides Auditors' Report thereon annually.

The SAO is required to comply with the national procurement law, civil services law, and other relevant laws and regulations as applicable to GoIRA agencies.

According to the Audit Law, the SAO's audit, as well as its professional affairs, are to be regulated as per the standards and guidelines of the INTOSAI.

#### **1. Implementation of the Audit Law & Other authorities**

1.1 The SAO's management and all the audit personnel of the SAO shall take all necessary measures to fully implement the mandate contained in the Audit Law and to contribute to the cause of accountability, transparency, and good governance through external audit and recommendations with regard to –

- Efficient and Effective Public Financial Management.
- Compliance by GoIRA agencies/ the state-owned enterprises and corporations as well as municipal bodies with applicable laws and authorities and budgetary mandate.
- Strengthening of the internal control system.
- Performance in terms of economic, efficient, and effective administration, operations, and management of public financial affairs.
- Special audits as well as an audit of emerging areas/subject – matters as per the types of audits relevant in the circumstances.

1.2 The SAO shall undertake forensic audit as per the red flags and/ or risk identified internally by the SAO and/ Or through external sources.

1.3 Irrespective of whether or not external grant projects are covered through a separate financial audit by the SAO, they would be covered through compliance and performance and/ or special/ forensic audit as per the SAO's self-determined audit plan.

1.4 The SAO shall prepare and publish an Annual Report on its activities/ performance including the value of audit contribution by the SAO and audited statement of expenditure and budget compliance report of the SAO.

1.5 The SAO shall prepare and/ or adopt the Code of Ethics and shall make it public. This shall require a mandatory declaration by all the SAO staff of conflict of interest or no conflict of interest dealing with auditees, recruitment, procurement, or such relationship involving third parties.

## **2.2 INTOSAI's ISSAIs & Good Auditing Practices**

The international good practices regarding the independence, scope, and mandate, arrangement, and operations of a Supreme Audit Institution (SAI) are provided by the Lima Declaration (INTOSAI P-1) and the Mexico Declaration (INTOSAI P - 10) as well as the standards and GUDs under the IFPP endorsed by the INTOSAI (updated 2019).

The SAO Afghanistan, is a member of the INTOSAI and its regional association, ASOSAI. The ASOSAI is the regional association of the Asian countries under the INTOSAI and promotes regional cooperation and experience sharing in the public audit. The SAO is also a member of the ECOSAI, which is a cooperation platform of the SAIs of the neighboring countries in South Asia and Central Asia for sharing experience and action-oriented programmes related to economic and cross border issues and issues of mutual interests coterminous with the Economic Cooperation Organisation (ECO) of the countries. Afghanistan is an active member of the INTOSAI, ASOSAI, and the ECOSAI and is fully committed to mutual cooperation and sharing of experience and knowledge.

In 2019, the INTOSAI has endorsed the INTOSAI Framework of Professional Pronouncements (IFPP). The IFPP includes organizational and audit principles, standards, and subject-specific GUDs. Corresponding competency principles and guidance are to be issued by the INTOSAI.

At present, the SAO is limited by its professional capacity and is unable to develop auditing standards on its own. Further, the private sector professional accountancy in the country is still under-developed and at present, there is no chartered or public accounting institute in Afghanistan to provide guidance on national standards in auditing. As such, at present, SAO is not able to exercise the option of formulating national auditing standards. The Audit Law requires the audit by SAO to be conducted as per the INTOSAI ISSAIs.

### **2. Adoption of the IFPP and Implementation**

- 2.1 In alignment with the requirement of the Audit Law, the SAO shall promote and sustain the principles and standards contained in IFPP for maintaining the independence of SAO and its audit, benefit and value as a supreme audit institution, code of ethics, and quality control and for advancing the principles of transparency and accountability, leading by example in governance and practices.
- 2.2 The management and the SAO staff (audit and non-audit) should ensure that audit and related works, as well as organizational operations, are conducted as per the requirements of the IFPP.
- 2.3 All audit reports shall clearly state that the audit was conducted per the ISSAIs and shall specify the numbers or range of ISSAIs applied. In case of non-compliance or partial application, the fact should be stated.
- 2.4 The SAO shall encourage the management in the GoIRA agencies / public sector agencies in Afghanistan for establishing and maintaining an effective internal control system and shall extend all cooperation in this regard through assessment and technical inputs.
- 2.5 All manuals, guides, toolkits, and/or the audit management information system developed and applied by the SAO should be according to the requirements of the IFPP.
- 2.6 The SAO shall periodically review and update its audit practices and methodology following the changes/amendments in the IFPP.

## **2.3 SAO's Strategic Planning**

ISSAI P-20 relating to principles of accountability and transparency requires that SAI should make publicly available, amongst others, their mandate, responsibilities, missions, organisation, activities and strategy. INTOSAI/IDI from time to time provides guidance to SAIs on how to prepare and implement the strategic plan including through diagnostic assessment as per the SAI-Performance Management Framework (SAI-PMF).

### **3. SAO Strategic Planning and Implementation**

- 3.1 The SAO should formulate and implement a five-year organization-wide strategic plan to:-
  - Fully implement the mandate and responsibilities under the Audit Law and other authorities and adopt and effectively implement international good practices standards under the IFPP.
  - Plan and conduct audit and submit reports in a timely manner to the stakeholders as per the international good practices.
  - Build institutional and audit personnel capacity and promote the application of improved audit methodology, CAATs, and audit automation.
  - Establish and sustain effective communication with stakeholders, including effective follow-up on reports and recommendations.
  - Achieve other functional and operational development goals – critical, reform-oriented, and strategic.
- 3.2 The SAO, if needed, shall revisit the strategic goals/activities during the period of implementation to respond to changes arising out of amendment in Audit Law or changes in the mandate of legislative committee requiring different approach of scrutiny, changes occurring in the PFM system, or financial reporting framework, SAO's organizational or functional restructuring, changes in IFPP, changes in professionalization and competency strategy, automation of the audit processes, due to inability to implement owing to natural disaster, lack of financial support or withdrawal of donor support for certain activities, etc.
- 3.3 In any case, the strategic plan should be reviewed annually and if the changes could not be adjusted through the annual operation plan, the strategic plan itself should be updated. Guidance available in the IDI Strategic Management Handbook (2020) should be referred to.
- 3.4 Preferably, the strategic plan should be preceded by the latest diagnostic assessment as per the SAI-Performance Management Framework (SAI-PMF) and a review of the result of the implementation of the outgoing strategic plan and with due reference to the PEFA Report, Peer Review Report including SWOT and Stakeholders' analysis.
- 3.5 The strategic plan document including any revisions should have the approval of the Auditor General.
- 3.6 The strategic plan should be implemented through a three-year annual operational plan, which in addition to the annual plan, should contain two years of forward-looking operational plans and should be linked with the directorates' plans. All Directorates / Departments are responsible to develop their annual plan with a three-year forward-looking perspective and obtain approval from the competent authority.
- 3.7 The implementation of the strategic plan and operational plans should be monitored through quarterly status reports.
- 3.8 The SAO may also prepare, implement and monitor any other plan that is required as per the national strategies and/or international and multilateral commitment and commitment to development partners' while maintaining its independence and neutrality.

## **2.4 Relationship & Communication with Stakeholders**

The SAO, Afghanistan as the supreme audit institution of Afghanistan is responsible to contribute effectively in promoting accountability, transparency, and good governance in public financial management, compliance, and performance of the GoIRA and public sector agencies in Afghanistan and provides assurance to the National Assembly. Besides, the SAO seeks to assure the donors and international community through financial, compliance, and performance audit.

Taxpayers, civil society groups, media, and the citizen at large in Afghanistan are important stakeholders. The SAO is committed to associate the media, the citizens, and the civil society groups in its audit process for a participatory audit process. For this, SAO is collaborating with the CSOs for their inputs in the performance audit process.

| <b>4. Stakeholder's Engagement</b>   |
|--|
| <p>4.1 The SAO shall ensure that the entire audit process – audit planning, audit fieldwork, and audit reporting, takes into account the interests of the stakeholders, as relevant. Such requirements shall also be kept in view while developing toolkits and templates for audit as well as in audit reporting.</p> <p>4.2 The SAO acting as the independent aid to the legislature and its oversight shall serve them with the objective of ensuring transparency, accountability, and good governance in public sector financial management, administration, operation, and performance.</p> <p>4.3 The SAO shall encourage and promote the participation of the media, public, and civil society groups in its audit process – audit planning and sharing and dissemination of the audit report through CSOs participation mechanism.</p> <p>4.4 In its relationship with the government and its agencies, the SAO and its audit staff shall act with the ethic of 'aid to management' and shall regularly communicate the results of the audit and shall provide recommendations and suggestions for improvement in the financial management, administration, operation, compliance and performance, and the overall internal control system.</p> <p>4.5 The SAO shall undertake audit and provide reasonable assurance to donors on external grant projects, as required.</p> <p>4.6 The SAO shall report publicly on the results of its audits and its conclusions, amongst other, regarding financial management, administration, operation, compliance with laws, rules, regulations, authorities including budgetary authorities and performance in achieving public sector objective.</p> <p>4.7 The SAO shall report on its annual activities and performances to the President's Office, the National Assembly, and other stakeholders.</p> <p>4.8 Audit Reports / Audit Opinion on the financial statements of State-owned Enterprises and Corporations and donor's grants projects shall be made available to the Board / related ministry and the Ministry of Finance/donor respectively.</p> <p>4.9 The SAO would establish and maintain regular and effective communication with all the external stakeholders to achieve the objectives. This should be done as per stakeholders' engagement strategy and action plans.</p> |

### **3. Audit Approach & Methodology**

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#### **3.1 Mechanism for Technical & Professional Research and Development Impacting Approach and Methodology**

The SAO is committed to adopt, implement and update good practices audit approach, methodology, tools, and techniques. The SAO should conduct research and study of the existing good practices standards and emerging techniques and innovations in auditing, financial reporting, IT audit, internal control system and internal audit, CAATs, data analytics, audit automation, etc., and develop, update and innovate the SAO's audit approach, methodology, audit process and management, and quality control and assurance. The SAO should apply the updated approach and methodology in the audit process as well for training and capacity building of the SAO staff.

The architecture of the technical and professional research and development should include research and development of proposals by the capacity development directorate, which shall be considered by the Methodology Committee for adopting according to the requirements.

Audit Law provides for setting up of a technical committee by the Auditor General. It also provides that the SAO shall adopt manual, guidelines, and procedures for better implementation of the Audit Law.

#### **5. Research, Development, and Capacity Development**

- 5.1 The SAO should set up a mechanism for research and study of the existing good practices, auditing standards and emerging techniques and innovations in auditing, financial reporting, internal control system and internal audit, CAATs, audit process automation.
- 5.2 Based on the study and research, proposals for review, updating, and innovating the SAO's audit approach, methodology, audit process, and quality control and assurance shall be submitted to the Methodology Committee for consideration and adopting.
- 5.3 The updated approach and methodology shall be applied in the audit process as well for training and capacity building of the SAO staff.

#### **3.2 Audit Approach and Methodology**

The audit approach refers to the strategy or methods, which the auditor follows/adopts for conducting an audit and performing the audit procedures or techniques to obtain reasonable assurance. The IFPP requires that the auditor shall perform audit procedures to reduce the risk of producing incorrect opinions or conclusions to an acceptable low level. For example –

- Whether to rely on the auditee's system and its internal controls and their effectiveness and conduct substantive tests only to verify that audit objective has been achieved.
- Whether to assess risks to the auditee's objectives and perform all required audit procedures to reduce audit risk, risk of providing inappropriate audit assurance.

The audit approach the auditor adopts for the audit process for a particular type of audit may include

- Risk-Based Audit Approach (RBA) applicable for all types of audit.
- Result-oriented approach, or problem-oriented approach or system-oriented approach, or a combination of them, applicable especially for the performance audit.

In RBA the audit resources are directed towards those areas of the financial statements that may contain misstatements (either by error or omission or fraud) and the entity's operation and management that may contain non-compliance or non-performance as a consequence of the risks faced by the entity and activities. This subsumes risks arising out of internal control as well. This approach requires the auditor to be familiar with the entity's strategies and processes. The auditor views all activities in the entity, first in terms of risks to the entity's strategies and public sector objectives and then in terms of management's plan, processes, and controls to mitigate the risks. This approach requires auditors to identify the important and significant strategic and day-to-day risks faced by an entity and its activities and programmes to consider the impact these risks could have on the financial statements and its compliance with applicable authorities and performance and then plan their audit procedures accordingly.

IFPP relating to performance audit requires strategic planning for a performance audit. Strategic planning is to be based on risk or uncertainties, which include analysis of indications of existing or potential problems that could be the reason to suspect inefficiency and ineffectiveness. The accumulation of such indicators or factors linked to an entity or a government program may represent an important signal to the SAO in planning performance audits. The SAO may choose performance audit areas both based on selection criteria and strategic choices (e.g., types of performance audit, areas emerging out of certain policies or reforms, etc).

For strategic planning and audit design for a performance audit, in addition to the risk analysis, the SAO considers a result-oriented, or problem-oriented, or system-oriented approach, or a combination of them, depending upon the criticality and importance of the subject.

The SAO shall plan performance audit through a structured strategic planning process including on the basis of risks to the operational objectives of executing orderly, ethical, economical, efficient, and effective operations and taking into account the audit approach (es) applicable.

Guidance on audit approach and methodology is provided under respective ISSAIs under the IFPP.

## **6. Audit Approach & Methodology**

- 6.1 The auditor shall apply the RBA for all types of audits and take into account appropriately the relationship between risks identified, reliance on the control system, level of materiality to be adopted, size of samples to be taken, and the audit procedures/techniques as auditor's response to the risks.
- 6.2 All respective Audit Directorates / Departments and the author should ensure that RBA is applied for all audit processes.
- 6.3 In the situation when the SAO implements the Audit Management Information System (AMIS), RBA should be the basis of the audit process automation.
- 6.4 In addition to the risk analysis, Performance Audit shall consider a result-oriented approach, or problem-oriented approach, or system-oriented approach, or a combination of them for planning and conducting performance audit.

### **3.3 Audit Engagement and Level of Assurance**

Audit engagement may be attestation audit engagement or direct reporting engagement. In an attestation audit engagement, the subject-matter is measured or evaluated against the applicable criteria by the management/auditee, and the result of the measurement/evaluation is presented by

them as either the financial statements or compliance statements, or both. In this, the management makes assertions, which are verified as per the RBA, and assurance is provided by the auditor as opinion. Audit opinion may be unmodified or modified based on the materiality and pervasiveness of the misstatements / non-compliance and or scope limitation.

In a direct reporting engagement, the subject-matter is chosen and measured or evaluated by the auditor against the applicable criteria and the auditor provides an audit opinion or conclusion based on the result of the audit.

All financial audits are attestation engagements and all performance audits are direct reporting engagements. Compliance audits may be attestation engagements or direct reporting engagements depending upon the circumstances and/or requirements.

In all types of audits, either a reasonable assurance or a limited assurance is given to the stakeholders by the auditor.

Reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. A reasonable assurance enables a conclusion to be expressed positively. For example, an auditor might conclude that the financial statements are fairly presented i.e., they are not materially misstated, or fairly presented subject to modification as stated or not fairly presented. Similar conclusions and opinions may apply in the case of compliance opinion.

At a relatively lower level of assurance than reasonable assurance, the auditor may provide limited assurance. When providing limited assurance for example in a review engagement, an auditor express the opinion negatively. For example, an auditor might conclude that nothing has come to auditors' attention to cause the auditor to believe that the financial statements contain material misstatements or in case of compliance opinion, nothing has come to auditors' attention to cause the auditor to believe that the subject matter is not in compliance with the applicable criteria.

## **7. Audit Engagement & Level of Assurance**

- 7.1 The SAO shall take up both attestation audit engagement and direct reporting audit engagement.
- 7.2 All the financial audits (Qatia accounts audit, SoE/SoC financial statement audit, and external grants financial statements audits or audit of the financial statements of GoIRA independent agencies) shall be attestation audit engagements.
- 7.3 All the performance audits shall be direct reporting audit engagements.
- 7.4 Compliance audit conducted as part of the Qatia accounts audit or the external grants projects audit shall be attestation audit engagements.
- 7.5 Compliance audit conducted as a separate audit engagement shall be direct reporting audit engagement.
- 7.6 All special audits or specific subject matter / emerging area audits shall be direct reporting audit engagements unless the management or the entity provides the result of measurement/evaluation as a statement with the assertion for audit.
- 7.7 Invariably, the SAO's shall provide reasonable assurance as the result of the audit, unless a limited assurance is warranted or request for.
- 7.8 A forensic audit by the SAO shall be a separate activity as per the requirements and risks.

### **3.4 Stages of Individual Audit Engagements**

All types of audit, *mutates mutandis*, involve the following stages, with certain specific focuses (depending upon the requirements of financial audit, compliance audit, performance audit, and special engagement audit):-

- a) Initial considerations and pre-planning activities –
  - Determining the legal mandate, scope, and objectives of the audit, ethical requirements, and quality control procedures.
  - For financial audits, the auditor may need to assess the acceptability of the financial reporting framework (FRF).
  - For performance audit, the auditor may need to conduct a pre-feasibility study/pilot study, if required for a particular subject-matter before audit planning and design matrix.
  - Assessing the need for combining IS audit or test of IS system controls with other types of audit.
  - Assessing whether public works audit should be a compliance audit or a performance audit.
- b) Planning the audit engagement –
  - Understanding the entity & its environment.
  - Understanding the entity's internal controls.
  - Assessment of the risk of fraud.
  - Documenting potential audit risks.
  - Setting materiality in the planning stage.
  - Aggregating risks in Risk Register.
  - Selecting samples.
  - Preparation of Audit Strategy & Audit Plan.

For Performance audits, the audit plan should include Audit Design Matrix (ADM) and research methodology.
- c) Conducting audit and evidence gathering –
  - Entry conference and obtaining management's assessment of risks including risks of fraud.
  - Obtaining the status of implementation of previous recommendations/audit observations.
  - Performing audit procedures for the test of controls and test of details.
  - Evaluating audit evidence and performing further audit procedures.
  - Sharing audit findings with management and obtaining their response.
  - Documentation and Audit file.
  - Updating Audit Plan
  - Ensuring quality control throughout the audit.
- d) Evaluation of Evidence, Audit Conclusion & Reporting –
  - Evaluating audit evidence and determining sufficiency and appropriateness of evidence.
  - Drawing audit conclusion/opinion.
  - Considering reporting materiality.
  - Preparation of draft report (Inspection Report / Auditors' Report & Management Letter / Audit Report) and finalisation of the report(s).
  - Exit conference & management's response.
  - Issuing of the audit reports to the audited entities.

e) Follow up –

- Follow up on the recommendations/observations.
- Provide technical assistance/inputs for legislative scrutiny.

**8. Individual Audit Engagements' stages & steps**

- 8.1 Each audit engagement shall follow the stages and steps given in paragraph 3.4 above, as applicable to the audit type.
- 8.2 The audit team shall ensure that documentation for all stages and steps of audit engagement are prepared including as per the applicable toolkits/audit working paper (AWP) templates and the audit file is adequately maintained and referenced with the audit report.
- 8.3 All Directors shall ensure compliance that the submission of the draft audit reports by the audit teams is accompanied by the completed documentation/audit file with the requirements as above.
- 8.4 The SAO, wherever required, shall combine financial and compliance audit, or performance and compliance audit / or IS systems audit or review of controls as part of different streams of audit. For example,
  - Review of compliance with the terms of the financing agreements is combined with an audit of the financial statements of the external grants projects;
  - A budget compliance review is combined with the audit of the Qatia Statements and with a review of controls in AFMIS;
  - Audit of revenues (tax and customs) shall be combined with an audit of / review of controls in SIGTAS / ASYCUDA;
  - Performance Audit / Review of Procurement System in an entity is combined with the compliance requirements with the Afghanistan Procurement Law.
- 8.5 Manuals and Guidelines prepared and applied by the SAO shall provide guidance and practice guidance for all stages and steps of audit engagements.
- 8.6 Toolkits or AWP for the stages and steps of audit engagements shall be used for standardized and easy to use documentation.
- 8.7 Each Audit Directorate / Department shall review and determine the toolkits or AWP applicable for individual audit engagements.

### **3.5 Manuals & Guidelines for standardized and effective audit processes & procedures**

Standardized and quality audit processes and procedures are essential for professionally performing audits and for ensuring quality control. It provides uniformity in the application of auditing standards, principles, audit approach and methodology, audit tools, and techniques.

INTOSAI Development Initiative (IDI) has issued/is in the process of issuing ISSAI implementation handbooks, which provide details of audit approach, methodology, procedures, and toolkits. As per the mandated requirements and based on the IFPP, ISSAI Implementation Handbooks for different types/streams of audit and other relevant national requirements, the SAO should formulate and provide auditing manuals and guidelines for audits.

## **9. Manuals and Guidelines**

- 9.1 The SAO shall use audit manuals and guidelines as well as practice guides for different types and streams of audit consistent with the IFPP and ISSAI Implementation Handbooks / GUIDs. The manuals already developed should be used and manuals for remaining areas should be developed and applied.
- 9.2 Audit manuals and guidelines for different types /streams of audits shall maintain uniformity in approach, methodology and procedures, unless warranted by the requirement of types of audit engagements, assurance and audit reporting.
- 9.3 In formulating subject area-wise audit manuals/guidelines, if ISSAI Implementation Handbooks are not available from the INTOSAI/IDI, the SAO shall consider the following –
  - Relevant ISSAIs/GUIDs.
  - Audit approach(s) and methodologies of IFPP including those contained in this policy document.
- 9.4 The manuals and guidelines shall reviewed and adopted by the SAO's Methodology Committee and approved by the Auditor General.
- 9.5 The manuals and guidelines shall be reviewed at least every two years or before as required by changes in the IFPP or in Afghanistan PFM system.

## **3.6 Quality Control, Supervision, Assurance & Management of audit works**

2.4.1 In view of the importance of maintaining high quality in audit work, SAO must foster an internal culture which recognizes that quality is essential in performing all of its work and that there should be no compromise of the quality of work performed. An effective quality control system is the basis for ensuring that the results will consistently meet clients' needs and are defensible to the challenges directed at them.

SAO's quality control system defines principles, policies, and procedures that will achieve the consistent quality of audit work.

IFPP requires that the SAIs formulate and maintain a quality control framework (QCF) for all the operations and audit processes. Specifically, ISSAI 140: Quality Control for SAIs deals with quality control; other ISSAIs and GUIDs and ISSAI Implementation Handbooks also provide guidance on quality control for the audit process of respective types of audits.

A holistic audit quality framework shall include building quality control in all aspects of the audit process, including the operation and function of the SAO and separate quality assurance practices.

## **10. SAO's Quality Management System (QMS)**

- 10.1 The SAO has established and implemented a QMS for all types of audits. All the Directors responsible for audits, all audit teams, and auditors shall comply with the requirements of QMS and shall be responsible for quality control in all audit processes.
- 10.2 The SAO's Internal Audit and Quality Assurance (IA&QA) Directorate shall be responsible for undertaking supervisions and quality reviews of audit works including on a post-review basis and also for the internal audit of the SAO operations. The audit managers and the auditors are responsible to cooperate with the (IA&QA) Directorate in discharging its duties and responsibilities and to bring to the notice of the Auditor General significant risks to quality and lapses in quality control in order to facilitate corrective action.
- 10.3 The SAO shall set up a robust internal control system as per the COSO framework and the Director, IA&QA shall be responsible for setting it up including the Charter of SAO's Internal Audit.

- 10.4 The Director, IA&QA shall be directly responsible to the Auditor General for reporting on internal audit and quality reviews.
- 10.5 All the Audit Directorates of the SAO are responsible to ensure that audit planning, conducting audit and evidence gathering and audit reporting for the respective audit engagements are as per the quality requirements of the SAO's QMS. Respective Audit Directorates shall provide a certificate as per the template in **Annexure - 1** to this effect at the time of submitting the results of the respective audit for the signature to the competent authority.
- 10.6 All SAO staff must strictly adhere to the SAO Code of Ethics as well as management of audits must be informed by the principles and procedures included in the SAO Ethics Control System.
- 10.7 The Policy & Plan Director shall be responsible to ensure that quality control of Annual audit planning is as per the QMS.
- 10.8 The Report Analysis & Validation Directorate shall be responsible for validating the compliance audit draft audit reports (Inspection Reports) independently as per the QMS and also by taking into account the certificate of the audit team/respective Director and the review reports of the Internal Audit and Quality Assurance Directorate.
- 10.9 The Follow-up Directorate (consolidation of results of compliance audit – expenditure and revenue) shall be responsible for preparation of the compliance audit annual reports of the Auditor General by taking into account the certificate of the audit team/respective Director, the review reports of the Internal Audit and Quality Assurance Directorate as well as the comments of the Report Analysis & Validation Directorate with regard to the quality of Inspection Reports.

## **4. Audit Planning**

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### **4.1 Audit Planning**

Audit planning comprises the annual audit plan (macro plan) by the Policy and Plan Directorate and the individual audit engagement plan (micro plan) by the respective audit teams/audit Directorates.

The SAO undertakes audits following a self-determined program as mandated in the Audit Law, including mandated audits and audits as per specific requirements.

Mandatory audits by the SAO conducted annually:

- Qatia Accounts / Governments Annual Accounts Audit.
- Audit of the financial statements of the State-owned Enterprises (SoEs) / Corporations including independent authority.
- Audit of the financial statements of the donors' grant projects.

Self-determined audits by the SAO conducted annually or periodically:

- Performance audits.
- Compliance audits.
- IT / IS audits.
- Special audits.
- Audit of Secret Expenditures.
- Forensic audit.

Audit under donors' benchmarks or incentive requirements or other conditionalities:

- Performance or compliance audits for meeting the requirements or any other audits.
- Policy and specific areas audits.
- Extractive Industry (Public Sector SoEs/SoCs) Fundamental Revenue verifications.

## **11. Audit Planning**

- 11.1 Audit Policy & Plan Directorate shall maintain an updated database of all auditees and their details for risk-based annual audit planning.
- 11.2 Annual audit planning shall take into account all types of mandatory audits, audits under donors' benchmarks/incentive programs or special audits, and self-determined audits including the gaps of previous audit plans for coverage in the current year for allocation of audit resources.
- 11.3 After provisioning for the mandated audits and audits under the donors' benchmark/incentives programmes and other planned audits such as performance audits, grant projects audits, the audit of the SoEs/Corporations financial statements, the SAO's annual audit plan for a compliance audit shall follow the policy for compliance audit coverage as below:-
- Annual coverage – 100% "A" + 50% "B" + 33.3% "C" + 20% "D", as far as possible, where "A" is the High-risk category entities, "B" is Medium risk category entities and "C" is Low-risk category entities and "D" other entities.
  - Coverage of the entities, not covered in the outgoing year, is duly taken into account in the next year(s) audit planning. Entities not covered in last year(s) (1-2-3-4 years) shall high risk.
  - In cases where certain entities are not covered in the planning for several years due to prevailing situations or inaccessible locations, the audit shall cover the transactions of at least last 3 financial years at the time of audit depending upon the risk and significance of subject matters involved.
  - Allocation of the audit days (period of audit) shall be inclusive of the period for understanding the entity, desk review, risk assessment, and audit planning, performing the audit and audit reporting.
  - Allocation of audit days shall be based on the due consideration of the significant indicators and by using an audit time calculator (**Annexure – 2**).
- 11.4 All the Directors and the auditors are required to provide inputs to the Audit Policy & Plan Directorate necessary for updating the planning database and preparation of the annual audit plan. Directorates coordinating with external audit support consultancy shall take into account such audit resources (external audit personnel and period of audit) for providing the inputs.
- 11.5 As per the requirements of the code of ethics, the Audit Policy & Plan Directorate shall take into account any conflict of interest declared by the auditor for necessary re-assignment.
- 11.6 QMS measures for annual audit planning are to be duly applied by the Audit Policy & Plan Directorate in annual audit planning.
- 11.7 The annual audit plan should be approved by the Auditor General and upon such approval, the plan shall be communicated to all the directorates responsible for the implementation of the audit plan and to the audited entities at least one month before the start of the year. The work plan shall be placed on the SAO website.
- 11.8 All audit Directorates/audit teams are required to prepare respective Audit Plans for audit engagements by applying appropriate templates and toolkits before conducting audits. This should be documented and kept in the audit file and updated, as required during the audit, to respond to identified risks and the audit procedures adopted to respond to such risks.
- 11.9 Quality control measures for individual (micro) audit planning shall be duly applied by all the Directorates/audit teams.
- 11.10 Individual Audit Plan should be approved by the competent authority, not below the Deputy Auditor General and upon such approval, the plan shall be shared with the audited entities before the start of the audit.
- 11.11 In case of a forensic audit, planning shall follow a relevant fraud investigation approach.

## **5. Performing Audit & Evidence Gathering**

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### **4.1 Performing audit**

Performing audit and execution of the audit plan is required for gathering sufficient appropriate evidence through performing tests and audit procedures.

An important aspect of the audit work is continuous communication with the audited entity. During the audit, the auditor should maintain written communication with the responsible authorities / appropriate level of management / those charged with governance for:

- Obtaining relevant confirmation, information, reports, documents, and records pertaining to the audited entity;
- Obtaining relevant information, documents, and records pertaining to other entities that are not under audit but information from which are relevant for the audit underway, such as the bank details from relevant banks, details of payments made directly by the donors from donors; tax-related records and documents from taxpayers, etc.
- Communicating audit observations and significant audit findings to an audited entity;
- Obtaining the comments and responses of the audited entity.

Continuous communication is required for the contradictory process and balanced and objective audit reporting, whereby the auditor shall consider the point of view, evidence, and supporting records provided by the audited entity in response to audit observations and audit findings.

For a review of the internal control, the auditor carries out tests of controls in the audit areas/subject matter selected to meet the objectives.

Based on the tests and audit procedures, the auditor shall continuously update the audit plan document and shall keep it in the audit file. The auditor shall also maintain all the toolkits /AWP and evidence related to the tests and audit procedure performed and evidence gathered in the audit files. The experienced auditor principle (EAP) should be followed for documentation of all working papers.

Each member of the audit team is responsible for the implementation of the audit plan, performing necessary tests and audit procedures and duly documenting them, maintaining all the working papers and evidence, including information/data in electronic form.

The audit team leader is responsible for overall coordination and management of the audit including implementation of the audit plan and distribution of tasks and responsibilities amongst the members and their performance.

#### **12. Field Audit & Execution of Audit Plan**

- 12.1 The audit team as a whole is responsible for executing the audit plan for audit engagement and for obtaining reasonable assurance through tests and audit procedures as per the audit objectives and reporting requirements.
- 12.2 The team leader and the audit team members shall undertake and complete the steps/activities as per the work allocation and work plan agreed upon as part of the performance management framework. This includes the application of toolkits / AWP.
- 12.3 The Directorate responsible for supervision/monitoring of the respective audit engagements shall maintain continuous communication with the audit team and review the implementation of the audit plan for ensuring timely completion.
- 12.4 The IA&QA Directorate shall conduct a quality review of the field audit and implementation of the audit plan and report on compliance with QMS and IFPP.

- 12.5 In case of any difference of opinion with regard to the matter of interpretation involving professional judgment (e.g., implementation of the plan and gaps, quality and quantity of audit evidence, coverage of samples including additions, exclusion or replacements of samples, inclusion or exclusion of unverified figures and content of draft reports, the inclusion of relevant details) that persists between the audit team and the quality review team of the IA&QA Directorate, the matter shall be first looked into at the level of Director IA&QA and then the respective Director General and if required, by the Dy. Auditor General related to the audit.
- 12.6 Such differences and resolution of the differences shall be duly recorded in the official records and shall be kept in the respective audit file, if necessary with differing opinions and reasons for a particular decision.
- 12.7 As part of the contradiction principle, the audit team shall invariably share audit findings and observations with the auditee and seek their response.
- 12.8 All toolkits / AWP and evidence shall be duly maintained in the Audit file, which should be referenced/indexed with the audit observations/reports. The audit file and evidence should be maintained in a self-speaking manner, which when reviewed by a third party should make an experienced auditor to reach the same conclusion as was by the audit team.
- 12.9 Updated audit plan document shall be maintained in the Audit file along with the original audit plan document.
- 12.10 In case of a forensic audit, investigation and evidence gathering shall follow a relevant fraud investigation approach.

## **6. Audit Reporting and Follow Up**

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### **6.1 Forms of Audit Reporting**

Financial audit being attestation engagement, the auditor provides opinion on the financial statements. The opinion may also be provided on compliance with applicable laws, legislations, authorities, donors' financing terms and conditions, as applicable.

IFPP does not require the auditor to provide an opinion as a result of performance auditing. A performance audit is a direct reporting engagement and audit conclusion and recommendations with regard to economy, efficiency, and effectiveness of operations, program, service delivery, etc., are provided as part of a long-form report.

Compliance audit can be both attestation engagement and direct reporting engagement. Accordingly, based on the requirement of the audit engagement, the auditor provides an opinion on the compliance of the subject matter with criteria or audit conclusion and recommendations with regard to compliance of the subject matter with criteria as part of a long-form report.

In the case of a specific area or special audits, the auditor should adopt the form of reporting as per the requirement of the circumstances.

In case of a forensic audit, the forensic auditor should prepare a Fraud Examination Report and/or an Expert Report, if required.

### **6.2 Principles of Audit Reporting**

Upon completing the audit procedures for evidence gathering, the auditor will review the audit evidence and documentation and draw conclusions as per the requirements of the IFPP for financial audit, performance audit, and compliance audit, subject to requirements of national laws and authorities.

For audit opinion on the financial statements and/or compliance, the auditor follows the standard opinion format provided in the relevant ISSAIs / ISAs and be categorical of the form of opinion being given – whether the opinion is unqualified/unmodified or qualified/modified. If the opinion is qualified or modified, the basis for such qualification/modification should be clearly mentioned.

Audit of the 'unaudited financial statements' results in the presentation of the 'audited financial statements' by the management and those charged with governance to the stakeholders and users. Often the management and those charged with governance modify or correct the unaudited financial statements during the course of the audit as a result of misstatements / non-compliance observed and communicated by the auditor.

In case, the difference between the management and those charged with governance and the auditor persists where the former refuses or ignores to modify or correct the unaudited financial statements, the auditor should consider, applying professional judgment and after evaluation of the evidences, giving a modified opinion to the extent of persisting material misstatements / non-compliance.

If the auditor considers it necessary to draw stakeholders' / users' attention to a matter presented or disclosed in the financial statements that are of such importance that it is fundamental to their understanding of the financial statements, though not a basis for modification in the opinion, the auditor should include an *Emphasis of Matter paragraph* in the report. This should only refer to the

information presented or disclosed in the financial statements. In the Audit Report, the Auditor may also cover Key Audit Matters / Other Matters, if relevant to listed entities.

The audit opinion on the financial statements and/or compliance is presented as Auditor's Report. Alongside and at the same time, the auditor should also give a Management Letter, containing relevant audit observations of weaknesses in internal controls, irregularities in transactions and asset and liabilities management, and such other observations which have a potential or apparent risk of resulting in material misstatements or non-compliance, if timely preventive, mitigative or corrective actions are not taken.

The structure and the content of the long-form audit reports of the SAO should follow the elements stipulated in the relevant ISSAIs (performance audit report and compliance audit report).

However, each audit observation in the annual Compliance Audit Report and the Inspection Report of the individual auditee and the Performance Audit Report should be organized to reflect the 5Cs principle of –

- Criteria against which the subject-matter has been evaluated.
- Condition of the subject-matter against the criteria.
- Cause of the observed deviation as found.
- Consequence or the impact of the deviation, non-compliance, non-performance.
- Corrective Action or recommendations for meeting the gap or deviation based on the weaknesses/factors identified.

Brief is at **Annexure – 3.**

### **6.3 Institutional arrangement for report analysis, review, quality assurance, and finalization in the SAO**

IA&QA Directorate reviews the quality of field audit and implementation of the audit plan for all types of audit as per the SAO-QMS. The auditor should examine the quality review reports, if applicable, and comply with the requirements.

Draft Inspection Reports / Audit Reports prepared by the audit team are reviewed by the respective Directorates and processing and finalization of audit reports/opinion in the SAO follows the steps as under –

- Qatia audit report on Qatia accounts by the Qatia Commission / Qatia Audit Dept followed by the General Directorate (Financial Audit) and submitted to the Auditor General.
- SoE/SoCs audit reports on the financial statement by the SoE/SoC Audit Directorate followed by the General Directorate (Financial Audit) and the Deputy Auditor General (Financial & Compliance Audit) and submitted to the Auditor General.
- External Grants Projects audit reports on the financial statement by the External Grants Audit Directorate followed by the General Directorate (Financial Audit) and the Deputy Auditor General (Financial & Compliance Audit) and submitted to the Auditor General.
- Performance Audit Report by the Performance Audit Directorate after review by General Directorate of Performance and Environmental Audit and the Deputy Auditor General (Performance and Information Technology) and submitted to the Auditor General.
- Compliance Audit Inspection Reports by the respective sectoral audit Directorates / Municipality Audit Directorate / Revenue Audit Directorate followed by the Reports Analysis and Validation Directorate and after review by General Directorate (Compliance Audit) submitted to the Deputy Auditor General (Financial and Compliance Audit).

- Reports on the result of audit of public works and IS Audit are reviewed and processed by the Public Works Audit Directorate and the IS Audit Directorate respectively through the related Deputy Auditor General.
- Inspection Reports issued to the auditee are issued at the level of the related Deputy Auditor General.
- Auditors' Report (Opinion and Management Letter) for SoE/SoC/authority audit and project audit and Audit Report on Qatia Statements, Performance Audit Report, Annual Compliance Audit Report, IS Audit Report presented to the President and the National Assembly are issued at the level of the Auditor General.

#### **6.4 Presentation and Publication of Audit Reports & Follow Up**

All audit reports, which are submitted both to the President and the National Assembly, should be made publicly available through the SAO website, mass media and means accessible to the public and stakeholders.

SAO is required to follow up on the action taken by the entity and its management in response to the matters raised in the audit reports. Follow-up focuses on whether the audited entity has adequately addressed the matters raised, including any wider implications relating to fraud or loss of property, and has implemented the audit recommendations.

The Follow Up Directorate maintains an inventory of audit observations and recommendations and follows up with the auditee. This should be done as per a follow-up database, updated as and when required, and a follow-up mechanism. In the event of implementation of the AMIS, follow-up should be integrated in the AMIS.

In case of all audits, follow-up and status of implementation of the previous recommendations are examined in subsequent audits.

SAO should report the status of implementation of the audit observations and recommendations including the insufficiency and unsatisfactory action by the audited entity in the audit reports submitted to the National Assembly and the President. This shall provide feedback to the stakeholders, including the National Assembly and the President.

#### **6.5 Legislative Scrutiny of Audit Reports & Follow Up**

Audit reports submitted to the National Assembly and the President are scrutinized by the designated committee of the legislature (e.g., the PAC) / National Assembly, and recommendations are made by them.

The SAO provides assistance in all such scrutiny and deliberations for all types of audit reports scrutinized. The Legislative Relations wing of the Qatia Audit Department is responsible for the coordination and technical inputs.

### **13. Audit Reporting, Presentation, Publication and Follow Up**

- 13.1 The auditor / audit team, respective Directorates, Reports Analysis and Validation Directorate, IA&QA and the Follow Up Directorate shall observe the requirements of the form of report as per the types of audit and the requirements of the IFPP.
- 13.2 In case of any deviation, written justification should be incorporated in the working papers and should be verified by the IA&QA as well as by Reports Analysis and Validation Directorate.
- 13.3 At the time of submission of the results of audit/draft reports, audit team shall submit a certificate of compliance with the QMS to the respective audit directorate and at the time of submission to the Deputy Auditor General / Auditor General, each directorate shall certify compliance with the QMS.
- 13.4 In audit reporting, the auditor/audit team, the respective Directorates, and the Report Analysis and Validation Directorate shall clearly identify - (i) internal control weaknesses and risks areas, (ii) areas of non-compliance / compliance deviation and irregularities with quantified value, if applicable, (iii) disallowed / non-permissible expenditures as established by audit evidence, transactions that have questionable costs or payments, (iv) non-performance and uneconomic, inefficient and ineffective areas, (v) material misstatements and non-compliance, etc., as relevant to the respective forms of the audit reports included in the Management Letters.
- 13.5 The auditor/audit teams, respective Directorates reporting on the results of compliance and performance audits shall ensure that the audit recommendations are derived and aligned with audit objectives, subject-matter, and audit observations.
- 13.6 All audit reports shall be submitted as per the stipulated time frame in the Audit Law / PFEM Law / Donors' financing agreement and keeping in view the good practices required under the SAI-PMF.
- 13.7 All audit reports, which are submitted to the President and the National Assembly, shall be made publicly available through the SAO website, mass media and means accessible to the public and stakeholders.
- 13.8 Other reports – special audit reports, reports meant for the development partners, reports on secret expenditure, etc., shall be submitted to the respective stakeholders.
- 13.9 The Follow Up Directorate shall set up a follow-up mechanism and ensure regular follow-up with auditees for status of implementation of the findings and recommendations of all types of audit reports from the auditee and shall report the status to the management.
- 13.10 The SAO shall maintain a database of the inventory of the audit observations and recommendations and the status of follow-up and shall undertake analysis of materiality to decide when a follow-up requires additional investigation.
- 13.11 Upon implementation of the AMIS, follow-up should be conducted through the AMIS.
- 13.12 The auditor shall follow up with the auditee on the previous observations and recommendations in the current audit. While following up, the auditor shall duly consider the relevance of previous recommendations and their implementability at present and shall take necessary action to examine them in view of whether the audited entity has adequately addressed the problems and remedied the underlying situation and whether it has been taken over by events. This should be done as per the approval of the Auditor General and after providing an adequate reasonable explanation for the same.

## **7. Auditing in IT Environment, CAATs, IS Audit**

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### **7.1 General Considerations.**

The GoIRA agencies have implemented several financial management information systems and electronic database facilities, such as the AFMIS, SIGTAS and ASYCUDA as well as ITeS. Similar systems and database facilities are also being implemented for budget processing and management and the procurement system and further systems would also be implemented for other functions and services. Further, there are information systems for payroll and human resources management, the Ministry of Interior Affair's Computerized Passport System project and Electronic National ID-Card project and Ministry of Labour, Martyrs and Social Affair's e-Government Pension System Reform project. Similar ICT / e-Gov related projects are expected to be implemented by the government in the sectors of health, education & literacy, procurement and licensing, etc. Asan Khidmat is an example of ITeS.

The SAO is focusing on the use of IT tools and techniques (CAATs) for audit planning, fieldwork and analysis and data visualization for reporting. The SAO has also taken up review / IS audit of certain database/IT and MIS applications being used in the government agencies and has presented the IS audit reports. SAO shall continue its efforts in this direction and would strengthen the processes and capacity for the same. The SAO has an IS Audit Directorate with a specific focus for the area.

### **7.2 IT Audit Strategic Plan and IT Policy**

SAO through its' IS Audit Strategic Plan provides details and targets for –

- Planning and conducting IS audit of the databases, application, and Management Information Systems in the GoIRA agencies and audit in IT environment.
- Increased application of IT tools and CAATS in audit;
- Integrating IT audit with financial, compliance and performance audits.

### **7.3 Implementation of Audit Process Automation System.**

To automate the audit process, toolkits and requirements of the IFPP, the SAO is working on the implementation of an audit management information system (AMIS). When implemented, it should provide the basis for an efficient and effective audit process, quality of audit and audit evidence, working papers, and audit reports.

#### **14. Auditing in IT Environment & Use of CAATs**

- 14.1 CAATs shall be used in audits to facilitate audit in IT environment.
- 14.2 IT/IS audit or review of control systems shall be progressively integrated with all types of audits to assess the impact of FMIS on the operations and management of the auditee and the subject matter.
- 14.3 The SAO shall implement and apply an audit management information system (AMIS) to automate the audit process and improve the quality of audit including effective audit follow-up with entities.
- 14.4 The SAO shall build capacity for achieving the policy.
- 14.5 The SAO shall put in place IT / IS audit strategic plan and policies and shall undertake and progressively expand the coverage of IT/IS audit.

## **8. Training, professionalisation and capacity development**

### **8.1 General Considerations**

The INTOSAI CBC Guide 2007 notes that "...one of the most effective ways for an SAI to strengthen its capacity is through developing its professional staff through training...if an SAI wishes to develop a cadre of staff with an internationally recognised professional qualification, it will need to consider whether to seek to become an accredited training body for this qualification, work with an external accrediting body (such as a university or professional association) or concentrate on recruiting already qualified staff"<sup>3</sup>.

### **8.2 Professionalisation and capacity development framework**



The SAO has put in place a capacity development and professionalization strategy and plan, which, *inter alia*, focuses on the following approach and strategy –

- Capacity development and professionalization of the SAO staff to align with the competency requirements for public sector auditors as envisaged by the INTOSAI-IDI and the INTOSAI Capacity Building Committee (CBC).
- A multi-pronged strategy of professionalisation of the staff, namely (i) regular in-house and external training as continuing professional education (CPE), (ii) Annual certification course at the SAO's Training and Professional Development Centre for newly recruited and existing staff, (iii) encouraging staffs to obtain internationally recognised professional qualifications / certification, and (iv) recruiting already professionally qualified candidates.
- Associating international certifying institutions for technical and professional support as well as affiliation of SAO staff for professional certification.

<sup>3</sup> CBC Guide 2007, pages 33 and 35.

## **15. Professionalisation and Capacity Development**

- 15.1 The SAO shall implement a professionalization and capacity development plan and strategy and update it periodically or when required.
- 15.2 The SAO shall strive to achieve its training, capacity development, professionalization and continuing professional education (CPE) objectives through all means available, including training and capacity development (in-house, cooperation with other SAIs, INTOSAI/IDI/ASOSAI, development partners, etc.), professional certification (SAO Training and Professional Development Centre (TPDC) and through associating international professional certification bodies) and recruitment of professionally qualified candidates, etc.
- 15.3 The capacity development and training objectives shall also be achieved through on-the-job training and mentoring of the staff in audit teams.
- 15.4 The SAO shall strive to upgrade the existing SAO TPDC to An Audit Institute for sustained capacity building and certified courses.
- 15.5 The SAO shall strive to achieve caderisation of staff to achieve the goal of committed, professionally competent and qualified staff as specialized audit cadre.
- 15.6 The SAO shall strive and support all the staff to achieve relevant professionalization, certification and international qualifications by facilitation, leave, financial support and enabling environments for study and undertaking examinations including off days for examinations.

## **9. Engagements of External Consultancy and Advisory Services**

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### **9.1 General Considerations**

INTOSAI's Lima Declaration (INTOSAI - P1) (Section 14.5) states that "If special skills are not available among the audit staff, the Supreme Audit Institution may call on external experts as necessary".

Under Section 15, it mentions that "The international exchange of ideas and experiences within the International Organisation of Supreme Audit Institutions is an effective means of helping Supreme Audit Institutions accomplish their tasks".

Further, IFPP provides that audits may require specialized techniques, methods, or skills from disciplines not available within the SAI. In such cases, experts may be used to provide knowledge or carry out specific tasks or for other purposes. External experts may be used in different ways, e.g. to provide knowledge or conduct specific work.

In view of the aforesaid and keeping in view the requirements of external support in the short-term while the SAO achieve capacity development and professionalization, it may need assistance from the IDI, other SAIs and the technical and financial assistance from the GoIRA, development partners and international agencies and institutions to meet the external consultancy and advisor support including on the job training of the SAO staff through such supports.

This, however, shall not obviate the SAO's responsibilities from its concerted effort to build capacity and professionalize the staff for a sustainable capacity of the SAO staff.

### **9.2 INTOSAI & its agencies & Other SAIs**

INTOSAI, its regional platforms and agencies e.g., IDI and various working groups and member SAIs provide platforms for exchange of audit knowledge and experiences as well as opportunities for capacity and skill developments.

As a policy, the SAO considers it useful and necessary to avail of such supports for the audit staff capacity development through participation in the INTOSAI/IDI/Regional association platform and programmes and through mutual cooperation, memorandum of understanding (MoU) with other SAIs.

At present, the SAO has MoUs with at least five SAIs for knowledge and experience sharing and participation of the SAO staff in their capacity development programmes.

### **9.3 Consultancy and advisory support from donors and international agencies**

As part of the mutual agreements between the GoIRA, the development partner(s) and the SAO, audit of the financial statement of the grants projects financed by the grants of the donors are undertaken for providing opinion on the project's financial statements and opinion on compliance with the terms and condition of financing agreements by the projects.

Such engagements are based on the provisioning of financial support by the donor(s) for the SAO to engage external audit support for performing the required audit. Invariably, the SAO's audit staff participates in the audit and receives on-the-job training and capacity development.

As part of incentive or condition-based benchmark requirements for grant assistance to the GoIRA, donors may require the SAO to fulfill certain audit-related conditions, e.g., carrying out audit (of a specific type) with certain coverage and scope as per international good practices and submit specific reports.

Such engagements may also be based on the provision of financial support by the donor(s) for the SAO to engage external audit support for performing the required audit.

As part of enhancing transparency, accountability, and good governance initiatives; for strengthening internal control systems in the GoIRA and public sector agencies or strengthening legislative scrutiny and oversight by the PAC; or similar specific or cross-cutting areas, international agencies, development partners, financial institutions, foreign governments, and their development agencies may collaborate with the SAO or may commit technical or financial support to the SAO for achieving the objectives and concomitant capacity building for the SAO staff.

## **16. External consultancy, advisory, technical & financial supports**

- 16.1 The SAO may avail external audit support through consultancy and advisory assistance or technical assistance to meet specific audit engagements and objectives while shall build the required capacity to undertake the engagements on a self-reliance basis in medium to long term.
- 16.2 The SAO, however, shall ensure that the work of external consultancy and advisory supports meet the quality and the requirements of the IFPP, including the ethical requirements and the SAO shall obtain a certificate in this regard.
- 16.3 In view of maintaining its independence as a SAI, the SAO is responsible for engaging the external audit support consultancy through required open competitive procurement process. If required, the SAO shall consult the donor providing the financial assistance in finalising the consultancy engagements.
- 16.4 In case, the policy or practices of the development partners, international institution/agency or foreign government providing financial or technical assistance requires self-conducted procurement process, in all such cases, consent of the SAO shall be obtained at all required stages of procurement and deployment of external audit support consultancy/advisors / technical assistance.
- 16.5 The SAO shall enter into, expand and deepen mutual cooperation with other SAIs through formal arrangements including a memorandum of understandings (MoUs) for sharing of knowledge and technical skills in the areas of public audit including other institutions of professional expertise, skills, and knowledge.

## **ANNEXURES**

## **ANNEXURE – 1: Template for Certificate of Quality Control in the Audit Process to be furnished by each audit team and the respective Directorate**

### **The Supreme Audit Office, Afghanistan**

#### **Subject: Certificate of Quality Control in the Audit Process.**

This is to certify that we, the undersigned, have < complied / not fully complied> with the SAO's quality management system (QMS) and its quality control requirements based on the ISSAI framework in audit planning, performing the audit, evaluating the audit evidence, audit documentation, concluding the results of the audit and in preparing the accompanied draft audit report and audit observations for the assigned audit.

**Audit type:** <Financial audit (Qatia statements/SoE or Corporation/Grants projects) / Compliance audit / Performance audit / IT – IS Audit / Other audit>

**Audit team ID / Number (if any):** \_\_\_\_\_

**Coverage of audit:** <Audit entity(ies) (e.g., budgetary agencies, MoF-Qatia statements / Grants project / SoEs-Corporation/IT-IS-FMIS system/others) with location(s) and the period of transactions covered in audit>

**Duration of audit:** < days/months used for audit, including extension over originally assigned, if any>

**Risk level of the auditee:** <A-High / B-Medium / C-Low / D-Very Low>

**Audit strategy and audit plan prepared:** Yes  | No

**Percentage sample coverage in audit:** <\_\_% of Expenditure/\_\_% of Revenues/\_\_% of Contracts or other areas sampled and covered in audit>.

**Materiality level fixed & samples above materiality level covered:** Yes  | No

**Managements' response obtained and considered:** Yes  | No

**Audit evidences evaluated and documented:** Yes  | No

**(Team Member)**

**(Team Member)**

**(Team Member)**

**(Team Leader)**

**(Director)**

## **ANNEXURE – 2: Indicators for Audit Days' Time Calculator**

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### **Illustrative indicators for audit days' calculator -**

- (a) Risk categories of entities, including consideration of –
  - Expenditure
  - Revenues
  - Contracts
  - Projects within the risk categories
  - Reliability level on internal control and internal audit
  - Management's record in implementation of audit observations/recommendations
  - Size of the Human Resources / Tashkeel.
  - Reports of relevant development partners, diagnostic assessments, observations of public representatives, CSOs, media, etc.
- (b) Competence of audit team to ensure that the team collectively possess the required competence for audit, and
- (c) Location and accessibility as well as transit and movement considerations.
- (d) Priority to high-risk entities, timing/audit resources.

## **ANNEXURE – 3: 5Cs Principles and Root Cause Analysis Framework**

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### **5Cs principle –**

- **Criteria** against which the subject-matter has been tested.
- **Condition** of the subject-matter against the criteria.
- **Cause** of the observed deviation as found.
- **Consequence** or the impact of the deviation, non-compliance, non-performance.
- **Corrective Action** or recommendations for meeting the gap or deviation based on the weaknesses/factors identified.

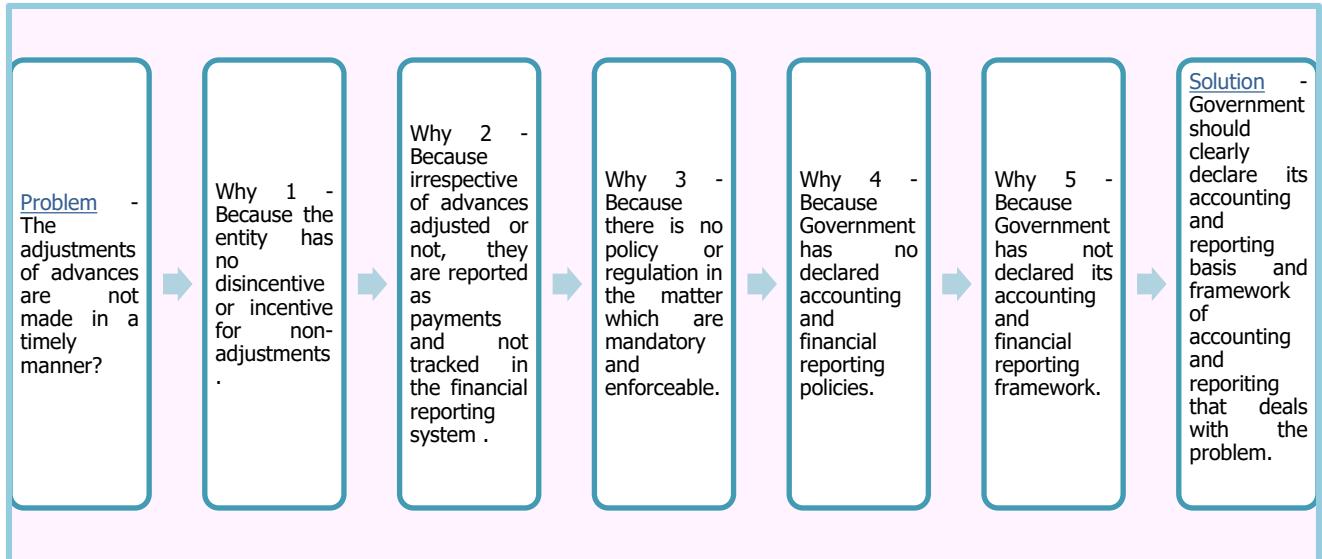
**Criteria** are the authority and benchmarks or compliance or performance indicators against which compliance and performance of the subject-matter are evaluated by the auditor. In the application of criteria, the auditor should (in the given order as below) –

- a) Rely on the formal criteria contained in the applicable national legislation (laws/acts), budgetary authority, decree, regulations, codes, agreed-upon financing terms and conditions with development partners, etc. Such criteria are publicly available and not to be contested by the auditee/management.
- b) Rely on internationally agreed criteria to which Afghanistan is a signatory or as a member of the organization bound to follow and implement (e.g., the UN SDGs and other covenants and declarations), in case, there are no publicly available criteria relating to subject-matter under audit.
- c) Rely on other best practices criteria, applied and demonstrated to be objective and useful by the INTOSAI / IDI / INTOSAI regional forums, other SAIs, group of SAIs in their joint or cooperative audit, development partners and specialized agencies and professional practitioners in the field. In this case, preferably, the auditor should discuss with the management and adopt the mutually agreed-upon criteria.
- d) rely on public / private sector best compliance and performance business indicators in a comparable environment. In this case, preferably, the auditor should discuss with the management and adopt the mutually agreed-upon criteria.

While the principle at (a) and (b) above are most relevant for a compliance audit, the principles at (a) to (d) are applicable for a performance audit.

**Condition** is the actual status of compliance or performance or both in the transactions, operations, service delivery and achievement of the entity. The auditor needs to examine and evaluate the condition as per criteria and by applying the relevant audit procedures.

While analyzing cause of misstatement, deviation, or non-performance, the auditor should carry out a Root Cause Analysis (RCA) to identify the relevant cause(s) and not just the apparent and symptomatic cause(s). For example, if several factors might have contributed to misstatement, deviation or non-performance, then RCA should examine and analyse what are the causes, why, how and when are they affecting and who is responsible. Mostly, for investigation and analysis of the root cause of a given problem (misstatement, deviation or non-performance), a 5 Why approach can be adopted. For example, an entity is not able to ensure adjustments of the advances it makes to its officials, cashier, contractors, service and good providers within the financial year or in a timely manner. An RCA approach should follow a 5 why steps of analysis of cause of the problem as below.



**Consequences** or the impact of the deviation, non-compliance, non-performance need to be examined and analysed in terms of the risk in public financial management, internal control set and effectiveness, accountability, transparency and governance, agency's transactions and operations, fraud and corruption, budgetary authorities, revenue collection, contract management and project implementation, performance and service delivery, etc.

**Corrective actions** are those that provide solution to the identified problem, deviations, non-compliance and non-performance. Auditor should provide appropriate and relevant recommendations including –

- through root cause analysis (RCA)
- in alignment of the audit objectives, risks identified, audit observations and audit conclusion.
- by taking into account management's response.

The 5Cs principle of structuring audit observation shall apply to long-form audit report observations including the Management Letters.

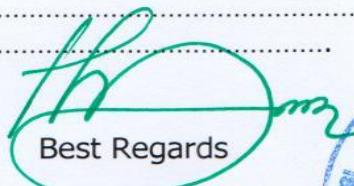
For long-form audit reports, the auditor shall follow the format provided for such reports and the content and forms in the relevant ISSAIs in the IFPP. The auditor shall always bear in mind the principles of completeness, objectivity, timeliness, and a contradictory process while preparing and presenting a long-form audit report. The Compliance, as well as the performance audit reports, shall be comprehensive, convincing, timely, reader-friendly, and balanced.

## **Auditor General Approval**

**To Auditor General of the Supreme Audit Office,**

In order to enhance the role of Supreme Audit Office, develop the institutional capacity of SAO, professionalize the process of auditing, and improve quality and effectiveness of Audit in accordance with international best practice and to establish a clear guidance for SAO staff as well as expressing the SAI principles, the audit policy has been prepared and presented to Auditor General for approval

Approved:

  
Best Regards  
Mohammad Naiem Haqmal  
Auditor General  
Supreme Audit Office

  
1401/01/2022