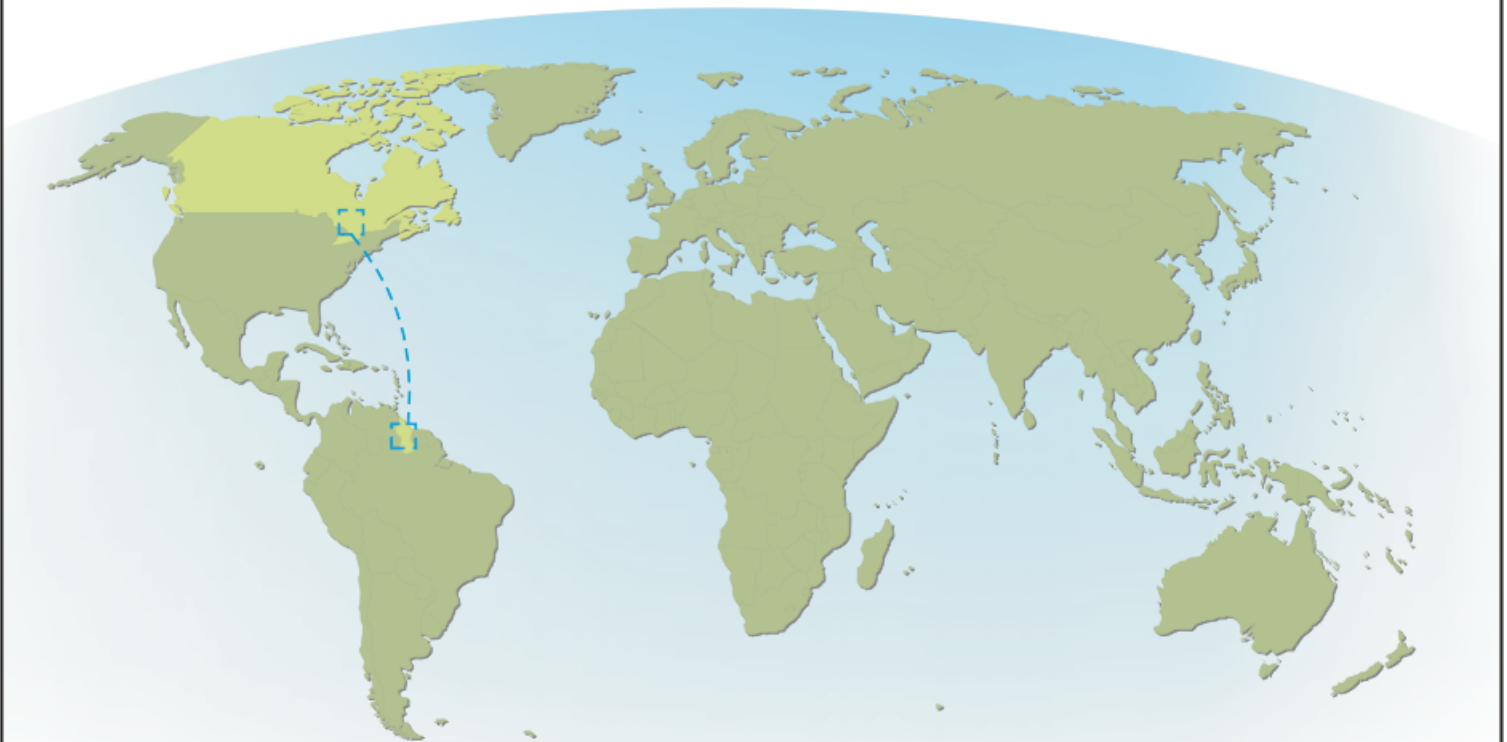


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Developing a Strategy for Planning

Introduction of VFM Audit

Strategic Paper by
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GUYANA • CANADA

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EXECUTIVE SUMMARY

Value-for-money (VFM) audit is to be introduced in Guyana during the year 2003. The Office of the Auditor General of Guyana (OAG) is awaiting the passing of a new *Audit Act* that will provide for greater independence as well as authority to carry out VFM audits.

Currently, the OAG is mainly concerned with financial (attest) audit. It has reported over the years primarily on waste and extravagance, and weaknesses in internal control and management systems, with a view to avoiding a non-recurrence. However, the International Organization of Supreme Audit Institutions (INTOSAI) has been in the forefront in encouraging an expansion of the role of SAIs to include VFM audits. Such audits seek to determine to what extent an organization uses the resources at its disposal in an economical, efficient, and effective manner to attain its objectives. In Canada, there is a fourth consideration, that is, a review of the extent to which public resources are used with due regard to environmental considerations.

The aim of this paper is to propose a strategy to introduce VFM audit planning in the OAG of Guyana. Accordingly, consideration needs to be given to overall audit planning, incorporating human and financial resources, time frames, and expected results.

The methodology that would be developed would assist staff in planning a VFM audit so that an effective audit can be carried out. Staff must also be able to assess to what extent a VFM audit can be carried out. In addition, training of staff to improve communication skills, and the use of information technology as well as various audit tools would be necessary. Therefore, in order to plan VFM audits effectively, it is important that there is full support from management and the co-operation of all staff.

1. INTRODUCTION

1.1 Background

- 1.1.1 The Office of the Auditor General of Guyana is a constitutional office dedicated to promoting public accountability. As such, it is concerned about certain deficiencies in the regulations that currently govern the role and powers of the Auditor General. The Auditor General is appointed by the Head of State, who is also the President of the country, on the advice of the Public Service Commission. The Constitution ensures that the Auditor General is not subject to the direction or control of any person or authority. The tenure to the Office is not limited, but the Auditor General must demit the Office on attaining the age of 65.
- 1.1.2 Our current Auditor General has implemented many changes in the Office to ensure that there is better accountability to Parliament. His latest effort was to seek to have the necessary legislative changes to provide for greater independence from the public service and to carry out VFM auditing, among other things. In anticipation of the passage of the new *Audit Act*, I would like to propose a strategy to introduce VFM audit planning in the OAG of Guyana.

1.2 Objective

- 1.2.1 The purpose of this paper is to outline the process and procedures involved in planning a VFM audit in order for the audit to be effective. The timing and the resources needed to develop this process are also discussed. My main objectives are
- to prepare workshops to teach the required level of staff what I have learned on this program, in particular the planning stages of VFM auditing;
 - to identify relevant areas to be audited; and
 - to assist in determining the staff, resources, budgets, and time frames.

1.3 Expected outputs

- 1.3.1 I am expected to develop as much as possible the skills that are required to plan a VFM audit effectively. In the OAG of Guyana, very little emphasis is placed on planning a VFM audit. In Canada, 25-30 percent of the audit work is done on the planning stage of an audit, depending on the scope of the audit. This approach is very important as it enables the Office to have greater assurance that the audit will be carried out effectively.

2. THE OFFICE OF THE AUDITOR GENERAL OF GUYANA

2.1 Structure of the organization

- 2.1.1 The National Assembly, by way of the Estimates of the current expenditure, has authorized the staffing of 254 positions for the OAG. However, the actual staff complement is currently about 148.

- 2.1.2 The Auditor General is the head of the OAG. He is assisted in carrying out his duties by a Senior Deputy Auditor General, two deputy auditors general, 12 assistant auditors general, and principal auditors, assistant auditors, senior audit clerks, audit clerks, and support staff. The Senior Deputy Auditor General is the most senior official in the OAG from the general public service stream. Apart from assisting the Auditor General on technical and managerial matters, he is also responsible in the same manner as a permanent secretary for the supervision of the administrative and financial affairs of the OAG. The Secretary to the Treasury designates him Accounting Officer and Principal Receiver of Revenue, answerable to Parliament.
- 2.1.3 The OAG is divided into 13 operational divisions, each of which is headed by an Assistant Auditor General. Twelve divisions are involved in the execution of audits. The other division is responsible for the administrative matters and the verification of superannuation benefits for retired public servants.

2.2 Current Situation

- 2.2.1 The OAG presently carries out the following types of audits in accordance with the requirements of the *Financial Administration and Audit Act*:
- annual financial statements audits on the Public Accounts;
 - commercial-type audits of public corporations (where government holds controlling interest) and statutory bodies;
 - project audits of international funding agencies such as the World Bank, Inter-American Development Bank, and the United Nations Development Program;
 - audits of local government agencies; and
 - special investigations, including fraud investigations.
- 2.2.2 Although the OAG does not have the legal mandate to carry out VFM audit, it conducts some elements of it under the guise of “avoidance of waste and extravagance”, especially related to large capital projects. This is evidenced by reading the various annual reports issued by the OAG.

3. STRATEGY FOR PLANNING VALUE-FOR-MONEY AUDIT

3.1 Understanding the planning process

A VFM audit needs to be thoroughly planned to be effective. The planning process leads to appropriate decisions on the nature, extent, and timing of the VFM audit work to be undertaken.

The implementation of the one-pass plans would be of great advantage for introducing the planning stage of the VFM audit. One-pass plans provide a systematic, integrated, and risk-based approach to long-range audit planning.

The elements of the one-pass planning process are the following:

- Identify entity/functional objectives and stewardship responsibilities.
- Prepare the entity risk profile or challenges/risks to achieving functional objectives.
- Prepare the entity control profile.
- Align risks with Office mandate.
- Identify potential audits and assign priorities.
- Assess gaps in audit coverage.
- Report to Executive Committee.

On the completion of the one-pass plan, there would be a wider knowledge of the entity to assist in determining what programs should be audited and in what order, depending on the high-risk areas being treated with priority. Upon deciding on the audit to be done or what aspect of a program is to be audited, the overview and survey stages begin for the areas selected for audit.

3.1.1 Overview stage

During the overview stage, it is important that the auditors have an up-to-date knowledge of the entity that is to be audited. Accordingly, I would recommend adherence to the following process:

- Develop an overview plan of the audit.
- Ensure that detailed research to gather knowledge on the proposed entity and/or subject matter is carried out.
- Prepare a folder of all information gathered and ensure that it is updated during the course of the audit.
- Prepare a list of all potential people inside or outside the organization who the team would like to talk to;
- Contact the relevant personnel of the entity to introduce the audit and to determine to what extent more information is needed and who to contact further.
- Ensure that all notes of the meetings conducted are documented.

During this process, staff will determine whether the audit will continue; if it will, they can continue making initial scoping decisions and defining the lines of enquiry.

3.1.2 Survey stage

The survey stage, which is also part of the planning stage, would focus on the following areas:

- **Scope of the audit.** This refers to the framework, boundary, limit, subject and nature of the audit. In deciding on the scope of the audit, the Office would focus on the relevance to the mandate, matters of significance that would most likely add value to Parliament and taxpayers, and auditability that would decide whether the team selected has the required expertise to carry out the examination successfully.
- **Objectives.** The objectives of the audit would be carefully considered and expressed as clearly as possible so that the auditor can reach a conclusion against each objective.
- **Cost and timing of the audit.** It would be necessary to assess whether the Office has the financial resources and the time to do the audit.
- **Skills needed to do the audit.** The Office would need to determine whether it has an adequate number of audit staff and supervisors with the appropriate skills, knowledge, and experience.
- **Criteria.** The criteria of the audit must be suitable so that they provide a basis for developing observations. Criteria will be developed from sources such as controls, standards, measures, results, commitments, and targets used by the entity audited.
- **Achievements.** It would be important to assess whether objectives expected of the entity have been achieved, at what cost they have been achieved, and whether they have been achieved economically, efficiently, and effectively. It would also be important to determine what areas of weakness in the entity, as perceived by management, will be taken into consideration.

At the end of the survey stage, the results of the survey would be documented in a survey report that would include all of the above noted areas. This would assist in the preparation of the examination plan. Also, terms of reference, which would highlight the objectives, scope, and criteria, would be sent to the entity for their comments. Any disagreements would be included in the report.

3.2 Assessing risks to value-for-money audit

- 3.2.1 An examination of the risks to VFM auditing helps to evaluate priorities and to decide among different possibilities for including in a performance audit strategy or program. In carrying out risk assessment, as auditors, we should be able to
- identify areas, operations, and activities that are at risk to poor value for money;
 - identify definite risks;
 - establish VFM control and management information systems;
 - assess the degree of risk in terms of probability, regularity, worth, extent or result; and

- arrange the possible audit areas in an order of priority.

3.2.2 The following risk factors should be taken into account when planning a program for VFM audit:

- **Identified risk** – This will determine whether an activity is not or may not be achieving good value for money.
- **Inherent risk of poor VFM** – This will help to identify certain types of operation that by their nature run a risk of poor VFM.
- **Materiality** – Materiality is generally considered in terms of value, that is, the amount of money involved in relation to the whole. The inborn nature or uniqueness of an item or group of items may also render a matter material.
- **Auditability** – The activity cost and output must be capable of being discreetly identified and audited with a clear accountability for its management. Reliable information on the activity should be available and in auditable form.
- **Sense of balance** – The selection of areas or topics should result in a balanced program that ensures coverage of all important areas in the audit field over a reasonable time frame.

3.3. Roles and responsibilities of key players

3.3.1 To introduce the planning of the VFM audit in the OAG of Guyana, the involvement of all staff will need to be considered to ensure that an effective audit can be carried out. The roles and responsibility of the key players are outlined as follows:

Designation	Roles	Responsibilities
Deputy Auditor General	Oversees all aspects of the audit	<p>Reviews the overview plan, budgets, audit plan, and program to determine whether the audit has been planned in a cost-effective way.</p> <p>Reviews and ensures that audit policies were taken into consideration during the preparation of the plan.</p> <p>Advises the Auditor General of any critical issues that may arise during the course of the planning stages.</p>

Assistant Auditor General	Ensures that the audit is planned in a cost-effective way and that the work produced is of good quality.	<p>Initiates the planning process and develops a detailed audit plan.</p> <p>Reviews performance budgets.</p> <p>Ensures that the audits are planned with a realistic time frame.</p> <p>Determines the audit objectives, identifying significant materiality and overall audit risks.</p> <p>Supervises the carrying out of the overview and survey stages.</p> <p>Exercises overall supervision of the Principal Auditor (PA) and team members.</p> <p>Gives advice to the PA and audit team.</p> <p>Involves himself/herself in major audit decisions with regard to the scope of the audit.</p> <p>Develops reporting strategy and prepares reports.</p>
Principal Auditor	Executes the audit of the entity and ensures that the audit as planned is carried out efficiently.	<p>Acquire adequate team knowledge of the entity.</p> <p>Develops effective departmental relations.</p> <p>Leads the audit.</p> <p>Delegates responsibilities.</p> <p>Monitors progress.</p> <p>Prepares audit files and all other documentation.</p>
Team members	Ensures strict compliance with all audit policies.	<p>Ensures that surveys are conducted with due care and diligence.</p> <p>Observes where problems may arise during the survey stages.</p>

3.4 Developing planning guidelines for VFM audits

- 3.4.1 Guidelines for the planning of VFM audits would be very useful for the staff of the OAG of Guyana. These guidelines should include instructions that would be easily understood by all staff. They should also be prepared in such a way that staff can use them to gather the information readily for the OAG to make decisions in planning the VFM audits.

3.5 Developing relevant audit tools

- 3.5.1 **Information technology.** In Guyana, information technology practices are used on a very small scale in the public and the government as a whole. We have limited use of the Internet facilities in government offices, but nevertheless there is always a starting point to a good initiative. I would propose a plan to the Auditor General to introduce information technology in our Office so we can communicate more effectively among ourselves. The introduction of this technology would be very costly and would take some time since we would have to get full support from the government.
- 3.5.2 **T-minus dates.** Like the OAG of Canada, we have an amended mandate to report to Parliament more than once a year. This was a very important achievement in our reporting phase. If we were to introduce the T-minus dates, as in the case of the OAG of Canada, we would be able to report to Parliament in a more effective way. T-minus dates are the time frame set up to complete the various stages of the audit cycle – for example, overview/survey reports (T-36 weeks) and AAG clearance draft (T-15 weeks). These time periods represent the various activities to be completed before the reporting date.

3.6 Encouraging continuous learning

- 3.6.1 The skills and the capabilities needed to carry out a VFM audit effectively would vary from audit to audit. As our Office is equipped with a training division, I would recommend to the Auditor General that regular workshops be developed to update our VFM training techniques. I would also recommend that training programs be put in place in order to teach new employees VFM audits techniques. Since we are still awaiting the passing of the new *Audit Act* that would give us the full powers to do VFM audit, it is important that we equip ourselves during this waiting period with updated VFM audit techniques used in developed countries.

4. IMPLEMENTING A PLANNING STRATEGY

- 4.1 With the assistance of the previous Fellows and office colleagues, we hope to implement the various steps of the planning phase of VFM audits.
- 4.2.1 To do this effectively, we would conduct a pilot project that would involve selecting the audit and its criteria. These would include materiality, relevance, measurable benefits, and political and bureaucratic support. The pilot project time frame is set out in the following chart:

Planned date	Activity
August 2003	Identify the possible areas that the project can be carried out. Determine the plan for the audit. Appoint a responsible team.
September 2003-December 2003	<u>Preparation phase</u> Revise key player's role. Develop planning guidelines. Develop monitoring tools. Develop a training workshop (if needed).
January 2004	Communicate with the team about the planning process.
February 2004	Provide training for the team (if needed).
February 2004-July 2004	Implement the planning for the fiscal terms August 2003 to December 2003 and January to December 2004.
August 2004	<u>Continuous improvement</u> Develop a system for updating the planning process. Introduce information technology practices.

5. CONCLUSION

- 5.1 Planning is an important phase in developing the value-for-money audit program for the Office. It would indeed be a pleasure to assist the OAG of Guyana in introducing planning for VFM audit so that we can consistently carry out effective VFM audits. While we are awaiting the passing of the new *Audit Act*, I would hold training workshops with the support of the Auditor General and the previous Fellows to update our colleagues on our excellent training in Canada. We would consider all the possible areas where we could conduct our pilot audit to assist us in introducing the planning stage of VFM audit.
- 5.2 Provided that we follow our guidelines and polices, introduce our relevant audit tools, and have the co-operation and support of colleagues and management, I know that this great achievement will be a success story of my training in Canada.

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