

## **8. ACTIVITY AND RESOURCE PLANNING FOR INDIVIDUAL AUDITS**

This phase primarily involves using the decisions made during the audit planning phase to update the audit programmes that will be used in the fieldwork phase. It is also concerned with updating budgets, staffing requirements, the timing of the audit work, and the information to be obtained from the entity.

### **8.1 Formulate/update Audit Programmes**

The audit programmes provide the auditors with a list of all the procedures to perform.

As discussed in Section 3.5 of DAGP's auditing standards, the audit findings, conclusions and recommendations must be based on evidence. The audit programme must contain all of the procedures necessary for the auditor to obtain sufficient, relevant, timely, reliable and objective evidence to support his/her audit findings.

The Standard Audit Working Paper Kit and the Audit Programme Guides for specialised audit areas provide a good starting point for the audit programmes to be used on any entity. The kit and guides contain the following components:

- Internal control questionnaires (ICQs) and tests of internal control;
- Analytical procedures; and
- Substantive tests of details.

The kit and guides also contain various planning documents, checklists, forms and supervision instruments.

This material cannot be used blindly, even on those audits where the auditor has extensive material. All entities are different, and each entity can change over time. Therefore, there is always a need to use professional judgment. For example:

- If limited reliance is being placed on the internal control structure, then some of the procedures in the Internal Control Questionnaires can often be deleted, or the work required for specific procedures can be reduced.
- If a lot of reliance is being placed on the internal control structure, then some of the substantive tests of details may not be necessary, or the extent of the work required in some of the procedures could be reduced.

When developing an audit programme, or tailoring one that is already in existence, it is important to ensure that the programme will provide sufficient, relevant, timely, reliable and objective evidence for each specific audit objective, related compliance with authority objective, and error condition.

As a starting point to assist in this process, the audit programme guides contained in the Standard Audit Working paper Kit and the Audit Guidelines contain a column that indicates for which objective the procedure is designed to provide assurance. Once the auditor has completed tailoring the programme for the specific entity, the auditor should then ensure that each specific objective contains an adequate, but not excessive number of procedures to test it.

*Nature.* Some procedures, by their nature, will provide more assurance than other procedures. They may be more relevant, more reliable, more objective, etc. To assess the amount of assurance that the auditor can derive from a particular audit procedure, the auditor needs to have a sound understanding of:

- The nature of evidence;
- What constitutes an appropriate quantity and quality of evidence; and
- The most appropriate methods of collecting evidence.

*Extent.* The extent of testing relates to how much work the auditor performs – the size of the sample, the number of observations he/she makes, the threshold amount selected for following up significant fluctuations from an analytical procedure, etc. The audit risk model and the guidance provided in Annexes B and D may be useful for this purpose.

*Timing.* Timing relates to the period covered by the test. Generally, the longer the period of time being covered by the test, the more assurance the auditor can derive from it. For example, a test of internal control that covers transactions for the entire year is better than a test of internal control that covers only a few months. This is why, if high reliance is placed on internal controls, the auditor normally samples transactions from the entire year. Similarly, a cut-off test that covers the transactions for a month after the year end would be a better test than one that only covers the transactions for a few days after the year end.

The requirement to consider the nature, extent and timing of each procedure applies to entity audit teams who are completing audit programmes developed by a central team. For the audit of the financial statements of the Federation, for example, entity teams will be provided with audit programmes prepared by a central team. However, these audit programmes cannot be used blindly. It is the responsibility of each entity team to review the programmes to ensure that:

- They contain all of the necessary audit procedures and that the required assurance will be achieved; and
- They do not include unnecessary audit procedures or involve more work than is required.

However, audit programmes for each specific financial audit objective and compliance with authority objective are not developed in isolation, for several reasons:

- Many internal controls, such as those that are part of the control environment, will be common to many components, specific financial audit objectives, related compliance with authority objectives and error conditions. The tests of internal control performed on these controls can be used to provide assurance for all of these components, specific financial audit objectives, etc.
- Some components are related to other components. For example, an understatement of expenditures may also result in an understatement of liabilities and/or an overstatement of cash. Therefore, the audit of each of these components will provide the auditor with some assurance as to the completeness and accuracy of the related components. To avoid doing more work than necessary, the auditor needs to take the assurance achieved from auditing the related components into account. Professional judgment is required.

## **8.2 Updating staffing requirements and allocating resources**

The audit must be appropriately staffed to achieve its objectives.

Audit planners should ensure that the staff members assigned to the audit have the audit skills required to perform the work efficiently and effectively.

Changes to the nature, extent and timing of the audit work may affect the levels of staff required to perform the work, and the assignment of specific staff members to the audit. Staffing requirements need to be updated at this time.

For example, if the auditor wishes to reduce the size of substantive samples and increase reliance on internal controls and analytical procedures, and also intends to introduce CAATs, then the staff members assigned to the audit should have the required training to carry out the tests of internal control, the analytical procedures, and the CAATs.

For the audit of the financial statements of the Federation and other audits where a central team makes the initial planning decisions, the central team will often be making its planning decisions on the assumption that each entity team will be able to provide the staff members with the required technical and supervisory skills to perform the audit as planned. It is the responsibility of each entity team to review the proposed audit plan and to discuss any potential staffing problems with the central team before commencing the work.

### **8.2.1 Factors to consider**

When assigning specific staff to audits consider the following:

- The required skill mix for each specific audit. Ensure that each audit team is composed of staff members with the technical and supervisory skills that are required to complete the audit.
- The needs of all the audits in the directorate. Better auditors should be assigned to the more difficult and risky assignments.
- The audit deadline. Should the deadline date for an audit be moved forward, the auditors may have less time after the year end to complete their audit. This may necessitate adding extra staff to the audit to complete it in a shorter period of time.
- Audit continuity. Having at least some of the audit staff members return to perform work on the entity the next year will help to ensure that the audit team has the required knowledge of the entity.
- Rotation. Changing audit staff every few years can add new ideas to the planning and performance of the audit. It can also help to ensure that the auditors remain independent of the entity being audited.
- Learning and advancement. While it is beneficial for some staff to return to an entity, it's also advantageous to give them more challenging work each year. At the same time, they could provide advice and assistance to the more junior auditors who are performing the work that they performed in the previous year.

Audit management software will assist in making these staffing decisions.

### **8.2.2 Allocating resources**

The specific audits planned for the period may have to be changed if certain audit skills or experience within the Audit Directorate (or supplied from elsewhere within DAGP) are overextended. The Audit Director should ensure that not only can the proposed set of audits be conducted within available resources but also that there are specific resources with required

skills available to conduct the audits. For example, if there is only one person capable of conducting audits of IT systems under development, the Director should ensure the total audit workload of this type across several audits does not exceed the time available.

This can be managed by drawing up a matrix assigning audit resources against audit tasks to enable the manager to balance workload with available resources.

### **8.3 Updating budget requirements**

Any changes made to the nature, extent and timing of the audit procedures will most likely affect the budgets for the work. The auditor should update the budgets at this time.

The audit budget should include a projection of:

- costs of travel, accommodation and subsistence while visiting audit sites;
- cost of any purchases;
- level of effort of audit team members.

The biggest aspect of budgeting is the budgeting of time – estimating the amount of time required to:

- Plan the audit;
- Perform the audit of each specific component, and in total;
- Evaluate the audit results;
- Report the results of the audit;
- Follow up the results of previous audits (if being done at this time); and
- Manage the audit, including the supervision of lower level staff and a review of their work.

Good budgeting is very important for audits where an opinion is being expressed. In these cases, the auditor needs to complete all the activities that have been deemed necessary to form an opinion, and so needs to ensure adequate resources (people, time, and money) are available. Where no opinion is being expressed, the auditor has discretion over the scope of work performed and can adjust the audit plan to best use the resources that are available.

For the audit of the financial statements of the Federation and other audits where a central team makes the initial planning decisions, the central team will also be providing the entity teams with a budget to perform the work. It is the responsibility of each entity team to review the budget that it has been given and to discuss any problems with the central team before commencing the work.

#### **8.3.1 Factors to consider**

The following factors should be considered when setting the budgets:

- size of the entity;
- complexity of the entity and its transactions;
- audit risk;
- inherent risk;

- quality of the internal control structure; and
- experience of the staff performing the audit.

Each of these is discussed below.

*Size of the entity.* The size of the entity may only have a limited effect on the required budget. This is because, as the entity being audited gets bigger, the materiality amount may increase proportionately. The sample size required to audit the expenditures in a small entity may be just as large as the sample size required to audit the expenditures in a large entity.

*The complexity of the entity and its transactions.* This will likely have a considerable impact on the budget. Some entities are inherently complex, and the substance of their transactions may be difficult to determine. Entities such as these could require a much larger budget than entities that are straightforward.

*Audit risk.* The lower the audit risk being taken, the more assurance is required. Reducing audit risk from 5% to 3%, for example, could add 20% to the total required audit work.

*Inherent risk.* The higher the assessed inherent risk, the more assurance the auditor needs in total from tests of internal control, analytical procedures and substantive tests of details. Also, the auditor may need to use a higher expected aggregate error when determining planned precision, further increasing the required amount of work.

*The quality of the internal control structure.* It is more efficient to place a lot of reliance on the internal control structure and reduce the substantive tests of details. Should this not be possible because the internal controls are poor (control risk is high), the auditor may need to increase the budget. Also, the auditor may need to use a higher expected aggregate error when determining planned precision, further increasing the required amount of work.

*The experience of the staff assigned to the audit.* More experienced staff should be able to complete the work in a fewer number of hours.

### **8.3.2 Reviewing and approving the budget**

The budget for each audit should be reviewed by the Director General responsible for the audit, and approved by the Deputy Auditor General responsible for the audit.

Each audit directorate should review the budgets set for each individual audit within the directorate to ensure that they look reasonable in relation to each other. Senior DAGP officials could carry out the same review across all directorates.

Team members should record the time that they spend auditing each component. Explanations for any deviations from the budget should be obtained, and the auditor should conclude whether or not the factor causing the increase or decrease in time is expected to recur in the next year. This information can be used as a starting point for the following year's budget.

## **8.4 Updating timing considerations**

All government entities have a 30 June year end. If DAGP were to wait until after the financial statements of all of these entities were completed before commencing work, the audit reports would not be timely and DAGP may not be able to meet required deadline dates.

To improve the timeliness of the audit reports, and to achieve other benefits, DAGP should commence work on the audits *before* the year end (i.e., at an interim date).

This approach will be essential for the audit of the financial statements of the Federation and the provinces since the New Accounting Model calls for the Auditor-General to issue a report on the financial statements on or before 30 October.

For the audit of the financial statements of the Federation and other centrally-planned audits, the central team will request each entity team to report to it by a certain deadline date. It is the responsibility of each entity team to discuss, with the central team, any potential problems that it may have meeting the deadline date before commencing the work.

#### **8.4.1 The use of interim audits**

An “interim date” is a date in advance of the year-end date. An “interim audit” is an audit performed at an interim date.

To illustrate, the auditors could decide to perform an audit of the transactions for the first six months of the year (1 July to 31 December) in the following February and March. They could then return to the entity in May to do the next three months (1 January to 31 March). They could then return again after 30 June to complete their audit.

The work performed at an interim date could include:

- Auditing a sample of revenue and expenditure transactions up to the interim date. A sample of the transactions for the rest of the year could then be audited at a later interim date, or after the year-end.
- Reviewing and testing the entity’s internal control structure. Enquiries, observations and walk-through procedures could then be performed at the year-end date to ensure that the internal controls had not deteriorated.

Note: When high reliance is being placed on the internal controls, the auditor would normally to also sample the transaction between the interim date and the year-end date.

- Discussing accounting policies, the form and content of the financial statements, contentious authority matters, etc. with entity officials. This could avoid having to deal with these matters at the end of the audit.

#### **8.4.2 Factors to consider when determining the optimum timing**

The key benefit of using interim dates is to improve the timeliness of the audit reports.

Another benefit of using an interim audit is that it can provide the auditor with an earlier indication that the planning decisions may need changing. For example, the auditor may have intended to place a lot of reliance on the internal controls, but may find at an interim date that the controls are not reliable. The auditor would then be able to amend the audit plan well before the year-end date.

A further benefit of performing an interim audit is that it may solve staffing problems. The required staff may not be available to do all of the audit work after the year-end date. Also, there may be a need to do some of the work before the year-end to keep all of the staff fully occupied.

The major drawback of doing some work at an interim date is that it may add to the cost of the audit. If, for example, the bank reconciliations were verified before the year end, the auditor would normally need to review the transactions that took place between the date of the in term work and the year end.

## **8.5 Updating information required from the entity**

It is entity management's job to ensure that the financial statements, and the supporting books and records, are complete and accurate. Management should be preparing its own analyses of the account balances, reconciling accounts, preparing lists of specific assets and liabilities making up various account balances, checking the year-end cut-off, doing searches for unrecorded transactions, etc.

The auditor could make use of the above work to reduce the audit effort. To do so, the auditor should prepare a list of all of entity management's analyses, reconciliations, schedules, lists, etc. that would be useful for the audit, and submit the list, with a request for copies, to entity management well in advance of the commencement of the audit.

This process will not only help to improve the efficiency of the audit, but will also be a good test of the extent to which entity management has fulfilled its own responsibilities.

The Standard Audit Working Paper Kit includes a list of forms, schedules, reconciliations, analyses, documents, etc. that are typically often requested from entity officials.

## **8.6 Re-assessing the general and detailed planning decisions for individual audits**

### **8.6.1 The need for re-assessments**

Decisions made in the detailed planning phase may require changes to decisions made during the general planning phase. For example, staffing and timing issues may affect the auditor's ability to use the optimum mix of tests of internal control, analytical procedures and substantive tests of details.

In addition, audits cannot be planned in isolation. Each audit directorate needs to consider how best to utilise its entire staff on all of its audits in the most efficient and effective manner. This could result in some individual audits not being done in the most efficient and effective manner.

As we will see in later chapters, the general and detailed planning decisions should also be re-assessed in later stages of the audit.

## **8.7 Documenting the detailed planning decisions**

### **8.7.1 The need for documentation**

Paragraph 3.5.5 of DAGP's auditing standards requires: *"Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit."*

The general and detailed planning decisions are documented primarily through:

- An updated permanent file;
- An updated planning file;
- An updated audit planning memorandum; and
- Updated audit programmes.

### **8.7.2 Updated permanent file**

The permanent file contains information that can be useful to the auditor for several assignments. A sample index for a permanent file is contained in the Standard Audit Working Paper Kit.

As is illustrated in the working paper kit, the information that is often found in the permanent file includes:

- The role of the entity, its vision and mission statements, and its most recent corporate plan;
- Copies of relevant government legislation, regulations, guidelines and other rules affecting operations;
- Organisation charts;
- Chart of accounts;
- Summary of accounting principles used by the organisation;
- Copies of long-term contracts/leases;
- Copies of loan agreements, schedules of amortisation for debts and special assets;
- Extracts of minutes;
- Special remuneration conditions for senior officers; and
- Reports to management and management's response.

Policies and procedures manuals may be in the permanent file if they are brief or, alternatively, a copy should be kept on the auditor's premises.

## **8.8 Updated planning file**

The planning file contains support for all of the planning decisions that have been made. The usual content of these files is illustrated in the Standard Audit Working Paper Kit.

As is illustrated in these guidance materials, the information that is often found in the planning file includes:

- Support for the work performed and the decisions made at each step of the general and detailed planning processes. This would include the work performed to update the planning decisions made in previous years
- An updated audit planning memorandum. See below.
- Updated budgets, staffing requirements, timing considerations, information required from the entity, etc. resulting from the detailed planning process.

### **8.8.1 Updated audit planning memorandum**

This document is usually included in the planning file. It summarises the key planning decisions that have been made, with emphasis on the changes that have been made to the previous year's plan.

The usual content of an audit planning memorandum is illustrated in the Standard Audit Working Paper Kit.

### **8.8.2 Updated audit programmes**

Audit programmes contain the specific audit procedures that the auditor needs to complete during the fieldwork phase.

Standard audit programmes are included in the Standard Audit Working Paper Kit. Audit programmes for the 13 specialised areas are included in the Audit Guides for those areas.

## **8.9 Approval of the general and detailed planning decisions**

All planning decisions should be approved before the fieldwork commences. This is to ensure that:

- Appropriate and sufficient evidence is obtained to support the opinion;
- All of DAGP's auditing standards are complied with; and
- Only necessary work is performed.

Since the work performed will form the basis for the conclusions reached and the form and content of the reports being issued, it is important that the general and detailed planning decisions be reviewed and approved by senior DAGP officials. It is suggested that the planning decisions be reviewed by the responsible Director General and approved by the responsible Deputy Auditor General.