LAHORE DIOCESAN BOARD OF EDUCATION AUDIT OBJECTIVES AND PROCEDURES, REPORTS TO THE MANAGEMENT AND THE AUDITORS' RESPONSIBILITY IN RELATION TO DETECTION OF FRAUD AND OTHER IRREGULARITIES

"Undoubtedly reform is needed. The [Institution's] promoter may do a vast amount of mischief. The director, with high sounding titles, may inspire mistaken confidence in a worthless company. <u>But in the long run neither of these work such financial havoc as does the auditor who fails to appreciate and discharge his true duty to those who place reliance on his certificate.</u> The promoter and the director are soon found out, but the mechanical auditor perpetuates delusion and leads the confiding shareholder to believe, year after year, that all is well, when in reality, all is rotten" (Extract from letters to the editor in "Accountancy" Magazine-One hundred and One years ago)

PART I

AUDIT OBJECTIVES AND PROCEDURES

1. What is an Audit ?

An audit is an examination of financial statements or other data that are derived from the institution's accounting system. The purpose of the audit is to report on whether the financial statements present fairly the financial position of the institution as of the balance sheet date and the results of the operations in conformity with generally accepted accounting principles consistently applied during the period. As auditors we are **not** detectives and do **not** approach our work with suspicion or a foregone conclusion that something is wrong or to doubt the integrity of the staff or management.

2. Management's responsibilities in relation to Accounting records

The Management is responsible for maintaining accounting records comprising of an orderly, classified collection of information capable of timely retrieval, containing details of the institution's transactions, assets, and liabilities; the information should be so organized as to enable a trial balance to be constructed.

The accounting records should be such as to disclose with reasonable accuracy, at any time, the financial position of the Institution.

3. Management's responsibilities in relation to financial statements

The management (The head of an institution) is responsible for adopting sound accounting policies for maintaining an adequate and effective system of accounts, for safeguarding assets, for devising a system of internal control that will, among other things, help assure the production of proper financial statements and other data derived from the accounting system.

As auditors we may influence the form and content of the financial statements or other data being examined. Adjustments and modifications may be proposed but in the final analysis, the management make the ultimate decisions in line with their overall responsibility for representations made in the financial statements.

4. Audit Procedures and Evidence

An audit consists of tests of internal accounting controls, records, transactions and other relevant data to obtain either evidence concerning the validity and propriety of the accounting treatment of transactions and balances or conversely, evidence indicating the possibility of material errors or irregularities.

Our audit team is required to obtain sufficient relevant and reliable evidence through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding financial statements or other data being audited.

(a) What is evidence ?

Evidence in general is something that furnishes proof; with respect to financial statements it consists of the underlying accounting data and all available corroborating information. We obtain this by reviewing transactions. Examples are:

Underlying Accounting Data	**Corroborating information**
Books of original entry (Fee registers)	Cheque counterfoils,deposit slips, Attendance registers
General and Subsidiary ledgers	Bills issued to students, invoices received from suppliers
Work sheets	Contracts
Analyses of accounts	Authorizations
Reconcilliations	Minutes of meetings
	Confirmations
	Written representations
	Correspondence

(b) Reliability of evidence

(i) When evidence can be obtained from independent sources outside the institution, it may provide greater assurance of reliability than that secured from solely within the institution. It is for this reason that we often require Third party confirmations.

(ii) When accounting data and financial statements are developed from systems in which internal controls are existent there may be more assurance of their reliability than when they are developed under less satisfactory conditions of internal control.

(iii) Direct knowledge obtained through physical examination, observation, computation and inspection usually is more persuasive than information obtained indirectly. It is for this reason that we may wish to physically verify the existence of assets such as Laboratory equipment, Furniture, Office equipment.

PART II

REPORTS TO THE MANAGEMENT

1. Reports to Management and their Principal Purposes

Through our Audit reports to the Management we intend to provide constructive advice on improvements to the financial and accounting efficiency of the Lahore Diocesan Board of Education and the various schools and institutions managed by it.

Principal Purposes of our reports to management are:

(a) To enable us to give comments on the accounting records, systems and controls that we have examined during the course of our audit. Areas of weaknesses in systems and controls that have come to our attention and might lead to material errors are highlighted and brought to management's attention, together with suggestions for their improvement.

(b) To provide management with other constructive advice such as suggestions of areas where economies could be made or where resources could be used efficiently.

(c) To communicate matters that have come to our attention during the audit that might have an impact on future audits.

2. Analysis of Audit reports

The contents of our report can usually be analyzed under the following heads:

(a) Weaknesses in the structure of accounting systems and internal controls.

(b) Deficiencies in the operation of accounting systems and internal controls.

(c) Inappropriate accounting policies and practices.

(d) Non-compliance with legislation, accounting standards, or other regulations (such as those imposed by the L.D.B.E.).

(e) Potential economies, improvements in efficiency, or other constructive advice which might be of assistance.

(f) We attempt to set out the implications of the matters raised with the use of specific examples identified during the audit to help the management understand the nature of the problems which require action.

(g) Points made in the previous years' reports are reviewed and where they have not been dealt with effectively we inquire why appropriate action has not been taken. If we consider the points still to be significant, we include it again in the current report, otherwise there is a risk that we may give an impression that we are satisfied that the weakness has been corrected.

3. Management response

Audit reports become a tool of communication between the management and the auditors if we receive a reply to all the points raised, indicating what action management intends to take or has taken as a result of the comments made in the report.

PART III

AUDITORS' RESPONSIBILITIES IN RELATION TO FRAUD AND OTHER IRREGULARITIES

1. What do we mean by Fraud, Other irregularities and errors ?

Fraud and Irregularities

(a) Fraud, involves the use of deception to obtain an unjust or illegal financial benefit.

(b) Intentional misstatement in, or omissions of amounts from the institution's accounting records or financial statements.

(c) Theft or misappropriation.

Errors

Error is used to refer to unintentional misstatements in, or omissions of amounts from the Institutions's accounting records or financial statements.

2. Responsibility for prevention and detection of fraud

The responsibility for **prevention** of fraud, other irregularities and errors rests with the Management of the Institution.

Similarly the Primary responsibility for the **detection** of fraud, other irregularities and errors rests with the management.

Our responsibility is to ensure that our audit is conducted in such a manner that we have a reasonable expectation of detecting material misstatements, whether intentional or unintentional, in an entity's financial statements. We cannot prevent fraud etc. from occurring but the recurring annual audit may act as a deterrent..

3. Reporting to Management on Fraud, Other irregularities, and errors.

We report to senior management fraud, other irregularities or material errors brought to light by the audit. We may also make recommendations of good practice in order to assist in prevention of further occurrences.

4. Examples of conditions or events which may increase the risk of either fraud or error, or in some cases both.

(a) Continuing failure to correct major weaknesses in internal controls.

(b) Inadequate records, incomplete files, excessive adjustments to accounting records, transactions not recorded in accordance with normal procedures.

(c) Inadequate documentation of transactions, such as lack of proper authorizations, supporting documents not available and alteration to documents.

The End