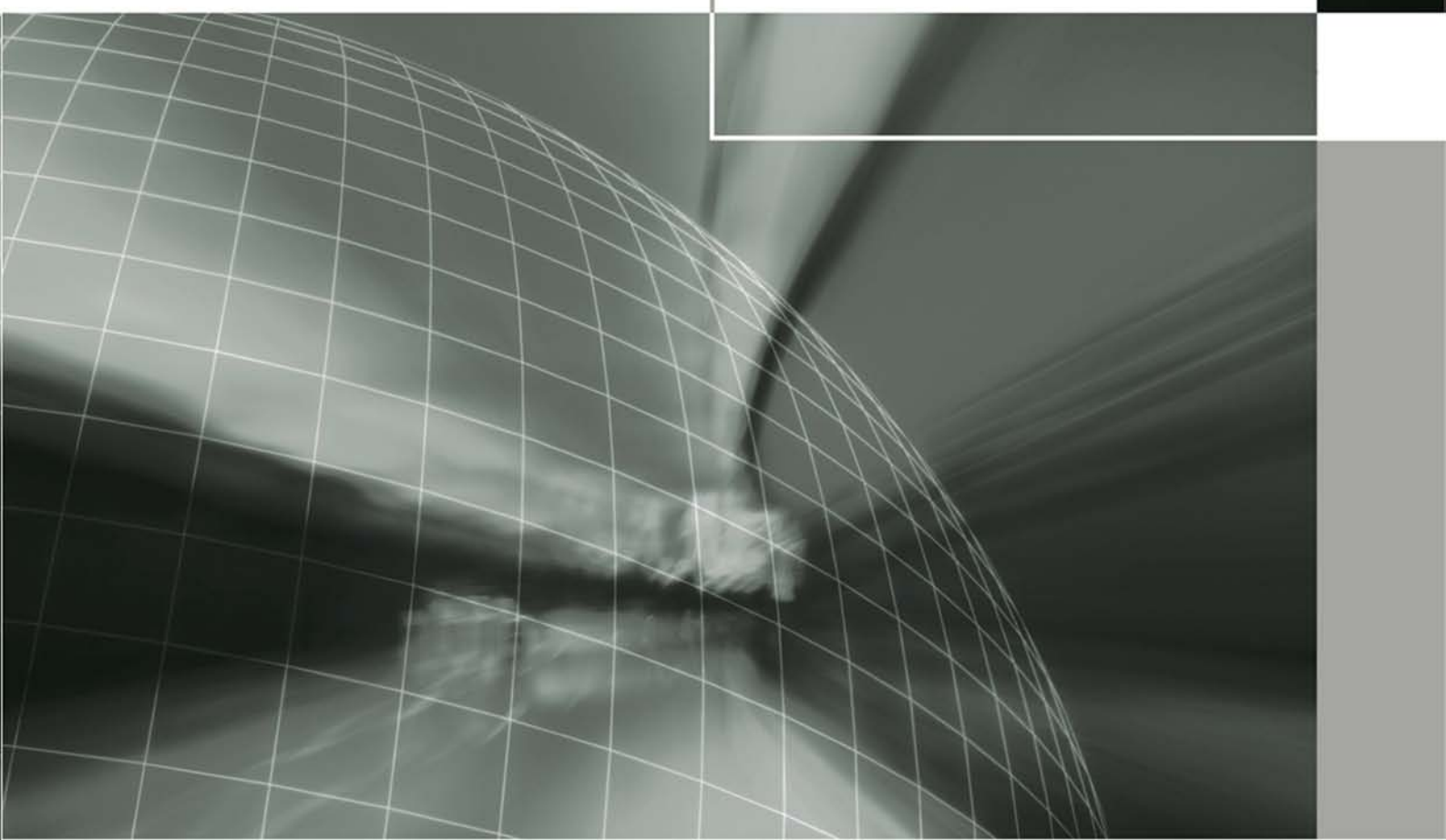# AFROSAI-E

Annual Overall Auditing Plan

2011

Preface

In 2009 The AFROSAI-E and IDI developed a strategic planning handbook is an attempt to help SAIs in AFROSAI-E to create their strategic plans. Developing annual plans based on the strategic plan is an important step to ensure that the strategic plan is implemented in a coordinated and effective manner. In order to assist SAIs in this regard, AFROSAI-E has further developed two separate guidelines which are the "The Annual Operational Plan and Planning Process" and the "Annual Overall Audit Plan" to enhance the annual planning processes in the SAIs.

This guidance applies to the process of the SAI in compiling the Annual Overall Audit Plan of the SAI for the regularity audit function. The AFROSAI-E Institutional Strengthening Framework states that annual overall audit plan should be in place in the SAI (for both regularity and performance audit) and it is included as an element under the Audit Methodology and Standards domain.

This guidance is aiming to provide a practical step by step approach and user friendly guidance to assist SAIs compiling an annual overall audit plan for regularity audit and related activities. It will also assist management of a SAI to be able to proactively respond to challenges and changes in their environment.

The working group to develop this guideline was composed of Goran Olson, Gorden Kandoro, Josephine Mukomba all from the AFROSAI-E Secretariat and Eszter Rapanos, a consultant who finalised the document. The working group would like to thank all the SAIs who gave valuable comments during the development of the guideline.

The guideline is a living document which will be updated in line with new experiences.

Pretoria, November 2011

Wessel Pretorius
Executive Officer
AFROSAI-E Secretariat

ANNUAL OVERALL AUDIT PLAN

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LEVELS OF PLANS IN A SAI

Planning is done at various levels of a SAI and is a critical function in ensuring the fulfilment of goals and objectives. Plans include a strategic plan, annual operational plan, annual overall audit plan, other functional plans, business unit plans or work programs and plans for the individual audits. It is expected that every manager in the SAI should carry out a planning function based on his or her level of responsibilities. The annual overall audit plan and links between the different plans in a SAI is demonstrated in Figure 1. below. This is a holistic demonstration of the planning documents which can be part of the system of planning in a SAI.

There should be a strong link between plans on different levels of the SAI. Figure 1 indicates some, but not all of these relationships. There may be for example, additional horizontal relations between functional plans.

Provisions in the strategic plan should be cascaded down to the annual operational plan and then to the annual overall audit plan and to other functional plans. In turn, the business unit plans should reflect details under the provisions of the annual overall audit plan and the annual operational plan. In smaller SAIs the annual audit planning process may be simpler than the one described above. For example, the annual operational plan may combine functional plans into one document as it may not be practical to have all the different levels and types of annual plans. The compilation of plans on different levels may be undertaken over the same period of time.

Figure 1. Levels of plans in an SAI

STRATEGIC PLANNING
Responsibility:
Top management

INSTITUTIONAL CAPACITY BUILDING FRAMEWORK & RELATED POLICIES AND PROCEDURES (1)

Strategic Plan (2)
Providing for long term planning of the SAI. There may be number of subordinated strategic plans including information technology (IT) and / or performance audit.

ANNUAL SAI LEVEL PLANS

Responsibility: Top management / Coordinator

Annual Operational Plan (3)
Setting annual objectives, identifying priority areas and indicators based on the strategic plan and risk assessments

Support functions

Core function

ANNUAL FUNCTIONAL PLANS
Responsibility: Top Management, Coordinator

Example: Annual Communication Plan

Example: Annual HR Plan

Example: ICT Annual audit plan

ANNUAL OVERALL AUDIT PLAN (4)
- Assessment of constraints
- Compilation of activity plans for regularity and performance audits
- Risk assessment in place for prioritizing audit risk
- Include a clear statement of audit coverage
- Addressing audit backlogs

BUSINESS UNIT PLANS (5)
Responsibility: Senior managers

Communica-tion Business unit / section plan activity and project plans

Human resources business unit / section plan, activity and project plans

ICT business unit / section plan

Audit Business unit / section plans, activity and project plans

AUDIT / PROJECT PLANS (6)
Responsibility: Operational managers

Project / activity 1
Project 2
…

Project / activity 1
Project 2
…

Project / activity 1
Project 2
…

Audit 1
Audit 2
Audit 3
…

1. Planning in a SAI begins with the adoption of the Institutional Capacity Building Framework (ICBF) of AFROSAI-E. Policies and procedures of a SAI should translate the provisions of the ICBF and relevant legislated frameworks into working practices; guide the planning process of the SAI.

2. Planning takes place on different levels, starting with a high level strategic planning covering a period of 3-5 years. It entails the process of defining the SAI's strategy, direction, objectives, and making decisions on how to allocate available resources to pursue this strategy, including its budgets and people. The strategic plan should cover ongoing or routine activities in a SAI and also provide for areas where development is necessary. Strategic developmental areas normally relate to one or more aspects of the ICBF. Some SAIs may prepare different strategic plans covering for example information technology or performance audit in separate documents.

3. The annual operational plan describes how, or what portion of, a strategic plan will be put into operation during a given financial year. It is aimed to ensure proper implementation and effective coordination of the strategic plan. It details the actions required to implement provisions of each strategy within a year, the associated risks and the mitigation strategies, assigning responsibilities, setting timeframes, identifying resources required, and indicating what difference the specific actions will make.

4. SAIs normally also prepare a number of functional plans on an annual basis for a domain or part of a domain identified in the ICBF. These plans cover both support functions and the core 'audit' function of the SAI.

   The core function contributes directly to the achievement of the objectives of an entity. For a SAI this core function is identified as the audit function which leads to the production of the audit report. Support functions provide services for the core functions, for example human resources (development plan), communication or administrative services. Functional plans may include the annual human resources plan, a communication plan and the annual audit plan. Functional plans should link directly to the annual operational plan of the SAI. The preparation timelines of these plans may overlap with those of the annual operational plan.

   The provisions in the annual overall audit plan may lead to or create further plans generally on a more detailed level. For example, a SAI may identify the objective to increase the audit coverage. To achieve this, there may be a need to have better trained auditors, which may necessitate change in the SAI's development plan. Objectives in the annual overall audit plan should cascade down from the annual operational plan of the SAI.

   The responsibility for the preparation of the strategic plan, annual operational plan and functional plans including the annual overall audit plan lies with the SAIs' management, or top management. However, all relevant employees on different levels in the SAI should be able to and be given an opportunity to contribute. As aspects covered in the annual overall audit plan cover more than one elements of the whole SAI it is recommended that top management appoints a coordinator, or a team to oversee the preparation of these plans.

5. On a business unit or section level plans are prepared to further interpret provisions of the functional plans. Such plans are usually prepared by the heads of business units or sections of the SAI which are subsequently approved by top management. An audit business unit level plan will provide further details on the audits and activities identified in the annual overall audit plan and should also consider inputs from other functional plans.

6. Projects, activities and audits identified in the annual overall audit plan and business unit plans should have their own detailed plans. The operational manager of the project, activity or audit will prepare the plan on this level. For individual audits, a high level official of the SAI with assigned responsibility for the audit will be responsible for approving key planning documentation. Reference can be made to the Regularity Audit Manual for more detail on the planning for individual audits.

1. OBJECTIVES OF THE ANNUAL OVERALL AUDIT PLAN

The annual overall audit plan deals with aspects relating to SAI's core process leading to the production of the audit reports. This process should start by an identification of the audits and audit areas which the SAI leadership believe they should focus on during the year. The ICBF specifically mentions the overall audit plan and the fact that it should be in place, including the following:

- Assessment of constraints;
- Activity plans for regularity and performance audits;
- Risk assessment in place for prioritizing audit risk;
- Clear statement of audit coverage;
- Addressing of backlogs.

How can SAIs use the information in the annual overall audit plan?

After analysing the relevant information, the following conclusions should be drawn in the annual overall audit plan:

- The list of audits to be performed during the year (audit coverage).
- The assignment of audits to the different business units, considering available resources and the need to rotate audits.
- Identification of audits to be performed in-house or contracted out.
- 'Small audits' which are allowed to apply the audit methodology for small entities.
- Larger and high risk audits which need engagement quality control reviews.
- Distribution of SAI budgets to the audit business units.
- Timing of audits and the audit calendar for the year.
- Actions to clear audit backlogs.
- Initiatives and considerations for other plans.

In addition, the annual overall audit plan should make reference to the following audit areas:

- Audit of themes or focus areas including environmental, procurement, forensic or investigative. Audits of these focus areas would be dealt with as part of regularity audit or a transversal (theme) audit;
- Special audits, including those based on Parliamentary requests.

FORMAT OF THE ANNUAL OVERALL AUDIT PLAN

The annual overall audit plan includes information on the regularity audit and related activities which are going to be performed during the year. Related activities include special audits which may be requested by stakeholders, or transversal audit themes identified for the year. A suggested format for annual overall audit plan is included in Annexure 1, covering the following key areas which are explained in this guidance. The outline of the annual overall audit plan is as follows.

Foreword by Head of SAI.

Introduction stating the objectives of the annual overall audit plan. A brief summary of past achievements maybe provided.

Regularity audits
This section includes information on which audits will be performed during the year, the allocation of such audits to business units.

Transversal audit themes selected for the year. More information should be provided on the reasons for selecting the audit themes, the assignment of the coordinating role and also the status of related procedures.

Special audits planned to be performed, providing more information on the reasons for selection, the budgets, timeframes and the status of the audit programs. Where special audits are mandatory this should be stated.

IT audits planned for the year (unless it is included in a separate plan).

Quality assurance reviews planned to be performed.

Allocation of audits to business units / sections.

Annexure(s) where found necessary to include further information such as the risk matrix.

THE ANNUAL OVERALL AUDIT PLANNING PROCESS

The annual planning process consists of seven steps, describing how the annual overall audit plan of the SAI is prepared. These steps are:

1. Planning the plan;
2. Information gathering;
3. Analysis of information;
4. Communicating and concluding on the plan;
5. Documentation and dissemination;
6. Implementation of provisions of the plan;
7. Monitoring and evaluation.

5.1 Planning the plan

Compiling an annual overall audit plan is just like any other project which needs to be planned, budgeted for and requires resources allocated to it. There is much to think about, including how the provisions of the annual overall audit plan will be implemented, monitored and evaluated. Communication is essential as different audit business units need to know what is expected of them with timelines and responsibilities clearly set out. Information requests and instructions necessary for the planning process should be included in directives.

The coordinating function

The compilation of the annual overall audit plan involves a lot of interaction and coordination. The development of annual plans is a primary responsibility of the SAI's management, however, the responsibility to coordinate the compilation of the plans are often assigned to an individual, committee or a team in the SAI. Even though this maybe the case, at the end of the planning process it should be the responsibility of the Head of SAI to conclude on the analysis and key issues. Who should coordinate the planning process depends on the circumstances of each particular SAI. In small SAIs, it is more likely that one person is appointed as a coordinator rather than a committee. In either case, the individual(s) involved must preferably be on a senior manager level and should have adequate knowledge of the SAI and its environment.

5.2 Information gathering

Information gathering relies on different processes. Compiling an annual overall audit plan begins with obtaining the source documents and information used for analysis. The person assigned for information gathering should understand the environment in which the SAI operates in order to identify and obtain the source documents.

Potential source documents which should be considered during planning are listed in Table 1 below. Most of these source documents should have been already considered during strategic and operational planning. However, officials tasked with compiling an annual overall audit plan for the SAI should be familiar with content of these documents to understand the contents and provisions of other plans.

Table 1. Sources for the annual overall audit plan

WHAT INFORMATION IS NEEDED?	SOURCES / DOCUMENTS	WHERE CAN IT BE FOUND?
National priorities and goals	State of the nation address Official statements by the President / Prime Minister or high level officials	Government website / library Newspapers
List and nature of government entities to be audited	List of government entities Acts or regulations	Budget statements Lists from the Ministry of Finance
Budgeted expenditure government entities	Budget statements	Ministry of Finance SAI library
Public Expenditure and Financial Accountability (PEFA) indicators applicable for the SAI's performance Country specific PEFA evaluation where applicable Expectations on SAI's reports from Parliament and key stakeholders	Stakeholders (Parliament, media, donors)	Website for PEFA: http://www.pefa.org Search website for individual country PEFA reports Stakeholder surveys, interviews, conference reports, minutes of meetings Donor agreements
Mandatory audit responsibilities of the SAI Reporting timeframes for SAI and for auditees	Legal framework for the SAI and leading financial regulations	Public Audit Act and other Acts and Regulations, for example Public Finance Act and Regulations
Strategic directives Priorities identified for the SAI with relevant provisions for activities, targets and deliverables	Strategic plan	SAI library, Intranet
Budget statement, planned budgeted expenditure of the SAI	SAI budgets	Ministry of Finance
Relevant internal policies may include a risk policy, human resource policies, IT policy	Internal policies of the SAI	SAI library, Intranet
Actual performance against targets (for example number of audits finalized on time against what was planned) Problems experienced Suggestions and ideas Constraints	Reports and feedback from business units Consultations	Business unit performance reports
Capacity of audit staff	Performance assessments	Summary of performance assessments for the SAI
Level of compliance with	Quality assurance reviews or	Quality Assurance unit

WHAT INFORMATION IS NEEDED?	SOURCES / DOCUMENTS	WHERE CAN IT BE FOUND?
manuals, standards and guidelines of the SAI Capacity of audit staff	reports	SAI library, Intranet
Risk on a national level	Audit reports for the prior year Internal audit reports Consultations with responsible auditors Annual report of the SAI	Audit business units Audit files Library
Human resource statistics on the number of audit staff, qualifications and experience	Resource information	HR unit Audit business units Performance appraisals

SAIs should have a developed area or environmental scanning function in place to inform the different planning processes. The results of such scanning are inputs to the strategic plan, the annual operational plan and also the annual overall audit plan. Environmental scanning should be performed at a central level and in order to collect information about and from the stakeholders. It involves keeping in track with current local and international events appearing in media, government priorities and agendas and newspaper articles relating to auditees at the central, regional or local level as well as companies and parastatals. It is important that the information gathering is done in a structured and organized way to minimise the risk of staff either spending too much or too little time on this activity. Information should be stored in a way to facilitate access to such information by all staff.

5.3 Analysis of information

Information obtained through the information gathering process is documented and analysed by using different templates. For an example of how information may be included in templates reference can be made to Annexure 1. Analysis includes an understanding of different elements and prioritising focus areas. The considerations and the way it is documented will differ when for example planning for special audits or transversal audit themes. In this chapter consideration is given to the different aspects which need to be considered during the annual planning process for regularity audits. These include:
- Audit coverage and the process of risk assessment
- Transversal audit themes
- Special audits
- IT audits
- Quality control reviews.

Setting annual objectives

An objective is a precise and measurable result that supports the achievement of the SAI's mandate or goals. Objectives of the SAI can be formulated on different levels. The strategic objectives are set on a high level and included in the strategic plan of the SAI. The annual operational plan will include annual objectives which are cascaded from the strategic objectives of the SAI. Annual objectives should be formulated to enable assessment via performance measures / indicators. During the compilation of an annual overall audit plan more detail can be provided on how the annual objectives identified in the annual operational plan will be achieved. Table 2. below includes examples of potential objectives and performance measures:

Table 2. Objectives and performance measures

Goal statement	Strategic objectives	Annual objectives	Performance measure / indicators
To provide timely and high quality audit services	To increase the audit coverage to 70% during the strategic planning period 2011-2014	To increase the audit coverage to 70% during the fiscal year 2011	The audit coverage in percentage during the fiscal year
	To establish and implement audit methodology in line with international standards during the period of 2011-2014	To follow the audit approach based on the international standards for 50% of the regularity audits performed during 2011	% of audits performed following an international standard
	To issue all regularity audit reports within statutory deadlines by the end of 2011-2014.	To issue 90% of regularity audit reports within statutory deadlines during 2011	% of audit reports issued within deadlines

In addition, annual overall audit plan should also document the risks relating to relevant regularity audit functions, for example including transversal audit themes. Such risks would typically be identified during the risk assessment processes of the SAI. Reference can be made to the Risk Management guideline of AFROSAI-E.

One objective of the SAI may affect the achievability of another. For example, the following two objectives are identified for the SAI:
1. Increase the audit coverage by 20%;
2. Implement new audit methodology in line with AFROSAI-E Regularity Audit Manual.

Implementing a new audit methodology (objective 2) and at the same time increasing the audit coverage (objective 1) will raise the risk of potential impairment in the quality audit work. Once this risk is known a suitable course of action may be found.

Regularity audits
This part of the annual overall audit planning process is aimed to answer the following questions:
- Which government entities will be audited? This question is relevant for SAIs which cannot audit all government entities annually due to resource limitations. Alternatively, a SAI may have discretionary powers to select entities for audit included in the mandate. SAIs which do not audit all government entities annually may consider to rotational approach for smaller audits carrying less risks.
- How should resources be allocated for the best results? Generally, entities with more significant risks should be allocated more resources, including increased budgets and audit hours.
- Which audits will be contracted out?
- What are the timelines for the audits? How will backlogs be cleared?

Audit coverage for regularity audit relates to the number of government entities to be audited by the SAI during the financial year. Normally, the audit coverage of an SAI is included in the legislated mandate of the SAI. However, mainly due to budgetary constraints or the lack of resources some SAIs cannot audit all the public sector entities annually. One of the benefits of a risk assessment process that it will assist such SAIs in prioritising their audit work.

SAIs auditing the consolidated financial statements of government should also refer to the requirements highlighted in the AFROSAI-E Consolidated Financial Statements Audit Guideline. There should be a connection between the audit coverage identified during the annual overall planning and the requirements for the audit of the consolidated financial statements.

The process of risk assessment
Table 3 includes an example of a risk matrix which is completed by using an excel spreadsheet. The matrix calculates a score for each audited entity considering four indicators carrying different weights. In this table all government entities should be listed which the SAI should audit.

Table 3. RISK MATRIX

	AUDITEES	Indicator 1. Fiscal budget			Indicator 2. Prior year's audit reports reflect serious issues			Indicator 3. Stakeholders' interest in the auditee			Indicator 4. Risk of fraud and adverse publicity			Total score
		Rating	Weight	Score	Rating	Weight	Score	Rating	Weight	Score	Rating	Weight	Score	
	MINISTRIES													
1			40	0		20	0		20	0		20	0	0
2			40	0		20	0		20	0		20	0	0
3			40	0		20	0		20	0		20	0	0
4			40	0		20	0		20	0		20	0	0
5			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
	LOCAL AUTHORITIES													
1			40	0		20	0		20	0		20	0	0
2			40	0		20	0		20	0		20	0	0
3			40	0		20	0		20	0		20	0	0
4			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
	PARASTATALS													
1			40	0		20	0		20	0		20	0	0
2			40	0		20	0		20	0		20	0	0
3			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
	OTHER ENTITIES													
			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0

There are four indicators to consider for each government entity:

Indicator 1: The size of the auditee's total expenditure (carries 40% weight). There is a higher risk for auditees with higher the expenditure. In circumstances where it is more appropriate, revenue figures may be used.

Indicator 2: The seriousness of reported items in the prior year's audit reports (carries 20% weight). The more serious reported issues are the higher rating is given. Qualifications / adverse or disclaimer opinions should carry the maximum weight. When the auditee was not audited in prior year(s), the rating should also be identified as high (5).

Indicator 3: Stakeholders' interest in the auditee (carries 20% weight). When there is more perceived interest, the higher the rating should be.

Indicator 4: Risk of fraud and adverse publicity (carries 20% weight). When the entity received negative publicity or officers have been implicated in fraud charges in the past, the entity would receive a higher rating. Other aspects such as non-compliance with laws and regulations can also be considered.

When completing the spreadsheet the first column should include a listing of government entities which are considered for audit. It is important to include all the potential audited entities here. The risk ratings can be used to identify which ones to audit – if not all of them are audited in the year. Each entity should be given a rating for each indicator. The ratings should be given between 1 (for low risk) and 5 (for high risk). This is always to an extent based on subjective judgements, but SAIs may identify some additional criteria for each indicator.

Consistent planning may be assisted by setting limits, for example a lower limit over which budget expenditure should have a high score of 5, and lower levels for scoring 4, 3, 2 and 1. This may be easier when quantitative aspects such as budgeted expenditure is scored.

Example: Setting limits for budgeted expenditure

The highest budgeted expenditure for a government entity is $1 billion.

Criteria or limits may be set for Indicator 1 (size of the audited entity) as follows:
Score 5 is applied when total expenditure is exceeding 800 million (80% of 1 billion)
Score 4 is applied when total expenditure is between 600 – 800 million (60-80% of 1 billion)
Score 3 is applied when total expenditure is between 400-600 million (40-60% of 1 billion)
Score 2 is applied when total expenditure is between 200-400 million (20-40% of 1 billion)
Score 1 is when total expenditure is below 200 million.

Remember: setting these limits is still based on judgment, therefore it remains subjective!

When scoring qualitative factors, there will always be an element of subjectivity. Setting limits and other criteria may limit the subjectivity, however it cannot be ruled out completely.

After entering ratings for each of the indicators, the risk score is calculated automatically for each audited entity. Higher score means a higher risk for the audited entity.

Customising the risk matrix

SAIs may use their own indicators or amend the above information to suit their own circumstances. For example, when a SAI performs preliminary evaluations for the audited entities, results of these evaluations may be considered in calculating the rating of the entity. As such another indicator may be identified when preliminary evaluations indicate that an entity did not submit acceptable financial statements on the statutory deadline.

How to use the risk score?

The scores established here can also inform many decisions documented in the annual overall audit plan. When audited entities are sorted based on the risk ratings it is easy to identify higher and lower risk entities. Even SAIs which are auditing 100% of government entities can benefit from the risk analysis in many ways.

Firstly, risk scores assist the decision on which entities will be audited during the next financial year (audit coverage). Entities with higher overall risk score may be prioritised for audit. For example, SAIs may identify all audited entities scoring over 50 points for audit in the current year. The cut-off level should be set by considering the SAIs' mandates and limitations they may have in terms of resources.

Alternatively, entities scoring under a certain level may be identified as small audits. Even though small audits may have a low score, this does not necessarily mean that they should be completely excluded from the audits. SAIs with resource problems may choose to not audit these entities every year, but it is not recommended that entities should be left unaudited for indefinite years. A rotational approach may be more appropriate so SAIs can ensure that all government entities get audited within a reasonable number of years. Audited entities which are identified as 'small' may follow the audit methodology for small audits included in the Regularity Audit Manual.

Secondly, the decision whether audits will be performed by the SAI or can be contracted out may be supported by the risk matrix. Audits are normally contracted out to private audit firms due to resource or capacity constraints of the SAI.

Even though these audits are performed by private audit firms, the reports will still remain the responsibility of the Head of SAI. Provision should be made for the review of audit work performed and for this reason these audits will still be allocated to different business units.

Thirdly, the **allocation of audits to business units** is a very important consideration. It is important that this decision should take into consideration the available resources, the size (total budgeted expenditure) and risks relevant to the audits. The financial year end and respective audit deadlines may also differ for the different types of audits.

When deciding on the appropriate allocation of audits to business units, due consideration should be given to the following:

- Number of available audit staff on each level, which should be included in the plan;
- The capacity of audit staff in terms of qualifications and experience also in relation to the types of audited entities;
- The locality of the audited entity when there are regional offices.
- The total risk score of the government entities assigned to each business unit and the level of risk associated with the audits. SAIs should strive to achieve a balanced distribution audits and skilled staff. Where there is a shortage of skilled staff in a business unit, further actions may be identified including re-allocating audit staff, or allocating responsibility for fewer audits.

- The need for rotating audits between the audit teams. This is especially important for audits with higher risk score. It is recommended by the International Federation of Accountants (IFAC) Code of Ethics par. 290.154-157 that the audit teams for such audits are rotated at least every 7 years.

Lastly, when a SAI is carrying audit backlogs, this should be considered when deciding on the audit coverage. Entities which have not been audited for number of years should be identified for audit before other entities with similar risk score which have been audited. SAIs aiming to reduce audit backlogs should identify their annual objectives relating to the backlogs.

Transversal theme audits

According to the AFROSAI-E Transversal Audit Guideline a transversal audit theme is an audit area which is selected to receive special audit attention. This can be due to qualitative or quantitative reasons, relating to the nature of the area and relating risks or value of the transactions/budget. SAIs usually have substantial amount of discretion given to decide on their focus areas. However, in some jurisdictions, it can be a requirement to report separately on certain expenditure types, for example procurement. When transversal theme audit are performed in a SAI, the annual overall audit plan should list these themes including the reasons for selecting them.

The identification of transversal themes should not be done in a haphazard manner. It should be part and parcel of the planning processes in the SAI. Firstly, the SAI's annual operational plan spells out the transversal themes the SAI intends to audit or carry out during the year. At the beginning of each audit cycle, these priorities are translated into the annual overall audit plan of the SAI. This plan should include and further elaborate on the transversal themes included in the annual operational plan. Together with the themes it also contains a risk analysis concluding on which audited entities are scheduled for audit in the current year. In addition, new themes may be identified as a result of the risk assessment. Identification of transversal audit areas will consider external information sources (the results of environmental scanning process) as well as inputs from business units such as issues frequently reported in previous audit reports. External information sources to determine the transversal audit themes may include requests from stakeholders, including parliament, public accounts committee or donors. Specific issues which may have received priority in terms of budgets can influence the areas where audits should focus. Issues which received extensive media coverage are often identified for transversal audits.

An analysis of the audit reports previously issued by the SAI will enable the identification of those cross-cutting areas which have received adverse comments over a period. Possible causes for the adverse reports could be deficiencies in systems and/or procedures issued by controlling bodies such as Treasury or Cabinet Office. Transversal audits would assist in identifying the deficiencies and finding lasting solutions to them.

Examples for transversal themes include:
- Procurement or contract management
- Asset management or the implementation of asset registers
- Personnel expenditure or ghost employees in government.

Usually prioritization is necessary since under normal circumstances SAIs will probably identify more themes than they can handle over one year. Considerations determining whether to prioritize a transversal audit theme include:

- Is it critical, high risk area?
- Are there significant budgetary implications?
- Does the SAI have adequate resources in terms of availability of time, budget and capabilities?

Depending on how narrow or generic certain identified audit themes are, it may be necessary to further break down the scope of the audit theme into sub-themes. For example, a transversal theme on procurement maybe broken down into the following sub-themes:

- Applying the principles of selection when appointing contractors;
- The functioning of tender board committees during the appointment process;
- Evaluation of the tender procedures at government entities;
- The implementation of mechanisms to monitor contract work;
- The role of internal auditors in auditing procurement.

These sub-themes maybe then become transversal themes on their own and audited over more than one year.

Choosing a theme for transversal audits should be done methodically and be part of the planning process in the SAI. This will ensure that the audits performed would be of benefit to stakeholders.

Special audits
Most SAIs will embark on some special audits during the year. Such special audits may be required by legislation, in which case it is mandatory for the SAI to issue a report. Other requests may be received by the Head of SAI from government officials or parliament. For these requests the Head of SAI normally would have discretion to decide whether to proceed with the audit. Special audits may be included under a separate heading or under the transversal audit heading in the annual overall audit plan.

IT audits
SAIs with dedicated IT audit units should have information on the planned activities of the unit, but this may be included in a separate plan. This would include detail on the number of general and application control reviews to be performed or in progress. This is important to enable the coordination of the timelines for general control reviews on specific financial systems with the regularity audits of the entities using the system.

Quality assurance reviews
SAIs should plan to perform quality assurance reviews on an annual basis. Information on the planned number of audits for which quality assurance reviews will be performed should be included in annual operational plan and the annual overall audit plan. For example, it may be decided that a certain number of audits will be subjected to quality reviews. Alternatively, it may be the case that all audits exceeding a certain risk score will be reviewed. Decisions made on these issues should be documented in the annual overall audit plan. Reference can also be made to the Quality Assurance Handbook of AFROSAI-E for further detail and more explanations.

Planning the timing of the audits - the audit calendar

The audit calendar is a tool for the SAI to plan the timing of their audits. It shows the broad timelines for regularity audits and should be fully in line with statutory reporting responsibilities. There may be a need to have different audit calendars for different types of entities to fit in with the statutory reporting timelines for government entities. For example, where local authorities submit financial statements ending on 30 June but Ministries have 31 March year end, separate audit calendars may be useful as timelines for these audits differ.

The annual overall audit plan should include the audit calendar(s), as well as the overall picture of the timing where different audit calendars are applicable. Annexure 3. provides an example of an audit calendar for a SAI.

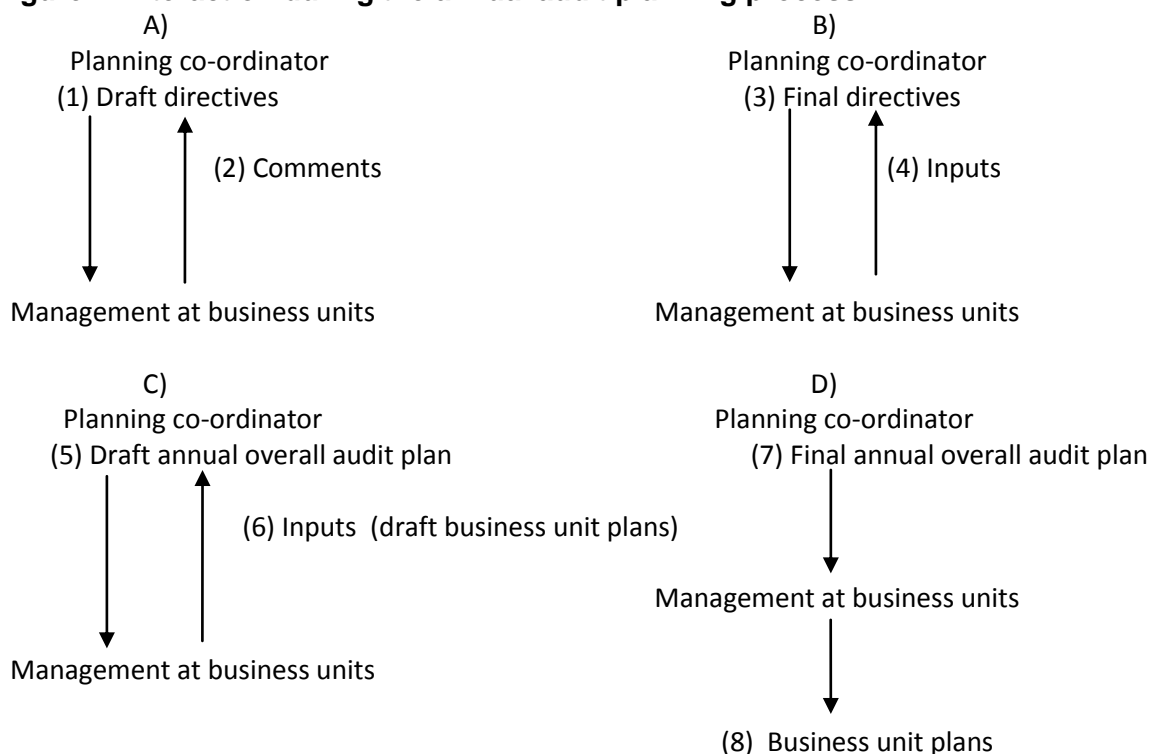## 5.4 Communicating and concluding on the plan

The annual overall audit plan is built on information from many different sources and they are the result of a prioritization and coordination between different interests at the SAI. Consequently, when compiling the annual overall audit plan of the SAI, there is a need for constant interaction and flow of information within the SAI. The planning process can be in progress for several months, depending on the size of the SAI and how it organizes its planning process. It is important to involve the audit staff as much as possible in this process in order to get inputs or comments and also to inform them about the decisions and expectations of top management. Managers and staff within a SAI should be informed and allowed to participate by providing inputs or comments regarding the annual overall audit planning process.

Communication, both within the SAI and externally, is important during the annual overall audit planning process. Views and inputs of key stakeholders as well as members of the SAI are vital for the success of the implementation of the annual overall audit plans.

Internal communication during the planning process

The annual overall audit plan process includes constant interaction between the planning coordinator and the audit units. Actions triggered by the decisions of the planning process may include the need to issue audit directives / instructions to audit business units. Directives will influence subsequent planning processes and also serve as inputs into other functional plans, including training and other plans. In the annual audit planning process a directive could include the proposed annual objectives of the SAI, or proposed transversal audit themes. Refer to Annexure 2. for the example of a directive. An example of interaction during the annual audit planning process is described in Figure 2 below.

Figure 2. Interaction during the annual audit planning process

A)
Planning co-ordinator
(1) Draft directives

(2) Comments

Management at business units

B)
Planning co-ordinator
(3) Final directives

(4) Inputs

Management at business units

C)
Planning co-ordinator
(5) Draft annual overall audit plan

(6) Inputs (draft business unit plans)

Management at business units

D)
Planning co-ordinator
(7) Final annual overall audit plan

Management at business units

(8) Business unit plans

The process commences by the planning coordinator issuing draft directives (1). The proposed annual objectives and explanatory information should be based on provisions included in the annual operational plan of the SAI, the monitoring/evaluation of the preceding annual overall audit plans and other considerations based on the information gathering process. The managers of business units comment on and provide inputs for the draft directive. Business unit managers should involve audit staff on different levels in a proper way to get inputs during this sequence but also during the rest of the planning process.

This will be followed by the preparation of the final directives (3) which are issued for the business units. An example of a directive is presented in Annexure 1. These directives are used when compiling business unit level plans for the year.

A dialogue is carried out with business managers when more information is needed or explanations are required, especially during the risk assessment process. Information on the audited entities should predominantly come from the audit business units responsible for the audits. Information requests relating to the rating of aspects considered in the risk matrix should form part of the communication.

As we have seen, planning in a SAI involves the compilation of many plans, the annual overall audit plan being only one of them. The compilation of different plans has to be coordinated and be possible to carry out within the planned budget frame. A draft annual overall audit plan (5) is sent to the managers at the business units. The managers are provided an opportunity (6) to once again comment on the draft. At this point draft business unit plans may also be provided to the planning co-ordinator.

The planning co-ordinator should consider the comments given and decide on a (7) final annual overall audit plan, which is distributed to the managers at the business units. It is now up to managers to adapt their detailed business unit level plans (8) based on the applicable principles of the annual overall audit plan.

For new areas included in the annual overall audit plan there may be a need to provide for more information gathering activities to take place within the responsible business units. This information gathering should typically take place between processes 1-4 above. For example, when a specific element such as IT audit receives more focus there may be a need for further training. A draft directive is sent to the SAI's training or technical support business unit informing the unit to plan for such training. The training business unit then should do further information gathering and obtain more detail on the training requirements, timing and resources required for the training.

5.5 Documentation and dissemination
The annual overall audit plan is documented in the format identified by the SAI. Reference can be made to Annexure 1. for the example format of an annual overall audit plan.

Dissemination of the annual overall audit plan of the SAI to external parties should be done in terms of the policies of the SAI. Generally, only final and approved plans should be disseminated externally. It is recommended that all such external communication is done from a central point and subjected to approval from top management.

5.6 Implementation of the plan
The biggest test of any plan is in how it is implemented. What needs to be done is usually well defined in these plans but there is often a need for further guidance on how to make the provisions operational. Business unit level plans or work-plans should include more detail on how each activity is going to be carried out. Reference can be made to chapter 6 for more information on business unit level planning.

5.7 Monitoring and evaluation

What is monitoring and evaluation?
Generally speaking monitoring means to be aware or have knowledge about the status of pre-identified aspects of work or activities. This generally means that progress can be tracked and preventative measures or timely corrective actions can be taken. Monitoring helps to understand what has happened based on information, while evaluation should provide you with answers why it happened. Thus it is only via evaluation that the causes to changes can be understood.

Who should be involved?
SAI management on different levels should be involved in monitoring and evaluation. The requirements in terms of what needs to be monitored, by whom and how often, should be centrally identified. In some cases, there may be a coordinating team or person tasked with monitoring. Ideally, SAIs should strive to have a system where responsibilities for monitoring are clearly defined for the different levels of management.

All staff members, even those with no monitoring responsibilities should be aware of the type of information which is reported on a regular basis.

Information on progress against objectives identified should be documented in the SAI's report on its own performance.

Monitoring and evaluation process

Monitoring and evaluation processes assume the availability of relevant and reliable information relating to specific aspects defined in the plans of the SAI.

Information requirements covering all performance measures / indicators should be clearly identified in the plans.

This information should be provided from the management information system of the SAI. This system should have well defined processes in place to provide relevant and reliable information for monitoring and evaluation. Periodic reporting should be set up to draw information for management of the SAI on different levels. This will assist management in the periodic monitoring of the implementation of the plans and take timely corrective action where necessary.

Examples of the kind of information which should be available from the management information system may include:
- Number of audits undertaken for different types of entities (ministries, local authorities, parastatals, IT audits, special audits etc.);
- Progress of audits and status of reports on a periodic (monthly) basis.
- The number of audit reports issued within the legislated timeframes (on time) at the end of the year;
- The number of audits subjected to quality control reviews and / or engagement quality control reviews;
- The number of audits which have passed the quality control processes for the year.

Time recording is an important part of such a management information system. The ambition is to enable SAIs to know the actual time spent on different projects and activities. A time recording system is recommended for SAIs to be able to plan and perform audits more efficiently.

6. BUSINESS UNIT LEVEL PLANS

Audit business units prepare their business unit plans for the financial year based predominantly on the annual overall audit plan and directives issued by the planning coordinator. Provisions included in the annual operational plan of the SAI should also be observed.

Information to be considered in the business unit level plan includes:
- Annual objectives to be achieved
- Current and development activities including audit tasks with timelines
- Staff deployment, development and training, days and areas
- Responsibilities and reporting.
- Use of resources, other staff, as venue and transport
- Budgets for the business unit as a whole and for the specific activities.

ANNEXURE 1. EXAMPLE FORMAT OF THE ANNUAL OVERALL AUDIT PLAN

ANNUAL OVERALL AUDIT PLAN FOR THE SAI

For the financial year 30 June 20xx

1. FOREWORD BY HEAD OF SAI

This section is written by the Head of SAI addressing the staff of the SAI. It can cover aspects of expectations and words of encouragement for staff.

2. INTRODUCTION

The introduction may give further description of:

- The purpose and applicability of the annual overall audit plan with a short reflection of previous achievements and/or challenges faced;
- The mandate of the SAI;
- The objectives of the annual operational plan
- The objectives of the annual overall audit plan;
- The different types of audits performed;
- The organisational structure of the SAI.
- The process followed in the preparation of the plan.

3. REGULARITY AUDITS

In the introductory paragraphs mention should be made of:

- Types of entities audited
- Mandates regarding regularity audits
- The business units involved with performing regularity audits
- Policy on contracting out certain types of audits
- Budgeted funds available.

Table 1. Regularity audit

Strategic plan / annual operational plan of the SAI		Performance measures / indicators	Annual objectives	Risks identified
Goal statement	**Objectives Statement**			

Planned audit coverage for the year

The following government entities are subjected to regularity audits in terms of the annual objective set in the strategic plan and the risk assessment conducted.

Audited entity	Audit Mandatory Yes/no	Total score in Risk Matrix	Additional reasons or explanations for selecting the entity for audit	Business unit allocation
Central - - -				
Local - - -				
Parastatals - - -				
Other - - -				

The following auditees have been identified as 'small' and consequently allowed to follow the audit methodology for small entities:
1.
2.
3.

The following auditees have been identified as carrying high risk and should be considered for engagement quality control review:
1.
2.
3.

TRANSVERSAL AUDIT THEMES / SPECIAL AUDITS

The following information is relating to the audits themes selected to be performed during the financial year.

Strategic plan / annual operational plan of the SAI		Performance measures / indicators	Annual objectives	Risks identified
Goal statement	Objectives Statement			

Transversal audit themes identified

List of audit themes / assignments	Reasons for selection*	Budget ($)	Responsibility assigned	Status of audit programs	Risk

Detailed reasons for the selection may be included in a paragraph format.

Special audits

List of special audits	Reasons for selection**	Budget ($)	Responsibility / team assigned	Timeframes for reporting	Status of audit programs	Risk

**Detailed reasons for the selection should include information on the sources of requests or legislative references. This may be done in a paragraph format.

4. IT AUDITS

Strategic plan / annual operational plan of the SAI		Performance measures / indicators	Annual objectives	Risks identified
Goal statement	Objectives Statement			

The following IT audits are planned for the year.

Title of the audit	Related systems	Government entities / users of the systems	Timeframes for the audit	Responsible person	Budget

5. QUALITY CONTROL REVIEWS

In this section provide detail on the planned quality control reviews.

6. AUDIT ALLOCATIONS PER BUSINESS UNITS

[Should be completed for each business unit]

BUSINESS UNIT:
Financial year end:

Number of audit staff:						
Level 1						
Level 2						
Level 3						
List of audits allocated	Total budgeted expenditure of auditee ($)	Total risk score	Financial year end to be audited	Responsibility / resources	Changes from prior year (Rotation)	Time-frames of the audit
Central - - -		*[From risk matrix]*	*[For backlogs list all outstanding years separately]*	*[Audit manager / centre]*	*[new audits, changes or re-allocations of audit should be noted]*	
Local - - -						
Parastatals - - -						

Other						
- - -						
Audits contracted out - - -						

7. ANNEXURE(s)

Annexures may include the Risk Matrix and the Audit Calendar.

ANNEXURE 2. EXAMPLE OF A DIRECTIVE

The following directive can serve as an example relating to the annual overall audit plan.

DIRECTIVE No.1 OF 20XX

To	**Heads of Regularity Audit Business units**
From	**Mrs. C Simpiwe Auditor-General**
Date	**20 October 20xx**
Reference	**1/20xx**
Subject	**INPUTS FOR THE DRAFT ANNUAL OPERATIONAL PLAN**

Message:
The National Audit Office has embarked on the annual overall audit planning process for the year 20xx/20xx. Following are the proposed annual objectives and focus areas which have been identified. Heads of Business units are requested to provide inputs and comments on these by 8 August 20xx. Your cooperation and inputs are highly appreciated.

Annual objectives identified:

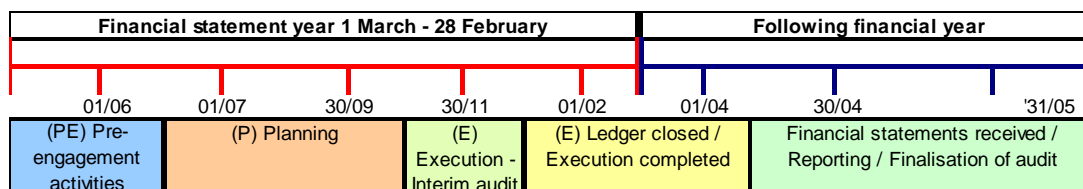| Goal statement	Objectives Statement	Performance measure / indicators	Annual objectives
To provide timely and high quality audit services	1. To increase audit coverage by adopting a risk based audit approach	% increase in total audit coverage	To audit 60% of total government expenditure audited
	2. To establish and implement audit methodology in line with international standards	% of audits performed following a risk based approach	To follow risk based audit approach for 80% of the regularity audits performed
	3. To issue all regularity audit reports within statutory deadlines	% increase or decrease in the no. of audit reports issued within deadlines	To issue 90% of regularity audit reports within statutory deadlines
	4. To set up performance audit and IT audit functions	No of audit reports issued for new areas of audit	To conduct at least 2 audits and issue reports for each new area of research

Transversal themes

Audit of contract payments and procurement will involve auditors of all Ministries. The audit will be centrally coordinated and timing will correspond to the regularity audit timelines.

An audit of ghost employees will be performed by using IDEA. The audit will involve all Ministries and Local authorities.

ANNEXURE 3. EXAMPLE OF AN AUDIT CALENDAR FOR REGULARITY AUDIT

The following is an example of how a SAI may plan the timelines for regularity audits.

Financial statement year 1 March - 28 February				Following financial year		
01/06	01/07	30/09	30/11	01/02 01/04	30/04	'31/05
(PE) Pre-engagement activities	(P) Planning		(E) Execution - Interim audit	(E) Ledger closed / Execution completed	Financial statements received / Reporting / Finalisation of audit	

PLANNING FOR INDIVIDUAL AUDITS

			Completed by	Reviewed by	Target date
PE	1	Code of Ethics	Each team member	Audit Director	
	2	Competency Matrix	Audit Supervisor	Audit Manager	
	3	Team agreement	Audit Supervisor	Audit Manager	
	4	Engagement letter	Audit Manager	Audit Director	15 June
P	1	Engagement team understanding memorandum	Audit Manager	Audit Director	
	2	Lead schedule	Auditor	Audit Manager	
	3	Review of internal audit	Auditor	Audit Manager	
	4	Control environment checklist (Manual)	Auditor	Audit Manager	
	5	IT Control environment checklist	Auditor	Audit Manager	
	6	Going concern / Sustainability of service considerations	Auditor	Audit Manager	
	7	Audit Committee checklist	Auditor	Audit Manager	
	8	Fraud checklist	Auditor	Audit Manager	
	9	Preliminary Analytical review	Auditor	Audit Manager	
	10	Risk of material misstatement on financial statement level	Audit Manager	Audit Director	
	11	Planning materiality	Auditor	Audit Manager	
	12	System description	Auditor	Audit Manager	
	13	Reliance on key controls	Auditor	Audit Manager	
	14	Audit sampling and substantive audit procedures to be performed	Auditor	Audit Manager	
	15	Overall audit strategy	Audit Manager	Audit Director	
	16	Quality control questionnaire	Audit Supervisor	Audit Manager	15 October
E	1	Lead schedule	(Assistant) Auditor	Audit Supervisor	
	2	Substantive analytical procedure	(Assistant) Auditor	Audit Supervisor	
	3	Tests of control	(Assistant) Auditor	Audit Supervisor	
	4	Substantive audit procedures performance	(Assistant) Auditor	Audit Supervisor	
	5	Audit query	(Assistant) Auditor	Audit Manager	
	6	Disclosure checklist	(Assistant) Auditor	Audit Manager	
	7	Audit summary memorandum	(Assistant) Auditor	Audit Supervisor	
	8	Quality control questionnaire per account area	Audit Supervisor	Audit Manager	15 April
R	1	Management representation letter	Audit Supervisor	Audit Manager	
	2	Events subsequent to balance sheet date	Audit Supervisor	Audit Manager	
	3	Overall audit summary memorandum	Audit Supervisor	Audit Manager	
	4	Audit differences	Audit Supervisor	Audit Manager	
	6	(Final) Management Letter	Audit Manager	Audit Director	
	7	Quality control questionnaire	Audit Supervisor	Audit Manager	
	8	Audit report	Audit Manager	Audit Director	
	9	Closing meeting	Audit Supervisor	Audit Manager	31 May

Legend:
PE – Pre-engagement activities
P – Planning, includes strategic and detailed planning
E – Execution
R – Reporting