

5. DAGP'S ANNUAL PLANNING PROCESS

5.1 DAGP Strategic Audit Objectives

The Auditor-General's mandate is established by legislation – Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 (Auditor General's Ordinance). Two key sections are:

Section 7 of Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 (Auditor General's Ordinance) states that *"The Auditor-General shall, on the basis of such audit as he may consider appropriate and necessary, certify the accounts" ... "of the Federation, of each Province and of each District"*.

Section 8 of the Auditor-General Ordinance mandates an audit of expenditures of the Federation and of each Province, and Section 12 of the Auditor-General Ordinance mandates an audit of the receipts of the Federal Government and of each Province and District.

These sections establish the two primary objectives of DAGP audits: financial attest/certification audits and compliance with authority audits to ensure entities within all three levels of government properly comply with all rules and regulations pertaining to expenses and revenues.

Note that all attest/certification audits will include a compliance component in accordance with international auditing standards and that DAGP may also perform independent compliance with authority audits in any areas which the Auditor-General considers it important to review. Accordingly compliance audit activities will be a major aspect of DAGP plans for any given time period.

5.2 DAGP Audit Scope

In determining the scope of audit work the Auditor-General has wide discretion.

For certification audits required under Section 7 of the Auditor-General Ordinance, the entity to be audited will be defined by the applicable accounting policies of the government. For example, to certify the financial statements of the Federation, the entity to be audited is the aggregate of all of the ministries, departments, agencies, etc. that the accounting policies require to be included in the financial statements of the Federation. Whether to perform audit activities in every single entity within the federation is a matter for the Auditor-General to decide. At a minimum, audit activities should cover all entities whose operations are material in the context of the financial statements of the Federation. In addition, the Auditor-General may plan to extend the audit activities to any other entities he considers significant.

In the case of compliance with authority audits, the Auditor-General has complete discretion as to which entities (whether organisational entities, such as agencies, DAOs, DDOs etc., functional entities, such as the payroll function or the purchasing function; or accounting entities, such as objects of expenditure, grants or appropriations) will be subject to audit and how often audits will be conducted.

5.3 DAGP Strategic Audit Plans

The Auditor-General is responsible for deciding what audit work is necessary to fulfil his mandate. Under his direction, DAGP produces a multi-year strategic plan for DAGP audit activities. The audits included in the strategic plan will include:

Mandatory and centrally led. These are audits required by DAGP's mandate to be performed each year, where the work performed by an individual directorate is part of a larger audit. An example of such an audit is the annual audit of the financial statements of the Federation.

Not mandatory and centrally led. These are audits where DAGP's mandate does not require that they be performed each year, and the work performed by the directorate is part of a larger audit exercise. An example of this type of audit could be a government-wide audit of contracting.

Mandatory and not centrally led. Those audits that are required by DAGP's mandate to be performed each year, where the work is not part of a larger audit. An example of such an audit is the annual audit of the financial statements of a specific commercial entity or a foreign-aided project for which the directorate is required to issue an audit opinion.

In these cases, the Auditor-General schedules the activities and delegates audit work to the audit directorates.

Consolidating the plans for all these audits produces the DAGP strategic audit programme.

5.4 The annual planning process

Each audit directorate is responsible for the audit of a pre-determined group of entities. The scheduling of this work is at the discretion of the audit directorates:

Not mandatory and not centrally led. These are audits that are not required by DAGP's mandate to be performed each year, and which are not part of a larger audit. An example of such an audit is the compliance with authority work being performed by the directorate on the entities for which it is responsible.

Each directorate prepares an annual audit plan for its audit activities which includes the audit activities required by the Auditor-General, plus the discretionary audits planned by the directorate, and submits it to the Auditor-General for approval. Once approved, the annual plans from all directorates are consolidated into DAGP's annual Corporate Audit Plan.

The annual audit plans contain:

- (a) A summary of the directorate's mandate.
- (b) A status report on the current year indicating the extent to which the planned coverage for the current year is being achieved.
- (c) A summary of the audits that the directorate intends to perform in the following year, categorised by:
 - Financial audits (including related compliance with authority audit);
 - Compliance with authority audits (where additional compliance with authority work is planned);
 - Audits of internal controls;
 - Audits of foreign-aided projects;

- Performance audits;
 - Other functional, systems, programme and fraud audits; and
 - Special assignments.
- (e) Details with respect to each of the planned audits for the following year. These details include, for each audit:
- The revenue and expenditure to be audited;
 - The person days required;
 - The staff members to be assigned to the audit (and any shortfall in the staffing);
 - The travel and daily allowances that are required;
 - A time schedule showing the dates by which each audit will be planned, executed, reported, etc.
- (f) A summary of the unallocated resources available within the directorate or the audit work for which staff is not available.

Audit management software is useful for developing this plan.

With respect to centrally led audits, each directorate will estimate the number of hours required to perform the work, the staff to be assigned to the work, and the timing of the work, and provide this information to the responsible central team. The central team, in turn, will be responsible for the overall budget of the audit.

This process is discussed further in Section 5.6 below.

As noted, some audits are not required each year. This provides the audit teams with some flexibility in scheduling work, so work loads can be balanced to reflect the number of resources available after taking into account resource assignments to mandatory audit work.

For example, the nature, extent and timing of the work that DAGP performs on its compliance with authority audits is somewhat discretionary. DAGP auditors can decide to perform extensive tests of compliance with authorities or more limited tests. As such, the budget for a given compliance with authority audit can be increased or decreased as required to match the available resources.

When deciding on the nature, extent and timing of the work that each directorate performs on compliance with authority audits, audits of internal controls and performance audits, the directorate should take into consideration the annually required work that it is performing, and integrate the audits to the extent possible. This is discussed in more detail in below.

Each directorate should ensure that it has sufficient staff with necessary skills to accomplish the work required by the Auditor-General Ordinance to be performed each year. Only plans for the work that is not required to be performed each year may reflect staff shortfalls.

Where staffing shortages are evident, senior management within DAGP will attempt to match one directorate's staff shortfall with unallocated staff in another directorate. Overall, though, the planned workload cannot exceed the available resources. Should the sum of the required resources exceed the available resources, the discretionary audit work must be decreased.

5.5 Integration of audit work

Under DAGP's annual planning approach, each directorate has discretion over work that is not required by the Auditor-General Ordinance to be performed annually. The directorate can decide, for example, which entities it wishes to audit, and the types of audits it wishes to perform (compliance with authority, internal controls, performance, etc.). However, to improve the efficiency and effectiveness of the work, DAGP recommends that each directorate integrate its compliance with authority, internal control and performance audit work that is not required to be performed each year with the work being performed on the mandated annual audits, such as the annual audits of financial statements. This integration could include:

- Performing the work at the same time; and
- Re-using the sample items selected for the financial audit work when performing the compliance with authority, internal controls and performance audit work. (Additional items could be selected if considered necessary.)

Synchronising the timing of compliance with authority work and other discretionary work to better match the timing of financial audit work, would create the following benefits:

- Samples for financial audit and compliance with authority purposes could be integrated, reducing the total amount of audit work being performed.
- When doing the financial audit work, the auditors could rely on the normally larger amount of work done for compliance with authority purposes. When the compliance with authority audit work is done several years later, this reliance is not possible.
- With auditors performing compliance with authority audit work on Year 1 transactions in Year 4, there is a risk that the auditors could discover, in Year 4, significant errors with respect to the accounts for Year 1. DAGP could then be in the embarrassing position of having to amend and reissue its certificate on the Year 1 financial statements. Doing all of the work in Year 1 would eliminate this problem.

In addition to these benefits, doing the compliance with authority work more frequently, and covering fewer years during each audit, could benefit the compliance with authority work itself, as follows:

- There would be more timely identification of deficiencies, which could lead to a quicker improvement of the related controls. This, in turn, should significantly reduce compliance with authority violations in subsequent years;
- Having auditors on the premises provides a deterrence factor – entity officials are less likely to commit frauds or perform sloppy work when auditors are present. More frequent visits will multiply this effect.
- Entity officials would no longer be required to find vouchers and other documents that are several years old. This could make it easier for them to find the required documents.

There are some disadvantages to amending the rotational audit approach for compliance with authorities. The most significant one is that auditors will spend less time at each location during each visit. This could increase the coordination effort, travel time, start-up time, etc. Because of these disadvantages, and because directorates may have other very valid reasons for not following the recommended approach, that DAGP has chosen not to mandate any one approach. However, directorates not following the recommended approach may be asked to justify the reasons for not doing so.

5.6 Approval process for the budget of centrally-led audits

As noted above, the first two categories of audits are centrally led. Each directorate will need to discuss the number of hours required to perform the work, the staff to be assigned to the work, and the timing of the work, with the responsible central team. The central team, in turn, will be responsible for the overall budget of the audit.

One of the responsibilities of the central team is to set the budget (both person days and costs) and the deadline dates for this audit. To do so, the central team will adhere to the following process:

- first estimate the number of hours and costs required to perform the audit, and the approximate timing of the work.
- then allocate the estimated hours of work to the central team, and each audit directorate.
- meet with each directorate to ensure that the directorate can perform the work within the proposed budgets and by the required deadline dates. Obtain the list of staff members from the audit directorate who will perform the work, and the proposed scheduling for each of those staff members.
- following the discussions with each directorate, update the budget for each directorate, and the overall budget for the audit.
- obtain the approval of the Auditor General for this budget.
- once the central team has received the required approval, each directorate will set aside the agreed-upon person days, dates, and staff members for the performance of the audit.