



**OFFICE OF THE DIRECTOR OF AUDIT
SAINT LUCIA**

AUDIT MANUAL

1999

SECTION 1**INTRODUCTION****100 OBJECTIVE OF THE AUDIT MANUAL**

101.1 This auditing manual sets out the basic audit organization, standards and process of the Office of the Director of Audit of Saint Lucia. These represent the office's general policies for conducting audits.

101.2 This manual is not intended to cover the technical aspects of financial statement auditing or comprehensive auditing. The Office has formally adopted the INTOSAI Auditing Standards. However, to assist it in the fulfillment of its mandate, the Office is also guided by other auditing standards from other sources such as the International Standards on Auditing issued by the International Federation of Accountants; the Government Auditing Standards (GAS) issued by the Comptroller General of the General Accounting Office (GAO) of the United States of America, the Canadian Institute of Chartered Accountants (CICA) Handbook Volume II issued by the CICA, the Codification of Statements on Auditing Standards issued by the American Institute of Certified Public Accountant (AICPA). Operating manuals such as the Public Audit Manual (PAM) issued by the National Audit Office (NAO) of the United Kingdom, the Comprehensive Audit Manual (CAM) issued by the Canadian Comprehensive Auditing Foundation (CCAF) and the Office of the Auditor General (OAG) of Canada, and other operating manuals by donor agencies who have funded the various projects being implemented by the Government of Saint Lucia.

102 PURPOSE

102.1 The reason for developing this auditing manual and its purpose include:

1. communicating the office's audit organization, standards, policies and process;
2. setting out a basic structure within which professional judgement may be exercised;
3. providing a means through which the quality of the work of the office can be measured;
4. encouraging appropriate consistency and efficiency in the manner in which audits are carried out;
5. encouraging discussion and thus a means through which changes and improvements can be made.

102.2 All staff should be familiar with the contents of the manual and a copy should always be available for reference during each audit.

103 CONTENT

103.1 The manual outlines the Director of Audit's mandate and discusses this office's organization, role and responsibilities. It sets out and describes the standards governing the conduct of audits; these standards form the basis for judging the quality of the work of the office.

103.2 Using the mandate, organization and standards as a framework, the manual outlines the audit process followed by the office.

103.3 To assist users in applying the general audit policies of the office, audit guides ('how to' booklets) have been prepared.

104 ADDITIONS AND REVISIONS

104.1 This Manual embodies the current audit practices applied by the Office of the Director of Audit to its audits. The manual will sometimes have to be revised or updated when there are changes in the objectives, standards and techniques of auditing. As required, these revisions will be issued to all holders of the Auditing Manual.

104.2 Audit staff who identify the need for revisions or have suggestions for improvement are encouraged to communicate their observations to the Director of Audit.

SECTION 200**BASIS IN LEGISLATION****201 INTRODUCTION**

201.1 The role, mandate and responsibilities of the Director of Audit are established in the Saint Lucia Constitution Order No. 12 of 1978 and the Audit Act No. 26 of 1988. The Finance (Administration) Act No. 3 of 1997 deals with the submission of the Accounts of Saint Lucia, to the Director of Audit, by the Accountant General.

201.2 The role, mandate and responsibilities of the Office of the Director of Audit should be viewed in relation to two key concepts; accountability and audit. These concepts are defined as follows:

Accountability is the obligation to answer for a responsibility which has been conferred. It presumes the existence of at least two parties: one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it has been discharged.

Audit is a process which is superimposed on an accountability relationship. It is carried out to establish that a report on the responsibility assumed is a correct and fair one. An audit is usually performed by a third party, primarily serving the interests of the party who delegated the responsibility.

202 CONSTITUTION ORDER NO. 12 OF 1978

202.1 Sections 84, 90 and 122(3) of the Saint Lucia Constitution Order No. 12 of 1978 defines the role, responsibilities, appointment and tenure of the Director of Audit Saint Lucia. (The above quoted sections of the Order are highlighted in Appendix A of this manual).

202.2 All members of staff are required to have a sound knowledge of those sections of the Order which relate to this office.

203 AUDIT ACT NO. 26 OF 1988

203.1 The Audit Act No. 26 of 1988 was enacted to separate those provisions of the Finance and Audit Ordinance No. 5 of 1964 concerning the Director of Audit, consolidate them with the provisions of the Saint Lucia Constitution Order No. 12 of 1978 concerning the Director of Audit, and provide a legislative mandate for the introduction of Performance Auditing (i.e., the addition of value-for-money auditing to the already mandated financial and compliance audits). (The full text of the Act is highlighted in Appendix B of this manual).

203.2 All members of staff are required to have sound knowledge of this Act.

204 FINANCE ACT NO. 3 OF 1997

204.1 The Finance Act No. 3 of 1997 repealed and replaced the Finance Act No. 25 of 1988 which was a 'twin' to the Audit Act No. 26 of 1988. It consolidated those provisions of the Finance and Audit Ordinance No. 5 of 1964 and the Saint Lucia Constitution Order No. 12 of 1978 concerning the management of the Public Funds of Saint Lucia. (The full text of the Act is highlighted in Appendix C of this manual).

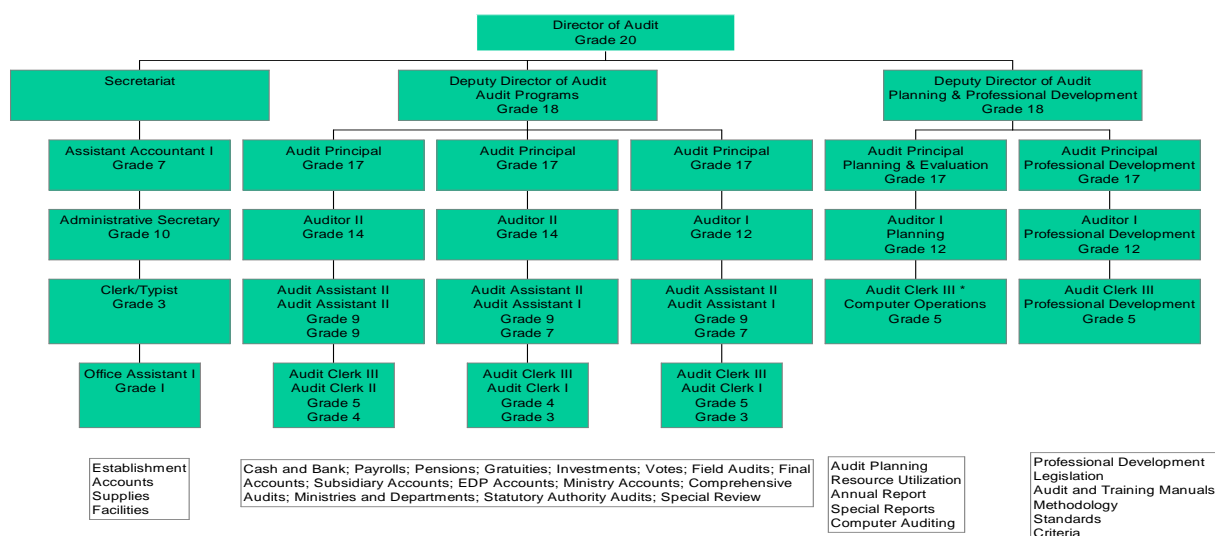
204.2 All members of staff are required to have a sound knowledge of this Act.

SECTION 300

ADMINISTRATION OF THE AUDIT OFFICE

301 ORGANIZATION

301.1 The organization chart of the Office of the Director of Audit of Saint Lucia is as follows:



302 AUDIT ADVISORY COMMITTEE

302.1 The Audit Advisory Committee serves as a senior, internal, advisory body, independent of the ongoing audit. Members provide the Audit Principal in charge of the performance audit or government-wide study with advice as the audit proceeds from the planning to the reporting phase. As required, advice should be sought from individual members of the Committee, or from the Committee as a whole when considered appropriate. The Chairperson of this Committee is the Director of Audit and other members are the Deputy Directors of Audit and the Audit Principals, Audit Matrix.

302.2 At the discretion and direction of the Director of Audit, the Committee reviews the work of the audit at the following points:

- Survey report and plan for the audit.
- Review of draft reports to the audit entity and the relevant sections, where applicable, in the annual report.

302.3 The functions of the committee are to:

- Provide strategic and technical advice which will assist the audit in having maximum effect.
- Fulfill a co-ordinating role with particular respect to reporting and control evaluation.
- Critically scrutinize the logic and fairness of the assessments and recommendations which are developed.

303 CYCLICAL PLANNING

303.1 The Director of Audit is required by law to audit and report on the the accounts of Saint Lucia at least once every year (Saint Lucia Constitution Order No. 12 of 1978). To audit the accounts involves examination of the principal elements comprising the financial management and control systems as well as an analysis of accounting transactions and an examination of the propriety of financial statements.

303.2 It is evident that without a very large staff it would be impossible to examine all of the elements comprising the financial management and control systems in all public bodies, statutory authorities and government corporations every year. It is also evident that to attempt this would be counter-productive since the entities audited require time to respond to audit observations by making the changes necessary to correct the weaknesses on which the observations were based.

303.3 To secure the most efficient use of Audit Office resources, yet ensure the validity of the Director of Audit's certification of the accounts, the techniques of sampling and cyclical examination are used. (Sampling is discussed in greater detail in Section 406.4.5 and Cyclical Examination in Section 303).

303.4 An overall planning cycle is established for the audit universe i.e., the totality of all audit tasks to be carried out by this office. This planning cycle may cover a period of four to six years depending on the size of the universe involved and the level of resources available to this office. This plan sketches in fairly broad terms the times the audit tasks are planned to be completed in each year of the cycle. It is not to be assumed that any one audit task will be planned for completion only once in the cycle; particularly sensitive, contentious or problematic areas may be examined several times in any one cycle.

303.5 The first year of this broad plan is then brought to the more detailed level of defining audit projects and forecasting, with a greater degree of accuracy, the resouces required to be assigned to each project.

303.6 The planned projects for the initial six months are then made specific as to timing, organizational allocation, staff assignment and resource utilization.

303.7 Audit projects are now ready to be progressively entered into the audit process.

303.8 As audit projects are completed and actual times and utilization of resources are determined, plans, i.e., those for six months and one year, will be adjusted as necessary.

304 ASSIGNMENT PLANNING AND TIMEKEEPING

304.1 All assignments, except those of a general office or administrative nature, will be communicated on the basis of an assignment work plan.

304.2 The work plan provides for a standard time budget which will be based on the number of hours that should be required to complete the assignment given normal conditions and a reasonably experienced Audit Senior. In cases where conditions are not normal, or the auditor is inexperienced, an additional time allotment may be provided with the approval of the Deputy Director, Audit Matrix.

304.3 The description of work section will contain a brief outline of the nature and scope of the assignment. For some work plans the description of work may be developed by the Audit Principal after an initial survey. The special considerations section of the work plan will include specific factors, objectives or procedures which would not be normal in the circumstances but which have been determined to be an integral part of the assignment. The date started for any work plan is the day on which any portion of the assigned work was performed. The date completed is the day on which the audit completion checklist is finalized.

304.4 All hours worked will be recorded on a weekly timesheet. Time will either be charged to the appropriate activity on the work plan or slotted correctly in the non-chargeable activities under general administration with brief explanation of the subject worked on. A minimum of a standard work week must be accounted for. Any overtime should be recorded.

304.5 All timesheets must be delivered to the Audit Principal no later than 12:00 noon on the Monday following the week reported. If an officer working out of the office, or will not report for duty on the Monday of the following week, timesheets should be handed in on Friday. The Audit Principal will deliver the verified timesheets to the Assistant Accountant by 4:30 p.m.

304.6 Each week, the Assistant Accountant will enter into the computer the work plan time summaries, balancing the total hours entered to the total hours on the timesheets. Each month, the he/she will also prepare an audit progress report comparing the actual hours to date with the budgeted hours already entered into the computer as work plans were issued. The starting date for each work plan will be shown and the comparative summary prepared in starting date order. All completed work assignments will be conspicuously marked as such. In addition, the report will show a time summary by employee. The report will be reviewed by the Deputy Director of Audit (Professional Development) before distribution. Copies of the monthly report will be given to the Director of Audit, the Deputy Directors of Audit and the Audit Principals two days before the monthly management meeting. Adjustments to the planning cycle, among other things, will be decided at this meeting and the necessary adjustments communicated to the Assistant Accountant for adjustment to planning data already in the computer where this is appropriate.

304.7 The planning cycle starts three months prior to the due date for the annual report. The planned year and the reporting year start on the day following the annual report due date.

305 OFFICE POLICIES

- **Introduction**

305.1 The purpose of this section is to itemize a number of general office policies for the information and guidance of all staff.

- **Housekeeping**

305.2 The entire office must be maintained in a reasonably neat fashion. This is a co-operative effort and each staff member is required to contribute his or her share. At the end of each working day all desks must be cleared and only normal desk accoutrements will be allowed to remain. All items have their appropriate place and it is up to each staff member to ensure that the office remains reasonably tidy at all times. This responsibility includes the washrooms and the rest area.

- **Punctuality**

305.3 Office hours are from 8:00 a.m. to 4:30 p.m. Monday to Friday. Staff members are expected to respect this condition of employment.

- **Telephone use**

305.4 Staff members will be required to answer the phone promptly and courteously. Calls should be kept as brief as possible and personal calls should be kept to a minimum. All long distance calls will be recorded on a Long Distance Call Form which is kept by the Secretariat. Charges for personal calls must be paid promptly once they are known.

- **Leave**

305.5 The office's policy is that annual vacation will be taken in December. However, if vacation is required at any other time during the year, the Audit Principal and management must be informed early in the year. Leave carried forward must be in accordance with the Ministry of the Public Service circulars.

305.6 Request for leave without pay must be submitted to the Permanent Secretary, Ministry of the Public Service through the Director of Audit.

305.7 All staff are required to phone and advise the Assistant Accountant to inform the relevant Audit Principal when they are sick and is unable to report for duty.

305.8 Staff members must procure and submit a certificate of illness by a qualified medical practitioner as required by the Staff Orders.

- **Audit forms**

305.9 All preprinted audit forms including bank confirmation forms, questionnaires, planning memos, etc., will be stored in a separate cabinet. The Assistant Accountant, with the co-operation of all staff, will be responsible for ensuring that an adequate supply is on hand at all times. Before any forms are reproduced in quantity, they must be reviewed by the Director of Audit to ensure that all necessary changes are made. All suggestions for changes to the forms should be discussed with the Deputy Director(s) of Audit and approved by the Director of Audit.

- **Signing authorities**

305.10 Within the Office of the Director of Audit signing authorities will be in accordance with the following schedule:

Financial statement audit opinions	Director of Audit
Major reports	- do -
Special leave forms	- do -
Applications for assistance for:	
- professional development	- do -
- tuition reimbursement	- do -
Work plans	Deputy Director or Audit Principal
Vacation and sick leave forms	Audit Principal and Director of Audit through Deputy Director
Purchasing related activities	As indicated in the list of signatures submitted to the Accountant General

305.11 In the absence of the Director of Audit, the Deputy Director of Audit will assume the Director's signing authority.

305.12 Signing authorities for all government departments, statutory corporations and government companies are regularly required for audit purposes. The Administrative Secretary will be assigned by the Deputy Director, Audit Matrix to maintain a permanent record containing all signing authorities by department, authority and corporation for the reference of all staff.

- **Overtime**

305.13 Although there is very little requirement for overtime work in the office in normal circumstances, occasionally there are special circumstances such as year-end inventory counts, field audits and related travel when it is expedient and staff will be required to work extra hours.

305.14 When a staff member is required to work overtime, any hours worked should be recorded on the timesheet as normal and charged to the appropriate work plan.

305.15 Subject to the approval of the Deputy Director(s) of Audit, staff may be compensated for overtime hours. Compensation will be in the form of equivalent time off with pay.

- **Make-up Time**

305.16 Staff members occasionally require short periods of time off which does not qualify as special leave. This may include personal business appointments, special events or minor problems at home.

305.17 All such requests for time off, to be made up later, must be approved beforehand by the appropriate Audit Principal and the Deputy Director of Audit. Unless very special circumstances exist, time off will not exceed one half day. Any time-off falling into this category must be made up within three weeks of being granted.

305.18 Time-off granted under this policy should be accounted for on the timesheet under 'Other' in the week in which it was taken. The make-up time should be charged as normal to the appropriate work plan in the week it is worked.

- **Travel Time**

305.19 On all audits, where the field work is conducted in client offices, the auditors will be expected to work the client's hours and to travel to and from the job outside the client's normal working hours. This travel time will be considered as chargeable to the audit.

306 STUDENT POLICIES

306.1 Attaining a recognized accounting designation is a most worthwhile goal, providing those who succeed with excellent prospects for a satisfying and rewarding career. A major objective of a professional office is to develop individuals who can work on their own and who can self-direct rather than requiring constant direction. Coaching for examinations as is done at the universities is not always in the best interests of the student in as much as it can develop dependence rather than independence. The student who learns the discipline required to teach and coach him/herself is frequently learning a facet of character often necessary for future success.

306.2 This office provides you with a working atmosphere where you can test and improve your skills. The professionals in this office stand ready to provide you with guidance. The assistance is yours for the asking but you must have the very strong personal ambition and self-discipline required to study hard and work to high standards. You must be ready to start at the moment you enter this office.

306.3 The following conditions apply to all students in this office:

- The Deputy Director, Professional Development is education co-ordinator for the office. However all professionals in the office will be available for consultation and help in studies. It cannot be over-emphasized though, that it is up to the student to make the best possible use of this offer. This office will not respond to vague requests.

- Studies will be closely monitored. This will mean keeping a record of progress in assignments and submission of detailed study plans.
- Course costs will be funded in accordance with staff rules, and government policies for the public service.
- This office may be used after hours for study purposes but with the clear understanding that the person(s) so using the office is(are) responsible for security and safekeeping.
- As part of the in-house programme, practice exams and practice case studies will be marked for students. The Deputy Director of Audit, Professional Development will arrange periodic one and two day seminars which will be conducted for the benefit of students.
- Office time may be provided to mark practice exams and case studies. However, any time spent must be approved by the appropriate Audit Principal, in advance, in order to let him/her know what is happening and that the time spent is as convenient as possible in the regular work schedule. It is expected that the professionals in this office will be generous with their own time as well for the benefit of the students.
- Appointment to Auditor I after graduation is the intended policy which will be phased in as staff conditions permit. Progress in the office will depend on the auditor's contribution to the achievements of this office and the existence of a vacancy in the permanent establishment.
- After graduation auditors will be allowed to participate in a professional development programme. This programme may be geared to the auditor's personal long-term career objectives. However, if these objectives require the taking of different courses, time may be made available to the auditor but the funding of course costs will be dependent on the Staff Rules then in force.

307 GENERAL AUDITING GUIDELINES

307.1 The new mandate of the Director of Audit clearly puts this office in a position to comment on the economy, efficiency and effectiveness of government. It is therefore of the utmost importance that the business of this office be conducted with a maximum of economy, efficiency and effectiveness and that the staff be seen to reflect this attitude. Any controversies affecting our office in this regard could be devastating to our credibility and, consequently, for our effectiveness and must be avoided.

307.2 The work flow in this office peaks between March and September of each year for the annual report and the interim audits and between July and September for the financial statement audits. Performance audits and other special assignments to the extent possible are scheduled for the slower periods. Because performance auditing will be absorbing an increasing proportion of available time, auditing economy, efficiency and effectiveness is also a very practical necessity.

307.3 Regular interim and financial statement audits must continue to be conducted in accordance with generally accepted auditing standards. However, all time saving techniques must be taken advantage of. The following are some general guidelines for economy, efficiency and effectiveness in auditing which should be applied wherever possible:

- effective utilization of audit staff; assigning responsibilities to the limit of capabilities while maintaining close and effective supervision;
- restricting financial statement audit work to financial matters to the extent possible and only noting possible subjects for further investigation in the highlights;
- using statistical sampling in all cases where it is economically feasible;
- using the systems based audit approach on all audits except those where the systems are not well enough developed or defined;
- making recommendations which concentrate on improving existing systems to a level which would make a systems based approach possible in the future;
- as soon as it becomes apparent in any investigation that the systems are poorly designed and/or poorly operated, applying the Rule of Pareto: a 'quick in, quick out' approach will usually give 80% of the results in 20% of the time required to achieve 100% of the results;
- using reasonability tests and formulas devised during the audit to establish the bona fides of revenue and expenditure amounts where this approach may result in audit time savings.

307.4 Opportunities to apply a cyclical rather than an annual audit approach must be recognized and these possibilities reported to the Audit Principal.

307.5 Strong emphasis must be placed at the planning stage on having the client do as much work as possible toward preparing for the audit. For example, preparing the financial statements, supporting schedules, account analysis, trial balances, reconciliations and other working papers. The client should be advised, well in advance of the audit, as to what is expected of him. Special emphasis must be placed on written requests where failure to deliver has been demonstrated in the past. If the client is un-co-operative or does not meet the agreed upon deadlines, these facts should be reported to the Director of Audit.

307.6 Realistic deadlines must be set for work completion and follow-up action taken where these audit deadlines are not met.

307.7 Time over-runs must be closely monitored. Over-runs will not be accepted without the prior approval of the Audit Principal. For work plans with budgets under one hundred hours, prior approval must be obtained and explanations must be provided for over-runs of ten or more hours. For work plans with budgets greater than one hundred hours prior approval must be obtained and

explanations provided for over-runs of 10% or more. Explanations must consist of reasons and not excuses.

307.8 Outside audits must be completed in the client's office. This means that files must be brought in ready for review including the draft financial statements, management letters, etc.

308 COMMUNICATION

308.1 Communication is an extremely important life skill which can make a significant contribution in exam results, quality of work performance and overall career achievement. The difference between success and failure in the final exams can frequently be attributed to poor communication skills. Regardless of how experienced or skilled an auditor is, if he lacks the ability to communicate effectively he may be perceived as a poor auditor in spite of his/her talents.

308.2 In addition to the ability to express oneself clearly and concisely, a crucial point in communication is the ability to identify oneself with those to whom the communication is directed. One needs to be especially aware of the desirability of reducing technical jargon to the level of understanding of those to whom the communication is directed. If a report is meant to be read by a number of people at several levels in a hierarchy it is important to ensure that the material is original and presented in a manner that serves the needs of each level. If a senior manager is forced to read a lengthy report in detail, he is apt to put it aside and not read it at all. An executive summary reducing the full report to a few pages containing the essence of the report can serve a useful purpose. Middle management personnel may want to read the full text but may not be interested in details at a level needed by operational staff. This type of detail can be relegated to schedules or appendices.

308.3 A table of contents sub-divided into large subject areas, capitals and sub-headings judiciously used, all have their place in enhancing a report to be read by a variety of people at different levels.

308.4 Communication in the Office of the Director of Audit revolves around the audit file. One of its functions is to serve as a communication between the auditor and his supervisor and between this year's and the next year's audits. Contentious points are noted and discussed then committed to a management letter. Throughout the file review process it is essential that the reviewers obtain a full understanding of the issues; therefore, clearly and concisely written highlights must be developed. The quality of a management letter lies not only in the validity of the points but also in the way these points are written and received. Failure of the client to understand the observations and recommendations diminishes the probability of the recommendations being implemented and the problems solved. Also, the less editing required to be done by reviewing staff, the more efficient the audit process becomes.

308.5 Acquiring a good command of the English Language requires a solid foundation in basic grammar, an extensive vocabulary and skills in composition. Courses – basic or advanced depending on individual needs – supplemented by reading and by applying due care in practical day to day applications are the important means by which to improve communication skills. However, for some, failure to communicate effectively may have deeper underlying causes. Clear

thinking – the ability to think in analytical and philosophical terms – and a thorough understanding of the subject matter are as central to good communication as are knowledge, vocabulary and composition skills of grammar. It is therefore important to each individual through a process of self-analysis – if necessary, with the assistance of others – to determine the root problems underlying the poor communication skills and to take corrective action according to the outcome of the analysis.

309 FILING SYSTEM

309.1 The Administrative Secretary is responsible for the creation and maintenance of the overall filing system and file listings etc., under the direction of the Deputy Director, Audit Matrix. The Audit Principals are responsible for working paper file content. An updated copy of the list will be maintained for ease of location, and retrieval.

309.2 The Audit Principal in charge of the audit is responsible for the maintenance, condition and location of all files until the audit is transferred to the Secretariat. This responsibility includes the permanent file, correspondence file and financial statement file.

309.3 The permanent files, correspondence files and financial statement files are usually less bulky and used on an intermittent basis. For this reason, they are more easily misplaced and the loss of file may go undetected for several months or more. At the same time these files are necessary and valuable and must be protected. Permanent files and financial statement files should be taken out of the office only when absolutely necessary. Correspondence files must not be taken out of the office for any reason.

309.4 File content will be in accordance with the following guidelines:

1. Permanent files

All files will be organized on a standard sectional basis and updated annually. Sections should be separated by tabbed dividers. Standard section areas follow:

- Acts
- Regulations
- By-laws
- Extracts of minutes – Board of Directors' meetings
- Cabinet decisions and other important minutes
- Agreements and Contracts
- Miscellaneous

Annually, at financial statement date, all items not belonging in permanent files should be removed and clipped, by the Audit Principal, to the outside of the file for review by the Deputy Director, Audit Matrix.

2. Financial statement files

These files should contain the type-checked copy of the financial statements for each year of audit.

3. General/correspondence files

These files should contain, in chronological order, all letters of recommendation and client responses plus audit engagement letters, requests for information and letters setting out what the client is expected to do in preparation for the audit.

309.5 Files will be stored in the Secretariat and temporarily, during the audit in the Audit Principal's office.

309.6 The working paper file cabinets will contain, all files in progress for the current year according to the Estimate Heads as well as the completed files for the immediately preceding audit. (Note: not necessarily the preceding year.)

309.7 The performance audit file cabinets will contain all files prepared during the audit in Estimate Head numerical order. The overview and survey binders will be filed separately in the bottom drawer.

309.8 The Audit Principal will ensure that all files for which he/she is responsible are labeled to clearly indicate the file number, subject, and fiscal year on the tab and the front cover of the file.

309.9 The Administrative Secretary will ensure that there are sufficient numbered hanging file folders in place in the cabinets to accommodate the working paper files.

309.10 All files must be stored in the filing cabinet when not in use. This includes overnight and weekend periods. The only exception is for files used on outside audits. These may be stored in a locked desk or brief case.

309.11 The general file cabinet will contain, files according to Estimate Heads for the four years immediately preceding the files in the current file cabinet.

309.12 The Deputy Director, Audit Matrix is responsible for ensuring that completed working paper files will be moved from the current working paper file cabinet to a closed working paper file cabinet once each year.

309.13 To make room for the newly transferred files, the oldest files in the transfer file cabinet will be removed and placed in cardboard file storage boxes. Those files in cardboard storage boxes will be reviewed by the Deputy Director, Audit Matrix and the Administrative Secretary and either retained or destroyed in accordance with this office's documentation policy at Section 311.

309.14 The file numbering system for the office will be as follows:

Expenditure Authority Files	E.A./(Estimate Head No.)
General Files	G.F./(Estimate Head No.)
Permanent Files	P.F./(Estimate Head No.)
Working Paper Files	W.P.F./(Estimate Head No.)
Performance Audit Files	P.A.F./(Estimate Head No.)
Other files:	
- Audit General Files	A.G.F./(Sequential No.)
Personal Files (staff)	A.P.F./(Initials)
Circular Files	CIR./(Estimate Head No.)

309.15 In the past it has been difficult to locate files which have been removed from the cabinets. Therefore, when a file is removed for whatever reason, the Administrative Secretary or Clerk/Typist will insert on a 'File Out' card, the file number and the borrower's name which will be placed in the vacated space.

309.16 With the increasing number of files in this office, it is of utmost importance that these procedures be strictly followed. Any problems or complaints related to the filing system should be directed to the Deputy Director, Audit Matrix through the Administrative Secretary. No changes to the system as described in this manual will be made without the prior approval of the Director of Audit.

310 INFORMATION AND SOURCE DOCUMENTS

310.1 Sections 13 and 17 of the Audit Act confer certain powers of access to information on the Office of the Director of Audit. Although these powers are very extensive, it is expected that all staff will exercise discretion in their requests for information and documents.

310.2 Information made available to the Office of the Director of Audit is the property of the client and as such must be treated with the strictest confidentiality. All staff are reminded that they have taken an oath to refrain from divulging any information of which they become aware as a direct result of their employment in this office.

310.3 Staff must not leave documents lying about unattended. Staff must use the utmost discretion even with the client staff. When leaving the client's premises, all files and papers must be locked away or returned to the appropriate official for safekeeping. All requests for information about the client should be treated with caution. It is a policy of this office to assist other agencies of government by making certain analyses, reports or working papers available if this would prevent them from duplicating our work. These must not be made available except with the prior permission of the Audit Principal, who must obtain the client's approval where necessary. Most requests from interested third parties can be appropriately redirected to the client.

310.4 In cases where the client is reluctant to release certain requested information, the Auditor should inform his/her Audit Principal. The Audit Principal will then determine whether there is a basis for the client's concerns and whether the information is essential to the audit. If there appears to be no basis for the client's concerns and the information is essential, the Audit Principal will pursue the original request and suggest limited distribution if necessary. If there is a basis for the client's concerns or there is disagreement but the information is still essential, then the matter will be referred to the Director of Audit.

310.5 Because of the volume and frequency of requests made to the Treasury for documents, all documents which are signed out to this office must be securely kept while in our possession and the auditor should carefully ensure that the documents are signed in when they are returned to the Treasury.

310.6 All requests for computer held information should be in writing, approved by the Audit Principal, and give as much detail as possible on the nature and format of the information requested. A copy of the request should be forwarded to the user department as notification. Requests should state the date required and as much lead time as possible should be provided for. In special cases where it is important not to notify the user, the Director of Audit will deal with the Accountant General to make appropriate arrangements.

310.7 From time to time, especially with the advent of the performance auditing, it will be necessary to examine personnel files to establish credentials and evaluate the experience and educational qualifications of personnel in key positions. While the Public Service Commission must be fully aware of the Director of Audit's right to information under the Audit Act, it is understandably reluctant to informally open its files at every request. Requests to review personnel files must therefore be made through the Director of Audit or the Deputy Director of Audit, Audit Matrix. This applies only to the Public Service Commission personnel files and not to other records maintained by the Commission.

311 DOCUMENT RETENTION AND DESTRUCTION

311.1 The bulk of documents produced or retained by this office are routinely stored in the regular audit files in accordance with Section 309 of this manual. Retention policy for all audit files is as follows:

Permanent and Correspondence files	To be retained indefinitely subject to annual culling
Interim and Financial Statement Audit Files	Current year in progress plus five most recently completed
Working Paper Files	- do -
Performance Audit Files	Five years minimum
Miscellaneous Audit Files	- do -

311.2 At the end of each fiscal year the Audit Principal responsible for financial audits will supervise the destruction of all interim and financial audit files which are more than five years older than the current files in progress.

311.3 At the end of each fiscal year the Audit Principals responsible for performance audits will examine all performance and miscellaneous files and prepare a list showing recommended action for each file. The list, together with those files recommended for destruction, will be presented to the Director of Audit through the Deputy Director, Audit Matrix for final review and approval.

311.4 Other documents will be kept by the Administrative Secretary in accordance with the following retention schedule:

Accounting records (vote books), travel claims, etc.	5 years
General/correspondence – office	- do -
Cabinet decisions	10 years
Personal files	Keep until 1 year after termination
Gazettes	10 years
Work plans and individual time summaries	2 years
Analysis of vouchers, monthly summaries	2 years prior to the year being audited
Salary analysis	5 years

SECTION 400**PERFORMANCE AUDIT****401 INTRODUCTION**

401.1 Performance auditing is a concept that is based on two important principles of management in the public sector.

401.2 The first principle is that public business should be conducted in a way that makes the best possible use of public funds. Officials responsible for spending public funds must ensure that these decisions are legal and ethical. They must ensure that these decisions result in economical, efficient and effective public services. This means that goods and services of appropriate quality should be bought in appropriate amounts, at appropriate times and at the best price. Resources – people, goods and money – should be used as productively as possible and programmes should achieve their intended results. In other words, good decisions in the public sector are those that are not only legal and ethical but also reflect due regard for value for money.

401.3 The second principle is that people who conduct public business should be accountable for the prudent and effective management of the resources entrusted to them. This onus of accountability permeates the whole of the public sector, from elected representatives who are accountable to the public to officials who are accountable to elected and public service superiors. At every level there is an obligation to demonstrate that good management practices are being followed.

401.4 Financial auditing is an examination of accounting records and other supporting evidence for the purpose of expressing an opinion as to whether such statements or information are presented fairly in accordance with an appropriate, disclosed basis of accounting. It is not the objective of financial auditing, however, to assess whether public funds have been spent with due regard to value for money. Performance auditing has been developed to take this into account. It uses a variety of techniques and a multi-disciplinary audit team to provide an objective assessment of the degree to which due regard has been given to economy, efficiency and effectiveness in the collection and expenditure of public funds.

401.5 A performance audit entails an examination of the controls, processes and systems used to manage an organization's resources: money, people, physical assets and information. This means that the audit may embrace a variety of areas including:

- financial planning, accounting and financial reporting;
- human resource planning, development, appraisals and utilization;
- planning, acquisition and utilization of property, equipment, plant, inventories and other assets;

- development and production of information necessary to plan, operate and control an organization and to fulfill accountability obligations.

401.6 The principle of accountability applies to public servants at all levels within public service organizations. Therefore the concept of performance auditing is as applicable to internal auditing for management's use as it is to external auditing done for elected and governing bodies and the public.

401.7 Performance auditing does not confine itself to examining the past. It uses its analysis of existing controls, information systems and reporting practices to recommend improvements designed to result in greater economy, efficiency and effectiveness.

401.8 The specific techniques used in conducting performance audits vary from one audit to another. Performance auditing itself is not a technique, but rather a concept to help auditors of publicly funded organizations decide what they should examine and report on and a framework to help them do it.

401.9 To capture the essence of the performance auditing concept one should study and understand the following description:

A performance audit is an examination that provides an objective and constructive assessment of the extent to which:

- financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness; and
- accountability relationships are reasonably served.

401.10 The performance audit examines both financial and management controls, including information systems and reporting practices, and recommends improvements where appropriate.

401.11 Certain aspects of this description merit elaboration. The idea of 'accountability relationships' is crucial. It is based on the assumption that those who confer responsibility should expect and should receive an appropriate accounting for the discharge of responsibilities conferred.

401.12 The performance audit concept focuses on and deals with accountability relationships in two ways. First, it examines the clarity of understanding that exists about who the principle parties are in these relationships and how the responsibility to provide for proper accountability is to be discharged by those who manage public funds.

401.13 It is not, however, the function of an auditor to attempt to prescribe what the accountability relationship ought to be within an organization; that is the job and prerogative of the elected and appointed officials involved. Nonetheless, the accountability relationships should be clarified and strengthened as a result of the performance audit examination.

401.14 The term ‘reasonably served’ recognizes that there is usually a gap between what is desirable and what is practical from the points of view of cost and usefulness. There is no universal formula for defining the kind of information public officials need in order to discharge their responsibilities; the test of ‘reasonableness’ is the only one available. Accordingly, while certain types of information might improve accountability, the performance auditing concept recognizes that the cost of obtaining that information must be weighed against its potential benefits.

402 AUDIT STANDARDS

402.1 This section describes the standards governing the conduct of audits performed by the Office of the Director of Audit. The standards are the basis used to judge the quality of the work of the office. Audit standards are the criteria against which the appropriateness of auditing procedures is conducted in a cost-effective manner.

402.2 Formal audit standards have not yet been issued by the Caribbean Institute of Chartered Accountants but the Caribbean Organization of Supreme Audit Institutions (CAROSAI) have formally adopted the International Organization of Supreme Audit Institutions (INTOSAI) standards. The standards set out in this manual are derived from INTOSAI auditing standards and policy statements issued by the General Accounting Office (GAO) of the United States, the American Institute of Certified Public Accountants (CPA), the Canadian Institute of Chartered Accountants (CICA) and the Office of the Auditor General (OAG) of Canada.

402.3 PROFESSIONAL STANDARDS

- **Qualifications**

402.3.1 The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.

- **Independence**

402.3.2 In all matters relating to the audit work, the audit organization and the individual auditors must be free from personal or external impairments to independence, must be organizationally independent and shall maintain an independent attitude and appearance.

- **Due professional care**

402.3.3 Due professional care is to be used in conducting the audit and in preparing related reports.

- **Confidentiality**

402.3.4 The auditor should respect the confidentiality of information acquired.

402.4 AUDIT PLANNING STANDARDS

402.4.1 The auditor should plan the execution of the audit in a manner that ensures that the audit is carried out in an economic, efficient and timely way.

402.5 AUDIT EXECUTION STANDARDS

- **Assessing significant systems and controls**

402.5.1 The auditor should study and evaluate the significant system and their controls, consistent with the scope of the audit.

- **Audit evidence**

402.5.2 The auditor should obtain evidence of an appropriate quality and quantity to support the conclusions and recommendations of the audit report.

- **Documentation**

402.5.3 The auditor should document all important matters to demonstrate that the audit was carried out in accordance with the audit standards of the Office of the Director of Audit.

402.6 AUDIT REPORTING STANDARDS

402.6.1 Each report of the Director of Audit should contain the scope of examinations, findings and as appropriate, constructive recommendations accompanied by management responses. It should deal with matters that are significant and should be concise, clear, complete, fair, accurate, objective and timely and should fulfil the reporting requirements of applicable legislation.

402.6.2 Each observation drafted for inclusion in any report issued by the Director of Audit should disclose the following:

a. Criteria

The basis against which an observed condition is assessed. Criteria for legislative compliance, for example, are the rules and laws set in legislation. In certain circumstances where specific criteria are not stated it will be necessary for the auditor to apply professional judgement to determine appropriate criteria.

b. Condition

A statement of the observed situation or weakness.

c. Cause

A concise explanation of how the condition occurred.

d. Effect

The impact of the condition on the audit entity should be stated. This might take the form of losses of revenue, over-expenditure, uneconomical purchases, inefficient use of facilities and resources, etc.

e. Conclusion

The conclusion should include a constructive recommendation for improvement together with, where possible, management's response to the observation. Any requirements for further investigation should also be stated.

403 MANAGEMENT AND CONTROL

403.1 Management and control of the audit process should ensure that the planning, execution and reporting phases of all audits are consistent with the objectives and audit policies of the Office of the Director of Audit and are conducted with due regard to economy and efficiency.

403.2 The Deputy Director, Audit Matrix will issue a work plan for the overview and survey stages of each audit. Upon completion of the overview and survey the Audit Principal will submit to the Deputy Director, Audit Matrix an audit plan with a list of audit projects and an estimate of the time required to complete each project. Based on the audit projects selected, additional time may be provided for completion of the execution and reporting phases depending on appropriate presentation by the Audit Principal. Auditors will complete time summaries for review by the Audit Principal with details on budgeted and actual time for the overview and survey of each audit project.

403.3 Effective supervision throughout all phases of the audit is vital. Those members of the audit team who exercise supervisory responsibility should ensure that:

- staff working under their direction are fully briefed on the procedures they are to follow and the objectives of such procedures;
- work carried out by staff under their direction is properly executed;
- management control, methods, as outlined in this section, are followed.

404 AUDIT PROCESS AND MANAGEMENT

404.1 This part of the manual describes the audit process used by the Office of the Director of Audit and indicates the management and control points at which audit work is reviewed throughout the audit process. The emphasis is on the process, procedures and controls used rather than the techniques that may be applied to accomplish performance audits.

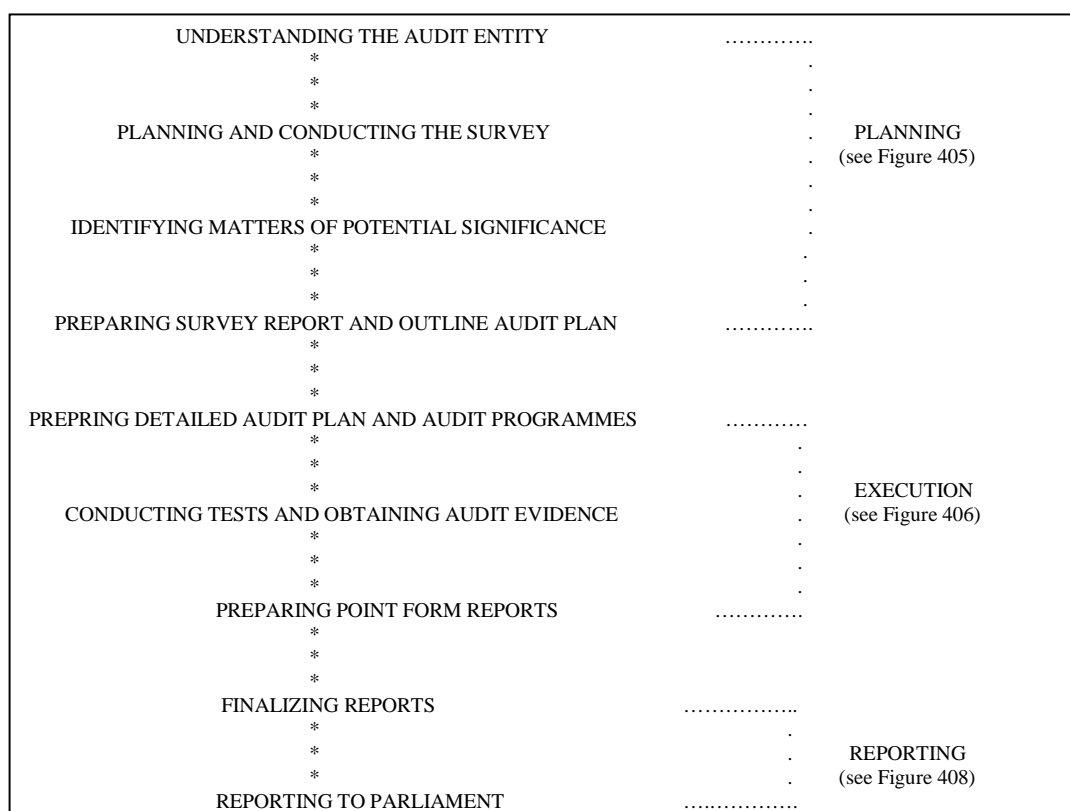
404.2 The audit process lays the groundwork for the constructive way in which recommendations for remedial action are made. The process calls for specific written responses from departments,

ministries, statutory authorities and government companies subject to audit. It is the responsibility of the Audit Principal to ensure that these responses are received.

404.3 The audit process is divided into three phases:

1. Planning the audit means determining audit scope, timing, objectives, criteria, methodology to be used and resources required to ensure that the audit covers the most important organizational functions and processes.
2. Execution involves collecting evidence that is appropriate in quality and quantity based on audit objectives, criteria and methodology developed in the planning phase. This phase is carried out by applying audit techniques for:
 - a. testing and evaluating controls;
 - b. identifying effects and determining causes; and
 - c. developing conclusions and recommendations.
3. Reporting is the final phase in the audit process. It involves communicating the results of the audit to senior management and reporting to the legislature.

404.4 An overview of these three phases is set out in Figure 404. The phases are usually carried out in the sequence indicated. It should be pointed out that all phases may not be necessary in an audit and combining phases may be the most efficient way to perform an audit. The process is a guide to performing an audit but there is no substitute for professional judgement. Audit Principals will have ultimate responsibility for control of the effectiveness of an audit.

THE AUDIT PROCESS: OVERVIEW**FIGURE 404****405 AUDIT PLANNING****405.1 INTRODUCTION**

405.1.1 Audit planning consists of two stages, the overview stage and the survey stage. Figure 405 on page 37 of the manual is a diagram of the planning phases. The first control point in the audit process is the selection of an entity for examination.

ENTITY IS SCHEDULED FOR EXAMINATION

405.1.2 Initial audit planning begins when the audit entity is scheduled for examination. The audit entity may be:

- a government department;
- part of a government department, for example, a branch, a major programme or a specific activity; or
- a government-wide function or operation.

AUDIT ASSIGNED TO AN AUDIT PRINCIPAL AND OVERVIEW TEAM MEMBERS DESIGNATED

405.1.3 As entities are assigned for audit, they are identified with time reporting work plans. Manpower resources are allocated by the Deputy Director, Audit Matrix, and the time incurred by those resources is charged against the work done as the audits advance. The time reporting system monitors person-hours used and compares the actual time to the plan. It provides a report to the Audit Principal which allows him to:

- assess the progress of the audit;
- provide information to management concerning costs of the audit, team composition and skills; and
- provide information for administrative purposes and for planning the annual and multi-year programmes of the office.

405.1.4 Responsibility for the conduct of the audit is normally assigned to an Audit Principal. A small 'overview' audit team, consisting in most cases of the Audit Principal or a senior staff member, is designated to gather the information necessary to begin planning.

405.2 OVERVIEW STAGE

405.2.1 Whether or not an audit will be successful will depend to a large extent on the co-operation of the client. For this reason considerable care should be taken in introducing the audit. Normally this would include a meeting with the Permanent Secretary, the Director of Audit and/or Deputy Director, Audit Matrix and the Audit Principal. The purpose of the meeting would be to introduce the audit, explain any questions the Permanent Secretary might have about the process and solicit his full co-operation.

405.2.2 The key to planning an audit is in having the best possible understanding and knowledge of the audited organization and the environment in which it operates. Planning begins by assembling information which provides a general understanding of:

- the significant programme accountability relationships of the entity;
- key management systems and controls; and
- sources of audit criteria applicable to these systems.

405.2.3 If the Audit Principal and/or members of the overview team are already familiar with the entity to be audited, the steps outlined in the overview stage can be carried out over a brief period of time. Where auditors who are unfamiliar with the entity, are involved, the Audit Principal is responsible for ensuring that this stage is carried out in an economical and efficient manner.

405.2.4 At the overview stage it is important to ensure that reliable documentation is being obtained. For this reason, key information should be requested in writing from the Permanent

Secretary. While every audit will be different to some extent there will be information needs common to every overview.

405.3 SOURCES OF OVERVIEW INFORMATION

405.3.1 To understand significant programme accountability relationships and key management systems and controls, the auditor studies pertinent legislation, regulations and publications, thereby enabling the identification of:

- the authority or mandate for the entity's programmes and activities;
- the objectives of the organization;
- the organizational structure and appropriate personnel to contact within the audit entities;
- the principal programme components, outputs or effects and their relationship with stated objectives;
- the key financial reporting, management and EDP systems;
- the relevant financial, legislative or administrative constraints imposed externally, for example, directives from central agencies or requirements of Acts such as the Finance Act;
- any internal or external guidelines, managers must follow in planning, conducting or evaluating their operations; and
- the progress made by management on remedial action proposed in previous audits.

405.3.2 In addition to pertinent legislation, regulations and publications, there are other sources for gathering information at this initial stage of planning. These include:

- estimates, public accounts and departmental and agency annual reports;
- Office of the Director of Audit documentation on the entity, for example, prior year audit files;
- the principal concerns expressed by legislators, the Ministry of Finance or the Director of Audit in respect of the audit entity;
- formal reports prepared by central agencies, in-house task forces or outside consultants and by officials inside the organization on the operation of significant controls;
- interviews with senior financial and operating managers in the audited organization;

- discussion with members of this office who have been associated with previous audits of the entity or who have experience with the type of operation to be audited.

405.3.3 It is important to note that much of the information referred to above may already be available in existing audit files. Team members should ensure that they are familiar with current files. Prior year audit files should be referred to and updated where necessary before time, effort and resources are expended in gathering information that is already on hand.

405.3.4 As part of the initial information gathering process and in order to improve the conduct of the audit, the auditor should consider:

- co-ordinating with other auditors; and
- following up previous audit recommendations.

405.4 CO-ORDINATING WITH OTHER AUDITORS

405.4.1 Before an outline audit plan is drawn up for the execution phase, the extent to which the auditor can rely on work done by other auditors should be examined. This step can result in economies and a more effective audit approach by eliminating duplicate or overlapping efforts. Co-ordinated audit effort also reduces disruptions in the audited organizations.

405.4.2 In relying on the work done by other auditors, the following should be kept in mind:

- competence, objectivity and professional qualifications of the other auditors;
- extent to which their examinations are consistent with our standards of auditing;
- suitability of audit criteria used;
- scope of the examinations conducted; how long ago was the audit carried out; and
- extent of changes made as a result of recommendations made in previous audit reports.

405.5 REVIEWING PREVIOUS AUDITS

405.5.1 A review of matters raised in previous year's reports provides a progress report on actions initiated by management of the audited organization. This follow-up serves two purposes. Firstly, it helps the auditor judge the need to re-examine, in depth, matters which have previously been dealt with. Secondly, it enables this office to report to the Legislature on the adequacy and timeliness of actions taken by management.

405.5.2 Follow-up procedures initiated by the Audit Principal should allow for monitoring of Government action in response to our recommendations.

LINES OF AUDIT ENQUIRY ARE IDENTIFIED BY THE OVERVIEW TEAM

405.5.3 Lines of audit enquiry are the broad areas to be examined in order to gain an improved understanding of the audit entity. They constitute those areas where it is most likely that matters of potential significance will be identified during the survey stage.

405.5.4 Examples of audit lines of enquiry might include:

- follow-up of actions taken in response to previous recommendations and commitments;
- the usefulness and completeness of information systems;
- the adequacy of management systems such as those relating to planning and control; and
- the existence of procedures to measure and report on economy, efficiency and effectiveness.

405.5.5 Sources of audit criteria are determined by the auditor through a review of the nature of the programmes involved and the key operational characteristics of the management process. Section 407 identifies sources of audit criteria and outlines criteria which may be suitable for use in this office.

405.5.6 An overview report is prepared, containing a summary of the information gathered at this stage of the audit. Such reports provide a convenient and readily accessible overview of the organization to be audited. The overview should be approved by the Permanent Secretary of the Ministry or Department being audited. The contents of the overview include – role, objectives, legislation, environment, organization, resources, programmes and accountability models.

405.6 SURVEY STAGE

405.6.1 The survey is conducted mainly within the audited organization.

AUDIT PRINCIPAL, PROJECT TEAM LEADER AND TEAM MEMBERS CONDUCT SURVEY

405.6.2 The purpose of the survey is to explore, in an efficient manner, lines of audit enquiry identified during the overview stage and more specifically to:

- expand on the initial knowledge and understanding of accountability relationships and key management systems and controls;
- develop and conduct initial tests of hypotheses;
- specify appropriate audit criteria;

- conduct a preliminary assessment of the adequacy of identified systems and controls;
- determine matters which are potentially significant for testing, quantification and reporting purposes;
- establish the extent to which reliance can be placed on other auditors, including internal audit; and
- develop a reporting strategy and an outline audit plan.

Full understanding of these areas is an integral part of planning and an audit of a government entity.

405.7 KEY MANAGEMENT SYSTEMS AND CONTROLS

405.7.1 Key management systems and controls are those which are critical to the organization's operations. An important step in the survey stage involves determining and describing the key management systems and controls which have been or should be established to carry out and report on the responsibilities undertaken by the management of the audited organization.

405.7.2 In identifying key management systems and controls, the auditor should relate their significance to:

- the entity's role, objectives and programmes; and
- the concerns expressed by legislators.

405.7.3 The auditor is concerned not only with the key management systems employed for delivering a programme (which may be unique to the audited organization) but also with those for finance, personnel and other administrative activities. In many instances, these systems are influenced to varying degrees by Central Agencies of Government.

405.7.4 In describing these key management systems and controls, the use of modelling techniques, including flowcharting, reinforced with appropriate narrative is usually desirable as a means of synthesizing, recording and communicating the understanding gained of the audited organizations' operations. In certain instances, a narrative by itself may be adequate. In the case of accounting systems, flowcharts are a recognized means of documenting the auditor's understanding of how the system works. They illustrate the flow of documents and activities within the system.

405.7.5 In selecting a specific modelling technique, the auditor assesses its appropriateness by asking whether:

- the model adds to the effectiveness of the audit;
- the model will be easy to understand and explain to others;
- it will highlight the significant controls which exist; and
- the cost of preparing the model is reasonable.

405.7.6 Documentation prepared by the audited organization of the systems and controls of interest to the auditor should be used where they are appropriate. The auditor should verify the existence of such documentation at the outset to avoid the risk of duplicating it.

AUDIT CRITERIA ARE SPECIFIED

405.8 SPECIFYING AUDIT CRITERIA

405.8.1 Audit criteria provide reasonable standards against which both the design and the performance of management systems can be assessed. The Audit Principal should ensure that appropriate audit criteria are identified. The audit criteria set out in Section 407 are some examples of those against which audited organizations could be assessed by this office. They should be referred to during the survey stage.

405.8.2 The criteria should be fair and acceptable to the legislature and senior government managers. For senior government managers, audit criteria constitute standards against which their systems and controls are being evaluated and provide a basis for them to develop or assess their own management procedures. For the legislature, audit criteria provide useful benchmarks for assessing government's management of the resources assigned to it by the legislature.

405.9 PRELIMINARY ASSESSMENT OF SYSTEMS AND CONTROLS

405.9.1 Having specified audit criteria for assessment of key management systems and controls, the auditor collects adequate relevant evidence in order to make a preliminary assessment of their adequacy.

AUDIT PRINCIPAL PREPARES THE PRELIMINARY ASSESSMENT

405.9.2 This step involves reviewing, documenting and understanding the:

- purpose of the system;
- major inputs and outputs of the system;
- operation of the system;
- relationships with other key systems; and
- responsibility relationships.

405.9.3 At this stage, information on the existence and performance of key controls is required. Key controls which should be in the system must be identified. A preliminary assessment of the system is then done to determine whether necessary controls exist and how they operate.

405.9.4 The auditor is primarily concerned with controls to ensure that:

- the purpose of the system is compatible with the needs of the users and the role and objectives of the audited organization;
- prescribed standards, policies and practices are adhered to;

- needs of the users of the system are met;
- operations are carried out economically and efficiently;
- performance is regularly reviewed; and
- reporting is appropriate, accurate, complete and timely.

405.9.5 Information collected at this stage should be relevant and obtained from reliable sources. It should not be exhaustive however, since gathering sufficient audit evidence to arrive at conclusions and recommendations is part of the execution phase of the audit.

405.9.6 The preliminary assessment of each key system should provide information on both its strengths and weaknesses. Such information should pertain to:

- those controls which are designed and appear to function properly;
- those controls which are either not properly designed or do not appear to function properly; and
- those controls which are desirable but are non-existent.

405.9.7 The auditor's preliminary assessment is the basis for determining:

- what matters appear to be significant and may be of a nature that should be brought to the attention of the legislature; and
- the nature, extent and timing of further auditing procedures to be carried out in substantiating the underlying hypothesis for each audit objective relating to the matters of potential significance.

405.9.8 The auditor's preliminary assessment must be documented in the working papers.

405.10 MATTERS OF SIGNIFICANCE

AUDIT PRINCIPAL IDENTIFIES ALL MATTERS OF POTENTIAL SIGNIFICANCE

405.10.1 The Audit Principal, with support from the Project Team Leader(s) and team members, determines those matters of potential significance and of a nature which might be reported to the legislature. They are those matters of the key systems and controls which, in the auditor's opinion, may be crucial to the success of the important programmes or activities undertaken by the accountable entity. They are those matters which, though potentially significant at this stage, will be examined in the execution phase and may be confirmed as matters of significance.

405.10.2 Matters of potential significance differ from lines of audit enquiry identified during preliminary analysis. The lines of enquiry are designed to improve the auditor's broad understanding of the entity. Matters of potential significance, however, are identified as a result of conducting the survey and tentatively determine the matters which may be reported on. They thereby determine the scope of the execution phase and serve as a basis for specifying audit objectives.

405.10.3 Significance, like materiality, can be measured in terms of the extent to which a given matter is likely to influence the judgements or decisions of a reader of a report. While materiality is used in the context of financial statements, significance applies to the entire range of activities audited, including financial and other controls and procedures examined.

405.10.4 Significance is usually judged by effect. Effects, either actual or potential, can frequently be stated in quantitative terms such as dollars, time, units of production or number of transactions. Sometimes effects, such as lowered morale, are intangible but, nevertheless, significant. Regardless of the terms used, the matter, if finally reported, must provide sufficient information to convince the reader that it warrants attention.

405.11 FACTORS AFFECTING SIGNIFICANCE

405.11.1 Factors which the auditor should consider in selecting appropriate audit objectives and choosing matters of potential significance to be examined are:

- known or probable financial or management issues of concern to the legislature of management;
- areas of risk or particular ongoing concern identified in previous audits;
- questions of ethics, fraud or other irregularity and non-compliance with financial regulations;
- known, suspected or potential areas of uneconomical or inefficient operations;
- uncertainty concerning the entity's knowledge of the effectiveness of its programmes and deficiencies in the entity's procedures to evaluate effectiveness;
- nature and relative size of a programme or activity and its importance and impact currently, cumulatively or potentially;
- significance of new or expanded programmes or activities;
- programme management characteristics, such as unusual restrictions or freedoms in carrying out functions; and
- nature and importance of the physical resources involved.

405.11.2 Judgements concerning matters of significance are made continually throughout the audit. As these judgements occur, attention should be given not only to the impact of known or potential conditions in the audit entity but also to possible government-wide impact.

405.12 SPECIFYING AUDIT OBJECTIVES

AUDIT PRINCIPAL SPECIFIES AUDIT OBJECTIVES

405.12.1 The audit objective refers to the extent to which specified audit criteria are adhered to by the audited organization. The audit objective is achieved through the collection of an appropriate quantity and quality of evidence.

405.12.2 In specifying audit objectives, the Audit Principal gives consideration to:

- significance and materiality of the underlying issues;
- potential for action by those who are likely to make decisions based on the auditor's report;
- Audit Office priorities;
- adequacy of the scope of the audit for providing an indication of the overall quality of the entity's financial administration and resource management; and
- availability of expertise required for making audit judgements in specialized areas.

405.12.3 In a performance audit, not all matters of potential significance are selected for audit during the execution phase. However, the Audit Principal is expected to determine all matters of potential significance before selecting those that should not be audited.

AUDIT PRINCIPAL SELECTS THOSE MATTERS OF POTENTIAL SIGNIFICANCE TO BE SUBJECT TO AUDIT

405.12.4 The Audit Principal's rational for decisions should be documented for review and approval purposes.

405.12.5 Matters of potential significance are not necessarily only those areas where the audited organization appears not to adhere to audit criteria. The underlying concept is one of significance; that is, crucial to the success of the organization's operations and worthy of corrective action as soon as possible. Lack of adherence to audit criteria is not by itself a basis for selecting audit objectives.

405.13 SURVEY REPORT

405.13.1 The survey report is an important milestone and management control point in the management process.

AUDIT PRINCIPAL PREPARES SURVEY REPORT, THEN AUDIT ADVISORY COMMITTEE REVIEWS AND APPROVES REPORT

405.13.2 This report is prepared by the Audit Principal in charge of the audit in conjunction with the Project Team Leaders involved with the survey. The report is submitted to the Audit Advisory Committee.

405.13.3 The survey report is used:

- by the Audit Principal to communicate an understanding of the audited organization and its key systems and controls to the Audit Advisory Committee;
- by the Audit Advisory Committee to review selected matters of potential significance for relevance and completeness as a basis for approval of:
 - a. scope of the audit execution phase;
 - b. relationship of the reporting strategy developed by the Audit Principal with that of this office;
 - c. time budget; and
 - d. human resource requirements.

405.13.4 The major components of this report provide the Audit Principal and the Project Team Leader(s) with a basis for discussing with senior management of the audited organization the purpose, scope and timing of the execution phase.

405.13.5 The important components of a survey report are:

- description of key systems and controls;
- identification of audit criteria used;
- preliminary evaluation of key systems and controls;
- description of matters of potential significance; and
- an outline audit plan for the execution phase.

405.13.6 The report should be based on relevant and reliable evidence supported by the working papers. Justification for impressions about operations of the key management systems and controls should be highlighted. Fact should be distinguished from speculation.

405.13.7 The report should be brief. It should not detail matters already covered in the briefing binder. Information contained in the report should be presented in a logical manner, elaborating only on those aspects which are critical to the decisions which need to be taken in preparing the outline audit plan.

405.14 OUTLINE AUDIT PLAN

AUDIT PRINCIPAL PREPARES OUTLINE AUDIT PLAN IN CONSULTATION WITH PROJECT TEAM LEADERS

405.14.1 The final step in the survey stage is the preparation of an outline audit plan. This plan is prepared by the Audit Principal in consultation with the survey Project Team Leaders and is a major control point in the audit process. It is usually prepared and submitted as part of the survey report.

405.14.2 The purpose of the plan is to:

- define the audit scope in terms of audit objectives and projects and to address those matters which may require the attention of the legislature;
- provide indicators for judging significance and materiality and the degree of assurance sought by the auditor;
- identifying resource requirements, including special skills needed;
- establish overall audit and project time budgets, milestones or control points and deadlines; and
- outline elements of the reporting strategy for the audit.

405.14.3 For each audit project included in the outline audit plan, the following items should be highlighted:

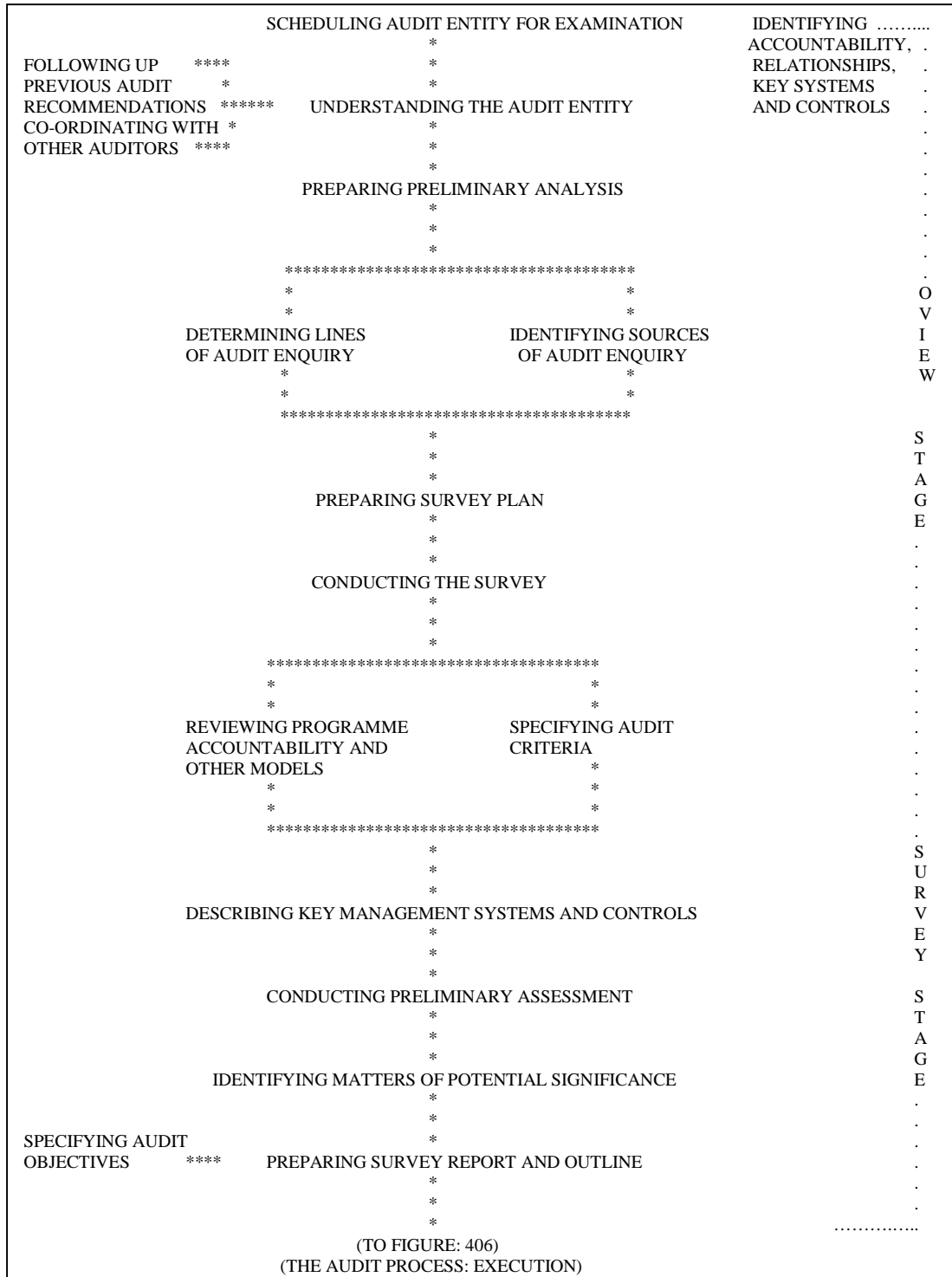
- matters of potential significance;
- Audit objectives and criteria;
- hypotheses or potential findings, based on the auditor's preliminary assessment;
- nature, extent and timing of testing required;
- nature and source of audit evidence required to arrive at the auditor's final assessment; and
- human and other resources needed to conduct the execution and reporting phases.

405.14.4 The performance audit process emphasizes the need to develop and approve an outline audit plan before determining the specific audit programmes applicable to the audit objectives in the outline plan.

405.14.5 It should be noted that the outline audit plan containing audit objectives is based on tentative conclusions. The carrying out of appropriate tests and the collection of additional evidence during the execution phase may prompt modifications to the audit plan and objectives. It is the responsibility of the Audit Principal and Project Team Leaders to judge the need for revisions to the audit plan. Professional judgement is vital throughout the entire audit process.

THE AUDIT PROCESS: PLANNING

FIGURE 405



406 AUDIT EXECUTION

406.1 INTRODUCTION

406.1.1 The execution phase of the audit (see Figure 404) is designed to conduct tests and collect sufficient, reliable evidence to report on the matters identified in the planning phase as having potential significance. The purpose, nature and extent of audit evidence required during this phase depends upon the audit objective(s) specified in the outline audit plan. Such evidence is collected by systems testing – conducting tests and evaluating controls. These procedures provide an assessment of the accuracy of information, reliability of the systems and controls and the quality of outputs produced by the systems.

406.1.2 Matters of potential significance are determined in the planning phase to serve as a basis for examination. Throughout the execution phase of the audit, each audit objective is tested by collecting and evaluating evidence. As a result, the audit objective is confirmed or refuted.

406.1.3 The execution phase of the audit involves:

- preparing a detailed audit plan
- selecting or preparing detailed audit programmes;
- systems testing – conducting tests and evaluating controls;
- determining causes and effects;
- developing audit findings; and
- developing conclusions and recommendations.

406.1.4 If the preliminary assessment indicates that essential controls exist and are operating satisfactorily, they are tested for compliance. This involves gathering evidence of an appropriate quality and quantity to determine whether controls and related procedures are adequate to satisfy stated audit criteria.

406.1.5 If essential controls appear unsatisfactory, evidence is gathered to substantiate or refute this.

406.1.6 The eventual output of the execution phase of the audit is an assessment of the quality of financial administration and resource management in the audited organization and, where applicable, of the financial statements supported by appropriate and sufficient evidence. The auditor's final assessment must be supported by evidence that will withstand any subsequent challenge by management of the audited organization.

406.2 EVIDENCE

406.2.1 Audit evidence for attest audits consists of reliable information which assists the auditor in forming an opinion on the fairness, accuracy and completeness of the audited organization's financial statements and accounts and its compliance with appropriate legislative requirements.

406.2.2 In the performance audit, evidence includes information which helps the auditor to form an opinion or draw conclusions about:

- financial systems;
- reporting;
- attest and authority;
- management systems and controls; and
- EDP systems and controls.

406.2.3 Evidence must be assessed in terms of its relevance to the specific objectives it serves and the degree of its conclusiveness. Frequently, the auditor must rely on evidence that is persuasive rather than conclusive. However, the degree of persuasiveness should be high; particularly in sensitive or controversial areas.

406.2.4 The degree of persuasion is influenced by the reliability of the source of the evidence. This is particularly so in performance auditing where the auditor may encounter evidence that is less definitive ('soft') in comparison to the type of evidence which is normally acceptable in financial statement auditing.

406.2.5 During an audit, the question will arise as to whether additional evidence (qualitative or quantitative) should be collected to provide assurance that an audit conclusion is valid. As conclusions are based on a range of collected information, it should be possible to advance the conclusions with the confidence that they will withstand critical examination by others. This cost/benefit decision should be taken by the Audit Principal in accordance with professional judgement. The exercise of the auditor's judgement will also be influenced by the need for timeliness in meeting audit management control points and reporting deadlines.

406.2.6 In the collection of evidence, certain assumptions are made and a detailed examination is carried out. Results are compared to generally accepted criteria derived from an authoritative source and this comparison leads to audit findings resulting in audit conclusions and recommendations:

a. Criteria for evidence

Evidence must be of appropriate quality and quantity.

1. Appropriate in relation to quality refers to the suitability of the evidence for the purpose of supporting an opinion or conclusion. It must be:
 - a. pertinent, relevant to the subject and to the moment or period of time encompassed by the audit;
 - b. trustworthy and of a sound and consistent quality; and
 - c. objective and able to be confirmed independently.
2. Appropriate in relation to quantity refers to the presence of enough information to lead a reasonable person to agree with the audit conclusions.

b. Techniques for gather evidence

The major techniques for gathering evidence are analysis, interviews, replication, physical observation, documentation and confirmation. Evidence gained from different sources and through different techniques, where consistent, usually results in a higher degree of conclusiveness.

c. Analysis

Analysis involves the examination of something and its resolution into simpler elements so that its essence or structure is more easily understood. The analytic process often compares figures, trends, ratios, processes, procedures, and so on. Judgement and competence are essential elements in the analysis.

d. Interviews/inquiry

In many areas of the performance audit, matters will have to be discussed because they are less amenable to the questionnaire/checklist technique. Information obtained by interview, and deemed significant by the auditor should be documented. As far as possible, that information should be communicated to and agreed with the person interviewed.

e. Replication

An example of replication in accounting is the technique of checking totals or extensions. In other areas, replication is accomplished by testing a system and its elements. This confirms or denies that the system, or some constituent part, works as claimed. This is achieved by actually walking through, or repeating, the operational steps.

f. Physical observation/inspection

This technique has been used, traditionally, to obtain direct evidence that a physical asset exists. Evidence for other areas can also be collected by direct observation and the inspection of people, things or events that lie within the audit scope. It provides valuable evidence at a given point in time; however, by itself it cannot be used to deliver some judgement that refers to matters over a period of time.

g. Inspection of documentation

Written material such as correspondence, memoranda, reports, etc., is a major source of audit evidence.

h. Confirmation

Confirmation is a method of gathering evidence directly from independent 'third parties' and is used widely in verifying that an asset or liability exists. Often additional evidence (for example, physical observation) is obtained to support the external evidence.

406.2.7 The validity and acceptability of evidence for audit purposes is so dependent on the circumstances under which it is obtained that any generalizations about the reliability of various types of evidence are subject to exceptions. However, the following are guidelines concerning the validity of evidence:

- evidence obtained from physical examination, observation, computation or analytical review is better evidence than information obtained indirectly;
- the better the system of internal control, the greater is the assurance that can be placed on reliability of outputs;
- documentary evidence is more reliable than oral evidence;
- original documents are more reliable than copies;
- statements made by officials of the audited organization during interviews are more reliable when confirmed in writing;
- information obtained from informed and independent external sources is preferable to that obtained from the audited organization; and
- increased assurance is gained when evidence is corroborated by more than one source.

406.2.8 Although evidence is of particular importance in the execution phase of the audit, the need for appropriate evidence of all kinds must be kept during all phases of the audit.

406.3 PREPARING A DETAILED AUDIT PLAN

406.3.1 The first step in the execution phase is the preparation of a detailed audit plan. The plan outlines, by project, the assignments to be undertaken for each audit objective as approved in the outline audit plan. Each project is planned to conduct tests and gather audit evidence to accomplish specific audit objectives.

- **Audit programmes**

406.3.2 An audit programme specifies the steps to be performed during the field work portion of an audit in order to determine whether the audit criteria are being met.

406.3.3 Audit programmes may be either standard or specially designed. A standard audit programme is one which has been prepared for the audit of commonly encountered functions, control systems or operations. Audit guides are a useful source of standard programmes.

406.3.4 A specially designed audit programme is one which has been developed to fit specific circumstances. These audit programmes may be quite detailed, providing a broad plan for the conduct of an audit by specifying each verification step to be performed during the field work.

Alternatively, they may be abbreviated, outlining only the more critical steps in the verification process, thus relying more heavily on the experience of the audit team.

406.3.5 Considerable care must be taken in preparing and using audit programmes if audit objectives are to be met and appropriate evidence is to be obtained.

PROJECT TEAM LEADERS REVIEW AUDIT PROGRAMMES

406.3.6 In preparing and using audit programmes, the Audit Principal and the Project Team Leader should always relate the cost of collecting evidence to its value in helping to achieve the audit objectives under examination.

AUDIT PRINCIPAL APPROVES DETAILED AUDIT PLAN AND MODIFICATIONS TO IT WHEN NECESSARY

- **Detailed audit plan**

406.3.7 As work progresses, the detailed audit plan should be updated. If the audit criteria are found to be inappropriate, or findings are not as anticipated, it may be necessary to modify the detailed audit plan. Prompt modification is essential.

406.3.8 The detailed audit plan must be approved by the Audit Principal in charge of the audit. The Audit Principal is also responsible for co-ordinating audit effort among various projects and for ensuring that each Project Team Leader is properly informed of audit priorities and changes to reporting strategy that evolve during the execution phase.

AUDIT PRINCIPAL ENSURES THAT APPROPRIATE TESTS ARE CONDUCTED

406.4 CONDUCTING SYSTEMS TESTS

406.4.1 The audit programmes set out the assignments and tests to be performed. In general, testing refers to applying a given auditing procedure to some items within a group. The purpose of systems testing is to gather appropriate audit evidence on the effective functioning or lack of effective functioning of key systems and controls identified by the auditor in the survey stage. This type of testing gives the auditor the necessary degree of assurance appropriate in the circumstances, with knowledge that findings, conclusions and opinions on financial statements must be unassailable under close Legislative scrutiny.

406.4.2 Methods of testing will vary, depending on:

- the particular operation or area of activity;
- the purpose of the test – to confirm the reliability of the control or to examine an unsatisfactory situation;

- the type of evidence available. Whenever testing or sampling takes place, a rational basis should exist for selecting those matters or items subject to such tests or sampling procedures.

406.4.3 It is important for the auditor to consider the following:

- the need for adequate coverage (that is, an appropriately defined population);
- a clear definition of what constitutes non-adherence to criteria;
- the applicability of a sampling approach, whether judgemental or statistical, to ensure that the sample selected is representative of the entire population; and
- the need to ensure that sample sizes are sufficient to permit reasonable conclusions.

- **Statistical sampling**

406.4.4 This is a method whereby a portion of a whole, scientifically selected using mathematical techniques based on probability theory so as to be representative of the whole, is subjected to examination in order to determine the nature (extent, size, quality) of some pre-selected characteristic of the whole.

406.4.5 Statistical sampling, when applicable, adds precision to the process for selecting the sample and to the process of evaluating the results of tests conducted with the sample. Sample sizes generally depend on materiality or precision, the nature and reliability of the data, the degree of confidence or assurance desired and the degree of non-compliance with the criteria considered to be acceptable.

406.4.6 When statistical sampling is used, the use of proper techniques for determining the size and composition of the sample increases the probability of drawing a valid conclusion on the whole population based on an examination of only the sample.

406.5 DETERMINING CAUSES AND EFFECTS

PROJECT TEAM LEADERS AND MEMBERS IDENTIFY CAUSE AND EFFECT RELATIONSHIPS

406.5.1 An important aspect of the systems based approach to auditing is an analysis of cause and effect. Such analysis examines the reasons for and the significance of non-adherence to audit criteria.

406.5.2 This step of the execution phase involves:

- examining all the facts or other relevant information;

- defining the problem as opposed to citing symptoms, and collecting information wherever possible on the cause of deficiencies;
- critically evaluating the appropriateness of the evidence to substantiate the auditors findings; and
- collecting additional evidence on the effects of deficiencies to illustrate the significance of the matter to be reported.

406.5.3 In carrying out this step, the auditor should consider that:

- cause and effect are interrelated and the knowledge of one assists the understanding of the other; for example, knowledge of the system for managing human resources helps in understanding the use of manpower efficiency;
- the analysis of information is problem-solving oriented and requires an ability to make logical judgements from data collected during both the planning and execution phases;
- any adverse effects of the control weaknesses should be quantified where practical;
- the cause or effect may be an isolated occurrence or part of a pattern indicating a potential breakdown of the system;
- causes may be external to the system or organization subject to audit, for example, the impact of directives from central agencies affect the operations of many Ministries and Departments;
- effects also may extend beyond the system or organization subject to audit.

406.5.4 Determining the cause and effect of non-adherence to criteria requires:

- a good knowledge of the environment in which the system operates;
- an understanding of how various systems in the environment operate and interact with the system under examination;
- detailed analyses backed by appropriate evidence; and
- sound professional judgement.

406.5.5 To the extent possible, the cause and effect relationship must be clear enough for the auditor to make meaningful and practical recommendations.

406.5.6 It is the responsibility of the Audit Principal and the Project Team Leader to ensure that the cause and effect analyses and the evidence supporting the findings are discussed with appropriate levels of management in the audit organization.

**PROJECT TEAM LEADER PREPARES A POINT-FORM REPORT
THE AUDIT PRINCIPAL REVIEWS THE REPORT
THE AUDIT ADVISORY COMMITTEE MAY REVIEW THE REPORT**

406.5.7 The Audit Principal reviews the point-form report, during the execution phase, to evaluate the progress of each audit project underway. At the discretion and direction of the Audit Principal, the Audit Advisory Committee may review the report.

406.5.8 The point-form report indicates the content, the structure of the analysis developed and the findings and conclusions substantiated in the audit working papers, it provides the Audit Principal with an opportunity to reassess the significance of the underlying issues and determine whether the quality of evidence on cause and effect is adequate. This may involve a review of other related audit projects, particularly when the cause appears to extend beyond the system examined by the Project Team Leader.

AUDIT PRINCIPAL ENSURES MANAGEMENT'S RESPONSES ARE REVIEWED

406.5.9 When the auditor attends departmental meetings to discuss the point-form report and findings with management, the Audit Principal may attend and act in an advisory capacity.

406.6 DEVELOPING CONCLUSIONS AND RECOMMENDATIONS

406.6.1 Before drawing conclusions and drafting recommendations, an understanding of the cause and effect of inadequate controls or procedures is necessary. In this step, detailed findings and analysis are translated into conclusions. Recommendations are then prepared as guides for action. The purpose of audit recommendations is to state what improvements are needed rather than indicate specifically how to achieve them.

406.6.2 The formulation of recommendations involves consideration of:

- the state of the art;
- the circumstances which influence the cause, that is, factors which restrict adherence to criteria as well as factors which promote adherence;
- alternative courses for remedial action;
- effects, both positive and negative, which may arise if the auditors' recommendations are implemented;
- whether it is possible to implement a proposed recommendation; and
- the cost of implementing the course of action suggested.

406.6.3 An audit of a ministry, department or statutory authority should result in recommendations which will be of benefit to the entity as a whole and not in recommendations which benefit one function of the entity at the expense of others.

406.6.4 If it is not practicable to recommend specific corrective action, a more general recommendation or suggested approach to solving the underlying problem is appropriate. In some instances, the major contribution lies in providing a useful analysis of findings.

THE AUDIT ADVISORY COMMITTEE REVIEWS THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

406.6.5 The Audit Advisory Committee is responsible for ensuring that all recommendations suggested by the Audit Principal and the Project Team Leaders are well researched, plausible, cost-effective and consistent with recommendations made by this office in similar situations either in the past or elsewhere in Government.

406.7 COMPLETING AND REVIEWING AUDIT FILES

406.7.1 Working papers are confidential documents belonging to this office.

406.7.2 In order to substantiate reported findings, conclusions and recommendations, working paper files should contain:

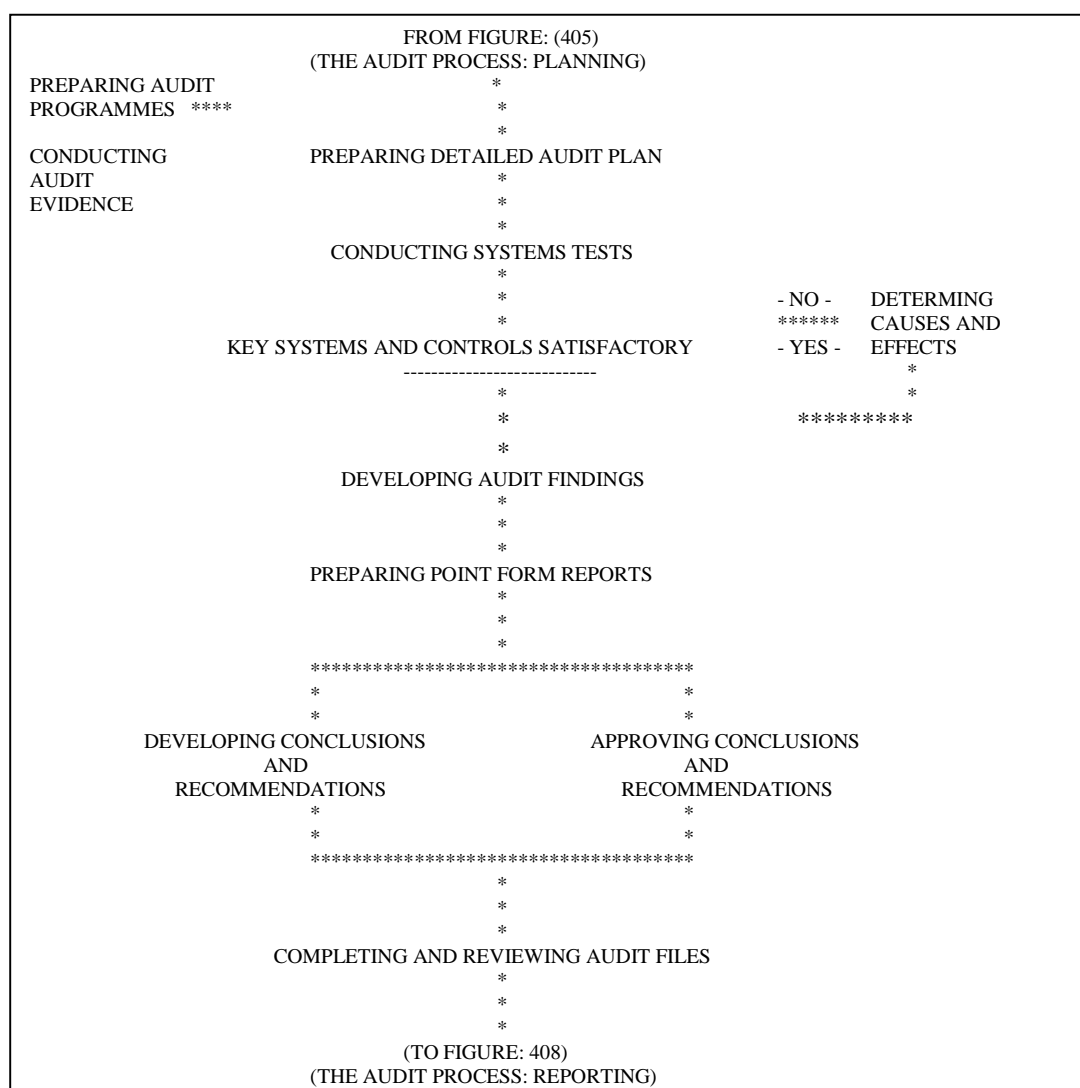
- the audit programmes and the nature and extent of the work done in carrying out the audit;
- evidence of supervisory review work done, including proof of completion at each management control and check point specified by this office;
- appropriate documentation of the audited organization's policies, systems, controls, related procedures, etc., subjected to audit; and
- evidence of post-audit quality review, where one has been done, of the conduct of the audit and the quality of the reports issued.

PROJECT TEAM LEADERS ENSURE THAT WORKING PAPER FILES ARE COMPLETE AND DRAWS ANY PROBLEM TO THE ATTENTION OF THE AUDIT PRINCIPAL. THE AUDIT PRINCIPAL ENSURES THAT OUTSTANDING MATTERS ARE RESOLVED.

406.7.3 The Project Team Leaders ensure that working paper files are complete. Since file review is an important quality factor, the Audit Principal must review selected files and must ensure that all files have received an appropriate review. The execution phase of the project ends when the Audit Principal authorizes the Project Team Leader to write drafts of the detailed project reports.

THE AUDIT PROCESS: EXECUTION

FIGURE 406

**407 AUDIT CRITERIA****407.1 INTRODUCTION**

407.1.1 The assessment of audit activities against reliable audit criteria is a basic element of performance auditing. This section defines and suggests major sources of criteria.

407.1.2 Criteria are reasonable standards against which management and financial control and reporting systems can be assessed by this office. To be most effective, criteria should be generally accepted by all parties concerned with an audit; this office, the audited entity and the legislature to whom our reports are transmitted.

407.1.3 Criteria used in audits should be applicable and clearly stated. They should be few in number and expressed in a way which is non-technical so as to facilitate communication.

407.1.4 Where the client has established management criteria which this office considers adequate, this office will audit against them. Where criteria exist but are judged inadequate, improvements are suggested. Where criteria do not exist, as they often do not, this office will develop them to meet relevant circumstances by applying professional judgement and knowledge. Criteria for more specialized programmes may have to be developed by consulting acknowledged texts on the subject while exercising professional judgement.

407.2 SOURCES OF CRITERIA

407.2.1 Important sources of audit criteria include:

- enabling and related legislation;
- departmental operating and procedures manuals;
- central agency standards or guidelines;
- the annual reports and audit guides of the Office of the Auditor General of Canada;
- other organizations carrying out similar activities and having similar programme clients; and
- professional organizations and standard setting bodies.

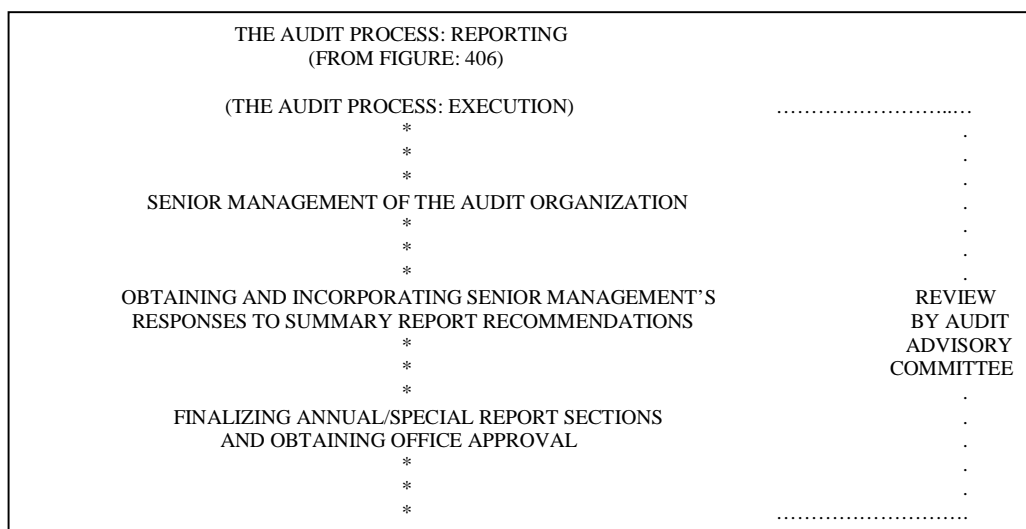
408 AUDIT REPORTING

408.1 INTRODUCTION

408.1.1 Reporting is the final phase in the audit process (see Figure 404:4). It includes discussing reports with senior management of the audited organizations and reporting to the legislature. This section focuses on describing this office's final review and approval processes.

408.1.2 The processes described in the audit planning phase (Section 405) and the audit execution phase (Section 406) are applicable to all types of audits. The audit reporting phase is described in this section.

FIGURE 408



AUDIT PRINCIPAL MAKES ARRANGEMENTS FOR COMMUNICATING AUDIT RESULTS TO SENIOR MANAGEMENT OF THE AUDITED ORGANIZATION

408.2 DETAILED AND SUMMARY REPORTS

408.2.1 Detailed reports are drafted and used as a basis for critical review by the Audit Advisory Committee before communicating to senior management of the audited organization. The purpose of communicating to senior management is to provide detailed information on this office's findings, conclusions, recommendations and audit opinions, where applicable. These reports, sometimes referred to as management letters, form the basis of selecting those matters of significance or of a nature which should be brought to the attention of the Legislature as part of the summary report or section. Consideration should be given to improved reporting methods such as group presentations.

408.2.2 Where responses to reports are sought, the Audit Principal is responsible for reviewing and considering their impact on the summary section report.

408.2.3 Because management response is so important, adequate time and thought must be given to this stage of the audit. It is preferable that the Audit Principal obtain senior management's written responses to recommendations made.

408.2.4 In preparing reports, particular attention should be paid to:

- reporting only matters of significance;
- refraining from technical terminology other than what is normal to the client;
- providing sufficient description of the particular aspect of the management system examined;

- stating audit findings in a manner which is concise, clear, complete, fair, accurate, objective and timely;
- providing potential savings where applicable;
- determining the amount of information which should be included in the report with respect to the effect of deficiencies noted; and
- providing a conclusion to relate overall opinions to our mandate.

408.2.5 In preparing for the review of findings, conclusions and recommendations with senior management of the audited organization, the Audit Principal and Project Team Leaders should ensure that:

- facts are clearly distinguished from opinions;
- findings are presented logically;
- sources of evidence collected to support the findings are identified; and
- differences of opinion between the auditor and senior management of the audited organization are recognized.

408.2.6 It is essential to maintain accurate notes of all meetings with senior management of the audited organization. If new information is brought to the auditor's attention during discussion with managers at this stage of the audit, consideration should be given to the need for conducting further tests and gathering more evidence.

408.2.7 The summary report forms the basis of a section for possible inclusion in a special report or the annual report.

408.2.8 The Audit Principal is responsible for ensuring that the review comments on the summary report are incorporated and that the summary report is finalized and submitted for possible inclusion in a special report or the annual report of the Director of Audit.

408.2.9 The Director of Audit provides a final review of each section prepared for inclusion in a special or the annual report. This review ensures that the standards of this office for reporting are satisfactorily met and provides a further check that conclusions and recommendations are clearly set out and adequately supported.

AUDIT PRINCIPAL INCORPORATES DIRECTOR OF AUDIT'S SUGGESTIONS IN THE REPORT

408.3 REPORT TO THE LEGISLATURE

408.3.1 The report to the Legislature is a crucial phase of the audit. The Director of Audit's role and influence are related directly to this office's capacity to report publicly. Findings, conclusions, recommendations and audit opinions, where applicable, are read by Legislators, as well as government officials, the press and the public at large. Whereas the performance audit report to the management of the audited entity (management letter) provides detailed information on this office's findings, conclusions and recommendations, the report to the legislature provides only the information which this office considers to be significant to legislators.

408.3.2 The Director of Audit's special and annual reports provide support to the accountability of government to the legislature. It must strike a balance between what to report and how much to report, giving at the same time consideration to the viewpoint of management.

APPENDIX A

EXTRACTS FROM THE SAINT LUCIA CONSTITUTION ORDER NO. 12 OF 1978

Audit of public accounts, etc.

- 84(1) There shall be a Director of Audit whose office shall be a public office.
- (2) The Director of Audit shall –
- [a] satisfy himself that all moneys that have been appropriated by Parliament and disbursed have been applied to the purposes to which they were so appropriated and that the expenditure conforms to the authority that governs it; and
- [b] at least once in every year audit and report on the public accounts of Saint Lucia, the accounts of all officers and authorities of the Government, the accounts of all courts of law in Saint Lucia (including any accounts of the Supreme Court maintained in Saint Lucia.) The accounts of every Commission established by this Constitution and the accounts of the Parliamentary Commissioner, the Clerk of the Senate and the Clerk of the House.
- (3) The Director of Audit and any officer authorized by him shall have access to all books, records, returns, reports, and other documents which in his opinion relate to any of the accounts referred to in sub-section (2) of this section.
- (4) The Director of Audit shall submit every report made by him in pursuance of sub-section (2) of this section to the Minister for the time being responsible for finance who shall, not later than seven days after the House first meets after he has received the report, lay it before the House.
- (5) If the Minister fails to lay a report before the House in accordance with the provisions of sub-section (4) of this section the Director of Audit shall transmit copies of that report to the Speaker who shall, as soon as practicable, present them to the House.
- (6) The Director of Audit shall exercise such other functions in relation to the accounts of the Government or the accounts of other authorities or bodies established by law for public purposes as may be prescribed by or under any law enacted by Parliament.
- (7) In the exercise of his functions under sub-sections (2), (3), (4), and (5) of this section, the Director of Audit shall not be subject to the direction or control of any other person or authority.

Director of Audit

- 90(1) The Director of Audit shall be appointed by the Governor General acting in accordance with the advice of the Public Service Commission.

- (2) If the Office of the Director of Audit is vacant or if the holder of that office is for any reason unable to exercise the functions of his office, the Governor General, acting in accordance with the advice of the Public Service Commission, may appoint a person to act as Director.
- (3) Before tendering advice for the purposes of sub-section (2) of this section, the Public Service Commission shall consult the Prime Minister.
- (4) A person appointed to act in the Office of the Director of Audit shall, subject to the provisions of sub-sections (5), (7), (8), and (9) of this section; cease so to act:-
 - [a] when a person is appointed to hold that office and has assumed the functions thereof, or as the case may be, when the person in whose place he is acting resumes the functions of that office; or
 - [b] at such earlier time as may be prescribed by the terms of his appointment.
- (5) Subject to the provisions of sub-section (7) of this section the Director of Audit shall vacate his office when he attains the prescribed age.
- (6) A person holding the Office of the Director of Audit may be removed from office only for inability to exercise the functions of his office (whether arising from infirmity of body or mind or any other cause) or for misbehaviour and shall not be so removed except in accordance with the provisions of this section.
- (7) The Director of Audit shall be removed from office by the Governor General if the question of his removal from office has been referred to a tribunal appointed under sub-section (8) of this section and the tribunal has recommended to the Governor General that he ought to be removed for inability as aforesaid or for misbehaviour.
- (8) If the Prime Minister or the Chairman of the Public Service Commission represents to the Governor General that the question of removing the Director of Audit under this section ought to be investigated:-
 - [a] the Governor General shall appoint a tribunal which shall consist of a Chairman and not less than two other members selected by the Chief Justice from among persons who hold or have held office as a judge of a court having unlimited jurisdiction in civil and criminal matters in some part of the Commonwealth or a court having jurisdiction in appeals from such a court; and
 - [b] the tribunal shall enquire into the matter and report on the facts thereof to the Governor General and recommend to him whether the Director ought to be removed under this section.
- (9) If the question of removing the Director of Audit has been referred to a tribunal under this section, the Governor General, acting in accordance with the advice of the Public Service Commission, may suspend the Director from the exercise of the functions of his office and any such suspension may at any time be revoked by the Governor General, acting in accordance with such advice as aforesaid, and shall in

any case cease to have effect if the tribunal recommends to the Governor General that the Director should not be removed.

(10) The prescribed age for the purposes of sub-section (5) of this section is the age of fifty-five or such other age as may be prescribed by Parliament:

- Provided that any law enacted by Parliament, to the extent to which it alters the prescribed age after a person has been appointed to be or to act as Director of Audit, shall not have effect in relation to that person unless he consents that it should have effect.

Resignations 122(3) Any person who has been appointed to an office established by this Constitution (other than an office to which sub-section (1) or (2) of this section applies) or any office of Minister established under this Constitution may resign that office by writing under his hand addressed to the person or authority by whom he was appointed and the resignation shall take effect, and the office shall accordingly become vacant:-

[a] at such time or on such date (if any) as may be specified in writing; or

[b] when the writing is received by the person or authority to whom it is addressed or by such other person as may be authorized to receive it, whichever is the later:

- Provided that the resignation may be withdrawn before it takes effect if the person or authority to whom the resignation is addressed consents to its withdrawal.

APPENDIX B**AUDIT ACT****No. 26 of 1988
ARRANGEMENT OF SECTIONS**

Section

- 1 Short Title.
- 2 Interpretation.
- 3 Appointment.
- 4 Salary.
- 5 Duties.
- 6 Reporting.
- 7 Submission of Report.
- 8 Special Reports.
- 9 Misappropriation.
- 10 Request by the Government.
- 11 Direction by Parliament.
- 12 Advisory Powers.
- 13 Access to Information.
- 14 Premises and Equipment.
- 15 Security and Secrecy.
- 16 Other Auditor.
- 17 Direct access to Statutory Bodies.
- 18 Estimates.
- 19 Director of Audit may authorize Deputy or other persons to sign Opinion or Report on his behalf.

AUDIT ACT

I ASSENT
STANISLAUS JAMES,
Acting Governor-General

10th January, 1989.

SAINT LUCIA**No. 26 of 1988**

AN ACT to revise and consolidate, the Law relating to the Office of the Director of Audit of Saint Lucia and to provide for matters related or incidental thereto.

[14th January, 1989]

Short title **BE IT ENACTED** by the Queen's Most Excellent Majesty, by and with the advice and consent of the House of Assembly and the Senate of Saint Lucia, and by the authority of the same, as follows:

- 1.** This Act may be cited as the Audit Act, 1988.

Interpretation **2.** In this Act:

'Constitution' means the Saint Lucia Constitution Order, 1978;

'Director of Audit' means the Director of Audit of Saint Lucia appointed pursuant to Section 90 of the Constitution;

'Government Company' means:

- i. Companies under the control and supervision of Government;
- ii. Companies in which Government holds stock, shares or bonds; or
- iii. Companies or institutions in which Government has a financial interest;

'Minister' means the Minister responsible for Finance.

'Public Body' means the Government, a Government Ministry, the Governor-General, the Parliament of Saint Lucia, and any person appointed by the Parliament of Saint Lucia under the Constitution;

'Public Monies' means:

- i. All revenue or monies raised or received for the purposes of the Government;

- ii. Any other monies or funds held, whether temporarily or otherwise, by any public officer in his official capacity either alone or jointly with any other person whether or not that other person is a public officer;

‘Public Officer’ means a person holding or acting in any public office;

‘Statutory Body’ means any Corporation, Company, Board, Commission, Authority or other Body established by or under an Act to provide goods or services to the public and which meets one or more of the following conditions:

- i. all or part of its appropriations for operating purposes are provided under that heading in the budgetary estimates tabled in the Parliament;
- ii. the Cabinet or a Minister appoints at least half of its members or directors;
- iii. at least half of its operating expenses are borne directly by the Consolidated Fund or by other funds administered by a public body, or by both at the same time.

Appointment 3.-(1) The Director of Audit shall be appointed pursuant to Section 90 of the Constitution.

(2) The Director of Audit shall perform his duties on a full time basis and shall not, while he holds that office, hold any other office of emolument.

(3) In the exercise of his functions under this Act, the Director of Audit shall not be under the control or direction of any other person or authority.

Salary 4. The salary and allowances paid to the holder of the Office of the Director of Audit shall be determined and administered as prescribed by Section 82 of the Constitution.

Duties 5.-(1) The Director of Audit is the Auditor of the Public Accounts of Saint Lucia, and as such shall make such examinations and enquiries as he considers necessary to enable him to report as required by this Act.

(2) The Public Accounts of Saint Lucia include the Accounts of Public Bodies, Statutory Bodies and Government Companies.

No. 3 of 1997 (3) The Director of Audit shall examine the several financial statements required by Sub-Section (1) of Section 16 of the Finance Act, 1997 to be included in the Public Accounts and any other statement that the Minister may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the Government and on a basis consistent with that of the preceding year together with any reservations he may have.

Reporting 6.-(1) The Director of Audit shall submit a report at least once a year to the Minister for transmission to the House of Assembly on:

- i. The work of his office; and

- ii. On whether, in carrying on the work of his office in the discharge of his duties, he received all the information, reports, and explanations he required.

(2) Each Report of the Director of Audit under Sub-Section (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Assembly, including any cases which he has observed that:

- i. accounts have not been faithfully and properly maintained or Public Monies have not been fully accounted for or paid, where so required by Law, into the Consolidated Fund;
- ii. essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditure have been made only as authorized;
- iii. money has been expended without due regard to economy (the acquisition, at the lowest cost and at the appropriate time, of human and material resources in appropriate quantity and quality) or efficiency (the conversion, in the best ratio, of resources into goods and services); or
- iv. satisfactory procedures have not been established to measure and report on the effectiveness of programme (the achievement, to the best degree, of the objectives or other intended effects of a programme, an organization or any activity), where such procedures could appropriately and reasonably be implemented.

Submission of Report

7.-(1) An Annual Report on the Public Accounts by the Director of Audit to the House of Assembly shall be submitted to the Minister within a period of six months after the close of each financial year and the Minister shall lay each such Report forthwith before the House of Assembly after receipt thereof by him or, if the House of Assembly is not sitting, on the first day next thereafter that the House of Assembly is sitting.

(2) If the Minister fails to lay a report before the House of Assembly in accordance with provisions of sub-section (1), the Director of Audit shall transmit copies of that Report to the Speaker who shall, as soon as practicable, present them to the House of Assembly.

(3) The Minister may by direction in writing addressed to the Director of Audit extend the period within which such Reports shall be transmitted, and any direction so given shall be laid before the House of Assembly forthwith after transmittal to the Director of Audit or, if the House of Assembly is not sitting, on the first day next thereafter that the House of Assembly is sitting.

Special Reports

8.-(1) The Director of Audit may, at any time, submit a Special Report to the Minister on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his Annual Report.

(2) The Minister shall lay each such Report before the House of Assembly forthwith after receipt thereof by him.

(3) If the Minister fails to lay a Report before the House of Assembly in accordance with the provision of Sub-Section (2) the Director of Audit shall transmit copies to the Speaker who shall, as soon as practicable, present them to the House of Assembly.

- Misappropriation** 9. Whenever it appears to the Director of Audit that any Public Money or other public property has been misappropriated by any person, he shall forthwith report the circumstances of the case to the Director of Public Prosecutions and the Director of Finance.
- Request by the Minister** 10. The Director of Audit may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Minister or such officer authorized by him so requests, inquire into and report on any matter relating to the financial affairs of Saint Lucia or to the public property or to inquire into and report on any person or organization that has received aid from the Government or in respect of which aid from the Government is sought.
- Direction of Parliament** 11. The Director of Audit shall exercise such other functions in relation to the to the accounts of the Government or the accounts of other Bodies, Government Companies or organizations established by Law for public purposes as may be prescribed by or under any Law enacted by Parliament.
- Advisory Powers** 12. The Director of Audit may advise appropriate officers and employees in the public service of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Ministry of Finance.
- Access to Information** 13. The officers, employees, directors, executive officers and any other persons associated with any Public Body, Statutory Body or Government company shall allow the Director of Audit upon request, to have free access to and make copies of all registers, reports, documents or data in whichever form, relevant to the work of the Director of Audit under the Law and furnish him or a representative designated by him in writing, with any relevant information or explanation which he may require. This section shall prevail over any subsequent general Law or Act to the contrary, unless that Law or Act expressly states that it applies notwithstanding this section.
- Premises and Equipment** 14. In order to carry out his duties more effectively, the Director of Audit may station in the premises occupied by any Public Body, Statutory Body or Government company any person employed in or by his office and the Public Body, Statutory Body or Government company shall provide the necessary office accommodation for any person so stationed.
- Security and Secrecy** 15. The Director of Audit shall require every person employed in his office who is to carry out an audit of a Public Body, Statutory Body or Government company pursuant to this Act to comply with any security requirements applicable to, or any oath of secrecy required to be taken by persons employed in that body, authority or organization.

Other Auditor

16.-(1) Notwithstanding sub-section (1) of section 5, the Director of Audit shall not be required to audit the books and accounts of a Statutory Body or Government company for which another Auditor is appointed in accordance with the provisions of its constituting Act or of the Act that governs its operations and may, in order to fulfill his responsibilities as the Auditor of the accounts of Saint Lucia, rely on the Report of the duly appointed Auditor of the Body or company.

(2) Auditor of the books and accounts of a Statutory Body or Government company, other than the Director of Audit, must provide to the latter, with dispatch, a copy of:

- i. the Annual Financial Statements of the Body or company;
- ii. his report on these statements; and
- iii. any other report he makes to the Board of Directors, the executive or the management of the Body or company, as the case may be, on his finding and recommendations.

(3) The Auditor mentioned in sub-sections (1) and (2) shall make available to the Director of Audit, on request, the working papers, and other reports and documents in respect of his audit as well as any other information and explanation which the Director of Audit may require in respect of that audit and its results.

(4) When the Director of Audit is of the opinion that the information, explanations, documents, and reports provided by the Auditor mentioned in sub-sections (1) and (2) are insufficient or that additional audit work should be carried out, he may conduct or cause to be conducted such additional audit or investigation as he considers necessary of the books accounts and operations of the body or company.

Direct access to Statutory Body

17.-(1) The Director of Audit may request a Statutory Body or Government company to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfill his responsibilities as the Auditor of the Accounts of Saint Lucia.

(2) If, in the opinion of the Director of Audit, a Statutory Body or Government company, in response to a request made under sub-section (1) fails to provide any or sufficient information or explanations, he may so advise the Minister, who shall thereupon direct the officers of the Body or company to furnish the Director of Audit with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the Body or company or any or its subsidiaries access to which is, in the opinion of the Director of Audit, necessary for him to fulfill his responsibilities as the Auditor of the Accounts of Saint Lucia.

Estimates

18. The Director of Audit may submit a Special Report to the Minister for transmission to the House of Assembly in the event that amounts provided for his

office in the annual estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfill the responsibilities of his office. The Minister shall lay any such Report before the House of Assembly within seven days of receipt thereof by him or, if the House of Assembly is not sitting, on the first day next thereafter that the House of Assembly is sitting.

**Director of Audit
may authorize
Deputy or other
persons to sign
Opinion or Report
on his behalf**

19. The Director of Audit may, in writing, authorize one of his Deputies or any other member of his senior staff to sign on his behalf any Opinion that he is required to give and any Report of the Director of Audit other than the Report on the Annual Financial Statements and the Reports he submits to the Minister for onward transmission to the House of Assembly and any person so signing an Opinion or Report shall indicate beneath his signature, his position in the office of the Director of Audit and the fact that he is signing on behalf of the Director of Audit.

Passed in the House of Assembly this 12th day of December, 1988.

W. ST. CLAIR-DANIEL
Speaker

Passed in the Senate this 20th day of December, 1988.

CHARMAINE GARDENER
Deputy President

APPENDIX C**FINANCE (ADMINISTRATION) ACT****SAINT LUCIA****No. 3 of 1997****ARRANGEMENTS OF SECTIONS****PART I****PRELIMINARY**

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I ASSENT

W. GEORGE MALLET,
Governor-General.

26th February, 1997.

SAINT LUCIA**No. 3 of 1997**

AN ACT to repeal and replace the Finance Act, 1998, No. 25 in order to make new provisions for the management of public funds, the appropriation, withdrawal and issue of sums therefrom, for the public accounts and for such matters as are incidental to or connected with the foregoing.

[On Proclamation]

BE IT ENACTED by the Queen's Most Excellent Majesty, by and with the advice and consent of the House of Assembly and the Senate of Saint Lucia and by the authority of the same as follows:

PART I**PRELIMINARY****Short Title**

1. This Act may be cited as the Finance (Administration) Act, 1997.

Definitions

2. In this Act –

“accountable officer” means a public officer or accounting officer concerned in or responsible for the collection, receipts, custody, issues or payment of public monies, stores, stamps, investments, securities, or negotiable instruments, whether the property of the Government or on deposit with or entrusted to the Government or to any public officer in his official capacity either alone or jointly with any other public officer or any other person;

“Accountant General” means the public officer appointed to the Office of the Accountant General and who is the custodian of the Consolidated Fund and the Contingency Fund and performs such duties as are conferred by this Act or any other enactment;

“accounting officer” means a public officer specified in section 6 who is accountable for –

- (i) the funds appropriated under any head of expenditure for Saint Lucia in any financial year;
- (ii) the collection of any revenue under the revenue heads to which that public officer is designated; and

(iii.) the use and custody of any public monies, stamps or stores relating to the service for which such revenue heads are established;

“Appropriation Act” means any Act which authorizes the application of a sum of the Consolidated Fund to the service of a financial year and includes a Supplementary Appropriation Act;

“collector of revenue” means a public officer responsible for the collection, receipt, and custody of public monies;

“Consolidated Fund” means the Consolidated Fund of Saint Lucia established by section 77 of the Constitution;

“Consolidated Fund General Services Account” means the General Services Account established by section 13 of this Act;

“Constitution” means that Constitution of Saint Lucia as contained in Schedule I to the Saint Lucia Constitution Order, 1978;

“Director of Finance” or “Director” means the public officer duly appointed by the Public Service Commission to hold the Office of the Director of Finance and who is directly responsible to the Minister for the administration of the Ministry of Finance;

“development programme account” means the development programme account referred to in section 14 of this Act;

“expenditure vote” means any sum appropriated to any service or investment authorized by an Appropriation Act;

First Schedule

“Financial Regulations” means the Financial Regulations, 1997 contained in the First Schedule to this Act;

“Financial year” means the twelve months ending on the 31st day of March in any year or such other period of twelve months as may be established by law;

“House” means the House of Assembly;

“Minister” means the Minister of Finance;

“officer” means a person employed in the public service of Saint Lucia.

Second Schedule

“Procurement and Stores Regulations” means the Procurement and Stores Regulations, 1997 as contained in the Second Schedule to these Regulations;

“Public Accounts Committee” means the select committee established by Standing Order 67 of the Standing Order of the House of Assembly;

“public monies” includes

- (a) all revenues or other monies raised or received for the purpose of the Government; and
- (b) any monies or funds held, whether temporarily or otherwise, by any officer in his or her official capacity, either alone or jointly with any other person, whether or not that person is an officer;

“public officer” means a person holding or acting in any public office;

“public stores” means all chattels of whatsoever nature being the property of, in the possession of, or under the control of, the Government;

“receiver of revenue” means the Accountant General or any officer designated by him or her for the purpose of receiving monies, securities or other financial instruments collected by collectors of revenue;

“statutory body” means any corporation, company, board, commission, authority or other body established by or under an Act to provide goods or services to the public and which meets one or more of the following conditions:

- (i) all or part of its appropriations for operating purposes are provided under that heading in the budgetary estimates tabled in Parliament;
- (ii) the Cabinet or a Minister appoints at least half of its members;
- (iii) at least half of its operating expenses are borne directly; by the Consolidated Fund or by other funds administered by a public body, or by both at the same time;

“statutory expenditure” means any expenditure that is required or authorised to be made by an enactment;

“Supplementary Appropriation Act” means any Act the purpose of which is the appropriation of monies in supplementation of the appropriation already made by an Appropriation Act;

“supply vote” means the total sums appropriated out of the Consolidated Fund for and applied to any purpose by an Appropriation Act.

PART II

CONTROL AND MANAGEMENT OF PUBLIC FINANCE

Powers and duties of the Minister

3.-(1) The Minister shall supervise the finances of the Government in order to ensure that a full account is made to the Parliament and for that purpose shall, subject to this Act, have full responsibility for the management of the Consolidated Fund.

(2) The Minister shall give such directions and instructions as appear to him or her to be necessary or expedient for the advantage, economy and safety of public monies and public property.

Powers and Duties of Director of Finance

4.-(1) The Director of Finance shall ---

- (a) take all proper steps to ensure that any directions and instructions given pursuant to section 3 and rules or regulations made under section 54 are brought to the notice of all persons directly affected thereby and are complied with;
- (b) be entitled to inspect all government offices and public property and shall be given access at all times thereto and to all available information he or she may require with regard to monies and property in the custody of accountable officers and to all documents and records in respect thereof;
- (c) certify all withdrawals made or authorized from the Consolidated Fund; and
- (d) carry out such other duties as are conferred on him or her by this Act or by rules or regulations made thereunder,.

(2) The Director of Finance may delegate in writing all or any of the powers conferred upon him or her by paragraph (b) of subsection (1).

Powers and duties of Accountant General

5.-(1) Without prejudice to anything contained in section 6(2), the Accountant General shall, for the purposes of this Act and all rules and regulations made thereunder, be the Chief Accounting Officer and as such shall perform a supervisory function with respect to the collection, expenditure and accounting for, public funds.

(2) The Accountant General, in the discharge of his or her duties as the officer charged with the compilation and management of the accounts of the Government may, after consultation with the Director of Finance, give general instructions not inconsistent with this Act and any rules or regulations made thereunder, and may in his or her sole discretion give special accounting instructions.

(3) Any such special accounting instructions shall not conflict with or extend, abridge or amend any rules or regulations made under section 54, or any directions or instructions given by the Minister under section 3.

(4) Without prejudice to the generality of the duties imposed on the Accountant General by sub-section (1) and subject to the powers conferred on the Minister by sections 3 and 54, and on the Director of Finance by section 4, the Accountant General shall ---

- (a) receive revenue and other monies into and make payments from the Consolidated Fund; and ensure that all revenues and other monies received and paid are brought promptly and properly to account;
- (b) ensure that proper and adequate accounting systems are established and maintained in Ministries and Departments of Government both within and outside of Saint Lucia;
- (c) prepare the accounts of Saint Lucia in accordance with this Act;
- (d) refuse payment on any voucher which is wrong or insufficient in content or which contravenes the Financial Regulations, the Procurement and Stores Regulations, or any other rules, regulations, directions or instructions properly made or given under this Act for the management of public monies and stores, or that are in his or her opinion in any other way unacceptable in support of a charge on public funds;
- (e) report to the Director of Finance in writing any defect in departmental control of revenue, expenditure, cash, stamps, stores and other property and any breach or non-observance of the Financial Regulations, the Procurement and Stores Regulations or any other rules or regulations made under section 54 or directions or instructions given under section 3, that may come or be brought to his or her notice; and
- (f) ensure, in so far as is practicable, that adequate provisions exists for the safe custody of public monies, stamps securities and other accounting documents; and carry out such other duties as are conferred on him or her by this Act or any other enactment.

Accounting Officers

6.-(1) The accounting officers for the purposes of this Act shall be ---

- (a) the Permanent Secretaries; or
- (b) public officers who are Heads of Department or who perform the duties of a Head of Department.

(2) An accounting officer shall be answerable to the Public Accounts Committee of Parliament for the efficient management of and accounting for public funds entrusted to him or her as accounting officer.

(3) An accounting officer may designate an officer under his or her control to be the collector of revenues for the collection of any item of revenue for which he or she is accountable.

(4) The designation of a collector of revenue under subsection (3) for the collection of any item of revenue shall not abate or abridge the personal accountability of the accounting officer making the appointment in respect of that item of revenue.

(5) Every accounting officer shall comply with any rules and regulations made under section 54 or directions or instructions given under section 3 by the Minister or any directions or instructions given by the Director under section 4 and all instructions given by the Accountant General under section 5.

(6) Accounting officers shall ensure that all accountable officers are conservant with the Act, and any rules, regulations or directions made or given thereunder.

PART III

PUBLIC FUNDS

Payment into the Consolidated Fund

7. -(1) Subject to the Constitution and except as otherwise provided in this Act, all revenues and other monies raised or received for the purposes of the Government, not being revenue or other monies which are payable by or under any enactment into some other fund established for a specific purpose, shall be paid into and form part of the Consolidated Fund.

(2) For the purposes of subsection (1), monies raised or received includes monies received by way of a grant, donation, gift or other like method.

Payment from the Consolidated Fund

8. -(1) No monies shall be paid out of the Consolidated Fund except –

- (a) to meet expenditure which is chargeable upon it by the Constitution or any enactment;
- (b) where the payment has been authorised by an Appropriation Act or by a warrant under the hand of the Minister given in accordance with this Act;
- (c) for the purpose of repaying any monies received in error into the Consolidated Fund; or
- (d) for the purpose of paying such sums as may be required for any refund, rebate or drawback where the payment of that refund, rebate or drawback is provided for in any enactment;

(2) No monies shall be paid out of the Consolidated Fund except in the manner prescribed by this Act.

(3) Any monies forming part of the Consolidated Fund which are -

- (a) deposited with a bank or other financial institution, or
- (b) invested in an authorised manner, shall not, for the purpose of this section, be deemed to have been issued from the Consolidated Fund by reason only of that deposit or investment.

Special Funds

9. - (1) The Minister may give such directions and take such steps as may be necessary for the purpose of establishing a Special Fund.

(2) Any fund established prior to the commencement of this Act shall be deemed to be a Special Fund and to have been established for the purposes of subsection (1) and the balance standing to the credit of that fund at the close of account on the day prior to the commencement of this Act shall be deemed to have been established for the purposes specified with respect to each such Special Fund.

(3) The Minister shall cause any Special Fund established under subsection (1) to be notified in the Saint Lucia Gazette.

Trust Funds

10. -(1) For the purpose of this section “Trust Funds” means –

- (a) any fund established by an Act other than an Appropriation Act; or
- (b) any monies held by or deposited with or entrusted to the Government pursuant to the terms of a deed of trust, trust instrument, agreement (whether express or implied) or any arrangement governing the use of monies so held.

(2) No fund established in accordance with subsection (1)(a) shall be deemed a Trust Fund where the Act establishing the same makes provisions for the payment of monies into that fund out of the Consolidated Fund.

(3) A Trust Fund shall not form part of the Consolidated fund but, subject to section 11, shall be administered in accordance with this Act.

(4) Any funds established prior to the commencement of this Act for the purposes specified in subsection (1) shall be deemed to be Trust Funds and the balance standing to the credit of each fund at the close of account on the coming into operation of this Act shall be deemed to be held by the Government for the purposes specified in respect of each such Trust Fund.

(5) Nothing in this Act shall extend, abridge or alter the terms of any trust or be construed as authorising the making of any rules or regulation or the giving of any direction or instruction requiring any person to obey that rule or regulation, direction or instruction in relation to monies held on trust which contravene or are inconsistent with the terms of that trust.

(6) No public officer shall accept appointment as a trustee without the written authority of the Minister and any appointment contrary to this subsection shall be void.

(7) The Minister shall cause any Trust Fund established under subsection (1) to be notified in the Saint Lucia Gazette.

Contingency Fund

11. -(1) A Contingencies Fund is hereby established.

(2) The Minister may, by an affirmative resolution of Parliament, transfer from the Consolidated Fund any sum as may be required from time to time for the operation of the Contingency Fund.

(3) The Minister, if he or she is satisfied that there has arisen an urgent and unforeseen need for expenditure-

- (a) for which no monies have been appropriated or for which the sum appropriated is insufficient;
- (b) for which funds cannot be reallocated as provided for in section 23; and

- (c) which cannot be deferred without serious detriment to the public service,

may, by contingency Fund Warrant under his or her hand and in anticipation of the grant of an appropriation by Parliament, authorise an advance from the Contingency Fund to meet such need.

(4) The total of the sums authorised under subsection (3) to be advanced from the Contingency Fund shall not exceed the total sum authorised under subsection (2).

(5) Where any advance is made from the Contingency Fund under this section a supplementary estimate of the sum required for the service for which such advance was made shall be laid before Parliament as soon as possible but in any event not later than four months from the date on which the Contingency Fund Warrant was issued and shall be included in a Supplementary Appropriation Bill for appropriation.

(6) Upon the grant of an appropriation to meet the expenditure in respect of which an advance was made under this section, the Contingency Fund Warrant authorising that advance shall lapse and shall cease to have effect and the advance shall be deemed to have been made for the purpose of the appropriation and shall be accounted for accordingly.

PART IV

ACCOUNTS

Accounting for public monies

12. All public monies shall be accounted for in the accounts of Saint Lucia.

Consolidated Fund General Services

13.-(1) There is hereby established an account to be known as the “Consolidated Fund General Services Account” to which shall be credited all recurrent revenues and out of which shall be made payments in respect of the consolidated fund general services.

(2) The disbursement of monies provided in any financial year to meet expenditure on the consolidated fund general services shall be controlled and accounted for by the Accountant General.

(3) In this section the expression “Consolidated Fund General Services” means the services of the Government, the expenses of which is charged on or payable from recurrent revenue receipts or any other source authorised by Parliament.

Development Programme Account

14.- (1) There is hereby established an account to be known as the “Development Programme Account” to which all revenues specifically allocated hereto together with grants and loans received for financing the development programme and out of which shall be made payments in respect of the development programme.

(2) The disbursement of money provided in any financial year to meet expenditure on development programme shall be controlled and accounted for by the Accountant General.

(3) In this section the expression “development programme” means investments made by the Government, the expense of which is charged on or payable from revenues specifically allocated thereto, or grants and loans raised specifically for that purpose.

Departmental Accounts

15. Notwithstanding anything contained in sections 13 and 14, an accounting officer shall maintain departmental accounts in which shall be recorded all revenue receipts and disbursement of all appropriations made to the head of expenditure for which he or she is accountable as accounting officer.

Annual Accounts

16.-(1) Within a period of three months after the close of each financial year the Accountant General shall prepare, certify and submit to the Director of Audit as many copies as the Director of Audit may require of the accounts of Saint Lucia for that financial year showing the financial position of Saint Lucia on the last day of such financial year.

(2) The accounts of Saint Lucia for the purposes of subsection (1) shall be prepared in accordance with the accounting principles as stated by the Accountant General or specified in the certificate attached to such accounts.

(3) The Minister may by direction in writing addressed to the Accountant General extend the period within which such accounts may be transmitted and any directions so given shall be laid before Parliament at its next meeting.

(4) Accounts to be transmitted by the Accountant General under subsection (1) shall show fully the financial position of the Consolidated Fund on the last day of each financial year and shall include-

- (a) a statement of assets and liabilities;
- (b) an annual abstract of revenue and expenditure by heads;
- (c) a comparative statement of actual and estimated revenue by sub-heads;
- (d) a comparative statement of actual and estimated expenditure by sub-heads;
- (e) a statement of balances on advance analyzed under the various categories set out in section 29;
- (f) a statement of balances on deposit accounts;
- (g) a statement of outstanding loans made from the Consolidated Fund, by annual and aggregate receipts and payments;
- (h) a statement of public debt;
- (i) a statement of contingent liabilities;
- (j) a statement of investments showing the funds on behalf of which the investments were made;
- (k) a statement of arrears of revenue by sub-heads;

- (l) a statement of losses of cash and stores and of abandoned claims;
- (m) a statement of the Contingency Fund Account;
- (n) a statement of changes in financial position; and
- (o) other statement as Parliament may from time to time require.

(5) The Director of Audit shall submit to the Minister, not later than three months from the date of receipt of certified copies of financial statements from the Accountant General, such certified copies with his or her opinion thereon.

(6) For the purposes of this section, “accounts of Saint Lucia” means the accounts that relate directly to the central Government.

Special accounts

17. Within six months after the close of each financial year or the close of any period of accounts as may be provided in any enactment or trust instrument related thereto or, in the absence of such a provision, the close of any period of account as may be specified in directions given by the Minister, any officer administering a Special Fund or Trust Fund shall submit to the Minister an account of that Special Fund or Trust Fund relating to the period of account in such form as may be required by any enactment or trust instrument governing the administration of the Special Fund or Trust Fund, as the case may be; or in the absence of any such requirement contained in an enactment or trust instrument, in the form as the Accountant General may from time to time require.

Laying of accounts

18. The Minister shall lay a copy of every document to him or her under sections 16(5) and 17 before Parliament at its next sitting following the date on which that document was received.

PART V

AUTHORIZATION OF EXPENDITURE

Annual Estimates

19.-(1) The Minister shall cause to be prepared and laid before the House of Assembly, not later than thirty days after the commencement of each financial year, estimates of revenue and expenditure for that financial year.

(2) The estimates of revenue and expenditure laid before the House of Assembly shall be in such form as the Minister may from time to time determine.

Appropriation

20. When the estimates of expenditure (other than expenditure charged on the Consolidated Fund by the Constitution or any other enactment) have been approved by the House of Assembly, a bill known as an Appropriation Bill shall be introduced in the House of Assembly, providing for the issue from the Consolidated Fund of the sums necessary to meet that expenditure and the appropriation of those sums, under separate votes for the several services required for the purposes specified therein.

Supplementary Appropriation

21. If in respect of any financial year it is found --

- (a) that the amount appropriated by the Appropriation Act to any purpose is insufficient or that a need has arisen for expenditure for a purpose to which no amount has been appropriated by that Act; or
- (b) that any monies have been expended for any purpose in excess of the amount appropriated to that purpose by the Appropriation Act or for a purpose to which no amount has been appropriated by that law,

a supplementary estimate showing the sums required or spent shall be laid before the House and, when the supplementary estimate has been approved by House, a Supplementary Appropriation Bill shall be introduced in the House providing for the issue of such sums from the Consolidated Fund and appropriating them to the purposes specified therein.

Authorisation of expenditure in advance of appropriation

22. If, notwithstanding the provisions of section 20, the Appropriation Act has not come into operation at the commencement of any financial year, the Minister shall authorize by Provisional General Warrant under his hand expenditure necessary to carry on the services of Government until the expiration of four months from the beginning of that financial year or the coming into operation of the Appropriation Act, whichever is the earlier, but any sum so authorized shall not exceed one third of the aggregate of the sums provided for that service in the Appropriation Act of the previous financial year.

Reallocation

23.-(1) The Minister may, by means of a Reallocation Warrant direct that any surplus arising from under-expenditure on any item contained in the approved estimates, be applied in aid of any other item therein or in aid of any new item provided that the sum appropriated for that first mentioned item is not thereby exceeded.

(2) Any sums reallocated in accordance with subsection (1) shall be submitted for the approval of Parliament.

Virement

24.-(1) If, in the opinion of the Director of Finance, the exigencies of the public service render it necessary or expedient to vary the sum assigned to any purpose within a supply vote shown in the estimates of expenditure for any financial year or to make provisions for a new purpose within that vote, he or she may direct by means of a Virement Warrant under his or her hand that there shall be applied in aid of any purpose for which the sum assigned may be deficient or in aid of any new purpose a further sum out of any surplus arising from under-expenditure on any item within the same supply vote.

(2) In the exercise of his or her powers under subsection (1) the Director of Audit shall ensure that -

- (i) the sum appropriated for any supply vote by the Appropriation Act or by a Supplementary Appropriation Act is not thereby exceeded, and

- (ii) any new purpose to which a sum is assigned is within the ambit of the vote.

Lapse of appropriations and warrants

25. Except as provided by this Act, every appropriation made by Parliament of public monies for the service of any financial year and every warrant issued under this Act shall lapse and cease to have effect at the end of that financial year.

PART VI

PAYMENTS

Authority for payment

26. Subject to section 9, any payment made from the Consolidated Fund shall be authorized by warrant under the hand of the Minister.

General Warrant

27.-(1) Subject to sections 20 and 21, on the coming into of an Appropriation Act and any Supplementary Appropriation Act, the Minister shall authorise the Accountant General by General Warrant under his or her hand to pay out of the Consolidated Fund such sums as may be required to pay for the services approved by Parliament.

(2) Notwithstanding the issue of a General Warrant it shall be within the discretion of the Minister to limit or suspend at any time any expenditure excluding statutory expenditure, with or without cancellation of the General Warrant if, in his or her opinion, financial exigencies of the public interest so require.

Provisional General Warrant

28. Where an Appropriation Act has not come into operation the Minister shall authorise the Accountant General to pay out of the Consolidated Fund such sums as may be authorized by Provisional General Warrant under section 22.

Advance Warrant

29.-(1) Subject to this section, the Minister may, by Advance Warrant under his or her hand, authorise the Accountant General to make disbursements of monies forming part of the Consolidated Fund or of other public monies for the purpose of making advances –

- (a) on behalf of, and recoverable from, other Governments and organisations;
- (b) to, or on account of, trusts and other funds administered by the Government;
- (c) to, or on behalf of, public bodies, institutions, accounting officers or other individuals where those advances are, in the opinion of the Minister, in the public interest and are recoverable within a period not exceeding twelve months after the close of the financial year in which those advances are made;

- (d) to public officers for any purposes and on terms as may be determined from time to time; or
- (e) for the purpose of expenditure authorised by an enactment which permits the raising of loans in anticipation of raising such a loan.

(2) The total of the sums issued and disbursed for the purpose of making advances under paragraphs (c) and (d) of subsection (1) shall not exceed in the aggregate at any time, after deducting repayments, two percent of the recurrent revenue for the previous financial year.

Imprest Warrant

30.-(1) The Minister may, by Imprest Warrant under his or her hand, authorise the Accountant General to issue imprests from the Consolidated Fund to officers for any purpose for which monies have been appropriated.

(2) Any officer to whom an imprest has been issued pursuant to subsection (1) shall retire that imprest before the end of the financial year in which the imprest was issued or, if some earlier date is specified in the Imprest Warrant, on or before that earlier date.

(3) Notwithstanding subsection (2), where any officer fails to retire an imprest in accordance with that subsection, the Accountant General shall forthwith recover the amount of the imprest by deduction from the salary or other emoluments of that officer in such manner as the Director of Finance determines.

Departmental Warrant

31. An accounting officer may, by Departmental Warrant under his or her hand, authorise any officer named in that warrant to incur expenditure against any vote under his or her control.

Lapse of Warrant

32. A warrant issued under this Part shall lapse and cease to have effect on the date specified in the warrant or at the end of the financial year in which it is issued, whichever is earlier.

PART VII

BANK ACCOUNTS, INVESTMENTS AND DEPOSITS

Bank Accounts

33.-(1) All sums accounted for in the Consolidated Fund shall be kept with such banks as the Accountant General shall from time to time determine.

(2) No public or official account shall be opened at any bank without the prior written authority and direction of the Accountant General.

Investment of Monies

34.-(1) The Minister may authorise the Director of Finance to invest monies forming part of the Consolidated Fund –

- (a) with a bank, either at call or subject to notice;
 - (b) in deposits with the Eastern Caribbean Central Bank;
 - (c) in a manner authorised for investments of property in the hands of trustees by any enactment for the time being in force; or
 - (d) in securities issued by another Government or any agency of such other Government.
- (2) The Minister may, if he or she is satisfied that it is in the public interest and with the prior approval of Parliament, cause the Director of Finance to purchase shares in any public company, with monies from the Consolidated Fund.
- (3) Where the Minister causes shares to be purchased under subsection (2), he or she shall -
- (a) submit a report to Parliament containing full details of any shares purchased; and
 - (b) lay on the Tables of Parliament a copy of any agreement made in relation to any such purchase; and the annual financial statement.
- (4) The Director shall keep proper records of any investments under this section.
- (5) Except for investments under subsection (1)(c), all investments made under this section together with any interest received therefrom shall be paid into and form part of the Consolidated Fund.
- (6) All investments held by or on behalf of the Government on the date of the coming into operation of this Act shall, if the same are not held on account of Special Funds or Trust Funds set out in sections 9 and 10 respectively, be deemed to have been made out of monies issued from the Consolidated Fund and may be retained notwithstanding that such investments are not such as may be made under subsection (1).

Deposits

35. Any deposits, not being monies raised or received for the purposes of the Government, shall not form part of the Consolidated Fund and, except as provided in sections 36 and 37, shall not be applied in any way for the purposes of the Government.

Investment

36.-(1) The Director of Finance may authorise the investment of deposits in like manner to that provided in section 34 in respect of the Consolidated Fund.

(2) Any interest or dividend received in respect of deposits invested in accordance with subsection (1) shall be paid into the Consolidated Fund.

Unclaimed deposits

37.-(1) Any deposit which is unclaimed for five years shall be paid into the Consolidated Fund.

(2) Notwithstanding subsection (1), the Accountant General shall refund a deposit to a person who claims to the satisfaction of the Accountant General that he or she has absolute right to that deposit.

PART VIII

PUBLIC DEBT

Borrowing by means of advances

38.-(1) The Minister may, by resolution of Parliament, borrow money from a bank or other financial institution by means of advances to an amount not exceeding in the aggregate the sum specified for that purpose in the resolution, to meet current requirements, and such resolution shall not have effect for any period exceeding six months.

(2) Where, by resolution in accordance with this section or pursuant to any enactment, power to borrow money by means of advances from a bank is conferred on the Minister that power may be exercised by means of a fluctuating overdraft.

Loans and authority to sign thereof

39.-(1) The Minister may, by resolution of Parliament, borrow from any bank or other financial institution for any of the following purposes:

- (a) the capital or recurrent expenditure of Government;
- (b) the purchase of securities issued by any Government or government agency;
- (c) on-lending to any statutory body or public corporation; or
- (d) making advances or payments to public officers as authorised by any enactment or the Staff Orders.

(2) The Minister may, in writing, authorise the Director of Finance or Head of a Foreign Mission to sign on his or her behalf any loan agreement or guarantee made under section 38 or 39.

(3) In this section “Staff Orders” means the Staff Orders for the Public Service of Saint Lucia.

Proceeds of loan

40. Subject to any enactment concerned with general or specific loans, any money borrowed by the Government shall be paid into and form part of the Consolidated Fund.

Restriction on guarantees

41. No guarantee involving any financial liability shall be binding upon Government unless that guarantee is given in accordance with an enactment or unless approved by resolution of Parliament.

Public debt

42.-(1) There shall be charged upon and paid out of the Consolidated Fund all debt charges for which the Government is liable.

(2) For the purpose of this section, debt charges include interest, sinking fund charges and any other charges related to the repayment or amortization of loans and advances or in satisfaction of any obligation arising from a guarantee given in accordance with section 41.

PART IX

ABANDONMENT OF CLAIMS AND WRITE-OFF OF PUBLIC MONIES AND STORES

Abandonment of claims and write-off of losses

43.-(1) Subject to this section, the Minister may, pursuant to an affirmative resolution of Parliament, write-off losses of public monies, stores or other moveable property belonging to the Government or provided for the public service, or to abandon or remit any claim by or on behalf of the Government or any public service thereof where the amount in any one case is ten thousand dollars or more.

(2) The Director of Finance may, with the approval of the Minister, write-off losses of public monies, stores or other moveable property belonging to the Government or provided for the public service, or to abandon or remit any claim by or on behalf of the Government or any public service thereof where the amount in any one case exceeds five thousand dollars, but is less than ten thousand dollars.

(3) The Director may write-off losses of public monies, stores or other moveable property belonging to the Government or provides for the public service, or to abandon or remit any claim by or on behalf of the Government or any public service thereof where the amount in any one case does not exceed five thousand dollars.

(4) The Minister may, in writing delegate his or her power under subsection (2) to the Director in which case no approval shall be required to write-off losses.

(5) Notwithstanding anything contained in subsections (2) and (3), where the losses referred to in those subsections are, or *prima facie* appear to be, on account of theft, fraud, embezzlement or other like act, there shall be no write-off of such losses unless Parliament, by affirmative resolution approves the same.

(6) Any write-off under this section shall be notified immediately to the Accountant General and the Director of Audit.

Gift of stores or other property

44.-(1) The Director of Finance may authorise the gift of any stores not required for Government purposes to institutions or organizations in Saint Lucia established solely or principally for educational, scientific, cultural or charitable purposes.

(2) Where the value of such gift exceeds five thousand dollars, or such greater amount as the Cabinet determines, the prior approval of the Minister shall be obtained.

(3) Every gift under the section shall be notified immediately in writing to the Accountant General and the Director of Audit.

PART X

SURCHARGE

Power to surcharge

45.-(1) If, at any time, it appears to the Director of Finance that monies or public stores have been lost or damaged, and if, within a period specified by the Director of Finance an explanation satisfactory to him or her is not furnished by the responsible officer with regard to such loss or damage, the Director shall surcharge against that officer the amount which appears to him or her to be the loss suffered by the Government, or the value of the property lost or damaged as the case may be, or a lesser amount as the Director determines.

(2) Subject to subsection (3), any officer who contravenes this Act or any rules or regulations made thereunder shall be liable to a surcharge in such sum as may be determined by the Director of Finance.

(3) No officer shall be surcharged under this section without being heard.

Grounds for surcharge

46. An officer may be surcharged under section 45 on any of the following grounds:

- (a) failure to collect any monies owing to Government, the collection of which the officer is or was at the time responsible;
- (b) payment of public monies in excess of amounts authorised under Part V of this Act;
- (c) making, allowing or directing any payment of public monies without proper authority, or proper evidence that the amount was due;
- (d) payment of public monies without obtaining proper evidence of the identity of the payee;
- (e) responsibility for any deficiency in, loss or destruction of or damage to any public monies, stamps, securities, stores or other public property;
- (f) failure to render accurate accounts by a person whose duties require him or her to render such accounts;
- (g) signing an incorrect or false certificate on a voucher;
- (h) mixing public monies with other monies; or
- (i) contravention of this Act, the Financial Regulations or the Procurement and Stores Regulations; or
- (j) failure to comply with any lawful direction or instructions given under this Act.

Notification of surcharge

47.-(1) The Director of Finance shall give written notification of a decision to surcharge to -

- (a) the person surcharged;
- (b) the accounting officer of the Department concerned;
- (c) the Accountant General;
- (d) the Director of Audit; and
- (e) the Public Service Commission.

(2) A notification under subsection (1) shall include the grounds upon which the surcharge is based and the amount of such surcharge.

(3) For the purposes of this section and section 48, the Public Service Commission includes the Judicial and Legal Services Commission and the Teaching Service Commission, as appropriate in the particular context.

Appeal against surcharge

48.-(1) An officer who is aggrieved by any surcharge made against him or her under section 45 may appeal to the Public Service Commission, within one month from the date on which he or she is notified of the surcharge.

(2) The Public Service Commission, after making or causing to be made such investigation as it deems to be necessary, may confirm the surcharge or direct that the person surcharged be released wholly or in part from the surcharge as may appear to be just and reasonable.

Withdrawal of surcharge

49.-(1) The Director of Finance may at any time withdraw any surcharge in respect of which a satisfactory explanation is subsequently received or if it otherwise appears to him or her that no surcharge is warranted in the circumstances.

(2) Where a surcharge is withdrawn under subsection (1) the Director shall inform all the persons notified under section 47 of that fact.

Recovery of surcharge

50.-(1) The Accountant General, on being notified of a surcharge made under section 47, shall cause the amount of the surcharge to be recovered from the person surcharged in such a manner as the Director of Finance directs.

(2) No recoveries shall be made under subsection (1) until after the expiration of the period allowed under section 48 for the lodging of any appeal, and where the person surcharged appeals under that section, no recoveries shall be made until and unless the surcharge has been confirmed or otherwise determined.

(3) Subject to subsection (4), the amount of a surcharge made under this Part shall be recovered as the Director of Finance may direct and may be deducted from any salary, pension or other emoluments of the person surcharged.

(4) The following rules shall apply with respect to the recovery of a surcharge:

- (a) no monthly installment payable in respect of a surcharge shall exceed one quarter of the gross monthly salary or pension of the person surcharged; and

- (b) where the person surcharged is due to be paid any monies by the Government other than by way of salary or pension or other emolument, the Director of Finance may require the amount of any surcharge imposed on that person to be deducted from such monies in whole or in part as he or she considers just and reasonable.

(5) Nothing contained in this section shall prejudice the right of Government to sue for and recover the amount of any surcharge as a civil debt due to the Crown.

PART XI

STATUTORY BODIES

Definitions and application

51.-(1) In this Part -

“appropriate Minister” means the Minister under whose portfolio the statutory body in question falls;

(2) Sections 52 and 53 shall apply to a statutory body unless there are other provisions made in the law establishing that statutory body.

(3) Sections 52 and 53 shall apply to all statutory bodies unless a contrary intention is contained in the enactment establishing such statutory body.

Estimates of expenditure

52.-(1) A statutory body shall, three months before the commencement of each financial year of the statutory body, submit to the appropriate Minister for his approval, estimates of its recurrent and capital expenditure and the financing thereof for that year in such form as the Minister directs.

(2) The appropriate Minister shall, before the commencement of each financial year, submit to the Minister for approval the estimates of recurrent and capital expenditure and the Financing thereof in respect of each statutory body falling under his or her portfolio.

(3) A statutory body shall, whenever the appropriate Minister or the Minister directs, furnish any further information in relation to its estimates of recurrent and capital expenditure and the financing thereof as may be required.

(4) The estimates of recurrent and capital expenditure and the financing thereof as approved by the Minister may not be altered without the approval of the Minister.

(5) The appropriate Minister shall lay the estimates approved by the Minister under subsection (2), before Parliament at its next sitting following the receipt of such estimates.

Annual report and accounts

53.-(1) A statutory body shall, as soon as possible and in any case not later than three months after the end of its financial year, submit an annual report to the appropriate Minister as the Minister may from time to time direct.

(2) An annual report shall include a balance sheet, an income and expenditure statement and the report of the auditor on the accounts of the statutory body.

(3) On receipt of the annual report, the accounts and the auditor's report, the appropriate Minister shall lay them before Parliament at its next sitting.

PART XII

MISCELLANEOUS PROVISIONS

Rules and Regulations

54.-(1) Subject to this section, the Minister may make such rules or regulations as appear to him or her to be necessary and expedient for the proper carrying out of the intent and purpose of this Act and, in particular, may make rules or regulations in respect of financial and accounting matters.

(2) Without restricting the generality of subsection (1) any rules or regulations made by the Minister may provide for --

- (a) the collection, custody, issue, expenditure, due accounting for, care and management of all public funds;
- (b) the effectual record, examination, inspection and internal check of all receipts, payments and expenditure;
- (c) the forms of all accounts, books, documents and reports whatsoever required for the proper accounting for public monies and public stores;
- (d) the purchase, safe custody, issue, sale or other disposal or writeoff of stores and other property of the Government and the proper accounting for and stock-taking of such stores and property;
- (e) the custody, handling and proper accounting for stamps, investments, securities and negotiable instruments whether the property of the Government of Saint Lucia or on deposit with or entrusted to the Government or to any officer in his official capacity or to any other person;
- (f) the reporting of losses by whatever means of public money, stamps, accounting or accountable documents of whatever kind and public stores, and the reporting of damage to or destruction of any property of the Government;
- (g) the issue of public tenders, the powers and duties of the Tenders Board, and the award of contracts;

First Schedule Second Schedule

(3) The Financial Regulations and the Procurement and Stores Regulations as contained in the First Schedule and the Second Schedule, respectively, shall be deemed to have been made under subsection (1) and the same may be amended by the Minister.

Forms

55. Subject to section 54(2)(c), any administrative forms that are required or necessary for the purposes of this Act or any rules or regulations made thereunder shall be in such form as the Accountant General approves.

Repeal**Act 1988 No. 25**

56. The Finance Act, 1988 is hereby repealed.

Commencement

57. This Act shall come into operation on such date as the Governor-General appoints by Proclamation.

Passed in the House of Assembly this 26th day of November, 1996.

W. ST. CLAIR-DANIEL,
Speaker of the House of Assembly.

Passed in the Senate this 4th day of December, 1996.

NEVILLE CENAC,
President of the Senate.

APPENDIX D**AUDIT OFFICE****STAFF RULES AND REGULATIONS
(To be read in conjunction with Staff Orders)****1 TIME SHEET**

- a. Time sheets should be handed to Audit Principals before 4:00 p.m. on the first working day of the following week.
- b. Time sheets will be reviewed by an Audit Principal by the end of the day (Monday).
- c. The time sheets shall not replace the attendance register.

2. CONDUCT

- a. Staff are required to conduct themselves both in and out of the office in a manner that reflects the integrity and status of this office.
- b. Officers shall be courteous and polite both to members of staff and the staff members of units being audited.
- c. There shall be no quarreling, screaming, or loud speaking in the office.
- d. The use of telephone will be short and discrete.
- e. Due to the nature of our work, visitors will not be allowed in the general office – only in the waiting area which will be located outside of the central office.

3. HOURS OF WORK

- a. Hours of work will be 8:00 a.m. to 4:30 p.m. with one (1) hour for lunch from 12:30 p.m. to 1:30 p.m.
- b. An explanation to the satisfaction of management will be required from staff members who report to work after 8:15 a.m. and 1:45 p.m.
- c. It may be necessary to perform duties outside the official hours of work if and when the work programme warrants it. Such flexibility will be noted in staff appraisals.
- d. Officers engaged in outdoor audits should be out of office by 8:15 a.m. and be back in office not before 4:15 p.m. Officers need to report to office before and after lunch i.e., 12:30 p.m. to 1:30 p.m. in any event, one should report to work for 1:30 p.m.
- e. No overtime will be paid to professional staff.

- f. Permission for absence from office during working hours must be granted by an Audit Principal or other management staff.
- g. An officer who absents himself/herself from office without permission exception cases of illness or other unavoidable circumstances, shall have the period of absence deducted from his/her annual leave or forfeited salary in respect of the absence will be reported to the Permanent Secretary, Ministry of the Public Service.

4. MODE OF DRESS

- a. So as to assist with the promotion of the image of the office, staff are required to be properly attired at all times while on duty, either in or out of office.
- b. Male staff may wear shirt-jacs or if they prefer dress shirts with matching neck ties.
- c. Ladies may continue to wear standard uniforms.
- d. Shirts, ties, shirt-jacs, pants, dresses, blouses skirts, and shoes must be of sober shades and cuts.

5. GIFTS

Officers must not solicit gifts or accept presents whether in the form of money, goods, free or reduced passage or other personal benefits, in the course of their duties. If in any doubt the matter must be drawn to the attention of the Audit Principal.

6. GENERAL

- a. Staff must not make unauthorized statements to the press, radio, or television concerning the affairs of this office and the units audited.
- b. However in the event of a police investigation in connection with any aspect of the Audit office, a signed copy of the statement must be given to the Audit Principal.
- c. Further, no information on the units being audited must be divulged to individuals, corporate entities or municipal bodies except on specific orders of the court.
- d. Staff found in breach of confidentiality will be reported to the Permanent Secretary, Ministry of the Public Service with a request for the matter to be referred to the Public Service Commission so that the necessary disciplinary action can be taken.
- e. All external correspondence must be approved by the Director of Audit or his nominee.
- f. Staff progress is directly linked with professional exams and performance.

APPENDIX E**AUDIT OFFICE****AUDIT FILES AND WORKING PAPER STANDARDS****INTRODUCTION**

The prime motive in the development of these standards derives from a recognition by management that the absence of acceptable office standards in the preparation and presentation of audit working papers have led to officers introducing their own referencing and indexing systems.

This has resulted in:

- a. tedious and time consuming review exercises;
- b. the non-adherence to International Auditing Standards.

Consequently, the purpose for developing and issuing these standards may be summarized as follows:

1. to enable officers to improve the quality of audit working papers;
2. to minimize the duplication of efforts on the part of officers in developing their own indexing and referencing system;
3. to provide a source of material for both formal and on-the-job training of auditors;
4. to provide mechanisms and criteria through which performance measurement may be established for audit process and personnel.

AUDIT FILES

Audit files are the records kept by the auditor of the procedures followed, the tests performed, the information obtained and the conclusions reached pertinent to an examination. The documentation in audit files of the work done and evidence obtained provides important support for the audit findings, conclusions, recommendations and opinions. Audit files, accordingly, should include audit programmes, analyses, memoranda, letters of confirmation and representation, abstracts of documents and schedules or commentaries prepared or obtained by the auditor.

WORKING PAPERS

The audit file contains all data compiled during the course of an examination in the form of working papers, that in the end serve to support the audit report. The working papers reflect the adherence to accepted standards, the auditing procedures employed and the conclusions reached during the course of an engagement.

Such a file should include the following and preferably, in this order:

- a copy of the printed financial statements and auditor's report;

- a copy of the issued management letter;
- typing instructions;
- the penciled drafts of the same statements;
- auditor's report and management letter;
- copies of any relevant audit correspondence with the client;
- audit review notes and queries of the senior in charge;
- time budget and summary and any related information;
- general questionnaire;
- audit programme;
- working paper index;
- classified trial balance working papers;
- adjusting entry working papers;
- reclassification entry working papers; and
- then all the necessary working papers to support the balances shown on the classified trial balance or the final report and in the same order. Such working papers would consist of schedules, analyses, confirmations, comments and so on.

The foregoing represents what can be referred to as the year-end or final audit file.

During the course of the audit work, the use of binders (e.g., four-ring) will facilitate the temporary filing of working papers. On completion of the audit, all working papers should be bound into audit files labeled with the entity's name, date, and the file number and title.

On most audits, there will be several individual file folders comprising each of the standard categories of files. Where this occurs, the individual folders should be numbered to indicate the number of folders in each category. For example, if there are five file folders for the project 'Compilation of Capital Assets', they should be numbered sequentially. Volume 1 of 5 through Volume 5 of 5.

Audit files should state clearly the objectives of the audit, the reasons for performing specific procedures or tasks and their relation to the audit objectives. Anyone using the working papers kept on file should be able to readily determine their purpose, the nature and scope of the work done, and the preparer's conclusions.

All team members should ensure that audit files contain sufficient but not excessive, evidence to support audit findings, conclusions and recommendations and that the files record the nature and extent of the supervision and review that has taken place.

1. As data are collected during the audit, a register should be used to indicate:

- the data collected (to help prevent requesting the same documents more than once);
 - the nature of the data, for example, general background material, reports relating to specific aspects of the audit, procedures manuals, etc., (to assist in the eventual disposition of such materials); and
2. Since report requirements generally are not known at the time data are collected, there is a tendency to collect and retain more than is needed. Not all data collected during the audit are relevant for retention once the audit is complete. The information in audit files should be limited to items that are of significance and relevant to the audit objectives. However, support should be retained for items dropped from the review and changes made to the audit plan, as well as for reported findings and positive statements.
 3. Of those materials that are relevant for retention, there is a tendency to file more than is necessary. Perhaps several photocopied pages of a lengthy report are sufficient, or instead of photocopies, a written extract, summary, analysis or assessment (with reference to source documents) is all that is required. Also, copies of documents generally should be filed in only one file and cross-referenced to other files as necessary. Documents included in the working papers should be highlighted to aid subsequent reviewers in focusing on pertinent information.
 4. To assist in easy review and report preparation, working papers should be neat and orderly, and handwriting should be legible. Working papers should indicate (by dating, cross-referencing to analyses, initialing, etc.) that documentation retained has been read or reviewed and that it is related, for example, to an audit finding or conclusion. (It is not sufficient to collect and file material – its purpose and relevance should be clearly indicated.)
 5. When including a reference to a source document, it is important to have a complete and accurate citation. Ensure that all figures are checked and that all quotations are exact.

A normal audit engagement would usually require two other audit files such as:

1. **an interim audit file**: containing basically the following – audit programme, internal control questionnaire and interim audit working papers. As the term audit programme often refers to both the year-end and interim audits, it can either be included in the final audit file or in the interim audit file;
2. **a permanent file**: its purposes are to provide a financial history of the business; to provide a reference for continuous and recurring items, to reduce the annual preparation of new work papers for items with no change, and to organize specialized data for future audit, structure, systems, etc.

The following is an example of the subject matters which can be included in a permanent working paper file:

PERMANENT WORKING PAPER FILES

- a. **Subject**
- b. **General information**
 - significant legal, financial and regulatory constraints that impact the audited entity;
 - environmental information on organizations that effect the operations of the audited entity;
- c. **Operational base for audited entity**
 - objectives of the auditee
 - departmental and internal plans
 - relevant policies and procedures
 - reporting requirements
 - services provided
 - organization chart, position descriptions
 - capital and operating budgets
 - performance standards
- d. **Operational documentation for audited entity**
 - systems documentation (programme logic, management control framework, accountability relationships)
- e. **Previous studies or reports**
 - copies of previous audit reports, follow-up notes, management action plans, planning memorandum;
 - copies of all management letters, departmental responses.

ASSIGNMENT PLANNING

- **Background information gathered during the assignment planning phase**

To obtain an overall appreciation of the audited entity, the auditor will normally obtain and include within the working paper documentation:

1. significant legal, financial and regulatory constraints that impact upon the audited entity including source documents such as the main estimates, legislation, regulations and central agency policies;
2. environmental information including the objectives and activities of all organizations affecting the operations under review;
3. previous studies and audit reports that have either directly or indirectly had an effect on the operations of the auditee;
4. internal information for both the audited entity and the department, such as:

- organization charts and position descriptions;
- delegation of authorities documents;
- significant financial and other operating data including long-term and annual plans, budgets and variance reports, management reports, person-year allocations and performance measurement reports.

- **Assignment planning memorandum**

An assignment planning memorandum should include as a minimum:

1. a summary of the scope and objectives of the assignment and any limitations placed thereon;
2. an overview description of the audit entity encompassing;
 - legislative authorities and mandate; key objectives and goals;
 - resources employed (human, financial and physical);
 - key organizational/operational issues and constraints;
 - principal information and control systems;
 - principal management control mechanisms;
 - significant changes in operations/system/influences over the past two years or since the last audit; and
 - known/expected future influences on the audit entity.
3. principal issues and anticipated lines of audit enquiry;
4. audit strategy decisions including the audit approach and general notes on audit techniques decisions;
5. basic audit objectives and associated criteria developed;
6. outline of audit report format(s) taking into account levels of reporting required;
7. resource requirements including identification of specialist skills;
8. time budget and critical milestone dates;
9. assignment of staff responsibilities;
10. any other significant considerations or outstanding issues; and
11. confirmation of approval to proceed.

GENERAL PRINCIPALS RELATING TO WORKING PAPERS

The most important principals relating to audit working papers are:

- economy
- clarity
- relevance
- accuracy
- completeness
- simplicity
- legibility
- balance

- **Economy**

Working papers should be prepared with economy in mind; economical to prepare and review, to store and retrieve.

Working papers should be a usable record of work done, spare but complete and not a repository for every scrap of information available to the auditor. The professional auditor includes only what is essential and makes each worksheet serve a purpose that fits into the audit objectives. Poor judgement in the extent of information retained will make working papers preparation, review, storage and retrieval uneconomical.

- **Clarity**

Working papers should be readily understandable and require no supplementary information. Reviewers of the papers should be able to determine what the auditors set out to do, what they found, what was concluded and what was not done.

- **Relevance**

Working papers should relate to matters which are pertinent and material. They should be directly related to the audit objectives. The likelihood of important information being overlooked or obscured is minimized when care is taken to include only that information relevant and sufficient to satisfy audit objectives.

- **Accuracy**

Working papers should be prepared accurately, ensuring that observations and comments are specific, valid and objective. The working papers should provide reviewers with the proper perspective of the processes being examined.

Oral comments obtained during the course of the audit should be paraphrased by auditors and a summary interpretation of the meaning of the comments should be included within the working papers. To ensure that there is no misunderstanding and that audit documentation is accurate, the auditee should be asked to confirm the auditor's interpretation.

- **Completeness**

Working papers should record:

- for information obtained, all relevant and material facts and their source;
- for audit procedures, their nature, timing, extent, results and the name of the auditor who performed them; and
- for audit conclusions, the conclusions and the basis for arriving at those conclusions.

An inquiry should not be dropped without explanation.

- **Simplicity**

Working papers should be comprehensible to the uninitiated reviewer. Jargon should be avoided or properly defined where necessary.

- **Legibility**

Legible, neat and orderly with adequate space for additional data, notes and comments. Disorderly and crowded working papers are inefficient and reflect on the underlying work.

- **Balance**

Working papers should reflect all findings including positive results as well as any deficiencies on which action should be taken.

Balanced working papers reduce the likelihood of a distorted impression being left with reviewers as to the adequacy of the management control framework under review. In addition, balanced working papers provide the proper basis for an effective audit report.

THE PURPOSES OF AUDIT WORKING PAPERS

The purposes of working papers described below, will serve as a basis for the approach taken in subsequent sections of this paper relating to the content, organisation and retention of working papers. All audit documentation should be accumulated or prepared with these purposes in mind, so as to give maximum benefit to the auditors and interested third parties.

The most important purposes of audit working papers are:

1. to facilitate effective conduct and management of the audit assignment;
2. to provide support for the auditor's report; and
3. to provide background and control for follow-up actions taken to correct deficiencies.

Other derived purposes are:

1. to facilitate third-party review;
2. to aid professional development; and
3. to provide a source of information for non-audit purposes.

FACILITATING EFFECTIVE CONDUCT AND MANAGEMENT OF THE AUDIT ASSIGNMENT

Good working papers can contribute to the effectiveness of various administrative tasks required for the proper management of an audit assignment.

This section will outline these administrative tasks and the related contribution working papers can make towards allowing the tasks to be discharged effectively.

1. Facilitating adequate planning (including the assignment of necessary resources)

Documentation within the working papers of the planning decisions relating to audits in process, helps to ensure that:

- a. planning is completed in an organised manner;
- b. planning decisions are followed during the conduct of the field work (or explanations provided where occur); and
- c. an appropriate reference point is available for review both during and upon completion of the audit.

Audit projects are often repeated, extended to cover additional areas or used as a basis for planning other assignments. Given the typical limitations on staff continuity, good working papers contribute to the quality of subsequent or complementary audits by providing a good starting point for succeeding auditors to:

- a. reduce time spent in understanding the nature of the auditee's operations;
- b. identify areas of audit risk;
- c. determine the scope of audit coverage;
- d. determine, with greater degree of accuracy, the time and staff required.

2. Facilitating an organized approach

A standardized structure for working papers helps to provide a useful framework for the organization of the audit work. Uniformity in structure enable several staff members or separate officers to work on different segments of a single assignment in a co-ordinated manner.

An organized file influences the manner by which complex systems are reviewed, helping to ensure that major areas are not overlooked and that adequate depth of coverage is provided.

3. Facilitating adequate control of field work

A uniform file structure and method of preparing working papers provide guidance to audit staff on the job, reduce the change of omission or of incorrect application of procedures and so contribute to the control of field work.

During an audit, considerable information is obtained, discussed or examined. It is vital that formal records be maintained rather than committing information to memory, where undoubtedly, some of it would be lost. In addition, audit records serve as an important basis for the auditor's understanding of the auditee's programmes, objectives and activities, and as such can be used as support for orderly discussion with operating personnel.

Finally, working papers provide coherence to the numerous individual procedures comprising any given audit.

4. Facilitating review and reporting to superiors

Uniform working paper formats provide an efficient means for the audit to communicate the results of their work to reviewers. Well organized papers facilitate review by helping the reviewer spot omissions, deviations from normal procedures and unusual problems which were encountered. Good working papers provide for meaningful communication of key results and conclusions through the summarization of individual details.

5. Provide support for the Auditor's Report

In addition to contributing to the effective management of assignments, good working papers provide a vital link between the audit examination procedures and the auditor's report. Working papers represent evidence of the work done and should provide the proof that the examination as summarized in the auditor's report, did encompass the areas identified.

Working papers should provide a record of the audit procedures performed in respect of items in the report and the conclusions reached with respect to those items.

Well structured working papers provide for effective debriefing sessions with auditees, allowing for ready access to pertinent facts and proof supporting audit report commentary.

Finally, good working papers lend themselves to reduced report writing effort; the continuous process of summarizing and refining individual audit results keeps the assignment focused and easy to translate to report format.

6. Provide background and control for follow-up actions

Audit projects are typically followed to ensure that corrective action was taken for reported deficiencies. Professional working papers provide background information for this task and reduce the likelihood of duplication of effort.

Follow-up can take place any time from a matter of weeks after the audit, or not until the next scheduled assignment. The follow-up action can be controlled, however, through audit working paper documentation, on the follow-up action plan.

7. Facilitating third party review

Internal audit working papers can be used by external auditors or other interested third parties as a means of evaluating the work of internal audit and in the external reviewer's assessment of the department's system of control.

In the eyes of third parties, working papers reflect the quality of the audit work done. Third parties should be able to satisfy themselves from the working papers that a proper audit was carried out. Working papers must be prepared with this in mind.

8. Validity of records

As already mentioned, the work papers contain all data, notes, schedules, analyses, confirmation and other material pertaining to the audit. Together with the audit programme and internal control questionnaire, the working papers serve to support the audit report submitted to the client. Working papers constitute the only tangible link between the records of the client, the audit and the report.

9. Review of internal control

Audit working papers should indicate the accomplishment of the review of client internal control. These accomplishments may be evident in the internal control questionnaire, but comments on the internal control of specific areas may appear on the appropriate work papers, as well as on flow charts, write-ups and other documentation of accounting systems and procedures kept in the permanent file.

10. Data reference

Working papers serve the auditors as one source of information for his advice in discussing business matters with the client. Working papers may be used for reference for many years after completion of an audit.

11. Position defence

Properly prepared audit working papers assist the auditor in justifying his position against criticism. Properly prepared working papers are frequently the best protection of the professional integrity of an Audit Office.

12. Audit review

Complete working papers constitute the best aid to Deputy Directors of Audit and Principals who review the audit work done. The purpose of reviewing working papers is to ascertain that all statements and schedules have been properly prepared and are correctly supported in accordance with accepted principles of accounting and consistently applied; that the examination was made in accordance with generally accepted auditing standards; that procedural technique has been suitable and adequate; that comments are appropriate; and that all necessary comments have been included.

13. Future reference

Audit working papers serve as a guide for subsequent audits of the same client. This does not mean that the form and content should be allowed without change; but peculiarities of the examination will be set forth, there is a basis for follow-up action, and a reminder is available when changes in procedure are contemplated

STRUCTURE AND ORGANIZATION OF WORKING PAPERS

As noted in the section relating to the purposes of working papers, a number of useful effects can be achieved through maintenance of well structured files.

Proper organization of working papers can lead to benefits such as:

1. allowing several individuals or separate offices to work on different segments of an assignment in a co-ordinated manner;
2. bringing discipline to the audit approach, reducing the change of omissions in the review of complex systems;
3. serving as a tool for instruction to audit staff;
4. facilitating efficient communication of results; and

5. facilitating review by helping to isolate deviations from normal procedures.

Completed working papers must clearly indicate the audit work performed. This is accomplished in three ways by written statement in form of a memorandum, by initialing and dating the audit programme, and by notations directly on the working paper schedules. Notations on working papers are accomplished by the use of tick marks, which are symbols written adjacent to the detail on the body of the schedule. These notations must be clearly examined at the bottom of the working paper. The working papers should document that assistants were properly supervised.

This section does not propose detailed guidance relating to the structure of working papers but will identify procedures in common usage that serve to meet the purposes noted above.

- **Indexing and cross-referencing**

Finding information in the working paper files is best facilitated by an index system and liberal use of cross-referencing.

The indexing system should be known at the beginning of an assignment to avoid the situation where an auditor is faced with a mass of un-referenced papers. To keep working papers referenced on an ongoing basis the audit team leader should assign index references at the same time that tasks are assigned.

Cross-referencing related data within the working papers greatly facilitates review and provides ready access to supporting information during debriefing sessions. Cross-referencing audit plans to procedures applied, audit programmes to the results of tests and the audit report to supporting evidence are examples of typical areas where this technique is most useful to prime users and reviewers of audit files.

The cross-referencing system uses the indexing references assigned to working papers. One method of cross-referencing commonly employed places significance on the location of the reference. References appearing to the left of the correlated data indicates the working paper from which the information was derived. References to the right of correlated data indicates the working paper to which the information is being carried forward.

Example:

A figure, 1234.56 is referenced from working paper K2 to draft report page A4.

- a. on K2 the reference would be: 1234.56 A 4
- b. on A4 the reference would be: K 2 1234.56

The system of indexing should be simple and flexible. Working papers should be indexed and cross-referenced to aid in organizing the filing. One such system is to use a capital letter to designate broad segments of the audit and numerals for the worksheets within the segments. This system is illustrated in Figure 1.1 attached.

The lead schedule for the cash has been indexed at A-1, and the individual general ledger accounts making up the total cash on the financial statements are indexed as A-2 through A-4. The final indexing is for the schedule supporting A-3 and A-4.

Figure 1.2 below illustrates another indexing system and reflects how it can be readily expanded to accommodate a large body of working papers.

FIGURE 1.2

**ILLUSTRATION OF INDEXING/CROSS-REFERENCING SYSTEM
FOR WORKING PAPERS CURRENT WORKING PAPER FILES**

SUBJECT	(1) INDEX	REF. TO	(2) REF. FROM
General/Administration (File 1)			
Final report; final management letter	A	-	C, D, G
Management comments and action plans	B	-	Source (3), C
Follow-up notes	C	B	Source
Draft report; draft management letter	D	A	E, G
Verbal debriefing – notes	E	D	Source
Supervisory review check – lists and notes	F	(4)	(4)
Summary of audit observations, conclusions and recommendations (including cause/effect analysis)	G	A, D	J, K, L
Assignment planning memorandum	H	(5)	(5)
Correspondence	I	As necessary	Source
Supporting Working Papers (File 2)			
Register of essential controls	J	G	N, Q
Register of compensating controls	K	G	N, Q
Summary of weaknesses	L	G	N, Q
Control questionnaire	M	N	O
Documentation in response to control questionnaires	N	P	Inconclusive: J, K, L If conclusive: Q
Pre-determined control model	O	M	Source
Documentation of existing control framework	P	N	- ditto -
Verification plan, procedures, results	Q	J, K, L, N	- ditto -

Explanatory Comments:

1. Expansion of index

Each page of the section can be referenced simply as A1, A2, A3 etc., if a worksheet is to be added between A2 and A3, the A2 becomes A2.1 and the added sheet can be indexed A2.2.

2. Reference to

Information contained in this section supports or provides background for the content of the section to which the reviewer is being referred.

3. Reference from

Information contained in this section is supported by the content of the section from which the reviewer is being referred.

For ease of review, working papers should be cross-referenced in a manner reflecting the relationships between sections as noted above. Working papers should build upwards from source data to the final audit report.

4. Source

Indicates that information is derived directly from the audited entity through discussion, observation or application of audit procedures.

5. Supervisory review checklists

Normally, checklist is signed off indicating that a satisfactory standard of quality has been achieved in the audit and adequately reflected in the working papers.

6. Assignment planning memorandum

Various aspects of the memo may be referenced to supporting working papers indicating to the reviewer that planning decisions and scope were taken into consideration during the conduct of the assignment.

Cross references, of course, are not restricted to tying figures together but are applied liberally to all related information contained in separate working papers. Figure 1.2 illustrates how various segments of the working papers can be correlated.

For ministerial/departmental audits, the recommended file index is as follows:

Ministry of _____

Working Paper File Index – year ended March 31, _____

		INCLUDED IN THIS FILE	NOT APPLICABLE
A	Management letter		
B	Review Notes		
C	Report		
D	Assignment Planning Memorandum		
E	Vote book		
F	Personnel Records		
G	Inventory		
H	Log book		
I	Cash book		

The first item for each main audit area e.g., the vote book would be the vote book programme; report of findings; other supporting documents.

Example of index would be:

- E-1 - for the programme
- E-2 - report of finding and conclusion
- E-3 - other supporting documents

Additional capital letters can be used to identify other broad areas of the audit.

COMMON CHARACTERISTICS OF PROPER WORKING PAPERS

1. Headings

The headings on individual working papers should facilitate the proper filing of the papers and the locating of specific information, and should enable the reviewer of the papers to determine who prepared them. Each paper should therefore include:

- a. period of examination;
- b. title, subject or description of working paper;

- c. date of preparation;
- d. initials of the preparer;
- e. initials of the reviewer;
- f. indexing and cross-referencing codes.

2. Signing and dating

Each page of the working papers must be signed or initialed and dated, by the accountant who prepared the working paper. Each page or sheet must also be initialed by the reviewer.

3. Narrative comments

The accountant should avoid including in the working papers, lists of figures without appropriate explanation of their meaning or conclusions reached as a result of the examination. Pertinent comments should be made in the working papers whenever it will be helpful to leave a clear trail of the source of figures, the scope of the examination and the accountant's opinion of the reasonableness of the figures. In most instances, summaries of figures, comments as to the scope of the work and the conclusions reached will represent better auditing than the listing of unnecessary voluminous details. Work papers should not include, or be a copy, insignificant or irrelevant material.

4. Legibility

It is essential that working papers be prepared in an orderly, neat and legible manner. This applies particularly to the writing of names, which should be printed or carefully written out. Only one side of the working paper should be used. Separate sheets for each classification should generally be the rule.

5. Pending matters

During an examination accountants should make full notes on all questions which arise. When such questions have been cleared satisfactorily, a further note should be made to indicate in what manner this has been done. A mere "OK" or "Done" next to the note is usually not sufficient.

OWNERSHIP, CONFIDENTIALITY AND SECURITY

It should be remembered that all audit working papers are the property of the office. This applies whether the working papers were prepared by the auditor or by members of the audited entity.

Staff members must respect the overall confidential nature of the information contained in the working papers and must not discuss any such information to third parties, including other departments, agencies or crown corporations, without the consent of the particular entity concerned and the approval of the Principal. Further, information of an especially confidential or sensitive nature (e.g., Cabinet related documents should be so identified). All such latter information, ideally, should be retained together under one general file number (e.g., Principal's Control File) and instructions should be given to the Secretary to limit access to this file only to those approved by the Principal.

Staff members should ensure that there is no access to audit files by unauthorized persons. Care should be exercised in the handling and safeguarding of working papers and files at all times, particularly in the entity's offices during lunch hour and overnight.

- **Care of papers, storage, lending, etc.**

All working papers and reports etc., are confidential documents and all necessary precautions should be taken to protect these documents from loss, destruction or unauthorized observation. Working papers relating to a client's affairs should be kept at all times within the office control and should be adequately filed away whenever not being used or referred to and especially so when working in client's offices. During non-office hours, all working papers should be either locked in a briefcase and placed in the client's safe, vault or other fireproof compartment or returned to the office.

There may be occasions where we will permit access to working papers by a representative of the client, but this is only done in the case of individuals:

1. in whom we have fullest confidence; and
2. who are already fully acquainted with the financial details of the client's operations, and in all such instances, authorisation to do this must be first obtained from a Principal or Deputy of Audit - Programmes.

On rare occasions also, our working papers may be left in the client's office throughout the duration of the audit in a filing cabinet to which we retain the key. Normally, arrangements do not constitute a departure from our general rule, namely, that we maintain full and sole control of our working papers.

The basic principle is that the working papers are our property as auditors. The responsibility we take as auditors is quite onerous, and as a result, we must take every precaution that there is no possibility of working papers, which indicate how we have met our responsibility, be tampered with or removed. This requires that they should remain at all times in our sole custody. Deviations from this rule should be made only on the authority of the Deputy Director of Audit and after careful consideration by him of all the circumstances.