



QUALITY ASSURANCE REVIEW REPORT FOR SAI ZAMBIA

(25- 29 August 2014)

1. INTRODUCTION

The international auditing fraternity is increasingly emphasizing the importance of quality assurance activities of Supreme Audit Institutions. Standards, and more importantly, the extent to which SAIs comply with standards are continuously reviewed and are regarded as an important component of good corporate governance practices. AFROSAI-E has incorporated several quality assurance activities in its work plans and is eager to support SAIs in establishing/enhancing quality control systems, procedures and working methods. The SAI of Zambia responded favorably to the Secretariat's invitation to make use of quality assurance visits and the arrangements for the support visit were thereafter initiated.

This review is based on an update of the information about the findings from the previous Quality Assurance (QA) review from November 2012 and to a certain degree

1.1 PURPOSE OF THE VISIT

The main objective of the support visit was to assist the SAI of Zambia to assess its quality control system against the AFROSAI-E Institutional Capacity Building Framework, including how the audits performed comply with international standards and to make relevant recommendations on how the quality of audits could be improved. In addition, the resource team assessed the quality control system implemented at SAI Zambia and make recommendations to the SAI on its functioning.

1.2 EXPECTED OUTPUTS

- Upon completion of the support visit, it is expected that the resource team would have reviewed a considerable number of audit files and given feedback to the responsible audit manager and his/her audit team;
- Collected findings to be presented to the Auditor-General and her management team with trends and possible recommendations;
- The quality control system of the SAI assessed, based on the AFROSAI-E ICBF and recommendations made to the Auditor-General and her team;
- Quality reviewers identified by the SAI should be trained in theory and in practice;
- An action plan drafted by the SAI within a month after the review;
- A report on the support visit to be compiled and submitted to the AFROSAI-E Secretariat and the Auditor-General of Zambia.

1.3. THE REVIEW TEAM

The review was carried out by the following personnel:

Ms. Elizabeth Brown	SAI of Namibia
Mr. Jan Van Dam	Netherlands Court of Audit
Ms. Viveca Norman	Swedish National Audit Office
Mr. Teofelus Tuyeni	SAI of Namibia

2. WORK DONE AND METHODOLOGY

The resource team conducted the quality assurance review, using the following tools, techniques and procedures:

- AFROSAI-E quality control model (checklist) for Regularity Audit;
- Control systems in place in SAI Zambia;
- Interviews with staff and managers of SAI Zambia; for the institutional, Regularity review managers and staff were interviewed,
- Document review of central documents for the Institutional and Regularity Audit reviews,
- Giving feedback to Audit Managers and Audit Teams;
- Delivering a presentation to the Deputy Auditor-General and other senior managers on findings and recommendations;
- Drafting a report on the support visit.

3. INSTITUTIONAL LEVEL REVIEW

After a number of years carrying out Quality Assurance Reviews on a bi-annual basis, AFROSAI-E has observed that the observations made in institutional reviews seldom change dramatically over a two-year period. The reforms needed to make dramatic changes often depend on convincing many other key stakeholders in the country of the need for reform. That takes time, and it is unrealistic to see vast changes in institutional observations after two years.

The lack of change means that it is not cost effective for AFROSAI-E to do a full review every two years. As a result, AFROSAI-E wishes to continue to do Quality Assurance Reviews bi-annually, but only full institutional reviews every four years.

SAI Zambia was last visited for a Quality Assurance Review focusing on institutional matters by AFROSAI-E in 2012. The current (2014) review was therefore aimed at following up the results of the 2012 review. Being a Follow-up Institutional level review, Issues which remained constant or unchanged or where no additional recommendations were made since the last review, are mostly not covered in this report, unless perceived as material.

3.1 Independence and Legal Framework

3.1.1 Independence of the Head of the SAI

The standards and good practice

The independence of the Auditor-General (A-G) shall be guaranteed by the Constitution. The legislation shall specify the conditions for appointments, reappointments, employment and removal. The appointment etc. is to be carried out by a process that ensures the A-G's independence from the Executive. The incumbent is to be immune to any prosecution for any act, past or present that result from the normal discharge of their duties. (*The Lima declaration section 6, Mexico Declaration on SAI Independence principle 2*)

The AG should be given "appointments with sufficiently long and fixed terms to allow them to carry out their mandate without fear of retaliation". (*The Mexico Declaration principle 2*)

Observations and root causes

It was noted in the previous review that SAI Zambia lacks the independence required in the Lima declaration and it was recommended that AG Zambia maintain engagement with the responsible Authorities in line with the proposed provision in the Draft Constitution.

No change in this regard, as we found that the new constitution has not been adopted yet.

Recommendations

No additional recommendations.

3.1.2 The SAI's financial and managerial/administrative autonomy

The standards and good practice

Even if state institutions cannot be absolutely independent as they are part of the state as a whole, a SAI shall have the financial, functional and organisational independence required to accomplish its task. The establishment of the SAI and the necessary degree of their independence shall be laid down in the Constitution. The SAI should have available necessary and reasonable human, material and monetary resources. The Executive should not control or direct the access to these resources. *(The Lima Declaration sections 5 and 7, Mexico Declaration on SAI Independence principle 8)*

In a number of countries, a Board or a Commission is proposed or has been set up as a "station" between the SAI and the Parliament. There are several different and sometime complementary reasons for this arrangement: to provide Parliament with independent information/proposal on/for the SAI's budget and salary, to act as a gatekeeper to regulate the input to parliament, to act in an oversight function when it comes to the SAI's non statutory functions, to balance the power of the Auditor General etc.

Observations and root causes

It was recommended in the last review that the AG should maintain her effort in engaging responsible Authorities to ensure the constitutional amendment proposal that the expenses of the office of the Auditor-General, including the emoluments of staff, be a charge on the Consolidated Fund is maintained

We found that SAI Zambia still operates within the parameters of the public service and therefore has no autonomy on its financial and administrative activities. SAI Zambia has chosen an alternative way to reach financial and administrative autonomy by amending the Public Audit Act of 1980. This is being done through the Ministry of Justice.

Recommendations

We advise SAI Zambia remain being proactive in engaging relevant authorities to finalize the draft Public Audit Act.

A workable model could be:

- SAI gets a lump sum budget, based on agreed upon criteria;
- SAI decides autonomously on all aspects of personnel management, taking into account the general rules and regulations in this regard, on the basis of comply or explain.
- SAI reports annually on the activities and achievements in a fully transparent way, thus creating trust that the budget is spent wisely.

Management comments

Management requested that a more workable model be recommended.

3.1.3 The SAI's mandate

The standards and good practice

SAIs should be empowered to audit the

- Use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature
- Collection of revenues owed to the government or public entities
- Legality and regularity of government or public entities accounts
- Quality of financial management and reporting, and
- Economy, efficiency and effectiveness of government or public entities operations

The mandate should be clearly defined preferably in the Constitution or in a separate audit legislation.

(Mexico declaration/ISSAI 10, Principle 3)

Observations and root causes

We found that the AG's mandate is sufficiently wide to audit all public funds, including the revenues as provided by the Constitution.

Management comments

Government started preparing accounts based on IPSAS recently and a

lot still needs to be done before the OAG can consider issuing an opinion on the consolidated financial statements of Government. Discussions are currently going on with the Ministry of Finance and therefore this can only be done once all parties have a common understanding of what needs to be done and the implications of these changes.

Recommendations

We encourage the SAI to continue engaging the Ministry of Finance to clarify issues pertaining to matters as the opinion on consolidated financial statements.

3.1.4 The right and obligation of the SAI to report on its work

The standards and good practice

SAIs should report publicly on the results of their audits and on their recommendations regarding overall government activities. (*Principles of Transparency and Accountability, ISSAI 20, principle 7*)

Observations and root causes

It was recommended in the previous review that SAI Zambia consider the possibility of engaging Secretary to Cabinet to allow SAI annual report to be made public in order to fulfill the requirement of ISSAI 20, principal 7.

The review team found that the SAI's administration reports are made public when the Vice-President of the country sends them to Parliament. However, this is a passive and indirect kind of publication.

Recommendations

SAI Zambia should come up with plans to ensure that stakeholders are informed actively on the performance of the SAI in order to fulfill the requirement of ISSAI 20, principal 7.

3.1.5.External audit of the SAI

The standards and good practice

"The SAI manages its operations economically, efficiently, effectively and in accordance with laws and regulations and reports publicly on these matters..... -

SAI's financial statements are made public and are subject to external audit or parliamentary review...."

SAIs make public what their total budget is and report on the origin of their financial resources (parliamentary appropriation, general budget, ministry of finances, agencies, fees) and how those resources are used. (*Principle 6, ISSAI 20 Principles of transparency and accountability*)

Observations and root causes

We observed that SAI Zambia appointed Deloitte and Touche to audit the office.

Recommendations

SAI Zambia is encouraged to continue demonstrating that it manages its operations economically, efficiently and effectively.

A good practice is to appoint the audit firm for a period of four years.

3.2 Organization and Management

3.2.1 Strategic and operational planning

The standards and good practice

A SAI should establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing all of its work. The Strategy of each SAI should recognize an overriding requirement for the SAI to achieve quality in all of its work so that political or economic considerations do not compromise the quality of work performed (*ISSAI 40*).

The SAI manages its operations economically, efficiently, effectively and in accordance with laws and regulations and reports publicly on these matters.

- SAIs assess and report on their operations and performance in all areas, such as financial audit, compliance audit, jurisdictional activities (SAIs constituted as Courts), performance audit, performance evaluation and recommendations regarding government activities ...
- SAIs report on the origin of their financial resources (parliamentary appropriation, general budget, ministry of finances, fees) and how these resources are used. (*ISSAI 20, Principles of transparency and accountability, principle 6*)

The strategic development of any organisation requires imagining a desired future and creating a plan to make that vision a reality. (*AFROSAI-E/IDI: Strategic*

Observations and root causes

During the previous review it was recommended that SAI Zambia prepares consolidated annual operational plans and annual overall audit plans according to the AFROSAI-E format.

We found that there was a Consolidated Work Plan 2014, which is made up of the annual operational plan and an overall audit plan. The work plan is clearly linked to the 2013-2016 strategic plan. However, the annual overall audit plan does not fully adhere to the AFROSAI-E guideline for planning, these include the risk rating and contracting policy. The annual overall audit plan did not include the risk rating for clients as it is documented separately.

Recommendations

We recommend SAI Zambia to ensure that the annual overall audit plan contains all key elements as outlined in the AFROSAI-E guideline for planning as best practice.

3.2.2. Organisation of Performance Audit

The standards and good practice

According to the Lima Declaration (*ISSAI 1*) Performance Audit is equally important as Financial audit.

According to INTOSAI performance auditing is an audit of the economy, efficiency and effectiveness with which the audited body uses its resources in carrying out its responsibilities. Performance audit covers not only specific financial operations, but the full range of government activity including both organisational and administrative systems.

Observations and root causes

During the previous review it was recommended that SAI Zambia develops a consistent plan to strengthen the capacity of performance audit.

We found that a formal plan was not made, but SAI Zambia started a co-operation project with SAI Norway in order to strengthen audit capacity with an emphasis on performance auditing. According to the strategy 2013-2016 the PA-manual will be updated and implemented. According to the 2014 Consolidated Work Plan three PA-reports will be conducted, but this is not further specified.

Recommendations

We advise SAI Zambia to further develop a policy on performance auditing. It's especially important to formulate long-term priorities regarding the areas to be audited, taking into account the interest of the citizens. The scoring matrix to categorize possible performance audit topics could be helpful in this respect. We also advise to develop a tailor made communication plan for each PA-report to be published.

Management comments

The emphasis should be more on the preparation of a performance audit strategy which should cover the life span of the Strategic Plan. This strategy will carry out a SWOT analysis that will then help identify the areas to consider for PA. The scoring Matrix will be developed from this based on the variables that will be identified. This matrix should ideally not be different from the one we use in the Regularity Audit.

3.3 Human Resources

3.3.1 Personnel management

The standards and good practice

SAIs should ensure that Human Resources Policies and procedures give appropriate emphasis to quality and commitment to the SAI's ethical principles. Such policies and procedures related to human resources include:

- performance evaluation
- professional development
- career development
- competence
- the estimation of personnel needs

(ISSAI 40, Quality Control for SAIs, 6d)

Observations and root causes

During the previous review it was recommended that SAI Zambia continues engaging the Public Service Management Division to accord the office administrative autonomy.

We found that actually the situation didn't change since November 2012, because the Constitution is still not revised. However, SAI Zambia took the initiative to amend the Public Audit Act (1980) in order to also get administrative autonomy, which means SAI Zambia can decide autonomously on all aspects of personnel management.

Recommendations

No additional recommendations.

3.3.2 Training

The standards and good practice

The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify those skills which are absent; provide a good distribution of skills to auditing and corporate tasks; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

A SAI should be responsive to new/revised standards, regional manuals etc. and function as a learning organisation. It should have an elaborate training policy, a training manual and training plans. (*ISSAI 10, Principle 6; ISSAI 40, Element 4, ISSAI 6, ISSAI 200*)

Observations and root causes

During the previous review it was recommended that SAI Zambia conducts training need assessments on an individual as well as an organizational level and to relate these to institutional development and organizational objectives. Furthermore it was suggested that SAI Zambia evaluates the effectiveness of training activities.

We found that there is a well-structured three year (2014-2016) rolling training plan in place. However, this plan doesn't include on-the-job-training and the donor financed trainings, so it doesn't give a full view. It appears that, after review, the DAG Audit had suggested for review of the rolling plan after a thorough Training Needs Assessment is done. The HRA is currently doing the TNA which will lead to the review of the rolling plan. Furthermore it's not clear from the training plan, nor from the Consolidated Work Plan, how the training activities are prioritised and how the trainees are selected, given the priorities of the strategy 2013-2016.

We also found that the effectiveness of training activities was measured by means of the performance appraisal system. The introduction of the individual work plans is very helpful in this respect.

Recommendations

We recommend SAI Zambia to make it clear in the rolling training plan on how the training activities are prioritised and how the trainees are selected, given the priorities of the strategy 2013-2016.

We further recommend SAI Zambia to evaluate the training effectiveness on an organisational level by analysing the data of the performance appraisal system.

Management comments

Emphasis should also be placed on the development of an HR Strategy which will be in line with the current SP. This Strategy will come out with a SWOT Analysis which identify all the HR and training problems with clear strategies to address them. This will help give a complete overview of HR matters.

3.4 Audit standards and methodology

3.4.1 The quality assurance function and system for quality control

Standards and best practice

A SAI should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and are operating effectively. The monitoring process should:

- a) Include an ongoing consideration and evaluation of the SAI's system of quality control, including a review of a sample of completed work across the range of work carried out by the SAI
- a) Require responsibility for the monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility, and
- b) Require that those carrying out the review are independent (i.e. they have not taken part in the work at any quality control review of the work. (*Quality Control for SAIs/ISSAI 40, Element 6: Monitoring*))

Observations and root causes

A Quality Assurance Unit is operational.

Recommendations

No recommendations.

3.5. Communication and stakeholder management

3.5.1 Communication and stakeholder management

Standards and good practice

SAIs should make public their mandate, missions, organisation and strategy (*Principles of transparency and accountability, ISSAI 20, Principle 2*). In order to achieve this external communication, a SAI must ensure via internal communication, internalization and other means that the staff fully understand the matters to fulfil their work. (*Quality control for SAIs, ISSAI 40, Element 4*)

SAIs should communicate timely and widely with interested parties. Parliament, PAC and the Judiciary in countries with a court system should be the most important parties to communicate with. It is therefore important that the SAI establishes communication channels with these (*Mexico Declaration*)

SAIs communicate timely and widely on their activities and audit results through the media, websites and by other means

- SAIs communicate openly with the media or other interested parties on their operations and audit results and are visible in the public arena
- SAI reports are available and understandable to the wide public through various means (e.g. summaries, graphics, video presentations, press releases." (*ISSAI 20, Principles of transparency and accountable, principle 8*)

Observations and root causes

A Communication Policy is in place. This policy is a very good first step in professionalising internal and external communication of SAI Zambia. The policy mainly concentrates upon ensuring that the message of the SAI is received and understood by the stakeholders.

Recommendations

We recommend that SAI Zambia's Communication Strategy should also focus on the effectiveness of the audit work. This means that stakeholders not only receive and understand the message of the SAI, but also act in accordance with the conclusions and recommendations of the audits. Therefore, communication and continuous interaction between the SAI and its stakeholders (on all levels) remains important.

PRO comments

All the issues in the standards and good practice is done. In addition to ensure that Zambia is seen as a reliable partner, in the executive summary of our report, we do highlight how many audits were carried out, those which were resolved administratively (acted upon before production of the report) and the unresolved issues which form part of the report. This in my view shows the effectiveness of the audit work. Secondly, our interventions with the public for instance shows and exhibitions; we have a book for comments. These comments are systematically analysed and findings are arrived at by the Research Unit, who in turn use them for decision making. On follow up of audit recommendations, the three member committee comprising OAG, Parliament and Accountant Generals office pursue these until they are resolved. The unresolved issues will continue to be highlighted in the report of the AG.

3.5.2 Performance of OAG

The Standards and good practice

"SAIs report publicly on the results of their audits and on the recommendations regarding overall government activities....."

SAIs assess their impact of the efficiency and effectiveness arising from their recommendations on the public sector and the public value of audit work and report on them

- SAIs also report publicly on overall audit outcomes, e.g. the government's overall budget implementation, financial condition and operations and, overall financial management progress and if included in their legal framework on professional capacity." (ISSAI 20; *Principles of transparency and accountability, principle 7*)

Of importance for the result orientation, production, presentation and evaluation is also the decision taken at the 2007 INCOSAI in Mexico to set up a working group with the task to present a paper on the subject "Value and Benefits of SAIs". A paper from the working group was presented at the 2010 INCOSAI meeting in South Africa and the group was asked to continue its work and develop tools for monitoring and evaluation. Currently a Performance Measurement Framework for SAIs is being drafted and piloted, whilst ISSAI 12 on the values and benefits of SAIs was adopted at the 2013 INCOSAI meeting in China.

Observations and root causes

During the previous review it was suggested that SAI Zambia develops a mechanism of evaluating the effectiveness of the various publicity methods they have used.

We found that there was no mechanism in place and that the publicity methods were not structurally evaluated. This is mainly caused by the limited capacity of the public relation function as a result of a government-wide budget cut for these activities. However, SAI Zambia tries to choose the most effective and affordable evaluation methods (for example, developing a Stakeholder Perception Questionnaire) and publicity methods (for example, carrying out programs on the community radio (when it comes to reaching the local population) instead of the national radio).

Management comments

The communications strategy once developed will address this.

Recommendations

We suggest that SAI Zambia starts developing a mechanism to raise structural awareness of the impact and the effectiveness of the SAI and its work. This means for example that during the developing of the work plan and the planning of the audits special attention will be given to maximising impact and effectiveness of the SAI and its work.

PRO comments

The Office has come up with a Stakeholder Perception Questionnaire which is one of the mechanisms to evaluate the effectiveness of the various communication methods the office embarks on. The publicity methods carried out are structurally evaluated monthly, quarterly and then annually. The publicity methods carried out are normally complemented for instance, if we carry out radio programs on national radio, we will complement this with radio programs on community radio stations so as to reach out to all regardless of their geographical position.

4. REGULARITY AUDIT REVIEW

4.1. OVERVIEW OF REGULARITY AUDIT REVIEW:

The review was carried out using the AFROSAI-E Quality Assurance checklist in the Handbook. Coupled to this manual, the Regularity Audit Manual (RAM) for the SAI has been applied as criteria for review. The team further considered that the latest methodology as guided by AFROSAI-E during the 2013 Technical Update and Refresher were implemented during 2014, for the completion of the audits for the financial year ending 2013.

The Internal Standards Committee ensured that all audit teams have been sensitized on the new RAM methodology, even though the latest update have not been included in the SAI's RAM by the time of the review. The team acknowledges that due to limited resources, timely customization is not always possible.

At the time of the review, the SAI had not yet tabled the Audit Report for the financial year ending 2013, thus the latest reports considered for review are those selected as finalized for the financial year ending 2012.

4.2. OVERALL CONSIDERATIONS

Observations and root causes

The SAI's current annual operational plan is based on the strategic plan for 2014-2016. The breakdown of strategies and key activities for implementation of the prioritised objectives are clearly outlined with time frames and budget. Furthermore, the SAI's current annual overall operational plan is encompassing all Directorates is linked to the SAI's including those of Regularity Audit in its Annual Consolidated Work plan for 2014.

This consolidated plan further includes the Annual Overall Audit Plan for each of the respective Directorates of Audit Services. This approach of consolidation is commendable and is perceived to ensure direction on an overall level. The breakdown of strategies and key activities for implementation of the prioritised objectives are clearly outlined with time frames and budget.

It is a good practise that the office has selected objectives and activities to prioritize in the annual plan. However, the afore-mentioned Annual Overall Audit plans as reviewed by the QA team, and included in the Consolidated Work plan 2014 is not regarded as complete to the extent that it does not contain some of the elements as outlined in the AFROSAI-E guideline for Planning and RAM, in which the template is clearly defined on what the Annual Overall Audit plan could entail as best practise.

Recommendations

The SAI should continue with the current practise of Consolidated Plans. Furthermore, it is advisable that the SAI consider Annual Overall Audit Plans be separated from the Consolidated Plan and should be reflected more elaborative as aligned to the afore-mentioned guideline.

4.3. Pre-engagement of audits

Standards and good practices

As outlined in the ISSAI 40 on Quality Control the SAI should establish procedures and policies that gives reasonable assurance that it will carry out audits where the SAI is:

- competent and has the capabilities, including time and resources, to do so
- can comply with ethical requirements and
- has considered the integrity of the organisation being audited and has considered how to treat the risk to quality that arises.

The SAI should plan its audits realistically through time budgets. Time and resources allocated should be linked with an overall risk assessment of the auditees, taking into account among others their integrity. Competency aspects must be taken into account when allocating resources. The audit team must reflect on whether it possesses the required competence, given the nature of the auditee and the overall risk assessment. Equally important is to assess whether those involved in the audits comply with the ethical requirements determined by the SAI and by INTOSAI.

Observations and root causes

A review of four (4) regularity audit files was performed. The latest year which was fully completed – including tabling of the report – was audit of financial year 2012 why this year was selected. For one of the audits the 2012 years audit could not be found why we had to look at the 2013 file. For this particular audit the audit opinion for 2013 was already concluded.

For one of the audits selected the documentation for detailed planning and reporting could not be found why this part had to be left out.

In order to consider improvements made in the methodology and documentation we have also briefly viewed files for 2013 when available.

The QA team selected one file for each one of the four directorates:

- Ministerial Appropriation Audits Directorate
- Revenue Audits Directorate
- Public Debt and Investments (PDI)
- Provincial Audits.

The pre-engagement phase of the audits is generally well documented on the files for review. However we have observed the following areas which need improvement.

- Code of ethics is not completed by senior managers to prove their independence towards the audits in which they are involved.
- Team agreement is sometimes done on a too aggregated level. The purpose of this working paper is to agree on the scope of the work for team members. Preferably the responsibility of each area of the audit should be directed to a named auditor. Now it happens that some areas are directed to “all” which is not

sufficient and does not serve the purpose with the WP. It is also important to state which auditor is the reviewer of each area in the audit. This was not done in the detailed planning phase for one of the audits.

- The budget for the audits is supposed to be done in working hours while most teams use working days. The managers' time is generally not reflected in the respective budgets.

Recommendations

- Managers involved in the audit and who have the power to influence the audit opinion should sign code of ethics to prove their independence in respect to respective audit.
- Work should ideally be allocated to named auditors on the Team Agreement WP to clarify who is the responsible preparer and also reviewer for each part of the audit. When it comes to detailed planning it should be broken down to components if the audit of these are divided among team members.
- The template for Budget vs Actual might need to be changed if the budget is to be carried out in working days, now working hours is stipulated. Also managers' time in individual audits should be reflected to give the full picture.

4.4. Strategic planning on a financial statement level

Standards and good practices

According to ISSAI 1300 on Planning and Audit of Financial Statements the audit team should arrive at an overall audit strategy, taking into account materiality, involvement of experts, understanding of the auditee etc.

There must be a clear link between the audit approach in the overall audit strategy, showing the components to be audited, and the documented risks, materiality and nature of the auditee.

Observations and root causes

In the strategic planning we have made the following observations which need improvement:

- The concept of materiality appears not to be well understood in the audit teams. Also, in most audit files reviewed, the explanation when the materiality figures were adjusted, could not be traced.
- Percentage and basis for materiality calculation are not always justified.
- Conclusion is often missing in the checklists in strategic planning. Also when a conclusion is drawn it is sometimes not clear how or on what basis the conclusion was reached. Sometimes the conclusion is also in contradiction of the audit result documented in the checklist.
- In some of the audits not applicable has been stated in the IT control checklist without further audit work carried out. But in all audit environments there are IT equipment available such as laptops, software etc which are often used in one way or another to produce figures which finally end up in

the financial statements. This means that at least parts of the IT-audit checklist need to be considered.

- The files reviewed, indicated that there was sometimes no link between the documentation and the final Financial Statement. Besides the update of the Lead schedule, there is also a need for an update in sampling – it might mean a need to include more substantive audit testing as well.
- All material risks identified in the different checklists are not always transferred to the Risk of material misstatement working paper.
- Although a component is identified for audit coverage in the lead schedule there is sometimes no documentation of audit procedures carried out on file. In one of the audits we could find no documentation on audit procedures carried out of one of the major audit components.
- Preliminary analytical procedures were performed in most audit teams but often lacks analysis and conclusion in spite of large variances between the years.
- Identified weaknesses in the internal control identified during strategic planning are not always reported in the management letter although they represent non-compliance and/or major risks.
- There is no documentation in the files to prove that the overall audit strategy has been discussed with the auditee.
- In one of the files there was no documentation to prove that a meeting was held with the engagement team to discuss the susceptibility of the F/S to fraud (Engagement team discussion WP).

Recommendations

We recommend that SAI Zambia:

- Carries out more practical training and also focus on support to audit teams in the different parts of strategic planning.
 - The SAI need to consider further guidance with regard to the percentage to be used in the materiality calculation.
 - Close Supervision and thorough review is recommended during this critical phase of the audit.
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4.5. Detailed planning and audit fieldwork on an audit component level

Standards and good practices

According to ISSAI 1300 on Planning and Audit of Financial Statements the audit team should develop a more detailed audit plan based on the overall audit strategy. The nature, timing and extent of specific audit procedures should depend on the outcome of the risk assessment in the detailed planning.

According to ISSAI 1330 on the Auditor's Responses to Assessed Risks, the auditor shall design The auditor shall design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

Observations and root causes

The logic of planning appears not to be well understood in the audit teams as indicated by the following observations:

- All components selected for audit in the lead schedule is not subject to further work on system descriptions including identifying significant risks and key controls.
- It appears from the review that audit teams generally do not understand the difference between walkthrough and test of controls all that well. In some teams the walkthrough is very extensive covering a great number of transactions when one or two items would have been enough to check the implementation of the control.
- There is no evidence on files that control weaknesses identified in the system description or in the test of controls is reported to the auditee, e.g. in an audit query or management letter.
- Identified key controls on the system description are not always transferred to the reliance on key controls working paper for further assessment of adequacy – although they address significant risks and according to the walkthrough also is implemented.
- There is no justification for the number of items or transactions included in test of controls. This should be depending on the frequency of the control and the reliance the auditor intend to place on the control.
- Reliance on key controls are not always re-stated after test of controls although the reliance should have changed according to the result of test of controls.
- In some of the audits there are no documentation of sampling although audit procedures are carried out. When sampling has been documented it is sometimes not based on the result of test of controls.
- Substantive audit procedures carried out are sometimes very briefly described which makes it difficult to understand what audit procedure actually has been performed.
- Even though a control is assessed not to be adequate there is still test of controls carried out in some teams. If the control is not implemented or not adequate there is no need for testing it.

Recommendations

- It is recommended that SAI Zambia focus on continuous training in the RAM to ensure full understanding of the logic in detailed planning. Also the Standards Committee could serve an important role here to support the audit teams.
- Close Supervision and thorough review is recommended during this critical phase of the audit.

4.6. Audit Reporting on a financial statement level

Standards and good practices

According to ISSAI 1700 on Forming an Opinion and Reporting on Financial Statements the auditors should

- form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained
- express clearly that opinion through a written report that also describes the basis for that opinion

Observations and root causes

For audit reporting we made the following observations:

- Management representation letter was only documented on file for one of the audits selected for review.
- Findings related to identified major control weaknesses identified in strategic planning and detailed planning is not always included in the management letter.
- Final analytical review was not completed for one of the audits.
- Documentation to prove team members compliance with the code of ethics is not completed in the audits.
- In most audits there was no documentation, e.g. minutes, to prove meetings have been performed with the auditee.

Recommendations

The SAI Zambia is recommended to encourage audit teams to adhere to all the requirements of the ISSAIs on reporting, through enhanced quality control review and supervision.

4.7. Quality Control of the audits

Standards and good practices

SAIs should establish policies and procedures that encourage high quality and discourage or prevent low quality. This includes creating an environment that is stimulating, encourages proper use of professional judgement and promotes quality improvements. All work carried out should be subject to review as a means of contributing to quality and promoting learning and personnel development.

SAIs should ensure appropriate quality control policies and procedures are in place (such as supervision and review responsibilities and engagement quality control reviews) for all work carried out (including financial audits, performance audits, and compliance audits). (ISSAI 40)

Observations and root causes

When it comes to quality control of the audits we have made the following observations:

- There is a section in the RAM of the office describing the roles and the requirements of quality control in the audits in a clear way.

- Review on different levels is generally well documented in the audit files.
- There is also a procedure for pre-issuance review carried out by staff from the Quality Assurance unit for a selected number of audits each year.
- Engagement control in terms of ISSAI 1220 when a senior reviewer is assigned all through the audit is not performed.
- As part of the working papers a quality control checklist has been included to ensure quality all through the audit process. Since 2013 this checklist is divided into the different phases in order to review quality on a timely basis.
- The result of reviews on the 2nd and 3rd level is documented in separate working papers called review sheets. This is where the reviewer communicates comments, additional work to be done, deficiencies etc. to the subordinates. Sometimes there is one review worksheet for the whole audit and sometimes there is several. Although there are outstanding issues in the review sheet the working paper is still signed off by the reviewer. In some of the audits we have noticed outstanding issues in the review worksheet while the working papers are signed off and do not indicate any remaining work to be done. When keeping the review comments separated from the working papers there is a higher risk that outstanding matters are not attended to.
- In most files the quality control questionnaire is only filled in by the first level reviewer. The 2nd and 3rd level reviewer is only signing off a front cover sheet. By doing it this way there might be a risk that all the issues brought forward in the QCQ are not considered in the review on the higher levels.

Recommendations

It is recommended that the SAI Zambia:

- Ensures that the QCQ is used and properly documented by all levels of reviewers.
 - That comments from the review regarding outstanding matters are documented in connection with the working papers to avoid outstanding matters not attended to.
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4.8. Documentation

The standards and good practice

According to ISSAI 1230 the auditors should prepare documentation that provides:

- sufficient and appropriate record of the basis for the Auditor's report
- evidence that the audit was planned and performed in accordance with the ISSAIs and applicable legal and regulatory requirements

Observations and root causes

The following observations were made regarding documentation:

- Audit work performed is generally quite briefly described which makes it difficult to understand what has been done and how different conclusions have been reached.
- Audit evidence could be improved in the strategic planning phase. Critical documents could preferably be collected and referenced to from the checklists, e.g. internal audit plan, internal audit charter.
- There is no documentation to prove that findings in strategic planning and detailed planning are raised in reports, e.g. audit query, management letter or audit report.
- Out of four selected audits for review for 2012 one audit file was not to be found. In another audit the file with documentation of detailed planning and reporting was not to be found why this could not be covered in our review.
- During the review of selected audits, it was difficult to follow the auditors' logic due to lack of documentation. This lack of documentation is perceived to be based on the fact that the audit teams do not take due care on the safeguarding and proper filling of documents. Thus, key auditing decisions where auditors judgment and evaluation was needed was not documented and could not be traced by the team.
- It was also noted that there was no documentation on discussions with the client during the audit, such as minutes of meetings. The working papers are not properly prepared or cross-referenced, but put together in a way that may not be easy for an independent reviewer to assess the work performed in support of the findings, conclusions and recommendations. There is also quite a lot of data on the files such as photocopies of unexplained various documents, which is not easy to check whether a main finding is supported by sufficient evidence or not.

Recommendations

Supervision to be enhanced, whilst Quality Control Questionnaires be dually completed by all 3 levels of review to ensure improvement in terms of audit documentation and audit evidence.

4.9. Overall audit report

The standards and good practice

The reports shall present the facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and easy to understand. (*ISSAI 1 Lima Declaration, section 17.2*)

Observations and root causes

- Currently the SAI issue audit reports and audit opinions on the expenditure side of the Ministries - one for each ministry, the Parastatals and the provincial offices. The revenue side of the Ministries are being audited by the SAI, whilst findings from the said audit are included in a management letter and in the General Report. However, there is no audit report or audit opinion issued accordingly, neither is there any audit opinion issued on the Government's Consolidated Financial Statements.
- The audit opinion given on the expenditure side of the Ministries communicated as part of the audit report to the Accounting Officer of the respective auditee is not formulated in the same way as the one included in the Regularity Audit report of Ministry of Finance. The latter is not including explicitly if the opinion is qualified or unqualified. Since it is the Regularity Audit report that is publically available it might mean that the status of the audit is not clear to the public citizen.

Recommendation:

- SAI to consider an alternative manner of expressing the opinion in the published Financial Audit Report with the view of enhancing the SAI's transparency and the accountability of Public institutions.
- In order to improve accountability, the SAI is recommended to strive for audit opinions to be issued both on a Ministerial level (including both revenues and expenditures) as well as on a Consolidated Financial Statement for the whole government.

4.10. QUALITY ASSURANCE FUNCTION:

Standards and best practice

A SAI should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and are operating effectively. The monitoring process should:

- b) Include an ongoing consideration and evaluation of the SAI's system of quality control, including a review of a sample of completed work across the range of work carried out by the SAI
- c) Require responsibility for the monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility, and

Observations and root causes

SAI Zambia has established the QA Unit that will ensure that quality control mechanisms are in place to monitor closely the various processes and procedures of the SAI. The QA Unit in collaboration with the heads of Directorates through the support of Top Management have to ensure that quality control systems of the SAI are strengthened to rectify some weaknesses identified during the review of audit files.

The Unit currently have a draft QA Manual and Policy as work in progress, that aims to guide the QA processes at the SAI.

Staff from this Unit are appearing independent as they are not part of the actual audit process, whilst the QA Unit reside under the Directorate: Planning and Information. The unit did produce Internal QA Review reports. Two reports were submitted during this review, one which they have compiled as a unit Internally, and one in collaboration with an Afrosai-e representative resident at the OAGZ during a support visit to assess its quality assurance process for regularity audit.

The efforts by this Unit is commendable and need to be continued and/or enhanced to strengthen the QC procedures in SAI processes.

Recommendations:

- It is recommended that the SAI should complete and implement the QA Manual and QC Policy as a matter of priority to assist the SAI in enhancing quality of audits in line with the ISSAIs.
- More resources could be exerted to enhance the QA function in the SAI, with regard to coverage of reviews both at HQ and Provincial level.

5. ACKNOWLEDGEMENT

We would like to take this opportunity to express our sincere gratitude to the Auditor General, Deputy Auditor-General of Zambia and staff for the hospitality, cooperation, courtesy and assistance accorded to us for the success of the review. During our exit meeting, a very positive commitment was made to address the areas for improvement. The level of resolution showed an office is dedicated to excellence and ensuring the best practice in public sector auditing.

6. ACTION PLAN

The SAI is expected to prepare an action plan to show how it intends to improve the quality of work at the SAI. A copy of the work plan should be submitted to the Secretariat. The action should include the four columns stated below:

- Description of item
- Intended Action
- Person to implement
- Deadline