

PROMOTING EFFECTIVE AUDITING THROUGH AN AUDIT QUALITY ASSURANCE MANAGEMENT FRAMEWORK.

SUPREME AUDIT INSTITUTION OF JAMAICA (SAI of JA)

COUNTRY PAPER

1. The Jamaican Constitution requires that at least once a year the SAI of Jamaica reviews the activities of all ministries, departments and agencies of Government. This must be done in the face of dwindling resources. The external lending agencies are also interested in the frequency of such audits and the outcomes. The public, including the media, is not to be left out. The pervasive perception of corruption in the Jamaican society anticipates reports of a damning nature, which should serve as an indictment on those who lead and confirm the “no-confidence” motion. The current economic conditions in Jamaica produce an inherent risk for irregular activities among the public at large, but, which have direct and serious consequences for the Public Sector. However, audit reports that implicate prominent public figures will be challenged. Therefore, it is incumbent on SAIs to ensure that such reports can stand up to scrutiny.

Changes in Government’s business processes and new programmes and projects have resulted in an increase in the quantum and complexity of audits conducted on an annual basis by the SAI of JA. All these factors taken together create a challenge that we confront on an annual basis. The question can be appropriately asked “How do we meet our constitutional mandate- by conducting the required audits, without compromising the audit standards and thus maintaining the effectiveness of the SAI’s”?

The dilemma faced by the SAI of JA is not unique to us. Internationally SAIs are operating in an environment where not only resources are diminishing but so too moral values. The SAI of Jamaica has acknowledged this and views this worsening situation as a threat to our audit outcomes - viewing with equal importance the need to conduct robust audits that satisfy audit standards and the necessity to educate the audit staff on the code of conduct and make it mandatory to comply. In this regard, it was our considered view that the time had come to assess our standards and performance. We recognised the need to perform an internal quality assurance (QA) review as the vanguard to achieve the desired outcome.

The SAI of Jamaica, for two years, failed miserably in its attempt to perform a QA review. Initially, two officers were identified to carry out the exercise. The officers were not trained to conduct this type of review and were given an untailored manual as guidance. Limited success was achieved when the quality assurance framework was interwoven in the corporate plan for the 2008-2013 financial periods. Two components of our corporate plan are 1) full adoption of relevant professional standards for all types of audit and 2) institutional capacity building, of which internal

and external training are major elements. At this stage, the QA mechanism was approached on an audit type basis. The SAI of JA conducts four main types of audit:-

1. Compliance
2. Financial Statements
3. Performance
4. Information Technology

GENERAL QUALITY ASSURANCE FRAMEWORK

Management Committee

2. A Sustainable Development Committee was established comprising Divisional and Senior Directors to not only assist the Auditor General with developing the strategic plan but also develop performance standards, detect gaps between plans/standards and actual performance.

Senior Management Meeting

3. The Auditor General chairs the monthly Senior Officers Meeting. This is a forum for Senior Directors and senior officers to highlight weaknesses observed, problems experienced and where officers are provided with updates on new regulations, guidelines and procedures. Significant training in audit techniques, auditing and accounting standards are done during these meetings.

Human Resource and Administration Management

4. The effectiveness of the audit department is dependent on the human resources and administrative function. A robust HR Department is needed in any SAI, if sustainable capacity building is to be achieved. With this in mind, steps were taken to strengthen this function in the SAI of JA. To begin with, there was an increase in the number of posts within the Administration Department and reclassification of existing posts, to facilitate the conversion of our Personnel Department to a Human Resources Department. Our aim is to ensure that our HR Department is sufficiently equipped to respond to our human resource needs; such as hiring, staff appraisal and training and development needs.

Training

5. The SAI of Jamaica recognised that a sustained training programme is instrumental in achieving and sustaining institutional capacity building. In light of this a training committee was created, which constitutes some members of the Sustainable Development Committee. However, we identified that further to the committee, it was vital that the officers, involved in in-house training are effective in the delivery of their subject matter. Consequently, training officers were identified and

sent on intensive Train-the Trainer and Needs Analysis Courses to enable delivery of more In-house training. Subsequently, in-house training in financial statements audit, accounting and auditing standards and induction courses were held.

The position of Training Manager was added to the staff establishment to bolster the SAI's efforts to achieve sustainable development.

It was recognised that the effectiveness of the training exercises was, in many instances, not assessed to determine the extent to which they influenced improvement in the participants' output. Therefore, a system of assessment was developed. A section is provided on the staff appraisal form to give the supervisors an opportunity to indicate the officers' weaknesses and specify training needs. The Human Resources Department should use this information to assess the training needs of the Department, which should inform the training plan. Unfortunately, the review and assessment of the staff appraisal forms are not as structured as it should be; this will be addressed.

Adoption of INTOSAI Standards

6. Audits are conducted in accordance with the standards promulgated by the International Association of Supreme Audit Institution (INTOSAI). These Standards require compliance with ethical requirements and that audits are planned and executed to obtain reasonable assurance that financial statements are free from material misstatements.

Members of staff are also guided by an audit manual, outlining the relevant audit standards, code of professional conduct, among other topics related to the audit function and staff generally. The SAI of JA is currently in the process of updating its audit procedures and manual to harmonise same with the (INTOSAI) Standards and the International Standards on Auditing. A revision of the areas to be amended is currently being done and the relevant adjustments will be made accordingly.

Working Papers

7. The audit standards of the Jamaican SAI require a review of working papers by Section Leaders and Senior Directors to ensure that the audit evidence obtained is sufficient, appropriate and accurate and adhere to the guidelines established for working papers. The Senior Directors review them for the same reasons above but additionally, to ensure that the audit is conducted according to plan and that breaches of the laws and the Government's guidelines are not overlooked.

The Sustainable Development Committee met to discuss whether the working papers produced by the audit staff met the required standards. It was agreed that for the most part the standards were not met. Consequently, a decision was taken to:

- Source and conduct training in specific areas such as:
 - Evidence gathering
 - Interviewing techniques
 - Risk based audit planning
 - Supervision and leadership
 - Fraud investigation techniques
 - Report writing
 - Financial audit

- Improve our working paper standards.

- Improve the planning process.

- Monitor and supervise the work more closely.

Improvement of Working Papers

8. The working paper guidelines were updated and expanded. The new guidelines incorporated existing guidelines with the requirements of ISA 220, 230 and 315 and other relevant standards.

Quality Assurance Review

9. Management and other parties of any entity that is subjected to audit, need assurance that the exercise conducted is of the highest quality and that reliance can be placed on the issued reports. Likewise, the Heads of Supreme Audit Institutions would want to be assured that the quality control systems and practices in their organizations are effective. Consequently, there is a requirement for SAIs to be in compliance with International Standards on Quality Control (ISQC) 1¹, and the International Standard on Auditing (ISA 220)².

The IDI/CAROSAI Capacity Building Needs Assessment Survey carried out in 2008, identified the strengthening of Supreme Audit Institutions' quality assurance systems for financial audits as a priority need. In response, IDI and CAROSAI carried out two workshops on Quality Assurance in Financial Auditing; of which two officers from the Jamaican SAI participated. Resulting from the training, three quality assurance reviews were conducted. The quality assurance review of two sets of working papers at the financial audit level was conducted to provide assurance that the Department's policies and practices on the documentation of working papers satisfied the requirements of ISA 220, 230, 315 and

¹ Quality control standards for firms that perform audits of financial statements and Assurance related services.

² Quality control for audit of Financial Statements.

other regulatory framework. The review revealed that the requirements were largely met. However, the following weaknesses were observed:

- There were inconsistencies in the documentation of working papers.
- A risk assessment was not done in one instance because there was a lack of understanding of risk assessment procedures.
- One engagement team did not fully comply with ISA 220 in the areas of review of working papers, clearing of review points, planning the engagement and supervision of the assignments.

Some of the recommendations were, to ensure:

- that risk assessments are consistently done and to train staff in the procedures for conducting risk assessments;
- that Senior Directors review all working papers of the audit team in keeping with ISA 220.16-17 and the department's policy;
- that Reviewing officers approve the audit plan before the audit begins and ensure that all the work included in the plan is done or a justified reason for non-inclusion is documented; and
- assignment sheets given to team members be completed in accordance with the Department's policy and approved by the supervisors at the appropriate level.

In an effort to heighten compliance with the quality assurance standards, the Auditor General(AG) discussed the contents of the reports at the November 2009 Senior Officers meeting and stressed the need for adherence to the relevant standards.

Adoption of CAROSAI Quality Assurance Manual

10. CAROSAI's Quality Assurance Manual is now being amended to suit the Department's (SAI) environment, by two officers who participated in the IDI/CAROSAI training at the Quality Assurance in Financial Audit workshop. Proposed finalization and adoption is March 31, 2010.

Annual Declaration of Independence

11. The review team also recommended that all engagement team members assess, document and address threats to independence at the beginning of assurance engagement by completing an Assurance Engagement Report on Independence. This ensures that everyone involved in an audit engagement is independent and objective and that any threats to independence or objectivity

would be reported as exceptions. This recommendation was accepted by the AG. An Annual Declaration of Independence form is now being developed and will be implemented by March 31, 2010. All members of staff will be required to declare their independence on an annual basis in compliance with INTOSAI's standards. It is important to indicate that all officers are required to sign to the Official Secrets Act on joining the Public Service. However, it is the SAI of JA's view that the sensitivity of the Department requires officers to be free from conflict of interest. The Declaration thus serves two purposes 1) allowing officers to declare instances that may compromise their independence; thereby allowing us to resolve it, where possible and 2) To act as a reminder of the need to be independent. This is critical if the public is to trust and respect the work of the audit office.

Risk-Based Assessment and Planning

12. The World Bank conducted a joint Country Financial Accountability Assessment in 2006. The report on the SAI of JA stated that although our annual strategic work plan was prepared based on risk, the Department needed to consistently implement and document a more streamlined approach by adopting a risk-based methodology. The World Bank report was also critical of our audit methodology suggesting that the Department should gather evidence on the effectiveness of internal controls through some kind of substantive testing based on an assessment of risk.

Following the Report the SAI of JA developed a risk based audit approach methodology. Through collaboration with the Internal Audit Directorate training was obtained in the use of a risk assessment matrix. The matrix was adapted to our requirements and introduced. This enabled a more comprehensive review of the internal controls and a better assessment of the entities and the scope of work to be undertaken for each audit assignment. The assessments commenced in the planning stage and would be continuous throughout the audit process. The SAI of JA is cognizant that risk assessment is judgement based and could result in an improper assessment. To guard against this the process includes the conduct of a brainstorming session; thorough review from bottom to top and constant review of the plan.

This implementation was fraught with challenges. There was a general resistance by the audit staff because they were confronted with what was considered to be "uncharted waters". However, mentoring, coaching and determination have steered us out of the worst.

A risk based planning process was mandated by the AG for the 2010 audit year. The process was a 'bottom-up' instead of the usual 'top-down' process and the emphasis was on documenting the process. By adopting this approach resources would be directed to auditing the areas of greatest risk, hence improving the efficiency and effectiveness of the Department. Section leaders and their staff would now be intimately involved in the planning process. This fosters greater commitment to accomplishing the SAI of JA's objectives.

ACCA Accreditation

13. The SAI of JA recently received approved Employer Accredited Status from the Association of Chartered Certified Accountants (ACCA). The Department has therefore proven that its learning and development systems meet global best practice, and that it supports and provides for the development needs of its staff. One benefit is that the programme can be used to compare and certify the training policies and procedures of the SAI of JA against ACCA's global best practice standards. The SAI is therefore required to demonstrate that it is applying best practice in training staff and is committed to recruiting and retaining skilled and professional employees. This status is not permanent and can be withdrawn if on inspection by the ACCA the required standards are not being maintained.

COMPLIANCE AUDIT

14. One could say that compliance audit is the “bedrock” of the Jamaican SAI and as such quality controls were long established and entrenched. However, they were not documented in a manner that was considered acceptable by external agencies such as the World Bank. The Financial Administration and Audit Act of Jamaica, guidelines issued by the Ministry of Finance and Public Service and the auditing standards issued by the International Organization of Supreme Audit Institutions (INTOSAI) provide the framework for the conduct of such audits. They require that independent audits are conducted in accordance with the Act, best practices and with due regard to economy and efficiency.

The focus on compliance is important in an environment where internal control mechanisms are generally weak and much reliance could not be placed on the Internal Audit Departments. However, the World Bank review recommended that the focus be shifted to a more ‘constructive approach’ by identifying ways in which entities audited by the SAI of JA can improve performance. With this in mind and the strengthening of internal audit units throughout the public sector, our focus is now shifting to embrace more fully performance audits.

PERFORMANCE AUDIT

15. The INTOSAI standards have been adopted for conducting Value for Money (VFM) audits. Guidance is also given by a section in the SAI of JA's Audit Manual for VFM audits. A unit was established in January 2009 to focus solely on the conduct of these audits.

Challenges faced by the Performance Unit

16. Although all the staff is familiar with the Audit Manual and INTOSAI standards, the SAI of JA lacks the requisite resources to engage specialists who can lend their expertise to the performance audit process. The turnaround time for producing the reports and the construction of these reports are also major challenges.

Impact of Reports Issued

17. The last two performance audits completed were on the Fisheries Division of the Ministry of Agriculture and the Reform of Secondary Education Project³. These reports were tabled by the Speaker of the House of Representatives in early 2009. The reports received media attention (please see appendix 1) and generated tremendous discussions at the Public Accounts Committee (PAC). The report on the Fisheries Division acted as a catalyst to initiate the steps to amend the Fishing Industry Act. The ROSE performance audit report gained the interest of Parliamentarians, although the report was not discussed in depth by the PAC members it generated an intense debate on the methods engaged to achieve improved literacy at the secondary level. The PAC Chairman has also expressed a desire to examine more performance reports.

Developments in Performance Audit

18. In November 2009, the Government of Jamaica through the Office of the Cabinet contracted with the UK National Audit Office (NAO) to develop a framework to 'operationalize' Value for Money (VFM) audits within the Department. One of the objectives of this exercise is to enhance the Auditor General's Department's reputation through VFM reports that stimulate parliamentary and general interests and public debate.

This review of VFM audit and related activities has been undertaken against international standards and best practice and the vision and mission which the Department has set for itself. Hence, the Department recognised the need to re-engineer the VFM process and the development of a VFM Manual will be a key outcome of that process. A training component has also been incorporated.

Information Technology Audits

19. The growth of information technology audit has been slow, for the SAI of JA, and is still not fully developed. The situation has, however, greatly improved over the last decade with more officers

³ Reports are available on the website -www.auditorgeneral.gov.jm

receiving IT Audit training while access to information technology has increased through the availability of more computers and the widespread access to the internet.

Approximately ten years ago the Department did not have an IT Auditor and only officers at the level of supervisor and above had regular access to laptop computers. Some officers had received only basic computer training and therefore possessed limited computer/IT skills. In the ensuing years, access to computers has grown steadily to the point where, presently approximately 55% of audit staff is assigned a laptop. Most officers have also benefited from both in-house and external training in the use of computer applications.

A World Bank review performed in 2006 criticized the SAI of JA for placing reliance on “around the computer” techniques rather than utilizing Computer Assisted Audit Techniques (CAATS). Since then, the SAI of JA has benefited from training conducted by Symptai⁴ and funded by the IDB and workshops held by IDI/CAROSAI. The former undertook a fairly comprehensive on the job training exercise involving the audit of six (6) information systems used by the Jamaican Government. The results were favourably received by the Parliament’s Public Accounts Committee and the Media [please see appendix 2], with the Chairman expressing a desire to see more IT audit matter reported to Parliament.

The World Bank report also commented negatively that the IT Department consisted of one officer only, whose function was not dedicated solely to the audit of IT systems; steps were taken to resolve this. The Department now has a dedicated IT Audit unit which undertakes audits of various IT/IS systems throughout the Jamaican public service.

In addition to the above training received, one more officer will receive IT Audit training, during 2010, from the International Centre for Information Systems and Audit (ICISA), in India. As Government entities computerize their operations, this type of audit will play an increasingly important role in the work of the SAI of Jamaica. Therefore, emphasis will be placed on not only the training of staff but also the adoption of the relevant international standards such as *ISACA IT Audit and Assurance Standard*. This will ensure that all audit work in this area is conducted in accordance with best practice.

FINANCIAL STATEMENTS AUDITS

20. Quality control and quality assurance are key elements from the initial stage of planning to the final stage of reporting, for financial audits conducted. Financial audits are planned, executed and documented in accordance with the necessary standards and professional practices. These ensure that policies and procedures are complied with and appropriate reports are issued.

⁴ The local distributor for the Audit Command Language (ACL) software

Challenges Faced

21. The SAI of JA recognised that the financial audit process was reeked with the following inconsistencies:

1. Working papers presentation and content
2. Supervisor review techniques
3. Application of auditing/accounting standards by staff
4. Format of financial statements certified

In an effort to address the above weaknesses and standardise the process, a workshop was conducted in May 2009 on the audit of financial statements, to equip staff to carry out audits in an efficient and effective way. Subsequent to the workshop, the following measures have been implemented:

1. A risk based approach for the audit of financial statements is now in place as a risk analysis is now carried out for all audit engagements.
2. Standardisation of the application of auditing/accounting standards.
3. Consistency in the compilation of working papers.
4. Consistency in the use of audit check marks.
5. A checklist for review of financial statements was developed and implemented in order to address the weaknesses identified in the supervisors' review techniques.

New Financial Statements Unit

22. A new unit, dedicated to conduct the audit of financial statements was established in January 2010 to facilitate compliance with international best practice.

Focus Going Forward

23. The SAI of JA intends to:

- revisit our mission and vision statements to ensure that both are appreciative of our strident efforts to institutionalise quality assurance;
- review our strategic plan on a periodical basis to ensure that the various components are reflective of global and local direction;
- constantly assess the SAI's ability to respond to the needs of its stakeholders;

- double our efforts to review and amend our existing audit procedures and manual to reflect the requirements of the relevant audit standards and make the manual a “living” document; and
- accelerate both our internal and external training programmes.

Additionally, an application was made to the MOFPS to pursue cost recovery from the statutory bodies and agencies of government, whose financial statements we audit; the money received would be treated as Appropriations-in- Aid⁵. This was approved, in principle, by the MOFPS. The revenue earned from this would be used to offset our training expenses and acquire the relevant audit tools.

Conclusion

24. The SAI of JA expects that full implementation and sustaining a quality assurance framework will enhance the quality of the reports tabled in the House of Representatives and generate greater interest from the Parliament, Citizenry and Media; thereby being that vehicle that will facilitate change and improvement in Government’s operations.

⁵ Appropriations –in-Aid is revenue earned by an agency of Government, for which Parliament’s approval is given to allow the agency to use the funds to offset specified expenses.