

---

# Audit Profile: The Audit Directorate of Bahrain

---

By Anwar Ali Al-Ansari, Head, Computer and Accounting Systems Audit Section

In September 1994, The Audit Directorate was established within Bahrain's Ministry of Finance and National Economy under the supervision of the Ministry's Under Secretary. This new directorate replaced an existing entity in the Ministry's Directorate of Accounting Systems Development. Its establishment underlined the increased importance attached to the audit function within the government.

## Legal Mandate

The Audit Directorate is the main tool His Excellency the Minister of Finance and National Economy uses to carry out the responsibilities assigned to him by the Budget Law of 1975. The Budget Law gives the Minister authority to issue orders governing the audit and examination of government accounts. Such orders establish the format of records and documents required for financial transactions and the terms and conditions the government must comply with for expenditures, collections, and other accounting procedures.

## The Mission and Duties of the Audit Directorate

According to the directions of top management in the ministry, the mission of The Audit Directorate is to "enhance accountability and promote honesty in discharging public duties to increase productivity and ensure the best utilization of available resources."

To achieve its mission, The Audit Directorate carries out the following main duties:

- Developing government financial auditing procedures, which are to be regularly reviewed and amended as necessary.
- Developing and implementing an annual audit plan.
- Enhancing the performance of government agencies by providing appropriate technical assistance.
- Carrying out independent performance (value-for-money) audits of governmental programs and providing necessary advice to improve their economy, effectiveness, and efficiency.
- Carrying out EDP audits of government investment in and usage of information technology resources.
- Supporting government agencies in developing effective and efficient systems of internal control.

- Performing special duties aimed at reducing expenditures of government agencies without impairing their performance.
- Participating in the annual financial audit of the accounts of The Secretary General of Gulf Cooperation Council Countries (GCC), of which Bahrain is a member.
- Upon request, participating in developing training programs to aid other government agencies in the proper selection of new accountants and internal auditors.
- Preparing a report containing a summary of the Audit Directorate's annual professional and administrative performance to be presented to His Highness the Prime Minister.

## Organization

When The Audit Directorate was established in 1994, The Director of Audit faced the challenge of proposing an organization chart that would support the new directorate's goals and objectives, perform the work assigned to it, and also keep pace with the latest developments in audit practices. The Audit Directorate now includes 14 professional staff and 4 support staff. It is headed by the Under Secretary of the Ministry of Finance and National Economy, who is appointed—and can only be dismissed—by His Highness the Amir of Bahrain. The Audit Directorate is composed of the following three sections.

### Financial Audit Section

The Financial Audit Section is responsible for carrying out financial-related audits, which are the most common audits performed by SAIs. These audits include the following:

- an overall opinion on the government's financial statements;
- a report on internal controls; and
- a report on compliance with applicable policies, procedures, rules, and regulations.

### Performance Audit Section

Performance or value-for-money audits are a relatively new and increasingly important concept for SAIs. Through

performance indicators that measure economy, efficiency, and effectiveness, governments can evaluate the quality and quantity of services offered to the public as well as the degree to which government agencies achieve the objectives for which they have been established. The Performance Audit Section of the Audit Directorate is responsible for reviewing and commenting on the program and project results of various government agencies.

## Computer and Accounting Systems Audit Section

Governmental operations are increasingly automated. Information technology resources are used extensively to store vast amounts of financial and non-financial data. Governmental decision-making processes rely heavily on the data that are entered and processed by these computer systems. It is, therefore, crucial to create and maintain the integrity of the underlying computer facilities and systems on which they run. The Computer and Accounting Systems Audit Section has been established to assess the reliability of timely and accurate information technology operations in the government. The section also provides technical assistance to other sections within The Audit Directorate in the following areas:

- Reviewing and commenting on the sufficiency of internal controls in computerized accounting systems. Financial auditors use the results of these reviews to assess the extent and appropriateness of reliance on the data provided by underlying accounting systems.
- Increasing the efficiency and effectiveness of financial audits by using computer-assisted audit techniques for such areas as data analysis, testing, and sampling. Interactive Data Extraction and Analysis (IDEA) software is the primary tool used for this purpose.

## Government Audit Standards

The establishment of The Audit Directorate has highlighted the need for government audit standards to give auditors clearly defined guidelines and a framework of quality. The Audit Directorate initiated a project to develop government audit standards in 1994. It referred to a number of sources to set the standards:

- international auditing standards,
- auditing standards used in the United States and Canada, and
- draft governmental auditing standards issued by the GCC.

The Government Audit Standards have been issued as final in July 1998. It is to be noted here that The Accounting Directorate of the Ministry is responsible for setting accounting and internal control standards for the government.

The standards cover the following topics.

## General standards

- Basic assumptions
- Independence
- Effectiveness
- Due professional care
- Continuous professional education
- Quality assurance
- Reliance on other auditors' work types of government audits

## Fieldwork Standards

- Planning, supervising, and documenting the audit
- Analytical review
- Compliance audits
- Structure of internal controls/audits
- Following international auditing standards

## Reporting Standards

- General guidelines for audit reports
- Issuance of the audit opinion
- Systems audit reports
- Performance audit reports
- Supplementary appendixes/indexes

The Audit Directorate has also taken the initiative to develop an audit manual for its auditors as well as external auditors participating in government audits. The audit manual was issued in July 1997. It contains the following parts:

- Part 1: Introduction
- Part 2: Planning
- Part 3: Internal audit/controls
- Part 4: Performance of audit tests
- Part 5: Issuance of reports
- Part 6: Supplementary appendixes/indexes

Both the audit standards and the audit manual will prevent misunderstandings between all parties involved in government audits and help to promote quality in the audit work conducted.

## Use of Computer Assisted Audit Techniques in Audit Work

Within the Ministry of Finance and National Economy, The Audit Directorate is one of the primary users of personal

computers; all auditors have their own personal computers. In addition to the standard Microsoft office programs, the Audit Directorate has installed the IDEA software. To take full advantage of this software, the Audit Directorate has developed procedures covering the following areas:

- downloading data from the government's central computer facilities;
- reformatting the downloaded data into formats readable by IDEA; and
- performing the required analysis, data extraction and sampling, audits, etc., of general ledger transactions, budget details, government payroll, inventory transactions...etc.

## Recruitment and Training Policy

Due to the nature of the work it performs and the high degree of professionalism required, The Audit Directorate has developed specialized training requirements, which are supported by the Ministry's top management. New staff appointed to the directorate must have, at a minimum, a Bachelor of Science in Accounting and must receive specialized training soon after they are hired in order to obtain an internationally recognized professional certificate. Auditors also receive both in-house and external training on other general topics to promote their professionalism and enhance their familiarity with the operations of other government agencies. As a result of this policy, the Audit Directorate now has a solid core of professionally qualified employees capable of performing the work assigned to them in the most efficient and effective manner. ■