

PREFACE

The history of Performance Audit under the SAI Pakistan is not very long. It dates back to late Seventies that the department undertook the task of Performance Audit and arrangements were made to set up a Performance Audit wing and bring out guidelines on Performance Audit. The SAI Pakistan published a set of Performance Audit guidelines during 1981-1993 with the help of technical assistance from Royal Government of the Netherlands.

The initial Guidelines and other literature on Performance Audit contained limitations and constraints being first effort of Performance Audit under SAI Pakistan. These initial guidelines did not provide the sufficient details to auditors regarding how to conduct Performance Audit as the main focus was on the concept of discounted cash flows (DCF) analysis. The rapid changes in audit methodologies, Public administration, and information technology coupled with enhanced emphasis on the accountability of public managers necessitated the revision of the Performance Audit guidelines. This revision is basically a shift from traditional method of internal control evaluation to the new concept of enterprise risk assessment for a comprehensive value for money auditing.

SAI Pakistan continues to innovate and develop new products that meet emergent needs. The Performance Audit Manual in hand is an attempt by the SAI Pakistan to standardize planning, execution and reporting on Performance Auditing in Pakistan, as per International best practices. This manual not only enumerates guidelines on effective Performance Auditing but also provides a mechanism for quality assurance of the Performance Audits. It's my considered opinion that introduction of this Performance Audit Manual in SAI Pakistan will improve upon the effectiveness of Performance Auditing in Pakistan and will go a long way in examining economy, efficiency and effectiveness of public sector operations. In fact this is another step forward in our constant strive to put in place systems, procedures and equip our workforce with tools and frameworks to transform us into a progressive SAI.

-sd-

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Abbreviations

AGP	Auditor General of Pakistan
AQMW	Audit Quality Management Wing
DAC	Departmental Audit Committee
DAG	Deputy Auditor General
DG	Director General
DCF	Discounted cash flow
EIRR	Economic internal rate of return
FAO	Field audit office
FIRR	Financial internal rate of return
ICQ	Internal control questionnaire
IRR	Internal rate of return
ISSAI	International Standards for Supreme Audit Institutions
NPV	Net present value
PA	Performance audit
PCI	Planning Commission Form 1 for project plans
PSR	Preliminary survey report
QAR	Quality assurance review
QMS	Quality management specialist
SAI	Supreme Audit Institution
VFM	Value for money

Chapter **1**
Introduction

1. Introduction

A. Context

1.1 The development of Performance Audit (PA) Manual is part of the broader objective of the Auditor General of Pakistan (AGP) to build capacity in performance auditing. Capacity building is a comprehensive term and in a generic sense it involves at least the following elements:

- (a) *Independence of the Supreme Audit Institution (SAI)*: It refers to the independence of the SAI from the executive departments for budget and human resource needs. The independence is ensured by the law that also gives the SAI authority to plan and execute audits.
- (b) *Authority*: It refers to the authority of the SAI with respect to other stakeholders and executive departments to obtain information and to oversee implementation of audit recommendations and review internal control systems.
- (c) *Ability to hire and fire competent persons*: It refers to the ability of the SAI to identify, recruit, compensate and retain personnel of desired knowledge and skills for performing its functions adequately.

Framework for knowledge management: It refers to the ability of the SAI to retain institutional memory, creating new knowledge and transfer of knowledge to future generations etc."

- (d) *Guidance for auditors*: It refers to the guidance of the SAI in the form of manuals, guidelines, practice advisories, operating procedures and code of ethics for auditors at all levels.

1.2 It is in the context of the last of the above elements of capacity building effort that the AGP has decided to issue a manual for performance auditing.

B. Existing Guidelines on Performance Auditing

1.3 The Department of the Auditor General (Department) published a set of Performance Audit Guidelines (Guides) during 1981-93 with the help of Technical Assistance from Royal Government of the Netherlands (Dutch Assistance). These Guides were produced in two phases. During first phase (1981-86) the Department published 14 Guides. During second phase (1991-93), the Department produced another set of 11 Guides. Besides, it also published four books on performance auditing under the title of *Performance Audit Books 1-4*. These Guides, despite the wealth of knowledge that they contain, have certain limitations as stated below:

- (a) The first set of Guides revolves around the concept of discounted cash flow (DCF) analysis. The tools of the analysis include working out benefit/cost analysis, net present value, output budgeting, sensitivity testing and internal rate of return. The comprehensive name for these tools is DCF analysis. The Guides do not go beyond this concept. The Guides produced during the second phase do use other methods of analysis as well. However, they do not approach the subject of performance auditing in a systematic manner.
- (b) The Guides do not tell the auditors how to conduct performance audit in sufficient detail. There is little material in the Guides by way of standardized methodology for undertaking performance audits in all situations.

- (c) Significant changes have taken place in public administration, auditing methodology and information technology since the time the Guides were written. For example, the role of Government has undergone major changes. Massive nationalization has given way to wholesale privatization. The number and size of public sector enterprises has declined enormously. The Government is dishing out grants to NGOs for various functions which it used to handle directly.
- (d) Developments in public administration have changed the perceptions of the people about role of the Government. For example, there is a lot of emphasis now on accountability of public managers and politicians, transparency and freedom of information and good governance that is free from corruption and nepotism.
- (e) Side by side, major developments have taken place in the methodology of performance auditing. A major development in auditing methodology is emphasis on risk assessment. The traditional method of internal control evaluation as the focal point in audit planning has given way to enterprise risk assessment.
- (f) Developments in computerization have also influenced the methodology of performance auditing. Internet has virtually revolutionized the flow of knowledge and information at no cost or at a minimal cost. The time these Guides were written, most of knowledge was available in hard copies in form of books, reports, papers and research notes and was also not available in Pakistan. With the easy availability of Internet, information gathering has become lot more simple than what it used to be. Communication through e-mail and its free availability and the possibility of transmitting documents as attachments has also revolutionized the way the auditors used to work. The auditors can send and receive large chunks of information to and from their colleagues and bosses at no cost almost instantly. Supervision of audit and quality assurance has become extremely fast and effective because of the availability of e-mails. Such facilities were not available when the Guides were written. The authors had to think of various long-winded methods of teaching auditing techniques in that environment.
- (g) These developments have necessitated development of a compact and comprehensive manual for performance auditors that not only encompasses the changes in public administration that have taken place since the existing Guides were written but also incorporates state of the art methodology in performance auditing.

C. Objectives of the Manual

1.4 The Manual has following objectives:

- (a) Develop a set of general instructions for planning, executing and reporting on performance audit by adopting, adapting and integrating existing departmental instructions and guidance with international practice.
- (b) Standardize practice of performance audit in the Department.
- (c) Define roles and responsibilities of various levels of staff with respect to performance auditing.
- (d) Design tools of accountability of auditors and audit managers for quality assurance in performance auditing.

D. Organization of the Manual

1.5 The Manual consists of, besides the first chapter on introductory matters, guidance on planning, executing, reporting, follow-up and quality assurance in performance auditing. It provides a set of forms, templates, tools and checklists in Annexes. The chapter on data analysis, working papers and supervision are part of the audit execution. These chapters precede the chapter on report-writing, although a strict obedience to the audit cycle would suggest these chapters to be relegated to Annexes.

E. Auditor Generals Mandate for Performance Audit

1.6 Ordinance No. XXIII of 2001, specified as the *Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001* empowers the AGP to:

- (a) audit all expenditure from the Consolidated Fund of the Federation and of each Province, and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for, and applicable to, the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;
- (b) audit all transactions of the Federation and of the Provinces, relating to Public Accounts;
- (c) audit all trading, manufacturing, profit and loss accounts and balance sheets and other subsidiary accounts kept by Order of the President or of the Governor of a Province in any Federal or Provincial; and
- (d) audit, subject to the provisions of this Ordinance, the accounts of any authority or body established by the Federation or a Province, and in each case to report on the expenditure, transactions or accounts so audited by him.

1.7 These provisions empower the AGP to undertake audit, which in its generic sense, also include performance audit.

F. Tone at the Top

Performance Audit Policy

1.8 The AGP would issue a policy statement on performance auditing. The policy would focus on such areas as stated below:

- Performance auditing would become one of the routine functions of the FAOs.
- The promotion and career prospects of auditors would be linked to good quality performance audit reports.
- Independent quality assurance of the PA work done by the field auditors would ensure a merit-based motivational policy.
- There would be a competition for more resources and greater recognition and support for high quality performance audit work.

1.9 A skeleton of PA policy is available in Chapter 14 of this Manual.

Involvement of Senior Audit Managers in PA

1.10 The Department will enforce a program for involving senior audit managers (B-19 and above) in undertaking performance audits as an on-going activity. The Department will introduce the following program:

- (a) All senior managers will undergo a certain minimum period of training and orientation in PA every year.
- (b) The performance of individual officers will reflect the work done on PA during the year.
- (c) The incentive system of the Department will incorporate reward for outstanding work in PA.

Role of Deputy Auditor General of Audit Policy and Special Sectors (APSS) in PA

1.11 The Deputy Auditor General (APSS) will be the focal person for all policy-related matters on PA. Performance Audit Wing (PAW) will function under the supervision of DAG (APSS).

Role of Performance Audit Wing

1.12 The PAW will have a renewed and reinforced role in promoting PA, developing methodology, disseminating knowledge and providing technical assistance. [See Chapter 14 for details]

Role of Field Audit Offices (FAOs) in Performance Audit

1.13 The FAO will be primarily responsible for planning, executing and reporting on performance audits. They will follow the same procedures for the entire audit cycle as they do for financial audits and compliance audits.

Quality Assurance of Performance Audit

1.14 The Quality Assurance function relating to performance audit will rest with Audit Quality Management Wing (AQMW). The Wing shall have a dedicated officer, of the level of a director, responsible for quality assurance of performance audit.

Chapter 2
Performance Audit: An Overview

2. Performance Auditing: An Overview

A. Definition of Performance Auditing

2.1 Performance auditing is a recent expansion in the scope of financial auditing. It originated from USA, Canada and some countries of Europe like Sweden and West Germany. The idea of performance auditing spread quickly among Supreme Auditing Institutions. In 1977 Ninth Congress of the International Organization of Supreme Audit Institutions (INTOSAI) in Lima drew attention to performance auditing. Next two decades saw immense intellectual activity in methodology development and research in the field of performance auditing.

2.2 Despite a general consensus on need for expanding the scope of audit, there is no universally agreed definition of performance auditing. However, most of the definitions agree that the performance auditing focuses on the economy, efficiency and effectiveness in the management of public resources. INTOSAI has defined the performance auditing as follows¹:

Performance auditing is concerned with the audit of economy, efficiency and effectiveness and embraces:

- (a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
- (b) audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- (c) audit of the effectiveness of performance in relation to achievement of the objectiveness of the audited entity, and audit of the actual impact of activities compared with the intended impact.

B. Objectives of Performance Auditing

2.3 Twelfth Congress of INTOSAI (Sydney, 1986) defined the objectives of performance auditing as follows:

- Provision of a basis for the improvement of public sector management
- Improvement in the quality of information on the results of public sector management that is available to policy makers, legislators and the general community
- Encouragement of public sector management to introduce process for reporting on performance
- Provision for more adequate accountability

2.4 The above statement clarifies that the performance auditing is a means to (i) improve management practices in the public sector and (ii) sharpen the accountability process of public managers.

¹ International Organization of Supreme Audit Institutions. 2004. *Implementation Guidelines for Performance Auditing* Vienna: INTOSAI.

C. The Three Es

- 2.5 The main focus of performance auditing is on economy, efficiency and effectiveness of a given program, project or entity. By convention these concepts are termed as Three Es' of performance auditing.
- 2.6 *Economy* refers to *acquisition* of resources at the lowest cost keeping in view the objectives of the organization. It implies that the resources should be acquired at the *right cost, at right time, at right place, in right quantity and of right quality*. Economy should be perceived with reference to achievement of the goal. Economy in an absolute sense may mean not to spend anything at all. But in a relative sense it has to be related to the purpose of spending. Thus 'economy' means spending only that much which is barely essential to achieve the goal. Methods for measuring economy include comparison with benchmark costs, such as private sector charges, historical costs, costs incurred by a similar public sector organization or budget allocation. Economy also applies to physical resources such as space used, number of vehicles, number of computers and photocopiers. Performance audit measures economy in the use of physical resources against audit criteria, which could be diverse. For example, for space, it could be space standards of the government; for vehicles, computers and photocopiers, it could be prescribed ratios of outputs and inputs, etc.
- 2.7 *Efficiency* means optimum *utilization* of resources keeping in view the objectives of the organization. It implies maximizing output from the given resources or minimizing input for the given outputs. Analysis of efficiency presumes that standards of input and output are available. But in a large number of cases they are not available and the auditor has to work with the auditee management to determine the agreed standards. The most commonly used standards, however, are planned outputs for given inputs laid down by the auditee itself. Other methods for determining standards of efficiency are efficiency levels of other units within the organization, comparison with the past years, or with other organizations in the public sector or private sector, or international organizations operating in similar circumstances, etc.
- 2.8 *Effectiveness* refers to the extent the objectives have been achieved. In auditing effectiveness, the auditors distinguish among *outputs, outcomes and impacts*. The outputs pertain to results of certain inputs produced by the organization. They are generally within the organization. The outcomes relate to the results external to the organization over a short to medium term. Impact refers to the effect of the outcomes on the society in the long run. For example, a certain project visualizes installing tube-wells in rural areas for reducing the level of sub-soil water and protecting the land from water-logging and salinity and increasing the income of farmers. In this example, the number of tube-wells installed would be the *output* of the project. Reduction in the sub-soil water level and number of acres of land protected would be two *outcomes* of the project. The increase in the level of farmers' income over the long run would be the *impact*. In performance auditing, the auditors are supposed to audit all four elements: inputs, outputs, outcomes and impact. However, generally, they are unable to audit the impact as that can be measured over a long period of time. This can be done only if the audit is undertaken after several years of the project completion. In that case, usually, the data on other three elements would have become irrelevant. Thus, despite theoretical claims, performance auditors hardly ever audit the impact of projects or programs in practice.
- 2.9 Even when the auditors are focusing on outputs only, there are several performance measurement aspects they can examine. For example, what is the quality of the output? What is the rate of error? How reliable is the service? How do users rate utility of an output? To that extent they would be auditing the effectiveness of the project or program.

D. Potential Impacts of Performance Auditing

2.10 Performance audit recommendations can help improve performance in terms of greater economy, higher efficiency and more effectiveness. *ASOSAI Performance Auditing Guidelines (2000)* give the following list of potential impacts of PA:

Economy

- reduction in costs through better contracting, bulk buying, etc;
- reduction in costs through economies on usage of personnel or other resources;
- introduction of charges where none were previously imposed or revision of charges;
- > rationalization of facilities;

Efficiency

- greater outputs from same inputs;
- remedying duplication of effort or lack of coordination;

Effectiveness

- better identification/justification of need;
- clarifying objectives and policies;
- introducing better sub-objectives and targets;
- better achievement of objectives by changing the nature of outputs or improved targeting;

Improved quality of service

- shorter waiting lists;
- reduced response times;
- fairer distribution of benefits;
- better access to information;
- wider range of services and greater choice;
- helping the public, clients, industry, etc;
- improved equity in access to programs;

Improved planning, control and management

- introduction/improvements to corporate planning;
- clearer definitions of priorities and better-defined targets;
- better-targeted incentives;
- better control and management of human resources, assets, projects and resources;
- tighter controls against fraud;
- improved financial accounting systems;
- better financial management information;
- better computer security;

Improved accountability

- improved visibility of procedures and outputs;
- improved accountability for expenditure to the legislature and to the public sector;
- improved forms of account, including commercial formats;
- improved external control and monitoring by departments;
- better and/or more accurate performance indicators;
- better comparison between similar agencies;
- greater information on sector performance; and
- clearer and more informative presentation of information.

E. Approach of Performance Auditing

- 2.11 According to INTOSAI/ISSAI # 3000, performance auditing has two approaches:
- Results-oriented approach
 - Problem-oriented approach

The results oriented approach

- 2.12 The results-oriented approach basically focuses on the planned objectives of audit entity, its programs or projects and the results achieved. It starts with the basic question: have the planned objectives been achieved? If so, at what cost (economy) and with what efficiency? For this purpose, the auditors lay down audit criteria for measuring the results, economy and efficiency. A comparison of the audit criteria with actual achievement of results provides the auditors with raw material for their report.

The problem-oriented approach

- 2.13 The problem-oriented approach basically deals with a problem, collects data on facts, analyzes the problem, determines its causes and suggests possible remedial actions. In this approach the auditors proceed without reference to predefined audit criteria. For understanding the causes of the problem, the auditors, sometime, formulate hypothesis and test them against the actual data. In their pursuit to understand the problem, the auditors may even look for problems in the existing laws, rules and procedures and suggest changes to modify them.
- 2.14 In brief, the results-oriented approach uses audit criteria as baseline for good practice and desirable normative standard. The problem-oriented approach focuses on analysis of the problem without reference to audit criteria.
- 2.15 Performance auditing may start with a top down perspective, taking into account the expectations of the legislature and try to find out the actual performance with reference to those expectations. It can also take a bottom-up approach. In this approach, it can start with the expectations of the people for whom a program or project has been planned and see the extent to which these expectations have been met. This approach focuses on ultimate auditee of the public service.
- 2.16 Performance auditing uses the concept of a *reasonable manager*. The performance auditors try to stand in the shoes of the managers and ask the basic question: what would a reasonable manager do in the given circumstances? The answer to this question transforms their perspective from an adversary to a friend of management. The performance auditors do not try to take advantage of hindsight wisdom. Instead, they take a balanced view and report on achievements of the management, giving credit where it is due. In fact, performance audit reports begin with achievements of the management rather than its failures.
- 2.17 There are other innovations that performance auditing has introduced in the audit approach. For example, the performance auditors do not remain restricted to internal records of the organization. They may obtain information on markets and prices from external sources, such as Internet, published journals and even by market surveys. They may go out in the field and see the operations, satisfying themselves on questions of economy and efficiency.
- 2.18 Performance auditing can be carried out at the level of an organization, a program or a project. It can also be a government-wide study of a particular issue such as human resource management, travel management, or cash management in the whole of government.

- 2.19 Performance auditing follows a normative approach. It does not stop short at identifying instances of waste, inefficiency and ineffectiveness. It goes a step further and makes recommendations for remedial action.
- 2.20 Although performance auditing is fundamentally concerned with improving public service and management of public resources, yet it has implications for accountability of the public managers. The managers who could not produce results as planned have to account for their performance. In this respect, performance auditing has a sharper bite than financial auditing.
- 2.21 Performance auditors do not question policies of the Government directly. However, they trace performance of the projects or programs to policies, if the cause of poor performance lies in faulty policies.
- 2.22 The canvas of performance auditing is quite vast and it borrows from different auditing traditions. In the final analysis performance auditing requires an in-depth analysis and research in the subject of audit. It requires multiple skills and analytical abilities. Basically, performance auditing is an intellectual enterprise and auditors with higher education and knowledge and skills should undertake it.

F. Scope of Performance Auditing

- 2.23 The auditors have to determine the scope of each performance audit assignment. It will depend, besides other things, upon audit objectives, state of record-keeping and data management of the audited body. Theoretically there are three possibilities, though in practice various combinations of these possibilities can exist.
- 2.24 First, the audited organization does not have system of performance measurement. It does not generate and collect any data on its performance. In that situation, the scope of performance audit would cover collection of performance data by the auditors. It would be, actually, an exercise in performance measurement by independent auditors.
- 2.25 Second, the organization generates performance data at some or all points of its performance but does not have a systematic policy of reporting on the performance. It means, the organization has systems and controls for measuring performance and it does measure performance as well. The scope of performance audit, in this case, would be evaluation of systems and controls of performance measurement and to comment on adequacy of the performance data. The audit would also conclude on the performance levels in light of pre-set audit criteria.
- 2.26 Third, and that is the case of a well-developed organization, where the audited body reports on its own performance. The scope of performance audit in this case would be verification of management assertions about its performance as stated in its performance report. It would be a parallel of financial audit where the auditors express an opinion on financial statements. In financial auditing, the financial statements are performance reports on financial management. In case of performance auditing, the performance report of the management would be management's position on its own performance. The auditors would verify that position by collecting and analyzing evidence independently.
- 2.27 In actual practice, hardly any organization would neatly fit into any of these three models. There will be some shades of all of these situations in every case. It means, the auditors would actually see that management does collect data in some cases (model 1), has systems and controls in place for measuring performance for some of its operations (model 2) and reports to some extent on its own performance (model 3). In practice, therefore, the auditors will have to scope their audit in light of

the actual situation. They will measure performance in certain areas, rely on internal controls in some cases and verify management assertions about its own performance still in other cases. The scope of performance audit would be an amalgam of all three models with varying emphasis of any one or two of them, depending upon the actual situation.

G. Performance Audit Criteria

2.28 In performance auditing, the auditors have to lay down audit criteria for each issue of potential significance. It is unlike financial auditing where the audit criteria are determined by centuries old practice and even mention of audit criteria seems superfluous. In performance auditing, there is no single source of audit criteria. The auditors have to undertake a sort of research to determine the benchmarks against which they would assess the performance of the auditee. In their research, they may review such sources as follows:

- Objectives of the organization, project or program
- Generally accepted management practices
- Past performance standards
- Standard operating procedures (SOPs) of the organization
- Rules and regulations applicable to the organization
- Sector studies
- Comparison with similar organizations, projects or programs
- State-of-the-art studies
- Academic pronouncements of the profession
- Performance specifications of manufacturers of an equipment

2.29 Good practice in performance auditing requires that the audit criteria be shared with the auditee management and their agreement obtained at this stage of planning.

H. Standards for Performance Auditing

2.30 INTOSAI have issued *Guidelines for the Implementation of Performance Audits* (2004). It also set up a Performance Audit Standards Sub-committee (2005) to develop standards in light of the *Implementation Guide*. The INTOSAI Standards for Supreme Audit Institutions Standard 3000 and 3100 applies to performance auditing. Complete text of the standard is available at www.issai.org.

2.31 INTOSAI *Auditing Standards* (1989) for government auditing are applicable to performance auditing as well. Following is a summary of the standards applicable to government auditing in general and performance auditing in particular:

- The SAI should have a clearly defined mandate for performance audit.
- Performance audit should be formally planned.
- The criteria for performance audit should be made known to the auditee and if possible agreed with them.
- Performance audits should be properly supervised.
- Performance audit report should be based on relevant, sufficient and competent evidence.

- Performance audit should report positive achievements along with any weaknesses and make recommendations for improvement.
- Performance auditors should share the draft findings and conclusions with the auditee and incorporate their reaction in the final audit report.
- Performance auditors should collectively have competence to audit the assignment.
- The performance auditors should be independent and have freedom to select audit areas within the mandate.
- The performance auditors should observe ethical code of integrity, objectivity, confidentiality, neutrality, and due care.

2.32 Extracts of important standards pertaining to government auditing in general and performance auditing in particular are at Annex-A to this Manual.

I. Comparison with Financial Auditing

2.33 Tabled below summarizes the differences between financial auditing and performance auditing.

Table: Comparison of Financial Auditing and Performance Auditing

Purpose	Assesses truth and fairness in financial statements	Assesses economy, efficiency and effectiveness in management of resources with a focus on improving management and accountability of managers
Approach	Finds errors and omissions, based on internal records and evidence	Measures performance, based on internal as well external evidence
Criteria	Applies accounting standards, rules, and regulations. Standard criteria for all audits	Uses applicable rules, regulations, and generally accepted management practices, and technical standards, etc. Unique in each case
Knowledge requirements	Accounting, auditing	Collective competence of the team in accounting, auditing, management, law, and other disciplines depending on the nature of the auditee operations
Methods	Uniform, standardized method	No standardized method. Vary from audit to audit
Reports	Annual report, more or less standardized	Long form reports depending on nature of audit and reporting policies of the auditee

J. Comparison with Performance Evaluation

2.34 Performance auditing and performance evaluation have some differences in concepts and procedures as explained below:

- (a) **Scope** The scope of performance evaluation has a stronger focus on effectiveness of policy, while performance auditing focuses mainly on administration of programs. The elected representatives lay down policy and the government employees do implementation through appropriate programs or projects. The performance auditors restrict themselves to the review

of policy implementation and do not question the policy itself. However, the performance evaluation can question the policy as well^{2 3 4}.

- (b) **Independence** Supreme Audit Institutions or other auditors who are independent of the executive conduct performance audits independently. Performance evaluation may or may not be independent of the program management in all cases.
- (c) **Reporting mechanism** Performance audit reports in the government are placed before the parliament or governing boards of the public enterprises. The reports of performance evaluation are usually submitted to the minister-in-charge or the chief executive of the enterprise.
- (d) **Criteria:** There are differences in the criteria that performance auditing uses as compared to the performance evaluation. The performance auditing uses good management practices as basic criteria for auditing the performance and making recommendations. The performance evaluation uses the technical operational standards as basic criteria for evaluation and making recommendations.

2.35 Performance auditing and performance evaluation do overlap at certain points. But as disciplines, they require different types of expertise and serve distinct set of purposes.

K. Performance Audit Cycle

2.36 A performance audit assignment passes through the familiar four phases:

- Planning
- Execution
- Reporting
- Follow-up

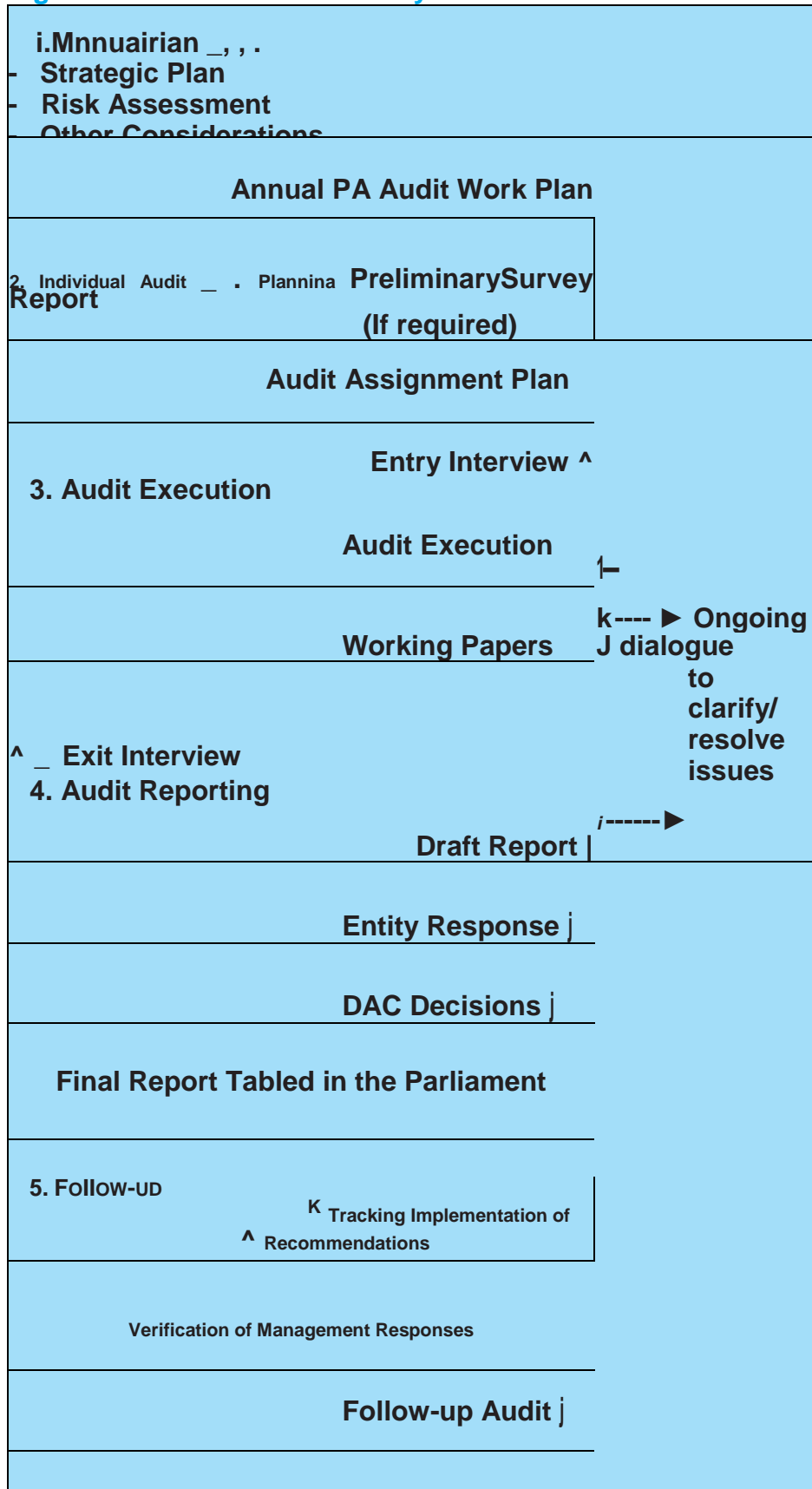
2.37 A detailed exposition of these phases will appear in chapters dealing with each of these phases. Figure A below gives a bird's eye view of the performance audit cycle.

² McPhee, Ian. 2006. *Evaluations and Performance Audit: Close Cousins or Distant Relatives?* Canberra: Australian National Audit Office. Pp.17.

³ Ibid.

⁴ Ibid.

Figure A: Performance Audit Cycle



Chapter **3**
Annual Plan for Performance Audit

3. Annual Plan for Performance Audit

- 3.1 Planning for performance audit for every financial year will be part of the overall annual audit plan for the FAOs.
- 3.2 The primary responsibility for preparing the annual plan for PA as well as getting it approved by the AGP remains that of each DG of Audit for his or her office.
- 3.3 PAW under the guidance of DAG (APSS) would coordinate the planning exercise of FAOs for ensuring that individual FAO plans align with priorities of the AGP for the year. The coordination function of PAW will consist of its role as state below.

A. Strategic Plan for Performance Audit

- 3.4 The Department will issue a 3-year strategic plan for performance auditing. It will be a rolling plan with details of audit areas to be covered during the first year and summary of the areas or themes to be covered in the coming two years.
- 3.5 The objectives of the strategic plan shall be as follows:
- (a) Give strategic direction for future performance audit coverage
 - (b) Help in the identification and selection of audits with the potential to improve public sector accountability and administration
 - (c) Support in the preparation of a work program that can be achieved with expected available resources
 - (d) Provides a basis for accountability
- 3.6 The preparatory work for strategic planning and necessary thinking for PAs by the Department would be an ongoing activity in PAW which would be responsible for following tasks with respect to strategic planning.
- 3.7 PAW, in consultation with FAO/DAGs and under the supervision of DAG (APSS) will be responsible for preparing 3-year strategic plan for performance auditing. For the purpose of preparing strategic plan, PAW would undertake such consultation processes as brainstorming sessions with senior management of the Department, seminars, workshops, panel discussions, and meetings within the Department and with other stakeholders.
- 3.8 The DAG (APSS) will issue the time-table for preparing the strategic plan. Keeping in view the time table for the strategic plan approval, FAOs will submit to PAW proposals and priority areas for performance audit during the next three years.
- 3.9 The FAOs will prepare the proposal for strategic plan and get its approval from their respective DAG before submitting it to PAW. The FAOs should keep in view the time required by their respective DAG for approval and ensure that the proposals reach PAW within the prescribed time-frame.
- 3.10 The FAOs will keep the following factors in view while preparing the strategic plan:
- (a) Potential audit impact
 - (b) Materiality
 - (c) Risk to good management
 - (d) Significance of the program to the activities of the agency
 - (e) Visibility and viability of the program/activity as reflected in its political sensitivity and national importance
 - (f) Lack of recent audit coverage and other internal and external review of the program/activity
 - (g) Auditability

- 3.11 PAW will consolidate the proposals and priorities received from FAOs and may discuss further with the FAOs to have a clearer view. PAW may like to hold seminars with FAOs to firm up the views and smooth out any overlaps and duplications.
- 3.12 For preparing the strategic plan PAW would undertake necessary research in basic trends in economy, government, and social sector. It will review relevant publications and previous reports relating to performance and regularity audits; listen to experience of regularity auditors; listen to or read transcripts of parliamentary debates; attend relevant conferences and seminars; hold discussions with colleagues, stakeholders and specialists; listen to radio and television broadcasts; and read newspapers and journals. It would be a continuous process that ensures that the Department is always in possession of updated information about what happens in the society that may require examination by the AGP. Examples of PA themes could be energy crisis, security management, flood management, earth quack impact management, e-government, etc.
- 3.13 PAW will prepare a draft strategic plan for review of DAG (APSS) who will keep in view the vision and priorities of the AGP while finalizing the strategic plan. The DAG (APSS) may like to discuss further about the priorities with other DAGs/ Additional AGP. The strategic plan will also specify themes, sub-themes, if any, and objectives and scope of each theme and sub-theme.
- 3.14 PAW will prepare one working paper for each theme in the draft strategic plan. The working paper will give at least the following information:
- (a) Background of the subject
 - (b) Some basic facts, materiality and risk areas
 - (c) Executive departments involved
 - (d) Reasons for selecting the theme
 - (e) Potential risks if the theme is not selected
 - (f) Objectives, scope and approach of AGP's audit
- 3.15 Each working paper would have necessary supporting documents to indicate the basis on which the theme has been selected.
- 3.16 DAG (APSS) will submit the draft strategic plan for approval to the AGP. The AGP may like to consult the Public Accounts Committees of the National Assembly and Provincial Assemblies to assess priorities of the public representatives for performance audits. The AGP may also consult other Committees of the Legislature(s) for determining priority areas for the strategic plan.
- 3.17 The AGP will approve the strategic plan which will be circulated among all concerned by the DAG (APSS).
- 3.18 After receipt of the approved strategic plan, the FAOs will translate the plan for the first year into audit assignments in their respective Annual Audit Plans for approval by the AGP.
- 3.19 The format of the strategic plan for the first year in a 3-year plan is at Annex-B.
- 3.20 The plans for years 2 and 3 would only be in skeleton form. Next year, the plan for year 2 of the approved strategic plan will become plan for the current year and shall be elaborated in the format given at Annex-B. At the same time, another skeleton plan will be added which will then become plan for year-3. The set of plan for the three years as revised on the beginning of the second year will also pass through the same approval process as stated above. In this way, the plan for year-2 of the last strategic plan will become current plan and another skeleton plan will be added which will become plan for year-3.

Horizontal Performance Audits

3.21 PAW will, with the approval of the AGP, also notify performance audit assignments that spread over more than one government department or which have to be implemented by more than one FAO. For example, an audit assignment that covers procurement of IT equipment by more than one department could require audit work by different FAOs. In such cases, PAW will notify the Lead FAO and also other FAOs that will participate in this audit (Participating FAOs) for such an audit. Another example could be audit of public debt.

3.22 The Lead FAO would be responsible for preparing the Preliminary Survey Report, Audit Plan, Audit Program and Audit Report of the horizontal audit. The Participating FAOs would be responsible for fieldwork only. The Lead FAO will coordinate the work of the Participating FAOs, collate the audit observations received from these FAOs and issue the draft and final audit reports. The Lead FAO will also be custodian of all working papers pertaining to the audit assignment. The Lead FAO will present the audit report to the Public Accounts Committee.

3.23 While notifying horizontal audits, PAW will keep in view the Public Accounts Committee where the audit report will be presented. It means, at least for some time to come, the horizontal audits involving federal and provincial governments in one assignment would be avoided. These audits would cover departments of either the federal government or that of a provincial government.

B. Role of Field Audit Offices in Annual Planning

Following Strategic Plan for PA

3.24 The FAOs are primarily responsible for preparing a proposal for performance audits to be undertaken in the forthcoming year. For preparing annual plan of performance audits the FAOs will follow the planning schedule notified by the AGP every year.

3.25 The primary list of performance audits would be based on translation of the strategic plan as approved by AGP and notified by DAG (APSS).

3.26 The total list of PAs to be undertaken by the FAO will consist of the audit assignments determined in light of the approved strategic plan only.

Conducting Risk Assessment

3.27 The primary method for the preparing a list of proposed performance audits is to undertake risk assessment of the auditee organization, its programs and projects. The objective of risk assessment will be to identify and prioritize the assignments from the total proposed list on basis of riskiness.

3.28 The methodology for undertaking risk assessment is at Annex- C to this Manual.

3.29 The objective of risk assessment at this stage of planning is to identify audits that pose highest risk to value-for-money. At this stage the auditors undertake following type of activities:

- Brain storming within the FAO and with colleagues in other FAOs to develop a tentative list of high risk areas.
- Conduct workshop(s) on risk assessment involving auditors of all levels to identify risk areas.
- Interview key persons from the auditee department(s) for understanding the risks and the mitigation strategies adopted by that office.
- Consult subject area experts for technical input and to assess the areas that would pose higher risks.

3.30 The DGs of Audit would be able to request the AGP through DAG concerned for short term consultancy for conducting risk assessment or for identifying potential areas for audit, should they

feel that input from a consultant would be potentially beneficial for the annual audit planning process.

Normally, such consultancy assignments should be between one to four weeks.

3.31 As a result of various activities stated above, the FAOs will prepare Risk Register and end up in preparing a list of possible audit assignments. The Risk Register gives risk profile of each proposed audit assignment in a summary form. For each assignment proposed as a result of risk assessment exercise, the Risk Register indicates the following:

- Nature of risk
- Effectiveness of internal controls
- Probability of occurrence of risk
- Impact of risk

3.32 The Risk Register presents the risk profile of all proposed assignments. But it does not rank the assignments in terms of riskiness.

3.33 The next step is to prioritize the audit assignment in order of riskiness. For this purpose, the Manual provides a Scoring Tool. (See Fig F, Annex C). The scoring will be done in two steps. As a first step, each assignment in the list will get a score in light of the Scoring Tool. In the second step, this list will be sorted in descending order of the score of risks. The sorted list will arrange the assignments in order of riskiness. Illustration in Annex C shows application of the Scoring Tool.

Other Considerations for Deciding Audit Assignments

3.34 Besides risk assessment there are other considerations which will guide the FAOs to decide about the list of performance audits to be carried out during the coming financial year. These considerations are as follows:

Audit mandate

3.35 It is of utmost importance that the subject selected for audit falls within the audit mandate of the AGP. It would not be possible for the AGP to approve the audit plan if it is out of the scope of his or her mandate.

Past audits

3.36 The assignments that have been recently audited would rank lower in preference to those that have been audited in the distant past or that have not been audited in the past.

Issues in past audit reports

3.37 If the past audit reports have identified an assignment for performance audit, it stands a higher chance for selection for the annual plan of the coming year.

Riskiness

3.38 The FAOs will feed result of risk assessment exercise into the annual plan. For incorporating the result of risk assessment, the FAOs will use the list of assignments sorted in order of riskiness. (Figure F, Annex-C).

Social impact

3.39 Considering social impact of the program or project to be audited is of paramount importance. The AGP is keen to see that the public funds are managed with due regard for the benefit of larger number of people. The programs that are going to have an impact on the lives of larger number of people would stand a higher chance for selection for the annual plan of the coming year.

Economic impact

3.40 Investment of public funds should be done with due prudence and care. The economic return on public investment should justify a project or a program. As a result, the AGP will prefer the audit of those projects and programs which are likely to produce a higher return in present value terms.

Materiality

3.41 A matter is material if its disclosure is likely to influence or be of importance to the report users. Materiality and significance are synonymous for purposes of performance auditing. In performance audit a matter is deemed material or significant if its disclosure is likely to be of interest to, or influence the report user even if the financial implications are insignificant. Materiality, or significance in the case of performance audits, is one of the main criteria considered at the annual planning stage as well as later in the reporting process. It assists in selection of audit areas and in deciding what needs to be included in audit reports. There are three main factors which influence the materiality decisions:

- Materiality by amount - the consideration of the financial value involved in the audit area;
- Materiality by nature - a matter may be material because it involves substantial impact to the environment;
- Materiality by context - it might be necessary to draw attention to the topic or issues under consideration.

3.42 The FAOs will keep in view all these aspects of materiality while preparing annual plans for performance audit.

Legislative/public interest

3.43 The FAOs should consider the importance of proposed audit assignment in terms of legislative and public interest. The legislature's interest is important because it will have a direct effect on the impact of the audit office's work. If the audit office's recommendations are opposed by the audited entities and the audit report does not generate much interest among the legislators, it may be difficult to secure improvements in value for money or public accountability. Similarly, the FAOs should think if the proposed audit assignment will attract attention of the public through media or other sources.

Auditability

3.44 The FAOs should only select those areas for audit about which the AGP has the necessary capacity in terms of resources, audit skills, mandate, etc. The FAO should assess:

- The existence of relevant audit methods
- The resource availability (available staff, budget, transport, time, etc)
- The availability of relevant audit skills or possibility of contracting the required expertise
- Evaluation(s) already in progress by other bodies
- Potential for change

Client request

3.45 The FAOs should also consider an audit assignment as potential candidate for selection if auditee management has made a request for its performance audit. The likelihood of getting cooperation from the management increases in such case. However, the audit management should remain alert to the possibility of getting involved in the internal strife and professional jealousies of the client entities.

Reported poor performance

3.46 There could be audit assignments which got reputation for their poor performance either in the media or in reports, reviews or studies done by the auditee itself or by consultants engaged to do so by donor review missions. The FAOs should consider such assignments for performance audit on a priority.

Timeliness

3.47 The FAOs should consider whether or not:

- This is the right time for the AGP to investigate a particular area.
- The audited entity needs more time to implement some of its major work plans or procedures before the AGP selects the entity for performance audit.
- Recommendations resulting from internal/external reviews have been implemented or under progress; or
- Changes resulting from new legislation should be included in scope of audit

Positive reputation impact for AGP

3.48 Audit of some assignments can add to the positive reputation of AGP in view of the national interest or subject being of topical importance. Such assignments should be considered for audit in the coming year.

Media visibility

3.49 Projects and programs that have got attention of the media should be considered for performance audit on a priority. The FAOs should keep track of the media reports relevant to their field of audit.

Using Prioritization Tool

3.50 The FAO should prepare a comprehensive list of all audit assignments identified from the following sources:

- Strategic plan
- Result of risk assessment
- Result of other considerations as discussed above.

3.51 While preparing the comprehensive list for proposed audits, the FAOs will have the flexibility of proposing following types of audits, depending upon their knowledge of the audit universe and capacity of the FAO:

- Completed projects and programs
- Programs or projects nearing completion

- Pilot projects, which may be replicated by the auditee organization
- Projects or programs which are still at planning stage
- Part of a project or program
- Combination of more than one project or program
- Audit of complete organization
- Audit of a part of the organization
- Program or project under one Principal Accounting Officer (PAO) or those under more than one PAO.

3.52 With a proposed list of audit assignments ready, the FAOs should then use Prioritization Tool for ranking the audit assignments. The Prioritization Tool is a ranking device that takes into account various considerations for prioritizing assignments for the annual plan. The elements of the Tool have different scores. Each score subsumes the implicit weight assigned to a consideration. The *Prioritization Tool* is at Annex-D.

Planning Template

3.53 The FAOs will use the Audit Plan Template issued by the AGP for preparing the Annual Plan. The Template has space for PAs as well.

Approval of the Annual Plan

3.54 Each FAO will submit the proposed annual plan for PAs through its respective DAG for approval of the AGP. After approval of the AGP, the Annual Plan will become an operational document and the FAOs will proceed to prepare the Administrative Plans for executing the Annual Plan.

C. Administrative Plan for Executing the Annual Plan

Human Resource Plan

3.55 After approval of the Annual Plan, each FAO should undertake an extensive assessment of the audit skills available within the office and the skills required by it for completion of the Annual Plan on a timely and effective basis. This is necessary because the final approved Annual Plan may contain such audit assignments which were not originally proposed by the FAO itself but which were included by the AGP during the approval process. The identification of needed skills at an early date will enable the FAO get the required resources on a timely basis.

3.56 The FAO should ensure that it has the necessary human resources which as whole have:

- knowledge of performance audit concepts and techniques and the ability to apply the knowledge;
- experience and technical skills to effectively deal with the subject matter of the audits included in the Annual Plan;
- knowledge of the audit entity; and
- a general knowledge of the government environment.

3.57 Where a FAO does not have appropriate competence, it may approach the AGP for redefining or even deferring the audit.

3.58 The DG of FAO should formulate audit teams, nominate auditors in-charge for each audit and broad time table or timing of each audit, leaving detailed planning for each audit to a later stage.

Quarterly Plans

3.59 The DG in each FAO would prepare Quarterly Plans for PAs and get it approved from the respective DAGs. The Quarterly Plans will distribute the workload among four quarters of the year and also identify the audit teams responsible for each audit assignment. The DAGs will use these Quarterly Plans for monitoring progress of the actual implementation of the Annual Plan.

3.60 The *Template for Quarterly Report* is at Annex-E.

Consultation with PAW

3.61 Although it is not mandatory, yet FAOs should consult PAW about the resources, competence and other planning steps of PAs throughout the year. PAW is supposed to muster enough resources to respond to such requests from FAOs for advice.

Chapter 4
Planning for an Audit Assignment

4. Planning for an Audit Assignment

- 4.1 *INTOSAI Auditing Standards* require that all audit assignments should be planned. This applies to PAs as well. The primary responsibility for preparing plan for an audit assignment lies with the Auditor In-charge. As soon as decision to take up an audit assignment is taken by the DG, the Auditor Incharge will commence preparatory work for writing an audit plan. He or she would discuss the objectives, scope and approach with the Audit Supervisor and DG. Besides, the Auditor In-charge, with the approval of DG organize meetings, workshops, seminars or brain storming sessions, as necessary, for clarifying the audit subject, its objective, scope and approach and its criteria. The Auditor In-charge should also surf Internet for getting background information about the subject of audit.
- 4.2 Early in the planning phase of an audit the DG should consult PAW for any past similar audits, or other technical material available in its repository of knowledge.
- 4.3 Planning process for an audit assignment has following steps:
- (a) Preparation of a preliminary survey report
 - (b) Decision to proceed or abandon audit
 - (c) Preparation of an audit assignment plan
 - (d) Approval of audit assignment plan

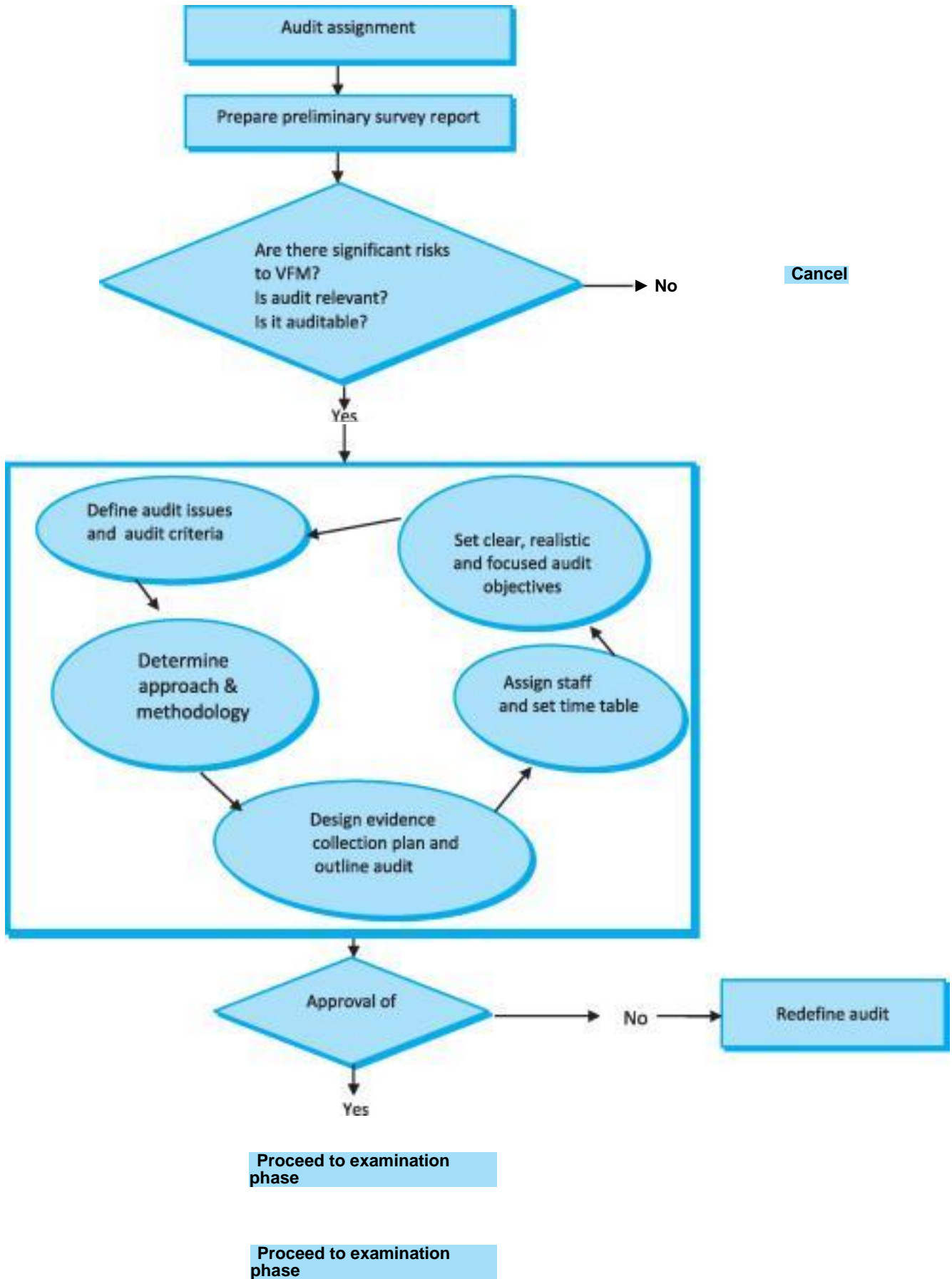
Box i: Extract from: INTOSAI *Performance Audit Guidelines - Key Principles*

2.4.1 *Planning an audit*

12. The auditor should plan the audit in a manner which ensures that it is of high quality and is carried out in an economic, efficient and effective way and in a timely manner. The audit planning documents should contain:

- a) background knowledge and information needed to understand the entity to be audited, to allow an assessment of the problem and risk, possible sources of evidence, auditability, and the materiality or significance of the area considered for audit;
- b) the audit objective, questions or hypotheses, criteria, scope and period to be covered by the audit, and methodology (including techniques to be used for gathering evidence and conducting the audit analysis);
- c) an overall activity plan which includes staffing requirements, i.e. sufficient competencies (including the independence of engagement staff), human resources, and possible external expertise required for the audit, an indication of the sound knowledge of the auditors in the subject matter to be audited¹³;
- d) the estimated cost of the audit, the key project timeframes and milestones, and the main control points of the audit.

Figure B: Planning Process for Audit Assignment



A. Preliminary Survey Report (PSR)

- 4.4 Planning for performance audit culminates in the form of a preliminary survey report (PSR). The objective of the PSR is twofold: (i) to understand the audit entity, determine the objectives and scope of audit, and identify issues of potential significance; (ii) to make an initial assessment whether the audit office should continue with the conduct of the audit in question in view of the value that it is likely to add. It provides a decision point in the audit planning process early enough for the audit management to decide if continuing with the performance audit would be appropriate. The auditors take following steps to develop a PSR.
- 4.5 In case the FAO is confident about value of the proposed audit on basis of its past knowledge of the entity and its operations or for other reasons it feels necessary to conduct the audit anyway, there will be no need for a formal PSR. The auditors can proceed to develop Audit Assignment Plan.

Familiarization

- 4.6 The first step in developing a PSR is to understand the objectives, and operations of the organization, and expected outputs, outcomes and impact of the project or program to be audited. For purpose of familiarization, the auditors should study the basic documents about the audit assignment.
- 4.7 The auditors should aim to collect at the least the following information for proper familiarization:
- Background information of program being audited (policy, objectives, role and functions, activities and operational processes in general, development trends etc)
 - Legislation and general programs and performance goals
 - Organizational structure and accountability relationships
 - Internal and external environment and the stakeholders
 - Core service or deliverables
 - Internal control system
 - External constraints or forces affecting program delivery
 - Earlier investigations in the field
 - Management processes and resources
- 4.8 A primary concern of the auditors is to see the objectives of the audit entity or project or program in a quantified form. If they are not in that format, the auditors should request the management for doing that. In absence of quantified and measurable objectives the job of performance auditors becomes immensely difficult. If the auditors do not succeed in getting the objectives quantified it may be a time to re-think about continuing with the audit any further.

Key Internal Controls

- 4.9 Existence of internal controls facilitates the work of auditors. The scope of auditors' work is determined, to a large extent, by the strength or weakness of internal controls. Internal controls can be defined as plan of organization and procedures to ensure that:

The accounting information of the organization is recorded correctly, timely and in accordance with generally accepted accounting principles.

The assets of the organization are safeguarded.

The business of the organization is carried out in the most economical, efficient and effective manner.

The management complies with the policies of the government.

4.10 An adequate and reliable internal control system is one that has a built-in warning system to prevent or detect frauds or errors in the operations of an organization. For a fair assessment of control mechanism the auditors are expected to undertake at least the following examination:

- The auditors should see the extent to which the objectives of the organization have been clearly stated and that the policies adopted to achieve these objectives are based on reliable information.
- The auditors should see that the organization has system in the place for constantly reviewing the policies in light of changing circumstances.
- The auditors should be specifically note that the organizations delivering social services may not have measurable targets of performance. In such cases, the management should have systems in place to review the performance regularly, *albeit* subjectively. In other cases performance could be measured quantitatively. The auditors should see in these cases whether the management has laid down measurable targets.

> The auditors should examine the extent to which an organization questions the basis of its preparation of estimates. It should be seen whether all the expenditure is regularly justified against objectives to be achieved. Absence of such a mechanism allows wasteful and redundant expenditure to perpetuate over years.

Carry out Risk Assessment

4.11 While preparing Annual Plan the auditors conducted risk assessment of the auditee organization as a whole to identify potential audit assignments. At the time of planning for an audit assignment the auditors need to conduct risk assessment with reference to the assignment under consideration. It would be a more in-depth study of the risks involved in the assignment. The objective of the risk assessment now would be to identify issues of potential significance for audit focus. The methodology for risk assessment is the same as used at the time of *Annual Planning* (See Annex C).

Determine the Audit Objectives

4.12 At this stage, the auditors try to define audit objectives. The audit objectives broadly define the extent of audit examination and the approach to be adopted by the auditors. All performance audits try to focus on economy, efficiency and effectiveness. However, in each assignment there could be other significant objectives as well. The auditors list down all these objectives. The idea is that the senior audit management should have some idea of the objectives the audit would be pursuing. It would help the management take appropriate decision about going ahead or abandoning of audit.

Identify Issues of Potential Significance

4.13 Next step is to determine the scope of audit. The auditors try to identify issues of potential significance. This is a judgmental area. However, the auditors exercise this judgment in light of such factors as risk assessment, control evaluation, money value, past audit findings, expected savings,

any management concerns, and project outputs and outcomes. It is so important an activity for the PSR that rest of the audit work revolves around these issues.

Decision Point: To Audit or Not to Audit

4.14 The culminating point in the PSR is the decision of the senior management (DG or DAG concerned) to decide whether they will like to proceed further with the audit assignment or would they like to postpone or cancel it.

4.15 The Auditor In-charge should conclude the PSR by his or her recommendation about continuation or otherwise of the proposed audit. If the recommendation is to continue with the audit, the Auditor In-charge should re-visit the Annual Plan preparation working papers and see if the factors which recommended the inclusion of this assignment in the Annual Plan continue to make sense and are still relevant. If the recommendation is not to continue with the audit, the Auditor In-charge should specially identify what has changed since the audit assignment was included in the Annual Plan.

4.16 The factors for taking a go-ahead decision are usually as follows:

- The assignment is necessary to comply with the AGP's responsibilities under the law.
- The audit is expected to add value by making recommendations to improve operations, better service delivery, reducing cost, minimizing waste, control opportunities for corruption and fraud, etc.
- The subject is of topical interest. Legislature or media or public opinion will expect AGP to undertake this audit.
- The FAO has the capacity and resources to conduct the audit.
- The audit would be able to suggest ways and means that enhance the social or environmental impact of the program or project.

4.17 The factors for cancelling or postponing the audit could be as follows:

- The auditee organization does not have necessary information readily available.
- The Department or FAO does not have the technical capacity and resources to undertake this audit.
- The auditee has requested postponement temporarily for operational reasons.
- The audit is not expected to add any value. Most of the potential audit recommendations are already known and discussed widely in the media and legislature.
- Timings for audit are not appropriate from the Department's perspective.
- The cost of audit is prohibitive. (For example, audit may require travel abroad by auditors, collection of information from diverse locations, the expanse of the program is unmanageable, etc)
- The security situation does not allow auditors to conduct the audit for the time being.

4.18 Both the positive and negative lists of factors for decision point are only illustrative. In actual practice the Auditor In-charge who prepares the PSR will document the reasons in either case as exist in reality.

Template of PSR

4.19 *Template for PSR* is at Annex-F.

A. Audit Assignment Plan

4.20 Audit assignment plan is the next step in planning for a performance audit. The responsibility for preparing the audit assignment plan lies with the Auditor In-charge. He or she will undertake this work in the following situations:

- When the PSR is approved and the decision is to continue with the audit;
- When PSR is not required by virtue of the fact that the FAO has detailed knowledge about the audit assignment or because the AGP has finally decided to conduct this audit anyway.

4.21 The main objective of the assignment plan is to define the audit objectives, scope, approach, and criteria in a detailed manner. Also, the plan specifies the time budget and scheduling of the audit.

4.22 The assignment audit plan is a major tool for controlling, monitoring and managing the audit by the senior management. Accountability of the audit team is determined with reference to the assignment audit plan. The Auditor In-charge should carefully plan all activities as the performance of the audit team will be assessed with reference to this plan. The audit assignment plan consists of following details.

Audit Objectives

4.23 The Auditor In-charge should re-visit the PSR, if prepared, and see if the objectives can be adopted as defined at the time of PSR or would they require some modification. In any case, this is the time to firm up the audit objectives finally.

4.24 If the DG decides that the performance audit assignment should focus on certain areas of compliance audit or study certain problem areas in detail, the audit objectives should specify these matters clearly.

Audit Scope

4.25 Audit scope refers to the extent of audit coverage in terms of time period, stage of the project or program or organization, the locations and facilities to be included in audit coverage and any aspect which will not be covered with reasons for exclusion. Audit scope determines the responsibility of the audit team in the assignment.

Audit Approach

4.26 Audit approach refers to the method of work to be adopted by the auditors. The auditors generally review documents. They also interview key resource persons. Besides, in certain audits, they may visit certain locations, conduct some surveys, collect market information directly, and approach third parties for additional information or for verification of client's assertion.

4.27 The performance audit approach can focus on the performance measurement system adopted by the auditee management. The audit could assess if the system is satisfactory. It is also possible that the performance audit examines the reasonableness of performance indicators being used by the management. The questions asked would be: Are there key performance indicators that measure economy, efficiency and effectiveness of the program or project? Do the key performance indicators cover all areas of operations? Does the management have a robust system of collecting and analyzing data on performance indicators? In some cases, the management may not have a

system of performance measurement. In such cases, the audit could focus on measuring performance directly.

4.28 The planning document tries to imagine the steps to be taken in a broad sense, leaving drafting of detailed audit procedures to audit program. The approach is only an expression of the planned direction of the work.

Issues of Potential Significance

4.29 The Auditor In-charge should revisit the PSR of the assignment and adopt or adapt the list of issues of potential significance from there. It is possible that the list needs some revision or fine-tuning in light of some new information. This is the time to update the list and adopt it as a final focus of the audit.

Audit Criteria

4.30 One of the primary concerns of the auditors at this stage is to determine the audit criteria for each issue of potential significance. There are no universally accepted criteria for auditing the performance. Paragraph 2.28 of this Manual provides guidance on how to lay down audit criteria.

4.31 Laying down audit criteria is so vital an element of audit planning that it is almost impossible to carry out a performance audit in their absence. The auditors should discuss the criteria with management before adopting them. Sometimes, the management would dispute the criteria adopted by the auditors. In such situations the matter is resolved by discussion. But if the auditee management is adamant on some particular criteria about which the auditors feel unsure, the auditors should proceed with their criteria and mention the controversy in their audit report.

Audit Team

4.32 The Auditor In-charge should discuss with the Audit Supervisor and DG about the audit team and the extent of time in person-days each member of the team would spend on the audit assignment.

Time Budget

4.33 The Auditor In-charge should prepare a time budget for the audit assignment. While doing so, the time of the support staff is not included in the total time estimate.

Travel and Other Marginal Costs

4.34 Budget for travel, consultancy and other costs such as additional equipment or casual labor etc should be foreseen at this stage. The Auditor In-charge should ensure that the funds are available for the assignment. In case there is a shortfall, the Auditor In-charge should submit a request for provision of budget to the DG.

Scheduling of Audit

4.35 The Auditor In-charge should prepare a plan for carrying out the audit on the prescribed format given in *the Audit Assignment Plan (Annex-G)*.

Template for Assignment Audit Plan

4.36 The Auditor In-charge will follow the *Template for Assignment Audit Plan* as given at Annex G.

Finalizing the Assignment Audit Plan

4.37 The Auditor In-charge will finalize the assignment audit plan and submit it to DG through audit supervisor for approval. The audit supervisor and DG of Audit will have a critical and detailed look at the proposed plan and refine its objectives, scope, approach and issues to be focused. The DG will approve the plan after satisfying himself/herself about its appropriateness with reference to audit objectives, scope, approach, methodology, criteria, audit timing and administrative matters relating to audit. The DG will forward a copy of the approved assignment audit plan to the DAG concerned for information.

Chapter 5
Managing Audit and Relationship with the Audit Entities

5. Managing Audit and Relationship with the Audit Entities

A. Letter of Notification

5.1 As soon as decision to take up a performance audit is made, the DG should notify the plan of the Office to conduct that audit. The notification letter to the auditee management should be issued on *Template for Letter of Notification* at Annex-H.

B. Entry Conference Planning for

the Entry Conference

5.2 The Auditor In-charge will fix the date and time for Entry Conference in consultation with the auditee management and DG.

5.3 Normally, the DG should lead the audit team in the Entry Conference. The Director who will be supervisor for the audit should also accompany the DG and the audit team to the Entry Conference.

5.4 The Auditor In-charge should prepare for the Entry Conference properly. Normally, the working paper for the Entry Conference should consist of the following:

- Title of audit
- Audit objectives
- Audit scope
- Audit approach and methods for collecting information (in particular if a survey is proposed to be conducted or if certain locations are to be visited by the auditors)
- Audit criteria to be used for assessing performance
- Major risks as assessed by the auditors seeking client's response for confirming auditors' understanding and assessment.
- Planned dates for field work and draft audit report

Proceedings of the Entry Conference

5.5 The DG should introduce all members of the audit team and request the auditee for introducing the key personnel of the organization to the auditors.

5.6 Performance auditing is a new area for most of the auditees. They may not understand the exact objective, scope and approach of audit and try to resist the way the audit is proposed to be done. The auditees often have misgivings about the auditors' technical competence to audit their performance. The DG should inform the auditee about the technical resources for the audit and if any consultant has been engaged to assist the audit team. The DG should explain the theory, context, nature and objectives of performance auditing. The emphasis should be on the positive role of performance auditing, its avowed objective of improving public administration and enhancing effectiveness of projects and programs. The approach of performance auditing is not finding faults as is the common image of traditional auditing.

5.7 After explaining the general background of performance auditing, the DG should place the working paper for the Entry Conference (paragraph 5.4 above) prepared by the Auditor In-charge for discussion in the meeting. He or she should discuss the working paper and invite questions from the auditee's team.

- 5.8 The DG should draw the attention of the auditee management to the audit criteria to be used by the auditors and seek their agreement. In case of disagreement, efforts should be made to arrive at mutually agreed criteria without jeopardizing the independence of the audit.
- 5.9 The DG should particularly request the auditee management about any matters that they would like the audit teams to examine.

Protocols for Audit

- 5.10 Normally, the DG should request the auditee for its agreement about protocols of audit. The objective should be to agree on such matters as follows:

Resource person: Who would be the key resource person for the audit from the auditee's side without jeopardizing the auditors' right to meet with other staff members and seek whatever information is required? The auditors will need assistance from the auditee when it comes to finding persons to interview, developing questionnaires, looking for statistics, etc. To deal with these practical arrangements, the DG should ask the auditee to appoint a special contact person. The auditee's contact person should assist the audit team throughout the audit with required information and he/she should be consulted if the audit team needs to visit the auditee's regional or local branches. The contact person is also a link between the auditors and the auditee's management. The Entry Conference is usually followed by a meeting between the audit team and the appointed contact person. **Distribution of responsibilities:** What is the distribution of responsibilities between the auditee and the auditors? What do the auditors expect from the auditee management and what would be the responsibility of the Audit Office? The DG should specify what the audit team would require in terms of office space, access to computers and Internet, photocopying, fax and phones for official business, etc. The resources to be provided by the Audit Office such as office stationery, transport and rest house for temporary accommodation of the auditors should also be clearly agreed. The DG should remain alert to the question of independence of audit and potential conflict of interest while requesting for any resources from the auditee.

Confidential information: Who is the custodian of the confidential and secret information in the auditee's organization? How to share and use the confidential information? What will be the responsibility of auditors? What will be the obligation of the auditee? Will the auditee put any delimitation on sharing the information? Would it require auditors of a certain status or auditors with a proper security clearance before the information is shared? All these matters should be discussed and the DG should plan his or her strategy for having access to that information and for reporting it in the audit report, which could be a public document. He or she should also consult the DAG (APSS) in this respect, if necessary.

Audit queries: How will the auditors request for further information? How will they inform the auditee management about tentative audit findings during the course of audit and what do auditors expect from the management by way of responses to audit queries? What will be the time-frame for responses to audit queries? Who would be signing the responses from the auditee's side for making them authentic?

Exit Conference: There should be an agreement on broad time-frame for Exit Conference at the end of the fieldwork.

5.11 The audit team should maintain a productive relationship with the auditee throughout audit. The audit

Box ii from: INTOSAI *How to increase the use and impact of audit reports: A Guide for Supreme Audit Institutions* Inform the auditee of what to expect during the audit

The relationship between the SAI and the auditee can be greatly improved if the SAI sets up communication protocols. These protocols cover the following areas:

the responsibilities of the SAI and the auditee, with guidance on key stages of the audit process and what documents will be shared between the SAI and the auditee at each stage;

how the SAI will let the auditee know about upcoming audits, to allow enough time for the auditee to prepare;

what initial meetings will take place to discuss the audit work with the auditee; who will be the key contact persons for the SAI and the auditee during the audit, and how contact persons will be told about developments during the audit; the information that the SAI will provide to the auditee about the audit plan, timetable for the audit, and audit methodology, including buildings and locations to be visited.

team should seek to create an understanding of its role and function among the auditee staff. The audit team should be able to obtain information freely and frankly and conduct discussions in an atmosphere of mutual respect and understanding. An atmosphere of trust and mutual respect is helpful for audit and persuades the auditee to accept recommendations of the auditors.

Managing a Situation of Conflict with the Auditee

5.12 Performance audits usually take longer than financial or compliance audit. During the course of audit the auditors may come across information that requires deeper probe than what was visualized at the time of audit planning. It could also be that the auditors come across some information about which the auditee management is sensitive and would not like to share all of its dimensions with the auditors. The auditors may also find themselves in a situation where the auditee staff is neither providing the information nor declining it but wasting time. There could other examples of conflicting situations. The auditors should try to manage such situations amicably by discussion and meetings with the auditee management. If necessary, the DG or Director should provide necessary support to the audit team. As far as possible, the auditors should act with some shrewdness without compromising their own objectives and try to resolve the conflict. There is no cut and dried method for doing it. Each situation requires its own solution.

C. Opening Meeting with the Audit Team

5.13 The DG and Director responsible for this audit should hold an opening meeting with the audit team after the Entry Conference with the auditee management. The objective of this meeting would be to clarify further any points raised by the auditee management, fine tune the audit objectives, scope and approach, finalize the list of audit issues and audit criteria and discuss details of the fieldwork to be conducted. The DG will also ensure that necessary resources are placed at the disposal of the Auditor In-charge, and that all target dates are agreed and clearly understood by all members of the team and the Director is in full control of the work to be undertaken. The meeting should normally end with a go-ahead signal for the field work.

Chapter 6
Audit Execution

6. Audit Execution

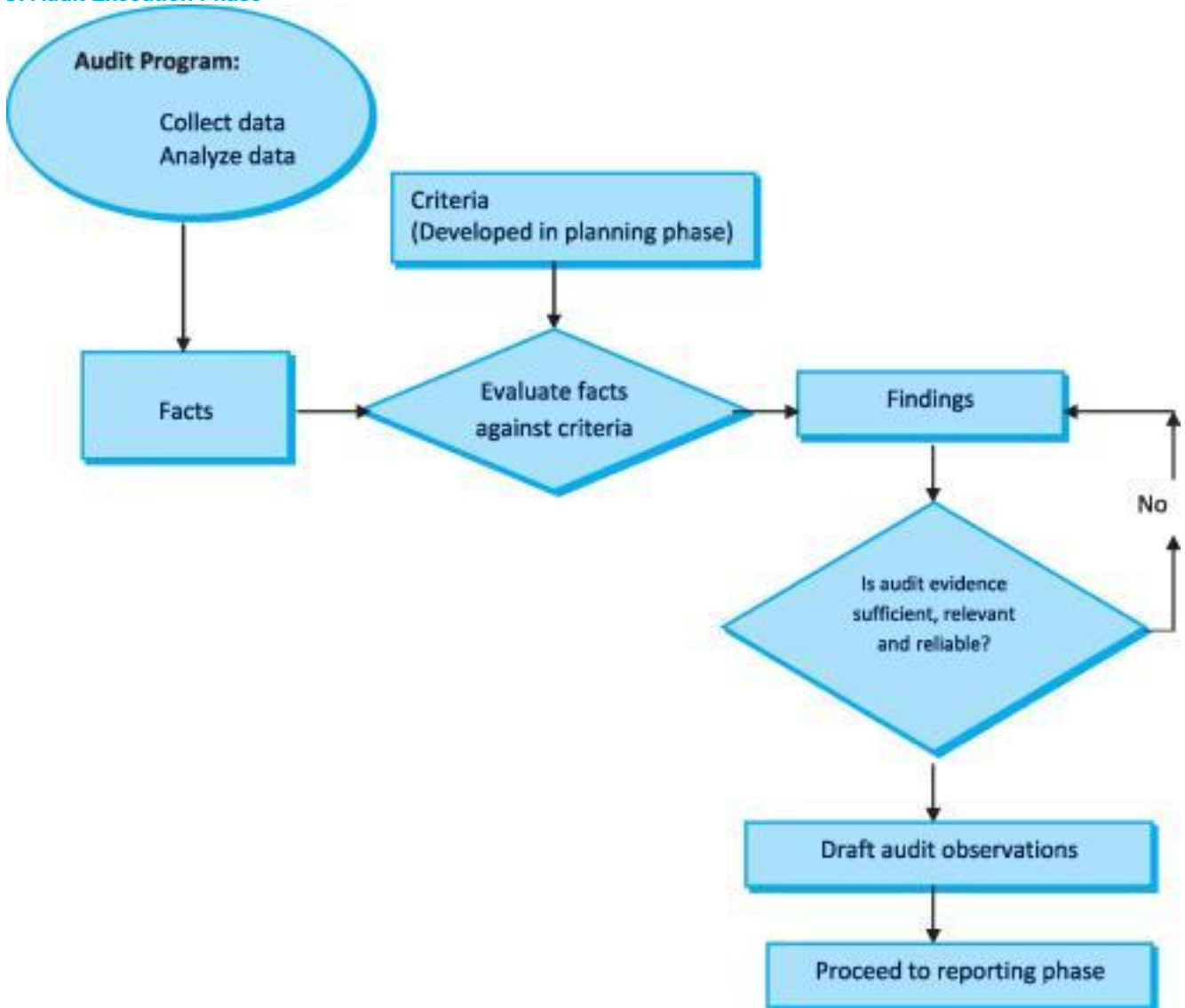
A. Audit Execution Cycle

6.1 Audit execution passes through following stages:

- (a) Preparation of audit program
- (b) Collection of data
- (c) Preparation of audit working papers
- (d) Analysis of data
- (e) Supervision of audit
- (f) Development of audit findings

6.2 In this chapter we shall cover the first two stages. The Manual has separate chapters on working papers, data analysis, audit supervision and development of audit findings.

Figure C: Audit Execution Phase



B. Audit Program

- 6.3 The audit execution phase starts with preparation of audit program. Unlike financial auditing, standard ready-to-use audit programs do not exist for performance auditing. For each performance audit assignment a tailor-made audit program has to be written.
- 6.4 The Auditor In-charge is responsible for developing the audit program. The Director will review the audit program and submit it to DG for approval. The field work will start after approval of the audit program by the DG.
- 6.5 The audit program is a written plan for execution of an audit assignment. It consists of audit procedures to be followed during the audit execution phase. The audit program is a guide for systematic fieldwork. It is, at the same time, an effective tool of supervision for ensuring that the auditors follow appropriate procedures and the work is completed according to the planned schedule and in a manner that achieves audit objectives.

A Step-By-Step Approach to Audit Program

- 6.6 The program for performance audit consists of a set of standard elements for each issue of potential significance. The auditors pick up each issue one by one and write the following information:

Audit objective(s)

- 6.7 There are overall objectives for each audit assignment. The auditors conceptualize those objectives quite early in the audit assignment and most often during the preliminary survey stage. But while developing the audit program they should specify their objective of the examination for each issue. This very objective will, to a large extent, determine the audit procedures and their sequence to be followed during the audit execution phase.

Audit criteria

- 6.8 The audit program should state clearly the audit criteria for all each issue of potential significance. This work they had already done at the stage of Assignment Audit Plan. It will be a copy and paste action here but is done for keeping the audit criteria in sight while implementing the audit program.

Audit procedures

- 6.9 The audit program specifies the audit procedures to be carried out by the auditors to substantiate or falsify each issue of potential significance. The auditors should frame procedures to find answers to following questions:

- What are the audit objectives?
- What are the audit criteria?
- What are the facts?
- What are the deviations from the audit criteria?
- What are the causes of the deviation?
- What are the effects of the deviation?
- What could the auditee management do to remedy the situation?

- 6.10 While trying to find answers for such questions the auditors list down steps that they must carry out. These steps become the audit program.

Special instructions

- 6.11 Special instructions in the audit program relate to following matters:

- Procedures to be followed in handling any significant or unusual developments
- Method of indexing and filing the working papers
- Use of work done by internal auditors or external auditors or consultants
- Any other matter not covered so far

Format of the Audit Program

6.12 The Auditor In-charge should prepare the audit program on *Template for Audit Program* given at **Annex-1** of the Manual.

Field Work Plan

6.13 Fieldwork plan is not a formal document. It refers to the plan of work that the auditors would follow for implementing the audit program. The need for such a plan arises from the fact that the real-life situations do not follow exactly the pattern and logic of the audit program. Some elements of work precede others just because an auditor happens to be at a certain place or he or she can collect certain information. Also, it may happen that one of the audit team members is travelling to a certain place to gather information for the items of work assigned to him or her. The Auditor Incharge may think it appropriate to assign some related work to this member which is otherwise to be done by someone else in the team. In this manner the travel cost and time for travelling is economized. Such considerations suggest that the audit team sits together to plan the actual execution of the audit program so that the work is completed economically and efficiently.

C. Gathering Performance Audit Evidence

6.14 The basic concept of evidence in performance auditing is the same as in financial auditing but differs in matters of detail and emphasis. In performance auditing, primary concern of the auditors is not verification of assertions made in the financial statements. Instead, by using financial as well as operational data they are interested in finding out (a) whether resources were obtained with due regard for economy; (b) whether human and physical resources were utilized efficiently; and (c) whether the goals of the organization, program or project were achieved effectively. As a result, they are not primarily concerned about the misstatements in financial statements (which aspect, of course, is covered in the financial audit). So, they are not directly concerned with questions of *precision* in the financial statements. Similarly, the financial auditors often deal with data that consist of big magnitudes of transactions. They invariably resort to some sort of sampling to formulate an opinion. In performance auditing sampling has an application but in a different way. Since the auditors here deal with audit issues that sometimes require more of file reading and examination of managerial process, the application of audit sampling is of a more restrictive nature.

6.15 The DG should decide about size and method of selecting the sample. For example, he or she should decide which part of the country the audit will collect information from to make a statement that is valid for the whole country, or which staff members of the auditee should be interviewed to be able to make statements valid for the whole entity or category of staff. Different methods can be applied to select the sample.

Sources of Information

6.16 The audit team should start fieldwork by following the audit program for each issue and gathering necessary evidence. The main sources of audit evidence are as follows.

Auditee files

6.17 Review of auditee files and documents is the starting point for the auditors to commence the fieldwork. It includes case files, financial statements, progress reports, monitoring reports and any assessments made by the auditee or some other consultants before arrival of the performance auditors.

6.18 In exceptional cases, the auditors should photocopy important documents and those conveying significant or potentially controversial matters and record original file identity on the photocopy.

6.19 The auditors should note that in real-life the files under review may not contain all documents. There could be other locations for relevant papers. The audit team may not be aware of those locations. The team should exercise judgment and inquisitiveness to speculate if further information could be lying elsewhere. At the end, the team should seek to ensure that the evidence obtained is complete enough to answer the audit questions.

Policy statements and applicable legislation

6.20 Policy statements, applicable laws, rules and regulations are important sources of information for audit. The auditors should collect all relevant documents on this count. The auditors should inquire about any changes in the legislation or rules and obtain updated information. Speeches by ministers, departmental heads or press clippings about the entity under audit can also provide useful information. The audit team should contact PAW for such background information. The information may also be available in the permanent file of the auditee maintained in the FAO.

Management work plans, reports, reviews and minutes

6.21 Entities usually generate a number of internal documents for senior management that summarize current issues and/or propose courses of action. The auditors should locate and analyze such documents. Ways of identifying reports include interviews and examination of minutes from management meetings.

Direct observation

6.22 The age-old maxim 'seeing is believing' is true in case of performance auditing as well. The foremost technique of collecting evidence is physically visiting a place or a facility and seeing directly what is happening. Physical verification is the time-tested technique of auditors. It should be followed in performance auditing as well.

Interviews

6.23 The auditors should interview key auditee personnel for gathering information. In large projects such interviews are conducted at three levels: top, middle and operational. The information from the top is usually more authoritative but broad in nature. As the level moves downward more details are available. But before accepting, in case the information obtained during the interview is likely to be part of the performance audit report, the auditors should forward the interview notes to the interviewee for confirmation. If the audit team receives the confirmation no further verification may be necessary and the auditors can decide whether and how to use the information. Quite often, in practice, the interviewees do not respond to such audit notes. The failure to respond to this note by the auditee staff leaves a doubt as to whether they have agreed with the note or would not disagree with it later. Therefore, these notes are used with care. Preferably, before relying on them, they are confirmed from other sources.

- 6.24 When asking for opinions on different issues, as a good practice, the auditors should not give the questions to the interviewee in advance. The same applies if for any reason the audit team needs to interview several people within the same organization. On the other hand, if the purpose of the interview is to collect specific facts about the audited entity, it is advisable to provide the questions in advance to enable the interviewee collect relevant statistics and other documentation. Whichever the case, the Auditor In-charge should prepare the interview questions in advance in the form of an interview guide.
- 6.25 When seeking opinion of an interviewee on any matter, the auditor should inform the respondent about the purpose for which the information will be used. If the interviewee has an objection to the disclosure of his or her identity for this information, the auditors should ensure anonymity. However, in case the auditors need to refer to this information in the audit report, they should adopt other means to getting this information in a transparent manner without compromising their commitment to the interviewee about maintaining the anonymity. In no case should the auditors dishonor their commitment with the interviewee for maintaining anonymity.
- 6.26 The typical interview is held in the context of a meeting. Sometimes telephone interviews provide an alternative that can save both time and costs, especially if the questions are relatively simple and standardized. A standardized interview can be done when information is collected with a questionnaire.

Questionnaires

- 6.27 The auditors should prepare questionnaires for soliciting information. Preferably this work should be done before commencing the fieldwork. The auditors should keep following points in mind while preparing the questionnaires:
- 6.28 A good questionnaire is not suggestive; it does not pre-empt the respondent from giving a genuine reply, nor does it limit the scope of reply unnecessarily. The questionnaires requiring the respondent to work hard are likely to get a poor response.
- 6.29 The format and design of a questionnaire depends on the purpose for which it is required. The questionnaire could be for seeking documented information, for interviewing a person or conducting a survey. In each case the format of the question would be different and according to the situation.

Use of expert studies, external evaluations, and reports

- 6.30 Sometimes studies by experts or committees are available on different issues or sectors. The auditors should make use of these studies also. However, they should test some of the results of these studies before relying on them. The material can be a good source for enhancing auditors' understanding of the subject of audit. However, these documents can hardly be used directly as audit evidence. They have to be used in combination with other audit steps.

Use of consultants

- 6.31 The performance auditors should consider seeking help of consultants in certain areas, especially, those that require technical knowledge. In such cases they should check the advice of the consultants for its inherent validity, for sources of its data and for its practicality before they decide to adopt it in the audit report.

Departmental manuals

6.32 Departmental manuals of the auditee often contain valuable information. The manuals contain rules, regulations and procedures. Some of the procedures emphasize economy and efficiency in operations. The auditors should adopt them as their criteria. Any deviation from these procedures becomes basis for audit findings.

Camera pictures and videos

6.33 Camera photographs and videos of physical conditions observed are an important source of evidence. Generally, the auditors would require specific permission of the auditee before taking photographs or making videos.

Surveys

6.34 Sometimes the auditors are interested in getting information that is not available in the auditee files. For example, they may like to formulate an opinion about the quality of service provided by the auditee to a certain segment of population. This can be ascertained from the concerned population only. This type of information can be collected only through surveys. Surveys are expensive techniques. They should be considered only when it is absolutely essential to undertake them. The surveys could be through mail questionnaire, in-person interviews, telephonic interviews, e-mails, or circulars through departmental channels. In any case, the designing of survey questionnaire requires specialized expertise to avoid bias and to make the survey results amenable to analysis. Since surveys cannot be administered to the entire population, they usually involve decision by the DG about the method of selection of sample and the size of sample. The auditors may also require help of statisticians in this work.

6.35 Internet search will inform the auditors about organization which can conduct surveys on behalf of the auditors. These organizations charge a small fee for conducting the survey. If the auditors decide to outsource the survey, they will require the permission of the DG. Besides, the organization conducting the survey requires the questions to be in a certain format so that the computer can analyze the survey responses. Also, such surveys are possible only when the respondents are literate in computers and have an e-mail address. Surveys from general public can also be outsourced. However, the cost for such surveys is often prohibitive for the audit office. The DG should consider all options before launching a survey.

Case studies

6.36 Case studies provide the opportunity to thoroughly explore a small number of cases in order to have an in-depth knowledge of organizations, systems, processes and activities relevant for the audit problem. It enables the auditors to concentrate on details and on understanding the organizational processes. The cases can be examples of a situation that may be prevalent throughout a population. Generalizing from case studies is a question of good arguments, not absolute proof or statistical certainties. It is essential for the argumentation to use a clear and specified logic in the selection of cases, a logic that supports the intended use of the information. It is wise to choose a case (or a few cases) that are the most or least likely to have certain characteristics. Another option is to choose one or a few cases that are considered to be representative of the whole population. Depending on the purpose, there are several possible ways to select cases, e.g. the best cases, the worst cases, extreme cases, or typical cases for the whole

country or for a group of possible cases. The method of collecting information for cases remain the same: review of documents, interviews, questionnaires, surveys, etc.

Literature searches

6.37 The auditors should surf Internet extensively for collecting relevant information and understanding the best practices in the area of their audit. Besides Internet, they should also search libraries for clarifying their concepts and ideas about the subject of audit.

Market research

6.38 It involves collection of data about environment in which an organization or project is operating. It also means gathering data on similar projects or programs. The cost for this type of work is often quite high. It also requires knowledge of such disciplines as economics, sociology, psychology, statistics and EDP besides training in auditing and accounting. Sometimes the auditors hire consulting firms to do this specialized work for them.

Databases

6.39 Many organizations have compiled databases, both manual and computerized. The Statistics Division and Agriculture Census Organizations in the Federal Government and Board of Economic Enquiry in the Punjab Government are examples of such organizations. These organizations maintain detailed information on different aspects of the economy. There may be commercial databases that are run, for example, by banks, (like Electronic Credit Information Bureau) which may be used to collect data. These databases may enable the auditors use data that has already been collected and compiled. This will save time and money. It might also be possible to order special computer compilations as required for the audit.

6.40 The above is not an exhaustive list of the sources of evidence for performance auditing. Evidence collection is an organic activity. The creativity of auditors may suggest certain unique sources of information in some cases.

D. Categories of Evidence

6.41 The audit evidence usually falls into four categories:

Physical evidence obtained by direct observation. Examples are physical verification of cash, site visits of projects, verification of inventory etc.

Testimonial evidence obtained from others through oral or written statements. Sometimes auditors need this type of evidence from users of a service or target group of beneficiaries to assess effectiveness of a program or a project.

Documentary evidence consists of - files, reports, manuals and instructions.

Analytical evidence built up by analysing the information obtained from other sources. Most common example in performance auditing is the benefit-cost analysis.

E. Quality of Evidence

6.42 The evidence should be: (a) valid (b) relevant (c) sufficient (d) timely (e) economical and (f) objective.

Validity

- 6.43 **Valid** evidence means that there should be no doubt about accuracy of the evidence. Whatever interpretation the auditors may like to place on it, the facts should be beyond any doubt. It applies not only to facts collected from the auditee's records but also any analysis done by the auditors themselves.
- 6.44 The auditors should adopt a critical approach and professional skepticism toward the data presented by the auditee. They should exercise independent judgment about relevance and validity of the data obtained during the audit. They should try to see things from their perspectives and maintain an objective distance from the data put forward by the auditee. At the same time, they must consider views and arguments of the auditee and other stakeholders.
- 6.45 It is difficult to make a general statement about the criteria for valid evidence. However, there are some general guidelines that can help the auditors in assuring themselves about **validity** of the evidence:
- Direct evidence obtained by physical inspection or analysis of valid facts is more reliable than indirect evidence.
 - Strong internal controls give a greater assurance on validity of outputs of the organisation than weak controls.
 - Documentary evidence including photographs is more reliable than oral evidence.
 - Original documents are more reliable than photocopies.
 - Information obtained through independent external sources could be more reliable in a given situation than internal information.
 - Information provided by the management is acceptable if it is written and signed by an appropriate authority.
 - Evidence on one issue from more than one source gives added assurance.

Relevance

- 6.46 **Relevant** evidence means that the evidence should be related directly to the point at issue. It should not be indirect or remote evidence. For example, in case of an educational program, the number of students enrolled, number of students qualified and the number of repeaters would provide direct and relevant evidence on quality of education. Examples of irrelevant evidence could be as follows. Trying to infer about the performance of the school from the number of teachers or expenditure on the support staff or number of books in the school library or number of computers in the lab. Another example of irrelevant evidence could be accepting future plans of a school as basis for opinion. The future plans may be highly interesting but hardly relevant to performance audit of the past years.

Sufficiency

- 6.47 **Sufficient** evidence means that the evidence should be persuasive. It should enable the auditors express opinion without fear of contradiction. In other words, the evidence should be neither more nor less than what the occasion demands. It should be just **sufficient** to prove the point. For example, in performance audit of a road transport organization, comparison of the wear and tear of tyres at one transport depot with another depots in the same region would be an example of **sufficient** evidence. In this case, however, making comparisons with transport organizations of other countries would be going too far. Such an attempt would be an example of **more than sufficient** evidence and would add to the cost of audit with unpersuasive results.
- 6.48 Some of the guidelines for judging sufficiency of evidence are given below:

The auditors should rely on evidence that is *persuasive* rather than *convincing*. The auditors are seldom convinced beyond all doubt with respect to all aspects of the data being examined.

There should be a rational relationship between the cost and the usefulness of evidence, although difficulty and expense of gathering evidence should not be a valid reason for omitting it.

In absence of reasonable assurance either the auditors should perform more tests or modify their opinion.

Timeliness

6.49 *Timeliness* of evidence refers to need for availability of evidence in the time-frame of audit. The evidence that delays the audit opinion beyond reporting deadline, however valid, relevant or sufficient, would be unacceptable. There can be a trade off between the *timeliness* of evidence and its *validity*, *relevance* and *sufficiency*. For example, in a primary school project, involving establishment of a few thousand primary schools all over the country, an attempt to be *sufficient* and *relevant* in evidence could delay the results of audit beyond acceptable limits. While planning such audits the auditors must foresee what would be the acceptable magnitude of evidence to be collected to enable them to produce a timely and persuasive report. They may have to review their resource position. A situation that does not allow collection of a bare minimum of evidence for giving an opinion may lead to auditors' dilemma: should they or should not do this audit? They may decide not to undertake such audits in the first instance.

Economy

6.50 *Economical* evidence means that the auditors should always weigh the cost of gathering evidence and the benefit of increasing the credibility of their findings by certain degrees. They have to strike a balance between the two. For example, in the above case, the auditors may be able to collect evidence on the selected sample of schools in all provinces by increasing the number of auditors. But before doing so they should assess whether it would increase the creditability of their findings significantly. These are questions for auditors' professional judgement. No hard and fast rules can be laid down in this regard.

Objectivity

6.51 *Objective* evidence means that the evidence should be free from bias. It should not be intended to malign or favour any particular person or entity. *Objectivity* in audit evidence makes it distinct from certain other types of evidence, like, the evidence given in a court of law on behalf of the prosecutor and defendants.

Box iii: Some Rules of Thumb for Audit Evidence

Always scrutinize the source of data critically and with a little bit of suspicion before relying on it. Do not believe everything that is presented to you.

When interviewing auditee personnel, try to follow the principle of 'four eyes'. It means, in normal circumstances, two persons should conduct the interview rather than a single person.

Document your interview notes in the working papers soon after the interview. Do not postpone this work to a later time. You are likely to forget many fine points during the process.

Get confirmation of the auditee for the points you have noted from the interview, in particular, if the points are likely to be part of the audit reports.

Secondary reports, statistics, media information, public interviews, etc should be treated with a lot of caution. There could be misstatements, exaggerations and missing links. The information could also be out of context.

For physical inspections, location visits and taking pictures and videos, take the auditee staff into confidence.

F. Exit Conference

- 6.52 The fieldwork culminates in Exit Conference. The Auditor In-charge should, in consultation with the DG, notify the auditee about the time and date for the Exit Conference. The conference notice signals to the auditee that the auditors have completed their fieldwork and they are now winding up. Normally, the auditors should wrap up their work within a day or two after the Exit Conference.
- 6.53 From the auditors' side the DG should lead team in normal circumstances. From the auditee side, the head of the audit entity should be requested to be present. Any deviations from this arrangement should be brought to notice of the other team Exit Conference.
- 6.54 The Auditor In-charge should plan for the Exit Conference properly. The Auditor In-charge should prepare a working paper for the conference on *Template for Exit Conference Working Paper* at annex-J.
- 6.55 While planning for the Exit Conference, the main objectives of the audit team are as follows:
- Determination of most significant audit findings
 - Determination of audit team position to each audit finding to be discussed
 - Determination of possible conclusions consequent on the audit findings
 - Preparation of the list of significant issues related to each audit finding
 - Developing focus and emphasis to each significant issue
 - Assessing the auditee response on potential recommendations
- 6.56 The Auditor In-charge should get approval of the working paper from the DG through Director. After approval, the Auditor In-charge should send the working paper to the auditee management in advance of the meeting. The covering letter of the working paper, to be signed by DG/Director should also mention the names and designations of the persons attending the meeting from the audit side.
- 6.57 As part of preparation for the Exit Conference, the audit team should prepare a list of possible questions from the auditee management and proposed answers by the audit team. The DG/Director should review these potential questions and proposed answers before attending the meeting.
- 6.58 The Auditor In-charge should appoint a person from the audit team to take notes of discussion that will be used as evidence for approving, modifying or eliminating particular audit findings.

6.59 The DG should present main audit findings and audit recommendations to the meeting and seek auditee management's responses on each finding and recommendation.

6.60 The DG should also inform the auditee management that by such and such date the management can send any further information or replies to the audit observations. Besides, the DG should inform the auditee about further procedure for finalization of the report and request their cooperation at all stages.

6.61 The auditee will often want to know the final context in which the findings will be reported and the conclusions that will be drawn. These can be discussed in the Exit Conference, but the DG should warn the auditee that any conclusions are preliminary until all of the evidence has been reviewed by senior officials of the FAO.

6.62 The DG and the audit team should carefully listen to the point of view of the auditee and assess its validity before accepting it. If necessary the auditors can request for more documentation or evidence for substantiating the auditee's point of view.

G. After the Exit Conference

6.63 Soon after the Exit Conference, the Auditor In-charge will prepare a note of the proceedings and present it to the DG through Director. The note will reflect the following issues:

- Identify general positioning of the auditee management regarding findings.
- Identify misunderstandings regarding the audit findings and the reached agreement between audit team and auditee to resolve these.
- Identify, while prioritizing, the findings and issues which have been agreed upon.
- Identify issues of disagreement of auditee management with audit findings.
- Identify the proposed auditee action plan for undertaking improvement measures.
- Identify if there existed a need for further review by the audit team.

6.64 After approval of the DG, the Auditor In-charge will send the note of the proceedings of the Exit Conference to the auditee management as well.

6.65 Since the auditee management comments on findings have to be reflected in the draft report, it is important for the audit team to identify briefly as follows:

- *Where there are differences in perception regarding audit findings between the management and the audit team:* The management's view on the issue should be reflected in the report along with the auditors' explanation for not accepting that view.
- *Where there is important disagreement by the management on the audit findings:* The audit team should reflect this in the report along with the reasoning given by the management for not agreeing on the finding/s.

6.66 The audit team, under given circumstances might consider the possibility of offering the auditee another chance to provide additional information that supports their position.

6.67 If the audit team allows additional time to the auditee it should require the auditee to meet the agreed deadline. If the auditee offers further information the auditors will evaluate and analyze it. If it is relevant, competent and reliable the Auditor In-charge may review the earlier audit conclusion. If the additional information offered by the auditee does not meet the necessary requirements, the Auditor In-charge should hold to the early conclusions.

6.68 Where agreement can't be reached, the auditor should obtain the auditee view in writing and reflect it in the report.

6.69 The audit team should meet soon after the Exit Conference to review their work in light of the auditee responses. Some of the audit findings may require revisions, others may have to be cancelled or withdrawn but some may have to be deepened. The team should plan these actions and complete them quickly after the Exit Conference but before packing up and declaring the field work closed.

Chapter 7

Performance Audit Working Papers

7. Performance Audit Working Papers

- 7.1 *INTOSAI Auditing Standards* state that auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, the work performed and the findings of the audit.⁵
- 7.2 The audit working papers are files established by the auditors during planning, and executing of an audit. The auditors may also decide to file various versions of the audit report in the working paper files, if they do not maintain separate files for the audit report. The main purpose for establishing these files is to gather and save the information of continuing importance during and after completion of the audit. Besides, properly kept working paper files enable the audit supervisors satisfy themselves about the work done and the audit checks applied by the audit team. The audit working papers permit the audit management shuffle the auditors during the course of an audit as the work done by the outgoing auditors is well documented.
- 7.3 The audit working papers provide a link between the work done by the auditors and the performance audit report. They should be in sufficient detail and kept in an organized manner so that retrieval and reference is easy.
- 7.4 Typically, performance audit working papers contain following information:
- Audit planning information such as all primary documents and studies in connection with familiarization and preliminary survey report
 - An assessment of internal controls of the auditee
 - Audit criteria and audit procedures for each issue of potential significance
Preliminary survey report and audit assignment plan
 - Details of the audit work carried out by each member of the audit team
 - Evidence that the work of the audit team has been properly reviewed
 - A summary of audit findings
 - Various versions of draft and final audit reports

A. Organization of the Performance Audit Working Paper Files

7.5 Performance audit working paper files are organized in the following manner:

- (a) Permanent Files
- (b) Current Files

Permanent Files

- 7.6 The DG will assign audit entities or their units to officers who are eligible to become Auditors Incharge. The Auditor In-charge will be the custodian of Permanent Files of entities or units assigned to him or her.
- 7.7 Permanent Files are permanent in nature and used in current and future audit assignments relating to a particular organization. Typically, they contain the following information:

⁵ INTOSAI, *Code of Ethics and Auditing Standards* p. 57 and also to ISSAI300 *Field Standards in Government Auditing*, paragraph 5.5.

- Audit Assignment Plan
- Approval of the Audit Assignment Plan

Execution section

- Audit program
- Working paper for the Entry Conference
- Minutes of the Entry Conference
- Correspondence with the auditee for seeking interviews, obtaining information, confirmations, clarification, etc
- Sample size and selected samples
- Interview notes
- Field plan to execute the audit program and details of the actual work performed
- Summary of audit findings
- Working paper for the Exit Conference
- Minutes of the Exit Conference
- Actions taken after the Exit Conference

Reporting section

- Draft performance audit report: all successive versions
- Approval of the draft audit report by DG
- Auditee responses
- Further comments on the auditee responses
- Various versions of the final performance audit report
- Approval of the final report by the DG
- Matters of interest for further audits

Execution of the Audit Program and Working Paper Template

7.10 The auditors should use *Working Paper Template* at annex-K for recording the work done on each segment of the audit program. Each working paper should have a serial number and reference to the audit program segment for which the work was done.

7.11 Supporting documents for the work done and the conclusions arrived at should be filed with each working paper prepared on the Working Paper Template.

7.12 While the working paper has a cross-reference to the audit program, the audit program should also have a cross reference to the working paper. As cross-references to working papers are inserted the audit team gets the satisfaction that the work has been completed on these segments of the audit program. That is also a good checklist for the audit supervisor for reviewing the work of the audit team during the course of audit. This will help the audit team as well the as the audit supervisor go back to the relevant working paper if needed.

7.13 The *Working Paper Template* has space for audit conclusions as well. These conclusions are the first hand raw material for performance audit report to be written subsequently. The auditors should refer to these conclusions and collate this material for the draft audit report.

7.14 The auditors should prepare the audit observations and assign a serial number to each observation. The serial number of the audit observation should appear on the working paper. At the same time, the audit observation sheet should have a cross reference of the serial number to the audit working paper.

Description of Working Paper Files

7.15 Each working paper file gives the following information on its title page

- Name of the organization audited
- Name of the project or program or title of the audit assignment
- Contact persons from the auditee side: Name, position, phone (office, residence, cell), Email address
- Auditor In-charge: Name, phone (office, residence, cell), E-mail address
- Audit Team Members: Names, phone (office, residence, cell), E-mail address
- Audit supervisor: Name, phone (office, residence, cell), E-mail address
- DG: Name, phone (office, residence, cell), E-mail address
- Audit start date
- Audit completion date

B. Referencing and Pagination of the Working Paper Files

7.16 The working paper files should be organized in different sections. Each section should have a new series of page numbers. A suggested scheme for page numbering is given below. However, it is not mandatory. The DG can adopt some other scheme for his or her office for standardizing the practice. In absence of any such scheme adopted by the office, the Auditor In-charge should devise a scheme for page numbering of the working paper files. The objective is that the working papers should have a scheme of page numbering that allows easy retrieval and reference. The suggested scheme is as follows:

Page numbering for Permanent Files

7.17 Permanent Files have various documents and the files are updated periodically. The page numbering should be done in a manner that removal and insertion of a document does not require re-pagination of all files. Therefore, each document in the Permanent Files will have the following scheme of pagination:

PF/ Initials of the document/ pages 1, 2, 3, etc) For example, for the document containing internal control evaluation in the Permanent File the page numbers will have the following pattern:

PF/IC/1. PF/IC/2. PF/IC/3. etc

7.18 The abbreviation for all documents will be done according to the title or subject of the document.

Page numbering for Current Files

7.19 Current Files will have three sections. Each section will have the following pattern of pagination:

Planning section: CF/planning/ initials of the doc/1,2, 3,

For example for PSR the page numbering will be as follows:

CF/planning/PSR/1. CF/planning/PSR/ 2. and so

7.20 For Audit Execution, audit program should be the reference point and the page numbering will be as follows:

CF/AP/ 1.1. CF/AP/1.2. CF/AP/1.3.... CF/AP/2.1. CF/AP/ 2.2. etc

7.21 For reporting section the pagination will be on the following pattern:

CF/DR/v./ 1, 2, 3, ... for Draft report version 1. Subsequent versions will have v.2, and v.3 after the second slash.

7.22 For final report the page numbering will be as follows:

CF/FR/v./ 1.2. 3

7.23 For auditee responses the page numbering will be as follows:

CF/Auditee Rep/1. 2.3....

7.24 All working paper files will have an index in the beginning.

C. Management of the Working Paper Files

Custody of the Working Paper Files

7.25 The audit working paper files remain in custody of the auditors during the course of audit. After completion of the audit and till the presentation of the performance audit report in the PAC and till completion of any follow-up action in light of the PAC decisions, the Auditor In-charge will have custody of the working paper files. The Auditor In-charge will transfer the files to his or her successor on assuming some other duty.

7.26 Once all follow-up action is taken and the audit is virtually closed, the Auditor In-charge will transfer the working paper files to Assistance In-charge for Old Record in each FAO. The Assistant Incharge for Old Record will store the working paper files for each closed audit in a manner that enables easy retrieval when required.

Soft Copies of the Working Paper Files

7.27 The auditors should prepare soft copies of the working papers, in particular, of the work done and recorded on the Working Paper Template. The original documents required for supporting the audit work and audit conclusions should either be scanned in PDF format or photocopied and placed in the working paper files. The soft copies provide easy portability of data and helps in preparing the audit report in an efficient manner.

Weeding out Unnecessary Papers

7.28 During the course of audit, the auditors come across various documents which have no relevance or minimal relevance to the subject of audit. However, as a general practice, these papers are held for some time as a precautionary measure. On completion of the audit and after approval of the final audit report, the Auditor In-charge should take another look on all working papers and weed out all unnecessary and irrelevant papers. The size of the Current Files should be kept to a minimum for ease of reference to the required material. As a good practice, all working papers for one audit assignments should not exceed one filing binder. However, this is not mandatory. This is over and above the Permanent Files binder that remains alive for all audits pertaining to one auditee.

Chapter 8

Data Analysis in Performance Auditing

Box iv: Some Tips for Working Papers***For background information***

Divide the working paper folder for background information in different sections as follows:

- Information pertaining to the sector or broad area of study
- Information to international perspectives
- Information relating to best practices on the subject
- Information relating to the audit entity
- Information relating to the program or project to be audited
- Information pertaining to strategic plans, operational plans, performance indicators, progress reports and monitoring reports relating to the assignment of audit

For documents

- What is the source of the document?
- What is the date of the document?
- What is the status of the document? (i.e. current, requires updating, ownership of the document, etc)
- What is the objective of the document and what are its main contents? Mention the main document if any abridgement has been done or extracts have been taken from a larger document.
- Mention the geographical area and the period to which the information is applicable.
- Where and from whom further information is available?

For interviews

- The date, time and venue of interview
- Who were present in the interview?
- What is the name and designation of the focal person of the interview?
- Is there any documents or information that the interviewee promised to send later on?
- How to contact the interviewee next time, in particular if he or she is located at a different station?

8. Data Analysis in Performance Auditing

- 8.1 The auditors collect a lot of data during the fieldwork. For drawing audit conclusions, they need to analyze the data. Before starting analysis of the data, the auditors should revisit the audit objectives and segment of the audit program to which the data pertains. This would help them decide the analytical technique required.
- 8.2 Generally, the financial auditing requires application of simple techniques such as ratio analysis and some elementary statistical methods. However, in performance auditing some more sophisticated techniques are used for arriving at credible and persuasive conclusions. The auditors can use a number of data analysis techniques in performance auditing. The more commonly used techniques are described in this chapter. But the discussion is only indicative. In practice, the auditors will have to decide whether these techniques are sufficient for achieving the audit objectives or they would require still more sophisticated techniques. In the latter case, they may require assistance of a statistician. However, the DG should take the decision to seek the help of a statistician quite early during the planning stage as it would also influence the parameters and mechanics of the data collected. The auditors would have to collect data according to the design prepared by the statistician.

A. Benefit-cost Analysis

- 8.3 Detailed guidance on concepts and techniques of benefit-cost analysis and its application to various sectors such as construction, education, health, road transports, railway transport, water supply project and telecommunication projects, etc is available in the Performance Audit Guidelines (1984/93) 25 volumes published by the AGP. The following discussion is only for providing a quick link to the techniques.

Time Value of Money

- 8.4 Benefit-cost analysis compares various options by reference to their net social benefits and social costs. Social benefits mean the benefits that would accrue to the society and social costs means the costs that the society would bear for the project or program. Net social benefits are the difference of social benefits and social costs. The benefits and costs are social in terms of to whom they accrue rather than merely market costs and benefits. However, in many public sector projects it is difficult to determine all social benefits and social costs because of absence of a market for them. There are alternative methods to overcome this difficulty.
- 8.5 The benefit-cost analysis may involve financial analysis or economic analysis. Both techniques use the concept of time value of money. International Federation of Accountants (2007,15)⁶ says:

In the public sector and not-for-profit contexts, the time value of money recognizes that society generally prefers to receive services now rather than later, so as to defer costs to future generations. This preference, commonly referred to as the Social Time Preference, is the value society attaches to present as opposed to future consumption, and some governments recommend using it as the standard real discount rate. This allows discounting of future benefits and costs, based on comparing utility across different points in time or different generations.

⁶ International Federation of Accountants. 2007. *Project Appraisal Using Discounted Cash Flow*. New York

8.6 It means that the costs incurred or benefits received earlier in time have a higher social value as compared to the value of these variables later in time. In case of financial analysis, only financial costs and benefits are considered and in case of economic analysis, economic costs and benefits are also included in the analysis. The reason is that in some public sector projects, it is difficult to determine the financial costs and benefits or at least, the projects cannot be justified in financial terms. For example, in a water supply scheme, it may not be possible to recover all costs of the scheme from the public on humanitarian grounds. The project will not be justified in financial terms, as it will not earn a profit if the rates of water to be recovered from the population are subsidized. In such cases, the economic value of benefits is estimated and taken into consideration. Same is true for education and public health programs and projects.

Discounting

8.7 For giving effect to the concept of time value of money, future costs and benefits for life cycle of the project are taken into account. These values are then discounted at a certain rate of interest and their present values are determined. In Pakistan the Planning Commission uses a rate of 10 percent for discounting purposes. For sake of convenience and for purpose of compatibility with the analytical work done at the time of project planning, the Department also uses 10 percent rate for discounting the data on projects and programs. However, it is not mandatory. The AGP can decide to use some other rate. In that event, the AGP will notify it.

8.8 Discounting is reverse of compounding. It means finding answer to the following question: *What will be the present value of money spent or received in a certain point of time in future?* This is determined by discounting the future series of costs and benefits to the present. It is determined by the following formula:

$$D_n = \frac{1}{(1+r)^t} n$$

where

D_n is the discounted value of the amount n , r is the rate of interest and t is the time.

8.9 For example, if we have to determine the present value of Rs 1000 received in year 5, and the rate of interest is 10%, the discounted value would be $[1 / (1.10)^5] \times 1000 = Rs 621$. It means the present value of Rs 1000 received in year 5 would be Rs 621 if the rate of interest were 10 percent. In practice, the auditors can use Excel Sheet and apply the following formula for working out the discounted value:

$D_n = \frac{1}{(1+r)^{year}} \times \text{value to be discounted}$

where V represents the rate of interest.

8.10 For example, if the rate of discount is 10 percent, the amount to be discounted is Rs 7000, the discounted value for the amount for the first 5 years would be as follows:

Table 2: Calculating Discounted Value

Years	Amount	Rate	$D_n = \frac{1}{\text{power}(1.1, \text{year})} * \text{amount}$
1	7000	0.1	6364
2	7000	0.1	5785
3	7000	0.1	5259
4	7000	0.1	4781
5	7000	0.1	4346

Net Present Value

8.11 The same formula applies for discounting benefits as well as costs. Once costs and benefits are discounted, they are netted to determine the net present value (NPV) of the project. According to International Federation of Accountants⁷, NPV means

A single value representing the difference between the sum of the projected discounted cash inflows and outflows attributable to a capital investment or other project, using a discount rate that properly reflects the relevant risks of those cash flows.

8.12 A positive NPV means, the option under analysis would generate a positive return, assuming the rate of discount is appropriate. When we determine the NPV for all investment options, it becomes possible to rank them in terms of their net worth and determine which one would be more beneficial, in financial or economic terms.

Internal Rate of Return (IRR)

8.13 NPV is a monetary figure and may make comparison difficult in absolute sense. A related concept in this analysis is determination of internal rate of return (IRR) that allows such comparison. Depending upon whether it is financial or economic analysis, the IRR can also be financial internal rate of return (FIRR) or economic internal rate of return (EIRR). According to International Federation of Accountants⁸

"Internal Rate of Return (IRR): The average annual percentage return expected for a project, where the sum of the discounted cash inflows over the life of the project is equal to the sum of the discounted cash outflows. Therefore, the IRR represents the discount rate that results in a zero NPV of cash flows."

8.14 It is arrived at by hit and trial, discounting the costs and benefits at different rates of interest, until we arrive at a zero NPV. Calculating IRR manually is quite cumbersome. However, by using Excel program on computer, it is now easy to determine IRR. It may mean, in case of financial analysis, for example, the resources to be used for a project should not be borrowed at a rate higher than the FIRR, as it would then produce a negative NPV and the project would not be financially justifiable. But using IRR as a measure to choose a project is not considered a good option as

⁷ Ibid. Pp. 7.

⁸ Ibid. Pp.8

sometimes the IRR may lead to ranking of options differently than NPV, which is a more reliable measure of analysis.

Applying Net Present Value Analysis Technique in Performance Auditing

8.15 The net present value analysis is usually used for appraising the project. While approving a project, the competent authority takes into consideration, besides other factors, the net present value of the project. The performance auditors can also use the technique in their work. They can adopt the NPV analysis done by the project authorities at the time of project appraisal as a benchmark and assess, at the time of audit, the net present value of the project on the basis of actual data. The audit objective should be to see how far the assumptions made at the time of project appraisal worked out according to the expectations, once the project was implemented.

8.16 By taking the same rate of discount as the Planning Commission used while appraising the project proposal (PCI), the auditors should discount the actual cost and actual benefits streams of projects and arrive at the actual net present value (difference of the discounted actual benefits and discounted actual costs). That gives the figure of actual NPV. The auditors can now compare the actual NPV with the planned NPV (worked out at the time of project appraisal). The difference indicates either the project has done better than what was assumed or worse than that, depending upon whether the difference is positive or negative. Done manually, the analysis is quite laborious. However, it is now possible to carry out this analysis through computer by using Excel software.

8.17 In practice, the auditors can face various difficulties in applying this concept. For example, they may be auditing projects which are still in progress. The data for the project as actually completed will not yet be available. It is also possible that the executing authorities revised the project plan (PCI) several times due to various constraints or due to sheer negligence. They may have used different discount rates in revisions of the PCI. The auditors will have to decide which rate to be used for their analysis. The auditors may have to make certain assumptions about the benefits and costs of the projects and the executive authorities may not be entirely in agreement with those assumptions. Briefly, the application of benefit cost analysis requires an in-depth knowledge of the technique and practice in using it in various scenarios. The auditors should consult their supervisor, DG and PAW when they are in doubt about application of the benefit cost analysis technique in practice.

Applying Internal Rate of Return Technique in Performance Auditing

8.18 Internal rate of return is a rate of discount on which the NPV is zero. The rate is arrived at by hit and trial method. The idea is to find out a rate of interest on the capital being invested in a project that would give just enough benefits as its cost. Any rate higher than that would make the NPV negative and would not be acceptable. If we are able to determine the IRR of a project, we can decide whether a loan for the project can be accepted at the offered rate of interest. Any loan, which is available at a rate higher than the IRR, would be disadvantageous. In performance auditing, the auditors work out IRR on basis of actual data for costs and benefits. It is then compared with the IRR worked out by the project authorities at the time of project planning. The comparison indicates performance of the project as implemented.

Illustrations of Benefit Cost Analysis

8.19 Illustration 8.1 and Illustration 8.2 at Annex L to the Manual show application of the methodology of benefit cost analysis for financial and economic benefits respectively. The

illustrations are simplified cases and show how NPV and IRR are calculated by using actual data as compared to the planned data of the PCI. In actual practice, the auditors will come across various complications in determining the capital cost, operational cost and quantification of benefits. For handling these complex situations, the auditors should refer to *Performance Audit Guidelines Vol. 1* (1984) published by the Department of the AGP.

B. Sensitivity Testing

8.20 While planning a project a number of factors are unknown and the risk of changes that may affect the feasibility of the project remains high. One of the methods for facing such challenges is to estimate the effect of possible changes in various assumptions of the project and see how each change will affect the profitability or feasibility of the project. For example, if the estimate time for construction is 2 years, it is a valid question at the planning stage to ask: What will happen to the NPV and IRR if the construction takes 3 years? Similarly, it is an important question to ask: Flow will a certain percentage increase in the estimated capital or maintenance cost affect the overall profitability of the project? Such questions can be answered by using sensitivity analysis. The technique aims at determining the effect of changes in cost and benefit variables (in terms of cost and time) to NPV of the project. The technique is applied as follows:

8.21 Taking the base-line data for appraisal of the project as in PC 1, financial or economic analysis is carried out. It gives figures of estimated NPV and IRR. As a second step, NPV and IRR are calculated by assuming changes in different variables, one at a time, keeping the other variables as constant. For example, the questions often posed are as below:

- (a) What will be the NPV of the project if the capital cost exceeds the estimated cost by 10 percent?
- (b) What will be the NPV if the project takes a year longer than estimated for completion?
- (c) What will be the NPV if the project output is reduced or increased by a certain percentage?

8.22 In each case, the NPV is worked out by changing the data for one assumption at a time, keeping rest of the data as constant. The result, in terms of NPV and IRR, is tabulated in ascending or descending order indicating the variable, which would affect the project most.

8.23 The sensitivity analysis is mostly used at the time of project planning. But it can also be used at the time of performance audit, taking actual figures for whatever period they are available and extrapolating them for the rest of the project's life on the same trend. In this way, it can be estimated what factors could affect the performance of the project and to what extent in the future. The auditors can make recommendations for appropriate action in case they foresee significant changes in the performance of the project in the future. For example, in a power distribution project, using the actual data for five years for a project with an expected life of 25 years, the sensitivity analysis might indicate that the NPV of the project is most sensitive to a 20 percent increase in the electricity price. It might indicate that increase in the price of electricity should remain below 20 percent for some time to come. The auditors can phrase appropriate recommendation in their audit report on basis of sensitivity analysis.

C. Output Budgeting

8.24 In social sector projects determination of benefits is often a problematic issue. For example, it is very difficult to determine in quantified terms the benefits of educating a student or treating a patient in a hospital or supplying a gallon of water or cleaning a certain area of the street. In such

projects, the emphasis is in delivering services. The objective of performance audit in such projects is to see if the cost of a unit of service or unit of output was the same as planned. For this purpose the technique of output budgeting is used.

8.25 Output budgeting method uses the concept of time value of money and techniques of discounted cash flows. The auditors take the output budgeting analysis done at the time of project appraisal and adopt it as a benchmark. Using actual data for the period of operation of the project and supplementing it with the estimated data for the residual life of the project, the auditors carry out their own output budgeting analysis and determine the variance in the unit cost as compared to the planned unit cost on which the project was appraised and justified.

8.26 The auditors discount the *costs* and the *outputs* at various points in time at a certain rate of interest. The rate of interest is usually the same on which the project is justified by the project authorities at the time of appraisal. The *discounted total cost* is divided by *discounted total output* (physical units). The quotient gives the unit cost.

Illustration 8.3 at Annex-L shows how to use the technique in performance auditing.

D. Correlation and Regression Analysis

8.27 Correlation and regression analysis is a statistical technique that relates two variables for determining the effect of one on the other. For example, the auditors may like to know the relationship of education level with the earning level of the persons. They would collect data on these two variables and determine coefficient of correlation. Although it is possible to perform the analysis through manual calculation, yet it has become enormously simply by using Excel software on computer⁹. The analysis involving multiple variables, known as multiple regression analysis, is also possible but becomes very complex. The auditors would require help of statisticians. Some situations where regression analysis can be used are as follows:

Test a relationship

8.28 A program under audit may have assumed a relationship between two variables. For example, in a public distribution system, entitlement for income support (Y) is linked to income level of the beneficiary (X). People having an income level lower than a certain cut-off margin are eligible to receive the benefit. A definite relationship between Y and X has been assumed in the design of the program. Performance auditors may like to test whether the program management is adhering to the assumption while administering the income support. They collect actual data on both variable: income level (X) and income support (Y) and calculate correlation between the two. A high coefficient of correlation (more than 50%) indicates that the assumption of program is valid and operational. A low coefficient (less than 50%) indicates that the assumption of the program is not being adhered by the management while administering the assistance to the beneficiaries.

Identify unusual values

8.29 When the bulk of the data falls in a pattern, there will be a high coefficient of correlation for the bulk. However, there could be some items of data which do not follow the pattern of the bulk. Regression analysis can point to these outliers. These could be problem areas. For example, it is possible, in the above example, that the coefficient of correlation is around 0.8 for all districts of a province but only 0.3 for one district. The administration can look into causes of the situation. Performance auditors can include conclusion of the analysis in their report.

⁹ The auditors can access various statistical formulas in the Excel menu by clicking on the icon ' and scrolling down to statistical and clicking at 'Correlation?.'

Identify causal relationships between variables

8.30 Regression is an efficient technique for identifying the causes of observed situations and thus aid in framing proper recommendations. For example, there could be very few underprivileged students going in for higher education. This could be the observed situation in an audit. The causes could be:

Lower awareness of higher education opportunities

Lower attainment hence cannot attain required standards for higher education.

Economic, social conditions that do not encourage higher education

8.31 Regression analysis can be done to identify the dominant cause for the observed phenomenon of less underprivileged students in higher education.

Make projections

8.32 Regression analysis provides a relationship between variables. Once the relationship has been determined on basis of limited data collected during audit, it can be used to project the relationship on a wider scale. It can also be used to make projections for the future based on an observed relationship held in the past.

8.33 Illustration 8.4 at Annex-L to the Manual shows the method of calculating coefficient of correlation.

E. Ratio Analysis

8.34 Ratio analysis is one of the most commonly used methods of data analysis. It involves comparison of two or more variables of data over a base value. The base value can be a time period or any other value. For example, what is the ratio of staff time with number of complaints in providing a service? Or, what is ratio of complaints in the current year as compared to the last year? The ratio analysis, though simple in concept and use, can cause problems in practice. For example, the auditors can make gross errors in using ratio analysis if they do not see the analysis in its proper context. If, for example, the data being compared is insignificant with reference to the total population, the result may convey a wrong message. For example, if in a total population of 7500 payments, only 10 payments were made by cheque and five of them had errors, we cannot say that 50 percent of the cheques were incorrect. Though factually true, it conveys a wrong message. Similarly, ratio analysis where the denominator is zero would convey a wrong message. For example, if error in cheque writing in a base period was zero and it rises to 5 in the next month, the ratio would be infinity, which is wrong.

F. Simple Statistical Measures

8.35 Performance auditors can use simple statistical measures for analyzing the data. Some of the more commonly used measures are as follows.

Mean

8.36 Mean or arithmetic mean refers to simple average of values. For example, if a department has a fleet of 20 cars and the total consumption of fuel for one month is 5000 liters. The mean consumption per car will be 250 liters. The mean value may not be representative of the fuel used for all makes and models of the cars. There could be cars which are using more than 500 liters and others less than 150 liters. The average figure hides these differences. For the data containing one or two extremely large or very small values the mean will not be a representative figure. The performance auditors should keep this fact in mind while using the mean value.

Median

8.37 It is the mid-point value in a population. In the above example, the median figure for fuel consumption could be 205 liters, which means that half of the cars are using 205 liters or more and the other half less than 205 liters. For finding out median value, the cars and the fuel consumed by each car are listed in ascending or descending order. The mid-point value in the list is the median value.

Mode

Mode is the value of the observation that appears most frequently. For example, if in the fleet of car mentioned above, 13 cars consume 220 liters per month, the mode value will be 220 liters. Mode is not affected by extremes of values and can be used, like median, as a measure of central tendency.

Average deviation

8.38 It is arithmetic means of the absolute values of the deviations from the arithmetic mean. For example, in the above example, the mean consumption of fuel is 250 liters. However, consumption by each car differs from this number. If we find out the difference between the consumption of fuel of each car and the mean value and then take an average of the deviations from the mean, we arrive at the average deviation. While doing so we ignore the positive or negative signs of the difference. The average deviation makes up the deficiency of the arithmetic mean as it takes into account the value of each unit in the population and compares it with the average.

Variance and standard deviation

8.39 Variance is the arithmetic mean of the squared deviations from the mean. Standard deviation is the square root of variance. In case of variance, the value of variance is not indicated in the units of population. For example, variance in the above example will be an isolated number and not liters of fuel. As compared to this standard deviation is in terms of the units of population. In the above example, the standard deviation will be termed as liters of fuel.

8.40 The calculation of variance and standard deviation is illustrated in the following table. For convenience of performance auditors, the technical symbols have not been shown so that the concept becomes easy to understand. A formal presentation of these concepts can be seen from any standard text on statistics for undergraduate student.

8.41 Taking the above example further we find in case of fuel consumption of 20 cars, the mean value is 250 liters. The aggregate of deviations of consumption of fuel, variance and standard deviation are as follows:

Table 3: Example of Variance and Standard Deviation

Cars	Fuel	Deviation from mean	Dev. From mean without +/-sign	Dev. From mean squared
1	290	-40	40	1600
2	235	15	15	225
3	300	-50	50	2500
4	295	-45	45	2025
5	215	35	35	1225
6	290	-40	40	1600
7	325	-75	75	5625
8	190	60	60	3600

9	300	-50	50	2500
10	180	70	70	4900
11	225	25	25	625
12	270	-20	20	400
13	190	60	60	3600
14	270	-20	20	400
15	230	20	20	400
16	260	-10	10	100
17	240	10	10	100
18	220	30	30	900
19	230	20	20	400
20	245	5	5	25
Total	5000	0	700	32750
Mean	250			
Average deviation			35	
Variance				1637.5
Standard deviation				40.5
Mean = 5000/20 =250 liters				

Average deviation= $700/20 = 35$ Variance = $32750/20 =$

1637.5

Standard deviation = square root of 1637.50 = 40.5 liters

8.42 Standard deviation is commonly used as a measure to compare the spread in two or more sets of observations. In the above example, the standard deviation of fuel is 40.5 liters. In a second series of cars, where the average is about the same (250 liters), the standard deviation could be 56.7 liters. We can conclude that the dispersion in the first series is less skewed as it clusters more closely to the average. (40.5 is smaller than 56.7). The average figure (250 liters) in the first series is more representative of the population as compared to the same average for the second series.

G. Analysis of Cost Over-run

8.43 Performance auditors often come across situations of cost over-run in development projects. The usual explanation they get is that the cost over-run was beyond the control of management because it was caused by such factors as inflation, fluctuations in foreign exchange rates, additional taxes and duties, etc. For validating these assertions, the auditors should deepen their analysis of the cost over-run. The auditors should analyze the cost over-run into two segments: (a) cost overrun caused by *uncontrollable* factors such as inflation, foreign exchange rate variations, and taxes, etc.; and (b) cost over-run caused by *controllable* factors, such as waste, theft, lack of a sense of urgency, poor risk management, and careless planning, etc. The auditors should proceed as follows to deepen their analysis.

Uncontrollable Cost Over- Run

Cost over-run caused by inflation

8.44 The auditors should segregate all cost elements into (a) local purchases and (b) imports. For local cost purchases, the auditors should obtain information on price indices published by the government or other reliable organizations. They should then apply the rate of inflation on the planned data and then deduct the original planned cost data for each year from it to find increase in

cost due to inflation. For example, suppose the planned cost data pertained to year 2007. The execution started in year 2009. The auditors should apply the rate of inflation for years 2008 and 2009 to respective costs incurred during these years and then deduct the 2007 data in the project plan from the aggregate of 2008 and 2009. The difference would be increase in cost due to inflation, assuming other factors are constant.

8.45 For imported goods and material, the auditors should compare the estimated costs in the project plan and invoices of the foreign exporters to compare any increase in the prices of imported goods, materials and services as compared to the planned costs.

Cost over-run caused by foreign exchange rate fluctuations

8.46 The auditors should take the original cost data for those items having a foreign exchange component, such as import of machinery or raw material, etc. They should then determine any change in the foreign exchange rate of the local currency and the foreign currency since the project was planned and apply the change to the original cost data for those costs items that had a foreign currency component. The difference would give the extent of cost over-run due to fluctuation in the foreign exchange rate. For example: Suppose the original cost data had a 40 percent component of imported material. The rate of exchange in Pakistan Rupee, for example, and US dollar was 1 US \$ = Rs 66 at the time of project planning in year 2007. In year 2008, when actual imports took place the rate of exchange was 1 US \$ = Rs 70. The auditors can multiply the planned cost of imported items with Rs 4 per dollar and arrive at the extent of cost over-run due to rate of exchange.

Cost over-run caused by additional taxes

8.47 The auditors can calculate the additional tax burden since the time of project planning by applying the increased tax or duty rate where applicable.

8.48 Adding the cost over-run worked out above due to (i) inflation (ii) changes in foreign exchange rate (iii) additional taxes would give the extent of cost over-run due to *uncontrollable* factors.

Controllable Cost Over- Run

8.49 The auditors can now deduct the figure of *uncontrollable* cost over-run worked out above from the *total cost over-run*. It would give the extent of cost over-run due to *controllable* factors for which the management should take responsibility. They can go a step further and calculate the impact of controllable cost over-run on the NPV and IRR.

H. Analysis of Time Over-run

8.50 The performance auditors come across delays in implementation of projects. The client management has various explanations and excuses for the delay. Some delay can be caused due to factors that are beyond control of the management. However, some other delay can be traced back to lack of sense of urgency, inefficiency and negligence on part of the management and its employees. The analysis of time over-run can be done into (a) *uncontrollable time over-run* (b) *controllable time over-run*. The auditors should proceed as follows:

Uncontrollable Time Over- Run

8.51 The auditors should get explanation of the management about the time over-run. The auditors should dig deep into the factors enumerated by the management and try to quantify the extra time taken by the project by each factor. By its very nature, it is difficult to measure the delay in various activities until there are definite target dates for each activity. However, the real life situation is not like that. The project management authorities may be quite prompt on their own part but the cooperation they have to get from other agencies, in particular higher administrative echelons may not be forthcoming as visualized at the time of planning the project. For example, the project planners could have imagined that once the PCI is submitted, the Planning Division would take two

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months to approve the project. However, the Planning Division can take inordinately longer time. Yet we are not quite sure what should be the reasonable benchmark for approval from the Planning Division. In most of the cases such issues will remain contentious and it would be difficult to arrive at a benchmark that can be used to measure delay for each activity. Therefore, for each segment of work in the project management, the auditors would require a careful analysis and discuss with the management what could be reasonable and also exercise their own judgment about the same question. Only after such a careful analysis, they may be able to conclude whether there was any delay in a particular activity and if that was so whether that was beyond the control of the management.

8.52 The auditors should carefully assess if the management lost any time due to lack of sense of urgency. There could be delays just because the management did not have proper plans in place or did not have a mechanism to guide them for certain activities which could be started simultaneous and whether the management waited for completion of certain activities when there was no need to that. These factors require judgment. The management may not agree with the auditors' judgment and also may challenge the technical knowledge of the auditors about certain activities. In such cases, the auditors may require consultancy services of technical experts who could assess reasonableness of the time taken by the management.

Uncontrollable Time Over-Run

8.53 The auditors should then work out the extent of controllable time over-run. They can do so by deducting the extent of *uncontrollable time over-run* from the *total time over-run*. They can go a step further by recalculating the decrease in NPV and IRR of the project due to controllable delay, if it runs into years. This can be done by recasting the original cost and benefit estimates in time series by adding *uncontrollable* time over-run period into the planned time series. For example, if the planned time series of the project started from 2007 onward and the extent of *uncontrollable* delay was two years, the auditors can recast the planned cost and benefit data by building into it delay of two years. Once this is done, the base data of cost and benefits would have the effect of *uncontrollable* delay of two years. They can then work out the NPV and IRR for this data and use it as benchmark for comparison with the actual data and show how much decrease in NPV and IRR took place only due to *controllable* delay. This would be attributable to the inefficiency of the management.

Chapter 9

Audit Supervision and Review

9. Audit Supervision and Review

A. Responsibility for Supervision

9.1 Overall responsibility for supervising performance audit rests with the DG. However, on day to day basis, the Director in charge of performance audit will be responsible for supervising the audit team during all stages of audit starting from planning till completion of the assignment.

9.2 INTOSAI auditing standards require that all audits should be supervised regardless of the competence of the auditors for maintaining quality of audit. The standard is applicable to performance audit as well. The supervision involves at least following activities:

- Directing audit team and monitoring its work to ensure that the audit objectives are met.
- Providing advice, counsel, and on-the-job training to members of the audit team.
- Discussing audit objectives, audit criteria, audit procedures and scope of audit to ensure a common and clear understanding by all members of the audit team.
- Monitoring work of the audit team for ensuring proper compliance with all planned procedures.
- Ensuring that audit evidence is appropriate, sufficient and documented and supports the audit conclusions.
- Assuring quality of audit with reference to INTOSAI and Departmental standards.
- Ensuring achievement of milestones in all phases of the audit.
- Controlling cost of the audit and keeping it within the budget.

9.3 The Director will track work of the audit team during all phases of audit. For ensuring that the audit team performs according to auditing standards the Director will use the following tools and document his or her work properly:

- (a) Supervision Tool for Reviewing Audit Planning
- (b) Supervision Tool for Reviewing Field Work
- (c) Supervision Tool for Audit Completion

B. Supervision Tool for Reviewing Audit Planning

9.4 The Director should review work of the audit team relating to planning of audit assignment. The objectives of this review are to ensure that:

- The audit plan follows the auditing standards.
- The plan is comprehensive and includes information on objectives, scope, and methodology, criteria, time and cost budgets.
- The plan relies on risk assessment and other prescribed criteria for identifying audit issues.
- The plan defines the audit milestones realistically.
- The plan is likely to achieve audit objectives in an efficient and economic manner.

The Director should use the *Supervision Tool for Reviewing Audit Plan of a Performance Audit Assignment*. (Annex-M) Use of the Tool is mandatory. The Field Audit Office will keep record of the Tool signed by the Director and the DG.

C. Supervision Tool for Reviewing Field Work

- 9.6 The Director should remain in close contact with the audit team during the field work phase. He/she should ensure that the audit is progressing according to the schedule and there are no likely delays in completing the audit. However, if there is a likelihood that the audit will take longer than the planned duration, he /she should find out reasons for the delay and take necessary action to complete the audit on time. If the delay is due to non-cooperation of the auditee in providing necessary information the Director should contact the auditee organization by phone, e-mail, correspondence and meetings, etc and try to get the required information. If need be, the Director should inform the DG who should take steps to obtain the necessary information. In rare cases, it may be necessary to raise the matter to the level of Deputy Auditor General concerned for intervening at appropriate level for getting the information.
- 9.7 The Director should review work of the audit team as deemed necessary but at least twice: once when the field work is almost mid-way through and again at the completion of the field work but before the Exit Conference.
- 9.8 The Director should review the work of each member of the audit team on sample basis.
- 9.9 The objective of review by the Director should be to ensure:
- The audit team is following the approved audit program and to enquire about any significant deviations from it.
 - The audit working papers have cross-references to the audit program and vice versa.
 - The audit conclusions are supported by reliable, sufficient and documented evidence.
 - The conclusions emerging from the work done seem reasonable in light of the audit objectives and expectations of the audit management.
- 9.10 In case, the Director feels that the audit conclusions are not rigorous enough and the auditors need to carry out some further procedures, he/she should issue instructions to the team and if necessary also record these instructions for future reference.
- 9.11 The Director should also assess during the review if certain audit procedures have become superfluous in light of information received during the field work. In such a situation, the Director should advise the Auditor In-charge to follow the prescribed procedure for seeking approval of DG for changing the audit program. The working paper file will keep the original audit program as well as any authorized changes for future reference.
- 9.12 The Director should use *Supervision Tool for Reviewing Field Work of a Performance Audit Assignment*. (Annex-N). Use of the Tool is mandatory. The Field Audit Office will keep record of the Tool signed by the Director and the DG.

**Box v: Extract From *INTOSAI Standards*
*ISSAI300***

2. Supervision and Review

2.1 The field standards include

The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a member of the audit staff.

The following paragraphs explain supervision and review as an auditing standard.

2.2 Supervision is essential to ensure the fulfillment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore necessary in all cases, regardless of the competence of individual auditors.

2.3 Supervision should be directed both to substance and to the method of auditing. It involves ensuring that:

- (a) the members of the audit team have a clear and consistent understanding of the audit plan;**
- (b) the audit is carried out in accordance with the auditing standards and practices of the SAI;**
- (c) the audit plan and action steps specified in that plan are followed unless a variation is authorized;**
- (d) working papers contain evidence adequately supporting all conclusions, recommendations and opinions;**
- (e) the auditor achieves the stated audit objectives; and**
- (f) the audit report includes the audit conclusions, recommendations and opinions, as appropriate.**

2.4 All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalized. It should be carried out as each part of the audit progresses. Review brings more than one level of experience and judgment to the audit task and should ensure that:

- (a) all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;**
- (b) all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and**
- (c) changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff developments activities.**

D. Supervision Tool for Audit Completion

9.13 Completion of the field work leads to audit reporting stage. The Auditor In-charge gathers all audit conclusions from the team members and organizes them into a draft report.

9.14 The Director has to review the audit report written by the Auditor In-charge. This is the beginning of the process of preparing Draft Report of the Performance Audit. The Director will be closely involved in the report writing exercise. Normally, the Auditor In-charge will prepare several versions of the audit report and each version will be reviewed by the Director. The objective of this review is to ensure:

- The audit report is drafted on the prescribed template.
- The Executive Summary does not exceed 2-3 pages and contains the main findings and recommendations. The Findings section of the report follows the generally accepted pattern of criteria-conditions-causes-effects and recommendations.
Each audit observation has a topical sentence that sums up the main message of the observation.
- The audit report incorporates any responses or comments of the auditee on the audit observations that the auditors may have received during the course of field work or Exit Conference.
- The language of the report is clear and concise and, as far as possible, is in active voice.
- There is documented, reliable and sufficient evidence for all facts in the report.
The report should have significant findings and recommendations in the beginning. Presentation of the report is effective and contains figures, charts, diagrams and pictures.

9.15 The Director will use the Audit Completion Checklist and submit the report along with the Checklist for seeking approval of the DG.

9.16 The *Audit Completion Checklist* is at Annex-O. Use of the Checklist is mandatory. The Field Audit Office will keep record of the Checklist signed by the Director and the DG.

E. Review of Working Papers

9.17 The Director of audit should review a sample of working papers prepared by the audit team. He/she should select this sample from the work of all team members.

9.18 The objective of the review should be to ensure:

- The audit team has followed the audit program properly.
- The working papers support the audit conclusions.
- The top sheet of each set of working papers has reference to audit procedure in the audit program and vice versa.
Each working paper has a title page.
- All pages of the working paper file are numbered
- All working papers are filed in a serial order that facilitates quick reference and retrieval.
Each working paper documents the audit work done and the audit conclusion.
- Title page of working papers for each audit issue contains reference to any Audit Observation drafted as a result of the audit work done.
- The working paper file has a Table of Content.

9.19 The Director will record the working papers reviewed by him/her and sign the *Review of Working Papers Sheet*. (Annex P). Record of review on the Review of Working paper Sheet is mandatory and the FAO will keep record of the sheets signed by the Director and the DG.

F. Preparing for Quality Assurance Review: Mock-run

9.20 Overall responsibility for quality assurance lies with the DG. However, since the Director responsible for a performance audit assignment remains associated with the audit from beginning to the end, he or she is required to ensure that quality of the work at all stages complies with auditing standards and policies of the Department.

9.21 According to the policy of the Department, Audit Quality Management Wing (AQM) will conduct a Quality Assurance Review (QAR) when the draft performance audit report is ready and approved by the DG but before it is issued to the auditee for comments.

9.22 The DG and Director of audit should undertake an in-house exercise to prepare for the QAR by AQMW. The exercise will be conducted as follows.

9.23 The DG will constitute a forum (the Forum) for in-house QAR. The DG will chair the Forum. Other members of the Forum will be Director(s) of the FAO. In case, there is only one Director in the FAO, the DG should request participation of at least one officer from a sister FAO (preferably located at the same station) of the level of a DG or Director.

9.24 The DG will fix a date for mock-run of the QAR and ensure that all members of the Forum attend.

9.25 The Auditor In-charge and other members of the audit team will present the report to the Forum where the DG will play the role of DAG. Other members of the Forum will play role of the members of the Quality Control Committee (QCC).

9.26 The presentation by the audit team will cover at least the following:

A brief introduction to auditee organization and subject of audit

- Audit objectives
- Audit scope and methodology
- Key persons interviewed
- Locations visited
- Time taken in various stages of audit
- Cooperation received from the auditee
- Constraints and limitations of audit conclusions
- Main audit findings
- Audit recommendations
- Need for any follow-up audit
- Lessons learned

9.27 Objective of the presentation will be to persuade the chair about the audit conclusions.

9.28 The Forum will challenge the audit conclusions and recommendations. The audit team will defend the report.

9.29 The Forum should conclude with clear instructions for any further action to be taken by the audit team or any changes to be made in the audit findings and recommendations. The conclusions of the Forum will be recorded and issued to the audit team and kept in the working paper files.

9.30 The audit team with the help of Director will take the recommended action before the AQMW conducts its QAR.

G. Preparing for Public Accounts Committee

9.31 The stage of preparation for Public Accounts Committee comes when the final report has already been issued to the auditee and replies have been received. The preparation for the Public

Accounts Committee in respect of a performance audit report follows similar steps as are undertaken for financial audit and compliance audit reports. There are no special procedures to be followed while preparing to present a performance audit report before the Public Accounts Committee.

Chapter
Formulating Audit Observations

10

10. Formulating Audit Observations

A. Format of Audit Observations

10.1 The audit team should wrap up field work after the Exit Conference and commence with formulation of audit observations to be included in the Draft Performance Audit Report. During the field work the audit team interacts with the auditee staff besides carrying out various audit procedures planned in the audit program. The Exit Conference gives the team a fairly good idea about validity of the audit findings. Now is the time for converting the audit findings into audit observations. The observations, in turn, are basis for forming conclusions against each of the audit objectives. The auditors should assess the significance of the observations in relation to the audit objectives.

Audit Conclusion: Topical Sentence

10.2 As a good practice, each audit observation should start with audit conclusion. The audit conclusion is main message of the observation. In common parlance we can compare it with the headline of a newspaper. The auditors should try to sum up the conclusion in one sentence. This sentence can be called 'Topical Sentence'. The Topical Sentence informs the reader about gist of the observation. The wording of the sentence should be such that it conveys the main message even if one does not read the whole observation.

Going Back to the Audit Criteria

10.3 The audit criteria provide the basis for audit observations. The criteria consist of expectations of the auditors from the auditee management and entity operations. While planning for the audit, the auditors would have discussed the audit criteria with the auditee management. They should now have the confidence that the auditee management would not question the audit criteria.

Conditions Found

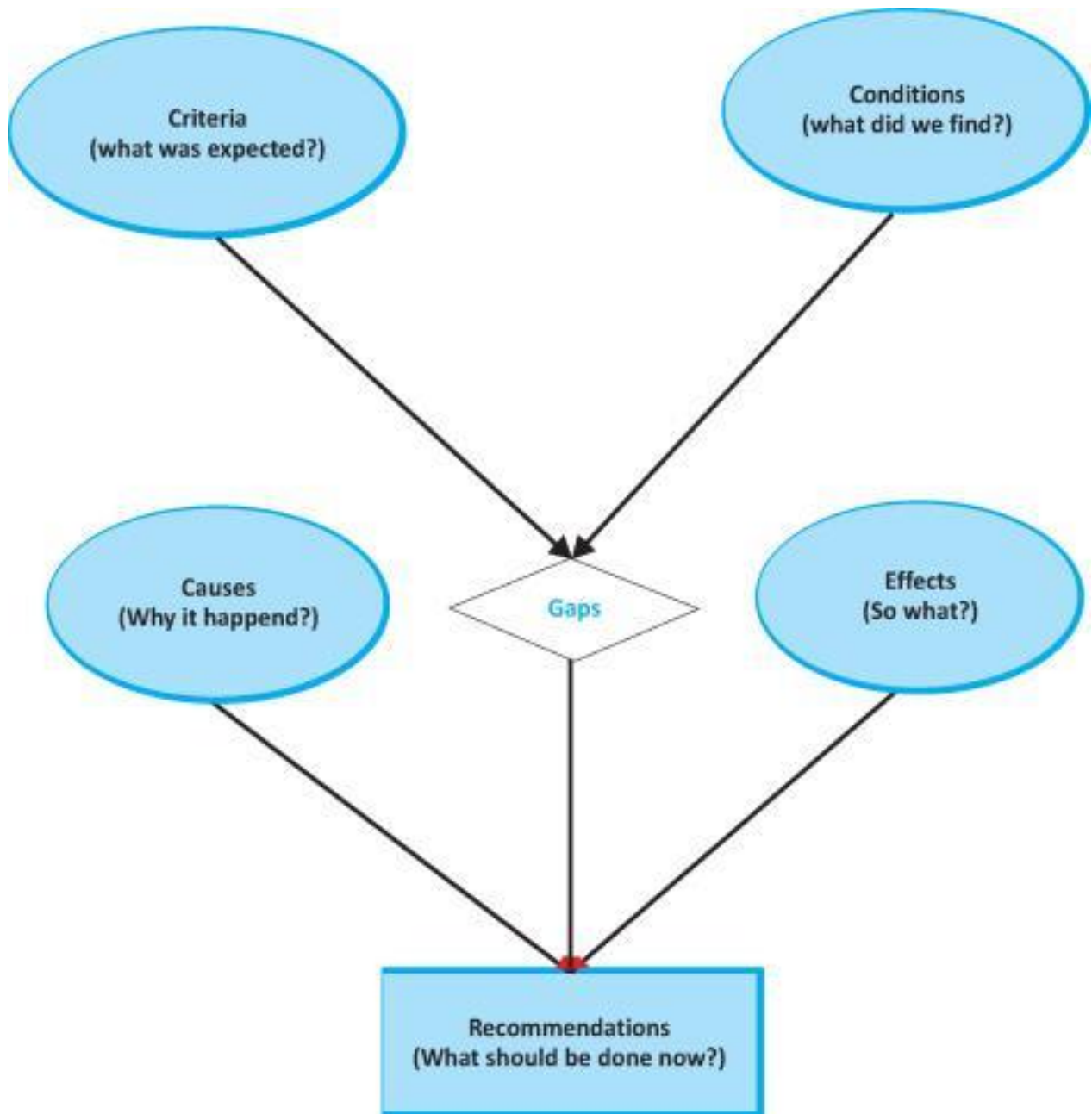
10.4 While following the audit program, the auditors document conditions found on the ground. If the conditions on the ground meet the criteria, the auditors have a positive conclusion. They should mention it in the audit report by acknowledging achievements of the auditee management.

10.5 The audit team should identify any gaps between the audit criteria and the conditions on the ground. The gaps indicate qualified or negative conclusions which constitute potential material for the performance audit report. However, the audit team must validate their findings for accuracy of the facts. In reaching a decision on the observation, the auditors should also look at interrelated facts and other relevant evidence to have confidence on their conclusions.

Analysis of Gaps

10.6 Once the facts are confirmed to be valid, the auditors should commence with analysis of the gaps between the audit criteria and the conditions found. The analysis requires that the auditors probe into causes for the gaps. There could be reasons which are beyond control of the auditee management. In that event, the auditors must recognize this fact and mention it in their report. Similarly, if the gaps exist because some of the internal controls are weak or missing, the auditors

Figure D: Developing Audit Observations



analysis should lead the auditors to identify (a) controllable causes; and (b) uncontrollable causes. The former category leads the auditors to suggest actions that can help improve performance or to hold persons responsible for poor performance. The latter category will provide material for the AGP's report to the parliament for long-term and strategic action plans.

So What?

10.7 The auditors often come across situations where they point out gaps between criteria and conditions and also show that the management could do better. However, the auditee management may disagree with the auditors. They might ask: if we have not met the audit criteria, so what? What has been the impact of that on our operations? The onus to answer this question is on the auditors and they should be well prepared for that. They must be able to show that the gap between criteria and conditions has significant impact on the performance of the organization.

10.8 The auditors should try to provide evidence from operations of the auditee and examples of cases noted during the field work and show how performance of the audited organization has been lower than expected and how there was room for improvement. While doing that, the auditors should attempt to quantify their conclusions as far as possible. In some cases extracts from auditee files, written replies to audit queries and interview replies could be appropriate bases to show impact of not meeting the audit criteria. Examples of the impact could be higher cost in procurement, longer than expected time in completing certain tasks, poor quality of service, improper targeting of service delivery, weaker controls creating opportunities for corruption and fraud, dissatisfaction of citizens expressed through media and other means, bad governance and misuse of discretion, etc. The auditors should try to determine who is affected by the issue (for example, other units in the organization, central agencies, third parties, etc).

10.9 The auditors should determine auditee management's awareness of the issue. If the management is aware of the issue and the corrective action is under way, the issue may have less significance for reporting purposes. Certainly it will change how the matter is reported.

10.10 The auditors should have confidence about their analysis on the basis of evidence they have gathered and also from discussions with the auditee staff during the field work. The Director during review of the field work and the DG during mock-run for Quality Assurance Review should challenge the audit team about audit findings, audit analysis and impact of audit recommendations. The objective should be to be on sure be to get confidence about audit findings and recommendations.

What should be done?

10.11 The last step in developing the audit observation is to answer the question: What should be done to remedy the situation or improve the performance? That takes the auditors to the question of developing appropriate recommendations. The audit team needs to consider the following questions in order to develop good recommendations:

- What needs to be done?
- Why does it need to be done?
- Where does it need to be done?
- Who is responsible for doing it?
- What are the expected effects of the recommendations?

Could implementation of the proposed recommendation have negative effects elsewhere?

10.12 The litmus test of an appropriate recommendation is its acceptance by the auditee

expensive, pre-mature, unfair or unsuitable for any reason, it would never implement it. The

of the people at large. If the auditee management finds a recommendation unsuitable or unacceptable, the FAO should review the recommendation at the highest level and if necessary at the AGP level. It is only when the AGP considers that the recommendation must be made despite auditee resistance, that the FAO should include it in the draft performance audit report. In all other cases of auditee resistance, the FAO should either modify the recommendation or withdraw it.

10.13 An appropriate audit recommendation has following characteristics:

- (a) The recommendation should flow logically and directly from the audit findings.
- (b) The recommendation should be practical. Preferably, it should not require additional resources. The cost of implementing the recommendation should not outweigh the benefits expected from it.
- (c) The recommendation should not deal with actions that fall outside the domain of the auditee management such as political or legislative action. However, in case the FAO considers that a change in law is also necessary, the matter must be discussed at the level of AGP before including it in the performance audit report.
- (d) The recommendation should propose some action by the management which can be verified once completed. A good idea not supported by expected action will not make a good audit recommendation.
- (e) The recommendation should state what should be changed and avoid telling how this should be done. The exact method of bringing the change is domain of the auditee management and the auditors should avoid getting into that.
- (f) The recommendation should identify the person, entity or the level which should implement it. The public sector organizations generally have a large number of persons and several organizational levels. Until it is clearly mentioned who should take action, the recommendation remains dormant. Everyone keeps waiting for someone else to take action. When the audit report clearly mentions that such and such person or entity should take action, the accountability requirements are also well-defined and it becomes possible to find out who has or has not taken action on the recommendation. It further means the audit team should discuss the recommendation with the prospective auditee staff that would be required to implement it. This would inform the auditors any hidden resistance at the implementation level quite early and they can fine-tune the language and content of the recommendation appropriately. It would increase the rate of acceptability of audit recommendations.
- (g) The recommendation should be formulated in a stand-alone style so that it is possible to understand it even in absence of detailed audit report. It means the wording of the recommendation should be such that it does not require reference to any specific part of the audit report.
- (h) The recommendation should, as far as possible, give a time-frame during which it should be implemented. Open ended recommendations (for future only) do not cut much ice. The auditee organizations find such recommendations easy to respond by saying: "Noted for compliance." Quite often, such a response is without much substance. The auditors should

discuss the question of the time-frame with the auditee management during the field work and in Exit Conference and embed it in the recommendation. It would be possible, later on, to monitor implementation of the recommendation.

- (i) The recommendation should be persuasive and show the advantage clearly if it is implemented.

B. Documenting Audit Observations

10.14 The audit observations should be prepared in a manner that allows cross-references to: (a) audit program; (b) audit working papers.

10.15 The Auditor In-charge should prescribe a numbering scheme for audit observations and all members of the team should follow it. The audit working papers and the audit program should have cross reference to the audit observation number(s).

10.16 The text of the audit observation should show clearly and in bold letters (in a distinct color) the the audit evidence from the audit observation. It should also be possible to trace the audit observation from working papers and audit program.

10.17 The auditors should use the *Template for Audit Observation* for documenting the audit observations (Annex-Q).

C. Internal Clearance of the Audit Observations

10.18 Every member of the audit team will be responsible for drafting the audit observation emanating from his or her audit work. The Auditor In-charge will review the audit observations prepared by the team members and ensure that the format and content meet the FAO standards.

10.19 After analyzing and synthesizing the audit evidence, the audit observations pass through the formal internal approval procedure of the FAO. Generally, the Auditor In-charge will present draft of the audit observations to Director responsible for performance audit. The Director will review the audit observations and may like to discuss them in detail with the audit team to confirm his or her understanding of the audit conclusions.

10.20 The Director will review the relevant working papers on the basis of which the audit observation sufficient, relevant and valid audit evidence. (Annex-Q)

10.21 The DG will review each audit observation and satisfy himself/herself that:

- (a) The audit observation is related to the audit objectives.
- (b) The observation meets the overall policy and approach of the FAO on the subject.
- (c) The auditee management agrees with the audit recommendation or the disagreement is recorded in the observation.
- (d) The recommendation has a reasonable probability of acceptance at the level of AGP and PAC.
- (e) The risk exposure of the FAO is minimal by issuing the observation.

Chapter
Formulating Audit Observations

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11. Reporting Results of Performance Audit

A. Stages of Performance Audit Report

n.i

The performance audit report has two main stages: (a) draft performance audit report; and (b) final

culmination point. The culmination point for the draft report arrives when the DG is satisfied about format and content of the audit report and presents it to AQWM for Quality Assurance Review. Once AQMW clears the report for quality, the DG issues the draft report to the auditee management for comments and replies.

11.2 The culmination point of the final audit report arrives when the AGP approves the report for issuance to the auditee and Public Accounts Committee through normal procedure. The AGP will approve the final report after the concerned DAG has reviewed it and found it suitable for AGP's approval. The DAG of Audit will ensure that the report complies with the overall strategy and policy of the AGP, has sound analysis and appropriate recommendations, and responses and comments of the auditee management have been taken care of in the text of the report. The DAG may require the DG to

11.3 The structure of draft and final performance reports follows the prescribed template. The main as are necessitated by auditee responses or review of the AQMW during Quality Assurance Review. The

11.4 The draft and final performance audit reports should adhere to *INTOSAI Auditing Standards*. (ISSAI 400 and ISSAI 3000). Annex-A contains a summary of *INTOSAI Auditing Standards* on reporting.

B. Creating High Impact Performance Audit Reports

11.5 Reparation of performance audit reports poses special challenges to the audit team. The

and have varied interests. Most of them would like to read 'horror' stories. Others would be interested in 'catching-the-thief type of presentation in the name of public accountability. While the auditors

honest, objective and fair. The challenge for the auditors is to present high impact reports without compromising on their professional commitment.

11.6 The audit team should ensure that the performance audit report adheres to the following best practice. The report should:

- Have current and topical information.
- Be unbiased and fair and report the point of view of the management as well.
- Be written in plain language avoiding technical jargon as far as possible.
- Have graphics, charts, photos, headings, sub-headings with text boxes for significant points.
- Have actionable and practical recommendations.

11.7 The performance audit report should have the following style.

- It begins with achievements of the auditee before it goes on to the shortcomings.
- The chapters and paragraphs are logically connected.

Each audit observation begins with a topical sentence.

The language of the report avoids subjective judgments and expressions like 'frauds, embezzlements, misappropriations, etc' until there is an irrefutable evidence to that.

The language of the report uses active voice as far as possible.

The report avoids using nouns where verbs can be used. For example, use of "determine" instead of "determination"; "provide" instead of "provision" etc.

The table of contents is elaborate enough to give an outline of the report.

11.8 There is a growing awareness that the audit report should use graphics and audio-visual aids to make a simple and quick reading. The following table illustrates the use of different types of graphics.

Table 4: Using Graphics in Performance Audit Reports

For	Type of Graphic
Numerical information and comparison of figures	Tables
Trends over a period	Line graph
Comparison of trends of two or more variables	Multiple-line graphs
Comparison of totals of one variable over the same period	Simple bar chart
Comparison between two or more variables over the same period	Multiple bar chart
Comparison between proportion of the total made up by two or more discrete items over the same period of time	Percentage bar chart
Division of a total between parts	Pie chart
Procedure or instructions sequence	Flow chart
Achievements/ deficiencies noted during physical verification/visit	Camera photos
Reference to geographical locations	Maps

C. Format of the Performance Audit Report

11.9 The AGP has prescribed *Performance/Project/Program Audit Report Template and Guidance Notes* which is given at Annex-R to the Manual. It is mandatory to follow the *Template* for preparing draft and final performance audit reports. The main segments of the audit report given in the *Template* are as follows:

- Preface
- Executive summary

- Introduction
- Audit objectives
- Audit scope and methodology
- Audit findings and recommendations
- Conclusion
- Acknowledgement
- Annexes

D. Review and Internal Clearance of the Draft Report

11.10 The draft performance audit report will pass through successive versions first at the level of Auditor In-charge and then at the level of Director. The Director should use computer software "Word" and enable the option 'Track Changes' to show changes he or she has made in the versions under review. The changes made by the Director should remain in the working paper file for subsequent review and reference.

11.11 The Director will submit the draft audit report for approval by the DG. While doing so, the Director will attach the *Audit Completion Checklist (Annex-O)*.

11.12 The DG will review and approve the draft report before AQMW is requested to hold Quality Assurance Review. For avoiding any unnecessary delay, the DG should agree with AQMW a formal plan for review.

11.13 After review by AQMW, the DG will instruct the audit team to make such changes as are necessary and finally approve the draft audit report for issuance to the auditee management.

E. Auditee Response on Draft Audit Report

11.14 The purpose of issuing the draft audit report is to:

- Give the auditee management an opportunity to examine the facts as understood and reported by the auditors
- Rectify any errors in facts
- Test feasibility of recommendations
- Provide an opportunity to the auditee management for any additional information

11.15 The office copy of the draft performance audit report will have cross-references to working papers. However, before issuing the report to the auditee management, the Auditor In-charge will ensure that cross-references to working papers are removed, making the report a more readable document.

11.16 The covering letter to the draft audit report should fix a time table for receiving replies from the auditee management.

11.17 The Auditor In-charge will follow-up with the auditee management for replies and in case of delay the Director of Audit will contact the auditee management for expediting the replies. In rare cases, it may be necessary for the DG of Audit to contact the auditee for replies to the draft audit report.

11.18 In case the auditee management refuses to give replies or causes inordinate delays, the DG may decide to proceed to preparation of final audit report without auditee replies but should mention this fact in the report.

11.19 On receipt of auditee response, the Director will arrange verification of the replies with reference to primary records maintained by the auditee. Normally, this should be done by the Auditor In-charge. However, the Director may also assign this task to another auditor, if necessary.

11.20 The Director will ensure that the Auditor In-charge prepares further comments on responses received from the auditee. These comments will take into account verification of the responses done by the office. The further comments may consist of disagreement or conflict with the auditee responses. In that case, the DG should ensure that the further comments have a valid basis and can be defended in the PAC. In case, the Auditor In-charge agrees with the auditee management, he or she should modify the draft report but specifically mention these changes in the accompanying note for attention of the Director/DG of Audit.

11.21 The Auditor In-charge may incorporate the oral comments of the auditee in the audit report in following cases:

- Where the audit team has been working with the auditee staff closely and the latter are familiar
- with the audit observations while in the making;
- The auditors have discussed the recommendations with the auditee management informally;
- The audit team does not expect a major disagreement from the auditee on audit recommendations.

F. Preparation and Approval of the Final Performance Audit Report

11.22 On receipt of replies to the draft audit report from the auditee management, the Director will discuss the replies with the audit team and issue necessary instructions for incorporating the replies and any further comments in final audit report. In case, the Director thinks that some observations of the draft report should be withdrawn, he or she should seek written approval of the DG.

11.23 After approval by the DG for withdrawing any parts of the draft report, the Auditor In-charge will prepare the final audit report. It may be necessary to prepare several versions of the final report, before it is submitted to the DG for approval. The final audit report draft submitted to the DG and subsequently to DAG and AGP will retain references to working papers.

11.24 The DG, after satisfying himself or herself about all aspects of the report, should submit it to the DAG for approval of the AGP and issuance to the PAC.

11.25 Before issuing the final audit report to the auditee management and PAC, the DG will ensure that cross-references to working papers are removed for making the report a more readable document.

11.26 The final audit report is a public document. It may be necessary at times to restrict or exclude confidential and sensitive information from the audit report. In such cases, the report to be submitted to the auditee management and PAC should mention this fact and the information so excluded should be provided to the members of the PAC separately with a covering letter.

11.27 The decision to exclude certain information from the audit report will be taken at the appropriate level in light of the policy of the AGP on the subject.

Chapter 12

Quality Assurance in Performance Audit

12. Quality Assurance in Performance Audit

A. Quality Assurance with Reference to Performance Audit

Performance auditing is a complex activity that often requires varied skills and competencies. Quality of performance audit depends to a greater extent on expertise of the auditors than auditing procedures. Despite that, there are certain minimum basics that must be met to produce high impact performance audit reports. The policy of AGP relating to performance auditing attaches a lot of importance to quality assurance in audit reports.

The objective of quality assurance is to give confidence to AGP that the quality control systems and practices in FAOs are working effectively and that the performance audit reports are appropriate. Quality assurance compares what is required of performance audit and what is actually being delivered.

Audit Standards of AGP (paragraph 2.1.27 and 2.1.28) relating to quality assurance apply to performance audit as well. The audit standards state as follows:

2.1.27. The Department of AGP shall establish systems and procedures to:

Confirm that integral quality assurance processes have been operated satisfactorily.

Ensure the quality of the audit report.

Secure improvements and avoid repetition of weaknesses.

2.1.28 As a further means of ensuring quality of performance, additional to the review of audit activity by personnel having line responsibility for the audits concerned, the Department shall establish its own quality assurance arrangements. That is, planning, conduct and reporting in relation to a sample of audits may be reviewed in depth by suitably qualified personnel of the Department not involved in those audits, in consultation with the relevant audit line management regarding the outcome of internal quality assurance arrangements and periodic reporting to help top management of the Department."

12.1 The AGP issued Quality Management Framework for Public Sector Auditing (QMF) in September 2010 for implementing the above standards. The QMF was revised in August 2011. The DG in a FAO will have the primarily responsibility for quality assurance in performance audit within the framework. The DG should put in place essential controls at all stages of performance audit to ensure that quality of the performance audit report meets International Standards for Supreme Audit Institutions (ISSAIs) as adopted by the AGP. The Director will also perform all functions relating to performance audit as envisaged for Director Quality Assurance in the QMF.

12.2 The process of quality assurance starts with annual planning for performance audit in a FAO. The FAO should be able to select entities, projects and programs for performance audit independently, remaining within the guidance provided in this Manual. The selection of audits should aim at adding value to public sector management and accountability framework. Proceeding from annual plan to detailed plan for an assignment, the Auditor In-charge should follow the guidance provided in this Manual and other relevant documents issued by the AGP on the subject. While reviewing the audit plan for an assignment, the Director and DG should ensure that the audit objectives and scope, methodology,

approach, criteria and procedures are likely to produce high quality audit report. For this purpose, they should ensure that the audit plan adheres to various instructions given in this Manual.

12.1 During audit execution the audit team should follow the audit program in its true spirit and document all evidence in working papers properly. It should be possible to retrieve relevant evidence in each case quickly. The Director should use various supervision tools prescribed in this Manual and ensure that audit conclusions are robust and defensible.

12.2 The DG should check the draft audit report with reference to supporting evidence and hold a mock-run for quality assurance before AQMW undertakes its Quality Assurance Review. The performance audit report should meet standards of language, format, style and structure prescribed by the AGP. It may also have comments on implementation of government policies. The final performance audit report should incorporate replies of the auditee management with further comments by the FAO, if required. In brief, the instructions given in this Manual for various stages of audit should be followed in true spirit to ensure a high quality performance audit.

12.3 The first level of quality assurance process is internal to FAO. The DG and Director of Quality Assurance (or Director of Performance Audit, if the Director of Quality Assurance is not available) make sure that the performance audit assignment meets expected standards. The second level of quality assurance is external to FAO. It is the responsibility of AQMW. The auditing procedures prescribed in chapters 1-11 of this Manual deal with various internal controls that the DG should implement for ensuring quality. The present chapter deals with quality assurance external to DG. It primarily deals with the role of AQMW and DAG concerned in assuring quality on behalf of the AGP.

B. Integrating Quality Assurance in Performance Audit with Quality Management Framework

12.4 Quality assurance in performance audit will follow the QMF. Responsibilities of Director, Director General and Deputy Auditor General with respect to financial audit and compliance audit as stated the QMF will also extend to performance audit. The details of the procedures to be followed for quality assurance can be referred to in the QMF. A summary to the framework is as follows.

12.5 Director of Performance Audit should ensure that the performance audit team has updated permanent files, planning files and working paper files. The Director will use supervision tools prescribed in this Manual (Annexes M, N, O, and P).

12.6 The DG should review reports submitted by the Director and take necessary corrective and/or preventive actions and submit the necessary information required by the DAG concerned.

12.7 AQMW will undertake Quality Assurance Review (OAR) as discussed in the following section and submit its report on each performance audit report.

12.8 The DG will submit draft of the final performance audit report along with Quality Assurance Report of AQMW and action taken by his or her office in modifying the draft report to DAG concerned. The DAG will review the draft of the final audit report along with AQMW Report on Quality Assurance to ensure that the FAO has carried out necessary modifications in the draft report as recommended by QAR.

12.9 The composition and procedure of Quality Control Committee (QCC) will be the same as prescribed in QMF. The DG, Director and Auditor In-charge should attend the QCC. The DAG concerned will also monitor implementation of any directives of the QCC before the audit report is submitted to Additional Auditor General.

12.10 The Additional AGP will ensure the adequacy of the QCC level review and grading awarded to performance audit reports, on a sample test basis. The Additional AGP shall sample performance audit reports normally from each grade-category to confirm the reliability of grading allocated by the QCC of the respective audit wing to its audit reports.

C. Quality Assurance Review (QAR) Process by AQMW

Planning for QAR

12.11 Quality Assurance Review (QAR) of all performance audit assignments is a regular function of AQMW. The annual work plan of AQMW will include a plan for QA of performance audit reports to be undertaken during the year. The head of AQMW will establish contact with all FAOs regarding annual audit plans. As soon as the annual plans of the FAOs are approved by the AGP, the FAOs will forward a copy of the plan relating to performance audit to AQMW.

12.12 AQMW will prepare a plan for QARs for all performance audits to be conducted by the FAOs by keeping in view the estimated dates of preparation of the draft performance audit reports. AQMW may have to negotiate the dates of its QARs with FAO because there could be periods of peak and slack activities in FAOs. AQMW should prepare its plan in mutual consultation with FAOs and ensure that its own resources are utilized to an optimum level and the FAOs also do not experience any bottlenecks in clearance of their report.

12.13 AQMW annual plan for QARs will have the format given at Table 12.1 below:

Table 5: AQMW Annual Plan for Quality Assurance Review for the Year ending 30 June ...

S. No.	FAO	Performance Audit Assignment	Estimated date for draft report by FAO	Schedule of QAR by AQMW

12.14 The DAG (AQMW) will approve the annual plan of AQMW relating to QARs. After approval of the plan, head of AQMW will communicate the plan to all concerned immediately.

12.15 Any changes in the schedule of the QAR will have to be decided mutually by the DG head of AQMW. However, if it is likely to delay the submission of final performance audit report, the DG requesting the change should first seek approval of the concerned DAG.

12.16 AQMW will prepare QAR Plan for each audit assignment on the format given at Annex-S

Execution of QAR

12.17 QAR is very much similar to an audit assignment. Normally, Director AQMW responsible for QAR or Quality Management Specialist (QMS) of performance audit will undertake this activity with the

approval. Head of AQMW may assign one or more officers to work with the Director/QMS, who will then be a team leader.

12.18 The team leader for QAR will inform the FAO about program and schedule of the review at least 2-3 weeks ahead of the schedule, allowing the FAO enough time to be in readiness.

12.19 The QAR team will work closely with the performance audit team, Auditor In-charge, the Director and the DG.

12.20 The QAR team will hold an Entry Conference with the DG. The DG will ensure that members of the audit team and Director should also attend the Entry Conference. The QAR team leader will discuss the scope and methodology of the review and also discuss time table for the entire exercise.

12.21 The primary work of the QAR will consist of the following:

- Interviews with the audit team and other officers of the FAO
- Review of planning files relating to the audit assignment
- Review of working paper files
- Review of audit report files

12.22 The QAR team will use the *QAR Tool* for systematic review (Annex-T). As the last column of the Tool indicates, the QAR team should prepare working papers for each review question, assign a number to each working paper and cross refer it on the body of the Tool for subsequent reference and retrieval.

12.23 The QAR team should prepare working papers files very much similar to what the auditors prepare in their routine work. The working paper files prepared by QAR team will be reviewed by head of AQMW after completion of the QAR and before submission of the QAR report to DAG concerned and to the FAO.

12.24 The QAR team will hold an Exit Conference with the DG and discuss main findings and recommendations.

Report of the QAR

12.25 The QAR team will summarize its findings and recommendations in a report titled as *Report on Quality Assurance Review of Performance Audit Assignment*. (Annex-U).

12.26 The QAR team will submit its report to DAG AQMW who will transmit it to FAO concerned and to DAG (APSS) for information.

12.27 The FAO will implement recommendations of the QAR. In case of disagreement, the DG will refer the matter to head of AQMW for resolution. In case, it is not resolved at that level, the DG will raise the matter with its concerned DAG for such necessary action as the DAG deems fit.

12.28 The FAO will report its disagreement to QCC and reasons for not implementing the recommendations of the QAR.

12.29 The DAG of the FAO will report the matter of not implementing the QAR recommendations to Additional AGP for a final decision.

D. Client Satisfaction Survey

12.30 Performance auditing aims at improving public management. In that sense it is a service to the auditee management. A generally accepted method of ascertaining quality of this service is to ask the auditee management about performance of the audit team. On receipt of replies to draft performance audit report from the auditee the DG will prepare *Client Satisfaction Survey Form* given at Annex-V to this Manual and send it to DAG concerned for signatures who will transmit it to the auditee management. The form will indicate name of the DAG for receiving reply from the client directly.

12.31 The DAG will monitor receipt of reply to the *Client Satisfaction Survey Form* (Annex-V) and if necessary remind the auditee for expediting it. On receipt of reply from the auditee management, the DAG may like to discuss any matters arising from the reply with the DG.

E. Audit Impact Analysis and Lessons Learned

12.32 Quality management process does not end with the printing of the audit report. This process also incorporates response of the Public Accounts Committee to continue the chain of quality improvements. Consequently the DAG concerned will organize an assessment of the impact of each audit report in the following framework:

- Percentage of proposed number of audit recommendations that has been accepted by PAC and DAC meetings
- Recoveries made at the instance of audit by PAC and DAC meetings
- Changes made in internal controls of the audit entity on the basis of audit recommendations
- Improvement in public financial management of the audit entity as indicated by falling trend of amounts under audit observations in subsequent years

12.33 The DG will require the Auditor In-charge to prepare a report on the lessons learned from the audit assignment. The report will focus on the following:

- Best practices in collecting and analyzing information which can be useful for other auditors
- Obstacles faced by audit in conducting the audit
- Avoidable mistakes which should not be repeated in future

12.34 The DG will submit the *Lessons Learned Report* by the Auditor In-charge to DAG concerned, who will organize a forum for discussing the following documents with the audit team, management of FAO and other FAOs who are likely to benefit from this forum:

- Client Satisfaction Survey Report Reply by the auditee
- Impact of Audit Report
- Lessons Learned report by Auditor In-charge

12.35 The DAG concerned will submit conclusions of this forum to AGP who may like to issue any further instructions and policies for future. In any case, the DAG will forward the conclusions of the forum to DG PAW and DG AATI for use in future training.

12.36 The FAO will arrange to host the lessons learned report on the website of the Department through PAW.

Chapter 13

Follow-up of Performance Audit

13.

Follow-up of Performance Audit

A. Tracking Recommendations

- 13.1 The final performance audit report contains recommendations to which the auditee management has already shown agreement. The PAC considers final performance audit report and approves or upholds all or some of the recommendations. The recommendations approved by the PAC must be implemented by the auditee management. In principle there should be no reason for not implementing these recommendations as the auditee management had already accepted them at the draft and final report stages. The FAO should now track implementation of these recommendations. The accountability cycle culminates with implementation of the audit recommendations by the auditee management.
- 13.2 All FAOs should maintain record of implementation of the recommendations approved by the PAC. For this purpose, each audit reports and each recommendation in the report should have a distinct numbers that appear on body of the report. The auditors should request the auditee management to refer to the serial number of recommendation in all communications relating to implementation.
- 13.3 The FAOs should request, as a standard practice, evidence of implementation of the recommendation. In certain cases, the evidence provided by the auditee management will be conclusive and would not require any further follow-up action. In other cases, the FAO may require further verification of the assertions made by the auditee management regarding implementation. In that case, the FAOs may decide to conduct further verification by deputing auditor(s) to verify the implementation.
- 13.4 Should the FAOs decide to conduct further verification of the recommendation, the Director/DG should inform the auditee management of their plan to do so and agree with the auditee management a time table for actual verification. As far as possible, the FAOs should avoid surprise or unannounced verification.
- 13.5 In some cases, the process of implementation may have been started by the auditee management and it would take some time before the recommendation is fully implemented. In such cases, the FAOs should request the auditee management for a time table for full implementation. Physical verification in such cases should take wait till the auditee management informs that the recommendation has been implemented.
- 13.6 In some cases, it may be more economical and efficient if the visiting regularity audit team carries out verification of the implementation. The DG of Audit should consider this option.

B. Report on Implementation of Recommendations to PAC

- 13.7 The AGP will present a report to the PAC on implementation status of recommendations made by the AGP and approved by the PAC. The report will inform the PAC about action taken by each Government organization. In particular, it should highlight those recommendations which were not implemented by the Government organizations despite AGP's reminders and follow-up.
- 13.8 The PAC will examine whether the Government organizations have implemented the audit recommendations in true spirit and whether it has led to improved performance.
- 13.9 The AGP will decide the format of the report to the PAC. But the report will have detailed information on all recommendations in an annex in the following format:

Table 6: Annex to AGP Report on Status of Implementation of PAC Directives

Name of Government Organization:					
Title of Performance Audit Assignment:				Year:	Date of PAC Directive:
Rec.#	Recommendation	PAC Directive: Action to be taken	Due date	Auditee response	AGP further comments
Name of Government Organization:					
Title of Performance Audit Assignment:				Year:	Date of PAC Directive:
Rec.#	Recommendation	PAC Directive: Action to be taken	Due date	Auditee response	AGP further comments
Name of Government Organization:					
Title of Performance Audit Assignment:				Year:	Date of PAC Directive:
Rec.#	Recommendation	PAC Directive	Due ate	Auditee response	AGP further comments

B. Follow-up Performance Audits

13.10 Follow-up performance audits may be necessary for following reasons:

- To determine the extent to which recommendations of the previous audit were implemented and if so, with what impact
- To audit replication of a pilot project
- To determine continued relevance of previous recommendations and to assess need for any revision of those recommendations
- To respond to specific requests from legislature or auditee management
- To expand coverage of a previous audit geographically or over other similar organizational entities which were audited previously
- Significant risks remain or have emerged since the last audit

13.11 It is for the DG to consider need for a follow-up audit. In case the DG considers a follow-up is necessary, he /she should provide it in the proposed annual audit plan for approval through usual channels.

13.12 Methodology for planning, executing and reporting of follow-up audits is the same as for performance audit assignments presented in this Manual. The only difference between a follow-up audit and an original audit is that of the scope and coverage.

13.13 All FAOs should plan follow-up audits properly. Following question could be relevant at the time of planning:

- Did the entity have enough time to address the issues raised originally? [It may be too soon that the FAO is considering a follow-up audit.]
- Are the recommendations still relevant?
- Should the audit only address implementation of the recommendations, or should the issues themselves be re-audited?
- Have the initial problems or issues identified evolved with time?
- From a risk perspective, what are the key issues for re-audit?

13.14 Generally, the FAOs should focus on issues or recommendations that were presented in previous reports and that are of continuing interest to Parliament and/or that pose a significant risk. The FAOs should take a fresh look on the audit issues and decide whether follow-up audit should remain restricted to those issues or new issues may also be added. In case new issues have evolved and require focus, the FAOs should re-define its objective and audit criteria as well. If the FAOs decide to add new issues, redefine its objectives and develop new criteria, they must inform the auditee management about these changes and consider any suggestions or feedback on the subject before finalizing the follow-up audit plan.

13.15 Ideally, the original audit team should carry out the follow-up audit. However, this may not always be possible. The need to involve members of the audit team that conducted the original audit may depend on complexity of the issues to be re-audited. If the issues that will be re-audited are complex, the DG should consider making efforts to include members from the original performance audit in the current audit team.

13.16 Under certain conditions, it may not be possible for any of the previous team members to participate in the follow-up audit. In the event that the audit team is comprised primarily of new members, the DG/ Director should organize a meeting with members of the previous audit team, if they are available, when the follow-up audit is about to begin. This meeting can provide a comprehensive briefing/orientation for new team members on the audit issues and the previous audit approach.

D. Reporting Results of Follow-up Audit

13.17 Report on results of follow-up audit will follow the same template as original performance audit report. However, scope of the audit report will depend on coverage of the audit.

13.18 The follow-up audit report should not include recommendations of the previous audit even when not implemented. Monitoring implementation of the original audit reports should continue in the same audit report. The follow-up audit report should include only fresh recommendations.

13.19 Like a normal performance audit, the FAOs should first issue a draft report on follow-up and then a final report. The final report will incorporate replies of the auditee management.

13.20 The quality assurance procedures prescribed in this Manual for performance audit would also apply to follow-up audit reports.

13.21 The AGP will decide, on basis of recommendations of the concerned DAG whether the follow-up audit report should be presented to the PAC.

Chapter

Implementation of Manual

14. Implementation of the Manual

A. Mandate for Performance Audit

14.1 Although the generic powers of the AGP to undertake audit cover performance audit as well, yet in view of the fact that several SAIs have got their legislation amended to provide for an explicit mention of performance audit to be within the mandate of the SAI, the AGP has also initiated a proposal for amending the Ordinance that would, if approved, give an explicit mandate for performance audit. The AGP plans to pursue the matter at appropriate level for necessary amendment in the law.

14.2 He would also issue necessary rules and regulations for implementing the change in the law.

B. Performance Audit Policy

14.3 The AGO plans to issue a policy on performance audit. The policy statement would cover such issues as stated below. The list is only illustrative.

- Objectives of performance audit
- Long term strategy and priorities
- Percentage of financial resources to be allocated for PA
- Development of human resources for PA
- Knowledge management for PA
- Incentives for PA
- Database for PA recommendations
- Use of external resources and consultants for PA
- Interrelationship of PA with compliance audit and financial audit
- Service to stakeholders through PA
- Competition among FAOs for high quality PA work

C. Role of Performance Audit Wing

14.4 The role of PAW will be re-defined on following lines:

Training: The present emphasis on class-room training will be transformed to more of on-the-job training under supervision of qualified trainers.

PA Planning Coordination: While planning for PAs to be undertaken during a year will remain an executive function of all DGs of Audit under supervision of respective DAGs, the PAW will coordinate this effort in following manners:

- (a) Prepare strategic plan for PA, get it approved by the AGP through DAG (APSS) and coordinate annual plans for PA for individual FAOs.
- (b) Define horizontal audits to be conducted by more than one FAO and coordinate for deciding the lead office for such audits.

Knowledge management on PA: The PAW will act as a repository of knowledge on PA. PAW will be the lead Wing for managing Intranet of the AGP's Department that will include information on PA as well as other routine functions of the Department. It will undertake such activities as follows:

- Upload all existing guidance on auditing, in particular, PA.
- Develop new guidance on PA as the need arises.
- Arrange to update existing guidance on PA to remain abreast of the changing socio-economic environment.
- Upload documents relating to performance audit plan, programs, and reports of the FAOs.
- Keep a repository of information on PA undertaken by other SAIs.
- It will be responsible for management of intranet of the Department.

Technical support The PAW will act as a living guide for work relating to PA in the Department. It will provide guidance on performance audits planned by FAOs.

Advocacy: PAW will undertake activities to promote PA both within the Department as well in other executive departments and offices. It will undertake such activities as follows:

- Re-launch the publication of the quarterly journal *Perform'd* as a vehicle for dissemination of knowledge relating to performance audit.
- Proactively involve in delivering lectures and seminars for executive departments and public service training institutes and academies.
- Arrange orientation sessions for all stakeholders including members of the federal, provincial and district legislative bodies.
- Publish promotional literature on PA.

Resources for PAW

- 14.5 The Department will allocate necessary resources to PAW for enabling it to perform various functions as visualized in this Manual. The resources would include sufficient number of appropriately trained staff, financial budget and necessary equipment. It will also visualize services of short term consultants and specialists for technical advice.

D. Equipment for Performance Auditors

- 14.6 For effective execution of performance audit, each member of the audit team should have at least following equipment:
- A laptop computer
 - Internet connection
 - USB for data portability
 - Access to scanner
 - Access to printer
 - Access to photocopier
 - Some transportation for fieldwork
 - Access to still picture camera
 - Access to video camera

E. Policy on Auditee Responses

- 14.7 The AGP would formulate a policy on reporting the auditee responses in the performance audit report. The policy should deal with such questions:
- When the auditee responses will be included in the audit report?

What should be maximum length of the auditee response to be included in the audit report?

If a summary of the response is to be included, will it require auditee's clearance?

When should, at the latest, the auditee send responses to be included in the report?

How to reflect disagreement with the auditee in the report?

When the auditee response will not be included in the audit report (e.g. when it is wrong and misleading.)

F. Policy on Confidential and Sensitive Information

14.8 The AGP would issue a policy for the guidance of FAOs and other concerned. The policy would address such issues:

Type of information that will be considered confidential and sensitive and fit to be excluded from the final audit report

Manner of communicating the excluded information to the PAC

Handling the replies received on confidential and sensitive information in the FAOs

Level at which the decision to exclude certain information will be taken in the Department/FAOs

G. Quality Assurance Function

14.9 The Department is in the process of establishing Audit Quality Management Wing under a Deputy Auditor General. The Wing shall also be responsible for Quality Assurance function relating to performance audit. It will have following functions in this regard.

- It will assign the task of QA to officers of B-19 and above from the Department who have the necessary expertise. These officers will be posted in the AQMW for this purpose.
- For some time to come, until in-house expertise is built in AQMW, services of a Quality Management Specialist in Performance Audit may be necessary. The Department may decide to engage a short term consultant for this purpose.
- All PA reports to be approved by the AGP will be cleared by AQMW for QAR.
- The Quality Management Specialist will follow the guidance given in this Manual as well as in the Quality Management Framework issued by the AGP.

ANNEXES

A. EXTRACTS FROM INTOSAI AUDITING STANDARDS¹⁰

The INTOSAI Auditing Standards consist of four parts:

- Basic principles
- General standards
- Field standards
- Reporting standards

The purpose of auditing standards is to provide the criteria against which the quality of the audit results can be evaluated.¹¹ The *INTOSAI Auditing Standards* do not have mandatory application, but they reflect a 'best practices' consensus among SAIs. Each SAI should determine whether the *INTOSAI Auditing Standards* are compatible with the achievement of its mandate. National standards, taking into consideration the constitutional, legal and other circumstances, under which the SAI operates, should be defined.

The basic principles are assumptions, principles and requirements, which help in developing auditing standards and serve the auditors in forming their opinions and reports, particularly in cases where no specific standards apply. Auditing standards should be consistent with the principles of auditing and provide minimum guidance for the auditor to help determine the steps and procedures that should be applied in the audit.

The general standards describe the qualifications and competence, the necessary independence and objectivity, and the exercise of due care, which will be required of the auditor to carry out the tasks related to the field and reporting standards in a competent, efficient and effective manner.

The field standards establish the criteria or overall framework for the purposeful, systematic and balanced steps that the auditor has to follow. These steps represent the research that the auditor, as a seeker of audit evidence, carries out to achieve a specific result. The standards establish the framework for planning, conducting and managing audit work.

The reporting standards set the framework for the auditor to report the results of the audit, including guidance on the form and content of the auditor's report.

Standards Regarding Performance Audits

INTOSAI issues the International Standards of Supreme Audit Institutions (ISSAIs) concerning the responsibilities of SAIs. There are ISSAIs that are general and there are also ISSAIs that are specific for different types of audits. Some of the ISSAIs that concern performance audits are described below.

From *Performance Audit Manual of AFROSAI* (35)10).

¹¹ Issued by the Auditing Standards Committee at the 14th Congress of INTOSAI in 1992 in Washington, D.C., United States as amended by the 15th Congress of INTOSAI 1995 in Cairo, Egypt.

Excerpt from INTOSAI's code of ethics, ISSAI 30

The *INTOSAI Code of Ethics* is intended to serve as a foundation for the national codes of ethics.¹² Each SAI has the responsibility to ensure that all its auditors acquaint themselves with the values and principles contained in the national code of ethics and act accordingly.

A code of ethics is a comprehensive statement of the values and principles that should guide the daily work of auditors. The independence, powers and responsibilities of the public sector auditor place high ethical demands on SAIs and the staff they employ or engage for audit work. A code of ethics for auditors in the public sector should consider the ethical requirements relating to civil servants in general and the particular requirements relating to auditors.

According to INTOSAI, a code of ethics involves the following:

Trust, confidence and credibility

The legislative and executive authorities, the general public and the audited entities are entitled to expect the SAI's conduct to be above suspicion and reproach and worthy of respect and trust.

Integrity

Integrity is the core value of a code of ethics. It requires auditors to observe both the form and the spirit of auditing and ethical standards. Auditors have a duty to adhere to high standards of behavior (e.g. honesty and candidness) in their work and in their relationships with the staff of audited entities. The conduct of auditors should be above suspicion and reproach.

Independence

Independence from the audited entity and other outside interest groups is indispensable for auditors. This implies that auditors should behave in a way that increases, or in no way diminishes, their independence. Auditors should strive to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review. It is essential that auditors be independent and impartial, not only in fact but also in appearance.

Political neutrality

It is important to maintain both the actual and the perceived political neutrality of the SAI. Therefore, it is important that auditors maintain their independence from political influence and discharge their audit responsibilities in an impartial way. This is relevant for auditors since SAIs work closely with the legislature, the executive and government entities required by law to consider the SAI's reports.

Conflict of interest

When auditors are permitted to provide advice or services other than audit to an audited entity, care should be taken that these services do not lead to a conflict of interest. Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities, which could influence or be perceived as influencing their independence and integrity.

¹² *INTOSAI Code of Ethics* issued by the Auditing Standards Committee at the 151th Congress of INTOSAI in 1998 in Montevideo, Uruguay, ISSAI 30.

Professional secrecy

Auditors should not disclose information obtained in the auditing process to third parties, either orally or in writing, except for the purposes of meeting the auditing body's statutory or other identified responsibilities as part of the auditing body's normal procedures or in accordance with relevant laws.

Competence

Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work in order to perform their duties competently and with impartiality. Auditors must not undertake work they are not competent to perform.

Professional development

Auditors should exercise due professional care in conducting and supervising the audit and in preparing their reports. They should use methods and practices of the highest possible quality in their audits and have a continuous obligation to update and improve the skills required for meeting their professional responsibilities.

Quality Control for SAIs, ISSAI40

ISSAI 40 establishes a general framework for quality control. ISSAI 40 is based on six domains:

a) Leadership is responsible for quality within the SAI

The head of the SAI (e.g. the Auditor-General) have the overall responsibility for the SAIs system of quality control. The head of the SAI may delegate operational responsibility. SAIs should strive to achieve a culture that recognizes and rewards high quality work.

b) Relevant ethical requirements

Each SAI shall establish policies and procedures designed to provide it with reasonable assurance that the SAI and its personnel comply with relevant ethical requirements.

c) Acceptance and continuance of auditee relationships and specific engagements

Each SAI shall establish policies and procedures for the acceptance and continuance of auditee relationships and specific engagements designed to provide the SAI with reasonable assurance that it will only undertake or continue relationships and engagements where the SAI:

- is competent to perform the engagement and has the capabilities, including time and resources, to do so;
- can comply with relevant ethical requirements and
- has considered the integrity of the auditee and does not have information that would lead it to conclude that the auditee lacks integrity.

d) Human resources

Each SAI shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to:

- perform engagements in accordance with professional standards and regulatory and legal requirements and
- enable the SAI or engagement partners to issue reports that are appropriate in the circumstances.

e) *Engagement performance*

SAI shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the SAI or the engagement partner issue reports that are appropriate in the circumstances.

fj *Monitoring*

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

Basic Principles in Government Auditing, ISSAI100

ISSAI 100 states that the full scope of government auditing includes regularity and performance audit. Performance audit is concerned with the audit of economy, efficiency and effectiveness.

INTOSAI Audit Reporting Standards¹³

27. In a performance audit, the auditor reports on the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are met. Such reports may vary considerably in scope and nature, for example covering whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements.

28. For all audit assignments any limitations to the audit, such as restrictive regulations, or limitations concerning access to information or reporting requirements, should be disclosed to users of the audit report. The report should also disclose the standards that were followed and audit criteria applied in carrying out the performance audit.

29. The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements²⁷. Where the nature of the audit allows this to be done in relation to specific areas of an entity's activities, the auditor is expected to provide a report which describes the circumstances and context to arrive at a specific conclusion rather than a standardized statement.

30. The audit report should include information about the audit objective, audit questions, audit scope; audit criteria, methodology, sources of data, any limitations to the data used, and audit findings. The findings should clearly conclude against the audit questions, or explain why this was not possible. The audit findings should be put into perspective and congruence should be ensured between the audit objective, audit questions, findings and conclusions. The report should, where appropriate, include recommendations.

31. The report should be timely, complete, accurate, objective, convincing, constructive, and as clear and concise as the subject-matter permits²⁸. It should also be reader-friendly, well structured, and contain unambiguous language. Overall, it should contribute to better knowledge and highlight improvements needed²⁹. The audit findings and conclusions should be based on evidence and

¹³ Extract from *INTOSAI Performance Audit Guidelines Key Principles*

should be clearly distinguishable in the report³⁰. All relevant viewpoints should be considered in the report and the report should be balanced and fair³¹.

32. Recommendations, where provided, should be presented in a logical, knowledge-based and rational fashion, and be based on competent and relevant audit findings³². They should be practicable, add value and address the audit objective and questions.

They should be addressed to the entity(ies) having responsibility and competence for their implementation.

33. Auditors should refer to all significant instances of non-compliance and significant instances of abuse³³ that were found during or in connection with the audit³⁴. Where such instances are not pertinent to the audit questions, it is envisaged that they would nevertheless be communicated to the auditee preferably in writing at the appropriate level.

34. Unless prohibited by legislation or regulations, before publishing a performance audit report, the SAI should always give the auditee(s) the opportunity to comment on the audit findings; conclusions, and recommendations³⁵. Where disagreements occur they should be analysed and factual errors corrected. The examination of feedback received should be recorded in working papers so that any changes to the draft audit report, or reasons for not making changes, are documented.

35. Distributing audit reports widely can support the credibility of the audit function. SAIs should decide about the method of distribution in conformity with their respective mandates. The reports should be distributed to the auditee, the Executive and/or the Legislature, and where relevant, made accessible to the general public directly and through the media and to other interested stakeholders³⁶, unless prohibited by legislation or regulations."

26 ISSAI 400/4.

27 ISSAI 400/23

28 ISSAI 400/7(a).

29 ISSAI 3000/5.3.

30 ISSAI 400/7.

31 ISSAI 400/24.

32 ISSAI 3000/4.5.

33. ISSAI 1240/P6, "Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable...".

34 ISSAI 400/7.

35 ISSAI 3000/4.5.

36 ISSAI 3000/5.4.

Standards and Guidelines for Performance Auditing based on INTOSAI's Auditing Standards and Practical Experience, ISSAI 3000

ISSAI 3000 is based on generally accepted principles of performance auditing. The guideline sets out the general framework for performance auditing, defines application of auditing principles for performance auditing, provides standards and guidance for planning and conducting performance audits, and for presenting the audit results. It also includes information on performance auditing in relation to information technology and on conducting performance audits with an environmental perspective. Further, a framework of system-oriented approaches in performance auditing is presented.

Performance Audit Guidelines - Key Principles, ISSAI 3100

ISSAI 3100 outlines a common understanding of what defines high quality work in performance auditing; How to formulate objective for performance audits, selecting audit topics; how to conduct a performance audits and follow-ups and how to perform quality control. It also contains information about key issues to consider in introducing and maintaining performance auditing in an SAI.

B. Strategic Plan for Performance Audit for Years

Table 7: Themes for Performance Audit (year1)

S. No.	Theme and Sub-themes	Clients	Objective and Scope	Reasons for Selection	Horizontal/Single
1	Theme:	Ministry of... ...Division ...Department	Objective:	1.... 2.... 3. ...	H
	Sub-theme (s)		...		
2	Theme:	Ministry of... ...Division ...Department	Objective:	1. ... 2. ... 3. ...	H
	Sub-theme (s)		Scope:		
3	Theme:	Ministry of... ...Division ...Department	Objective:	1. ... 2. ... 3. ...	S
	Sub-theme (s)		ScoDe:		
4	Theme:	Ministry of... ...Division ...Department	Objective:	1. ... 2. ... 3. ...	S
	Sub-theme (s)		ScoDe:		
5	Theme:	Ministry of... ...Division ...Department	Objective:	1. ... 2. ... 3. ...	S
	Sub-theme (s)		ScoDe:		
6	Theme:	Ministry of... ...Division ...Department	Objective:	1. ... 2. ... 3. ...	H
	Sub-theme (s)		Scope:		

C. Risk Assessment Methodology

Introduction

Performance auditors need to carry out risk assessment at two stages: (a) while preparing annual plan for deciding the audit assignments; (b) while preparing audit plan for an assignment for deciding audit issues to be focused.

The present methodology is generic and applies to both stages.

In broad terms, "risk" can be defined as anything that prevents an entity from meeting its goals and objectives. An answer to the key question, "what can go wrong?" usually identifies risk in an entity, function or process.

The risks are of three types:

Inherent risk : It refers to the risk in the first place. It is determined by asking the question: Assuming there are no internal controls in place, what can go wrong?

Control risk It refers to the risk that the internal control may not be working or are inadequate and do not prevent the inherent risk take place. It is also known as residual risk.

Ultimate risk It refers to the *probability* and *impact* of the risk, should it take place. It means: Assuming the internal controls are what they are, what is the probability that the identified risk will occur and if it does occur what impact will it have on the operations and objectives of the organization?

Categories of Risk

An organization can face numerous types of risks. For sake of simplicity, the auditors can classify the risks in following categories. Classifying the risks in these categories helps in organizing thoughts relating to possible risks. It is more likely that the auditors will be able to enumerate all possible risk if they think through these categories.

Strategy risk : Strategy risk encompasses those risks which can occur through lack of strategic thinking that manifests in strategic planning; adverse or improperly implemented decisions; lack of responsiveness to changes in the external environment; and exposure to economic or other considerations.

Governance risk: Governance risk arises through inappropriate use of authority in decisionmaking. Examples of governance risk are probability of corruption and misuse of authority; failure to establish appropriate processes and structures for informing, directing, managing and monitoring the activities; insufficiencies in senior management leadership; and the absence of an ethical culture.

Compliance risk: Compliance risk arises from violations of or the failure or inability to comply with laws, rules, and regulations, prescribed practices, policies, procedures or ethical standards.

Financial risk: Financial risk arises from insufficient funding; inappropriate use of funds; inadequate management of financial performance; or unreliable financial reporting or disclosure.

Operational risk: Operational risk arises from inadequate, inefficient or failed internal processes or failure to conduct operations economically, efficiently or effectively.

Human resources risk: Human resource risk arises from the failure to develop and implement appropriate human resources policies, procedures and practices.

Information risk: Information risk arises from the failure to establish and maintain appropriate information and communications technology systems and infrastructure.

Levels of Risk Assessment

The risk assessment methodology can be applied to various levels including:

- An organization
- A ministry or a department
- A division within a ministry or a department
- A section or unit within a division
- A project or a program
- A specific focus area or process (e.g. recruitment of personnel, contract management, etc.)

Conducting risk assessment at an organizational level can also be used to prioritize risk areas and develop an overall audit plan for the entity as a whole.

Risk Assessment Process

Strategize and plan the risk assessment

- Decide the objective of risk assessment (i.e. identification of audit assignments for annual plan or identification of audit issues for an audit assignment).
- Decide the level for risk assessment (i.e. organization, ministry, division, section, project, program, etc).
- Plan and gather background information.
- Decide the key persons to be interviewed.
- Develop final timeline.
- Inform management of risk assessment objectives.
- Finalize dialogue objectives and overview questions for meetings.

Develop interview questionnaires. [Use *Interview Questionnaire* given at Attachment-1 below as Guide.]

Review and consultation process

- Brainstorm internally to identify possible risks.
- Conduct interviews of key.
- Conduct workshops, surveys, document review to capture all potential risks.

Make an initial assessment

- Identify possible audit assignments (or, in case of risk assessment for an assignment, key audit issues)

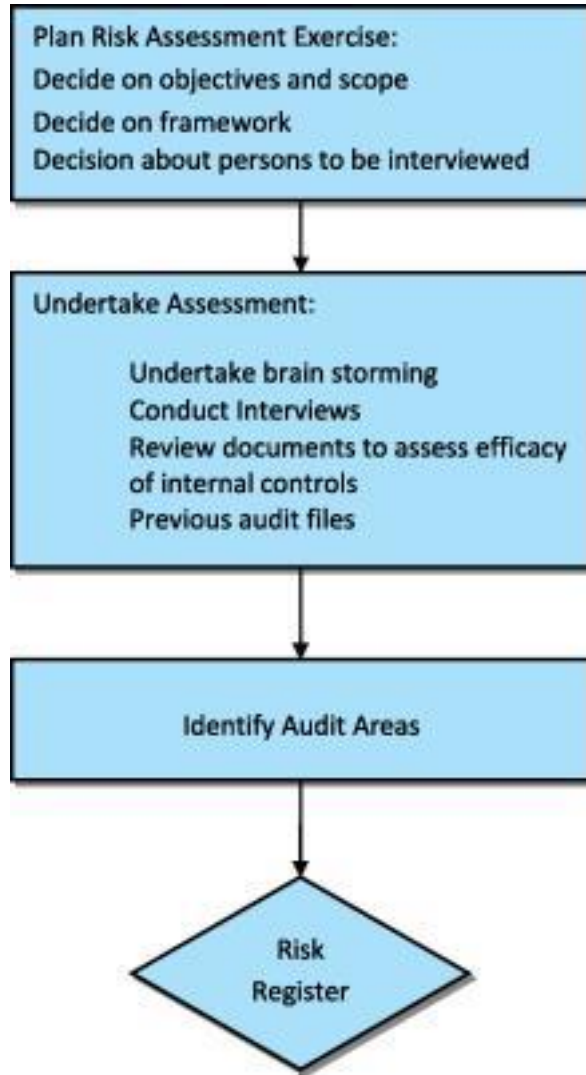
Prepare Risk Register

- (a) Identify risks and internal controls that can prevent or mitigate the risks for each audit assignment or audit issue. The results of any internal control review carried out and internal controls identified in the preliminary review should be taken into account. For preparing the *Risk Register* keep the following guidance in view. [Also refer to Attachment-2 below]
- (b) Risk Register is actually risk profile of the organization or program or project under study. The risk profile is based on the judgment of performance auditor responsible for the risk assessment process. On basis of assessment of *inherent risks*, *internal controls* and *probability* and *impact* of residual risks, the auditors should complete the Risk Register. [Use the Guide given Attachment-3 below]

Establish audit priorities

- (a) The Risk Register enables the auditors prepare a list of possible audit assignments. Once the list of assignments is ready, the next step is to prioritize the assignments in order of seriousness of the risk. For this purpose, the present Manual provides a scoring tool. By using the scoring tool, the auditors assign score to each identified assignment. The list of assignments with scores can then be sorted in descending order to get a list in order of riskiness. [Use the Guide at Attachment -4 below.]
- (b) Illustration below shows how audit assignments can be scored and sorted in order of riskiness.

Figure E: Risk Assessment Process



Allocate Risk Score to Each Audit Area



Illustration for Using Scoring Tool

Step 1

For preparing annual plan for performance audits to be conducted during the next financial year, a Federal Government audit office carried out risk assessment. The Audit Office was responsible for audit of several ministries, divisions, and department beside numerous public sector corporate bodies and funds. As a result of the risk assessment the auditors identified 12 assignments (shown below). Since the Audit Office did not have enough resources to conduct all of these audits, it decided to prioritize the assignments using the scoring tool (Attachment-4). Following was the result of scoring. After scoring all assignments, the office sorted these assignments in descending order to identify the most risky assignments.

Table 8: Risk Ranks of Audit Assignments (Unsorted)

S. No.	Audit Area	Probability of Occurrence	Impact	Rank
(1)	(2)	(3)	(4)	(5)
1	Recruitment of staff in Ministry of Education	M	H	8
2	Contract management in Oil and Gas Corporation	L	L	1
3	Financial management in Ministry of Agriculture	M	H	8
4	Medical bills control in Ministry of Health	M	H	8
5	Budgetary control in Ministry of Foreign Affairs	L	L	1
6	Human resource management in Telecommunication Authority	H	H	9
7	Travel management in Ministry of Foreign Affairs	H	M	7
8	Procurement management in Mechanical Complex	M	H	8
9	General services and supplies in Ministry of Supplies and Procurement	H	M	7
10	Transport management In Cabinet Division	H	M	7
11	Management of expendable stores In Ministry of Supplies and Procurement	H	H	9
12	Management of information technology and communications in Ministry of Information Technology	H	H	9

Notes

**Columns 3 and 4 of this table have been taken from Risk Register. [Attachment -2]
Column 5 of this table has been developed in light of Scoring Tool. [Attachment-4]**

*Illustration for Using Scoring Tool***Step 2****Table 9: Risk Ranks of Audit Assignments (Sorted)**

S. No.	Audit Area	Probability of Occurrence	Impact	Rank
1	Management of expendable stores ...	H	H	9
2	Management of information technology and communications...	H	H	9
3	Human resource management....	H	H	9
4	Recruitment of staff...	M	H	8
5	Financial management...	M	H	8
6	Medical bills control...	M	H	8
7	Procurement management...	M	H	8
8	Travel management...	H	M	7
9	General services and supplies...	H	M	7
10	Transport management...	H	M	7
11	Contract management...	L	L	1
12	Budgetary Control...	L	L	1

Conclusion

Depending upon the resources that the audit office has, it can decide to audit the most risky audit assignments in the descending order. Suppose the office has resources to audit for 5 assignments, it will select the

assignments with risk score of 9 and 8 in the above table.

Attachment-1

Interview Questionnaire for Risk Assessment***Interview objectives***

The primary purpose of the discussion is to:

- Identify key goals and objectives in your area of responsibility.
- Gain an understanding of the key business processes in your area.
- Identify critical success factors and threats to achievement of your objectives.

Discussion points

To facilitate this process you should be prepared to discuss the following matters.

- (a) The fundamental goals and objectives of your area of responsibility (what are you and your people charged with doing)?
- (b) Key business processes in your functional area?
- (c) Current initiatives in your area of responsibility (i.e., performance improvements actions, cost reduction activities, responses to regulatory actions, process changes or system changes, etc.)?
- (d) Factors that may prevent you from achieving your objectives, their potential financial or operational impact, and their probability of occurrence?
- (e) Key controls in your area (processes that mitigate key risks and make it more likely that you will achieve key objectives)?
- (f) Key performance measurements and other tools that are used to monitor performance within your area of responsibility?
- (g) Opportunities for performance improvement you are presently aware of and related constraints (i.e., necessary financial resources, available time, etc.)?

Attachment-2

Risk Assessment For...
(Year) Risk Register

Table 10: Risk Register

Audit Assignment Identified	Observed Risks (Strategy, governance operational, compliance, financial, information, etc) HR,	Existing Operational and/or Financial Controls	Control Effectiveness ¹⁶ Strong, Moderate, Weak	Probability of Occurrence ¹⁷ High, Moderate, Low	Impact ¹⁸ (High, Medium, Low)
(1)	(2)	(3)	(4)	(5)	(6)
Procurement and contracting	<p>The risk that the organization is non-compliant with central agency procurement and contracting policies.</p> <p>For example:</p> <p>limited pool of qualified vendors</p> <p>decentralized contracting processes</p>	<p>Procurement manual exists.</p> <p>Procurement planning is obligatory.</p> <p>Procurement committee is independent of the user departments</p>	M	H	M

Notes: ¹⁴ ¹⁵ ¹⁶¹⁴ On basis of Table C.4 below¹⁵ On basis of Table C.5 below¹⁶ On basis of Table C.6 below

**Columns 4, 5, 6 will be filled in light of annex-3.
Columns 5 and 6 will be copied in the consolidated table for prioritization and scoring.**

Description	Risk Description
Weak	Identified controls are not appropriate. Identified controls are not being applied as intended.
Moderate	There are some problems with the way in which the controls are being applied. The controls do not significantly alter the impact on the risk.
Strong	Controls are appropriate and they are being applied as intended.

Table 12: Guide for Risk Probability

Description	Description
Low	Event should occur at some time.
Moderate	Event will probably occur in many circumstances.
High	Event is expected to occur in most circumstances.

Table 13: Guide for Risk Impact

Ratings	Description
Low	No potential impact on operations No impact on reputation Issues would be delegated to junior management and staff to resolve
Medium	Operation and/or reputation will be affected in the short term The event will require senior and middle management intervention Loss of certain data and systems
High	Serious diminution in operations and reputation with adverse publicity Key alliances are threatened Events and problems will require legislative bodies and senior management attention Loss of substantial functional area Significant deviation from legislative authority/decisions Loss of key data and systems

Figure F: Ranking Risks - Probability Impact Matrix
Table 11: Guide for Control Effectiveness Scoring Tool

		High	Medium	Low
Probability	High	9	7	5
	Medium	8	6	4
	Low	3	2	1
		Impact		

D. Audit Assignments Prioritization Tool

OFFICE OF THE DIRECTOR GENERAL
OF AUDIT (Insert Name)

PERFORMANCE AUDIT 0 [insert title of assignment]

YEAR _____

Assignment# _____ Assignment Title _____

Fill this table for each proposed assignment. ¹⁷

Table 15: Prioritization Tool

s#	Measurement	Total score	Criteria	Score obtained	Basis for scores
	1	2	3	4	4
1	Within the mandate of the AGP	1	Yes= 1; No = 0		
2	Previously audited (last 2 financial years)	1	Yes =0; No = 1		
3	Previous audits reported potential issues for PA	2	Yes =2; No = 1		
4	Riskiness	9	From the result of risk assessment exercise		
4	Social impact	5	(See Table D.2 below)		
5	Economic impact	5	(See Table D.3 below)		
6	Materiality: Money value	4	Over Rs 100 m= 3; Between Rs 50-100 m= 2 Less than Rs 50 m= 1		
7	Materiality: Nature (from Environmental Impact Assessment report) ¹⁹	3	Major threat to environment= 3 Medium threat = 2 Low threat = 1 Not known =0		
8	Legislative /public interest	3	Parliament/PAC directive =3; Expected to arouse public interest= 2; No interest by		

¹⁷ Materiality by context has been covered by other elements in this tool.

			legisiature/public=0		
9(a)	Auditability: Skilled human resources	2	Adequate= 2; Partly = 1; Not =0		
9(b)	Auditability: Other evaluations completed or in progress	1	Yes= 0 No=1		
9 (c)	Auditability: Potential for change	3	High= 3; Medium= 2; Low= 1 Not known= 0		
10	Request for audit by the auditee management	1	Yes= 1; No= 0		
11	Reported poor performance	3	(See Table D.4 below)		
12	Timeliness	1	Yes= 1; No= 0		
13	Positive reputation impact for AGP	3	High= 3; medium= 2 Low=0; Not known= 0		
14	Media visibility	3	High= 3; medium= 2 Low=1; Not known= 0		
	TOTAL:	50			

Table 16: Social Impact Guide

S. No.	Measurement	Score
1	More than 10 million people will be affected positively/negatively by the project/program	5
2	Between 1-10 million people will be affected positively/negatively by the project/program	3
3	Less than 1 million people will be affected positively/negatively by the project/program	1
4	Impact not known	0

Table 17: Economic/Financial Impact Guide

S. No.	Measurement	Score
1	The net economic/financial present value of the program/project will be more than Rs 100 million.	5
2	The net economic/financial present value of the program/project will be between Rs 50-100 million.	3
3	The net economic/financial present value of the program/project will be less than Rs 50 million.	1
4	Impact not known	0

Table 18: Reported Poor Performance

S. No.	Measurement	Score
1	Reported time over run is over 100 percent of the original plan.	3
2	Reported cost overrun is over 100 percent of the original plan.	3
3	Reported time over run is between 50-100 percent of the original plan.	2
4	Reported cost overrun is Between 50-100 percent of the original plan.	2
5	Reported time over run is between 25-50 percent of the original plan.	1
6	Reported cost overrun is between 25-50 percent of the original plan.	1

Table 19: Prioritization of Assignments (Unsorted)

S. No.	Title	Score obtained
1		
2		
3		
4		

Table 20: Prioritization of Assignments (Sorted)

S. No.	Title	Score obtained

E. Template for Quarterly Plan for Performance Audits

OFFICE OF THE DIRECTOR GENERAL
OF AUDIT (Insert Name)

**PERFORMANCE AUDIT OF [Insert title of
assignment] YEAR**

Table 21: Quarterly Plan for the Period From ... to... (Insert dates)

S. No.	Audit Assignment Title	Audit Team	End of Planning Date	End of Fieldwork Date	Draft Report Date	Final Report Date
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1						
2						
3						
4						
5						
6						

Legend for initials of team members (Col. 3):

Date:

Prepared by:

Date:

Approved by:

Notes

Col. 3 Use initials of the team members and give legend at the bottom of this Template.

Col. 6 Indicate planned date of approval of draft report by DG.

Col. 7 Indicate planned date of approval of the final report by DG.

F. Template for Preliminary Survey Report

OFFICE OF THE DIRECTOR GENERAL
OF AUDIT (Insert Name)

PERFORMANCE AUDIT OF *[Insert title of assignment*

YEAR _____

1. **Name of the project, and background information**

[A summary of the history, nature and major factors affecting the project and, if it is the part of a program, of the whole program to which it belongs. Mention the location(s) of the project or locations of the major operation of the program.]

[Note: Main documents to be studied]¹⁸

Laws, rules and regulations relevant to the subject of audit

Regulatory audit reports

Previous performance audit reports, if any

Special review reports prepared by funding agencies

Best practices in the subject of audit

Reports of other SAIs on the subject or related subjects

Audit criteria used by other SAIs on the subject of audit

Audit program of other SAIs for similar audit

Related feasibility studies (available with Finance or Economic Affairs Ministry or Planning Ministry)

Benefit-cost analysis included in project appraisal documents available with the agencies mentioned above.

Project feasibility study

Project plan (PC-1)

Working papers prepared by the sponsoring authorities Monthly/quarterly/ semi-annual reports of implementation Internal monitoring reports Progress reports of contractors

Project completion report (in case the project is completed.)]

2. **Responsible authorities**

[Mention the department, agency and the controlling ministry.]

3. **Project details**

¹⁸ The list is only illustrative.

Type of project

Objectives of the project [State the objectives and goals, targets of the project or program]

Beneficiaries

[Population in general, identifiable
large groups of the population, or certain target groups.]

Time phasing Capital cost Sources of finance Type of financing Project stage

[State whether the project is in the implementation stage, or if it is implemented / operational since... or (temporarily) abandoned.]

4. **Data availability**

[Availability of pertinent, sufficient and reliable data is most important for achieving the audit objectives that would resultantly produce a reliable and controversy-free report. A list of available documents, reports and other allied matters must be prepared.]

5. **Risk assessment**

[Risk assessment is an exercise that leads the auditors to conceive what can go wrong, what is the probability it will go wrong and what will be the impact if it does go wrong. The objective is to identify issues of potential significance.]

6. **Issues of potential significance**

[Once the auditors are able to lay down their objectives, they try to identify issues of potential significance.]

7. **Audit objectives (assuming the audit will go ahead)**

[The Auditor In-charge, while writing this section of the PSR will assume that the audit will continue. With this assumption in mind, the question is: what will be the objectives of audit? For answering this question, the Auditor In-charge will focus on the following:

Project stage

Availability of data

Findings of some previous audit or special study Resources available in the audit office

Cost of audit and expected benefits or savings from the audit exercise State of internal controls

Risks to value for money

Potential impact of audit on project operations and results]

8. **Reasons for continuing with the audit**

Or
G. Template for Audit Assignment Plan
9. Reasons for abandoning the audit
**OFFICE OF THE DIRECTOR GENERAL
OF AUDIT (Insert Name)**

Prepared by

Date

Approved by

Date

PERFORMANCE AUDIT OF *[insert title of assignment]*

YEAR _____

Introduction

1. [Give a brief introduction of the audit assignment. Start with the audit entity, its organization and operation and context in which the current project or program lies.]
2. [Give a description of capital value, size, geographical coverage, locations, services to be provided or being provided, number of persons employed.]
3. [Give an introduction to the management of the project or program, controlling authorities, authorities with delegated powers and accountability relationships.]

Audit Objectives

[Revisit the PSR which contains the audit objectives. Fine tune these objectives, if necessary, with the approval of the DG]

Scope of Audit

1. [State period to be covered, locations to be covered, facilities to covered, etc.]
2. [Mention any exclusions, in particular those which would be normally expected to be included.]
3. [Explain reasons for excluding these areas.]

Approach of Audit

[Mention the method to be adopted by the auditors, in particular, if they have to visit other locations, or conduct survey, or float questionnaires among the auditee staff, etc.]

Audit Issues

[Revisit the PSR of the assignment as approved by the DG. Assume that the issues remain the same. However, before finalizing consult the DG once again, in particular if the Auditor In-charge realizes that a change has become necessary.]

Audit Criteria

1. [Determine the audit criteria for each issue of potential significance.]
2. [Discuss the criteria internally within the FAO and also share it with the auditee management. Try to get their agreement or adopt/ adapt the criteria to arrive at an agreed version.]

Audit Team

[With the approval of the DG mention the names of the auditors for the audit assignment.]

Time Budget

[With the approval of the DG define the time budget for the audit. The budget should mention time required in terms of number of person days of auditors for (a) planning (b) executing (c) reporting. The

time budget will not include the number of person days for support staff. Provide the information on format of

Table G.1 below:]

Table 22: Time Budget for Performance Audit of...

Activity	Team leader	Auditor-1	Auditor-2 ²¹
PSR preparation			
Audit plan preparation			
Audit execution			
Draft audit report			
Final audit report			
Follow-up/PAC related work			

Schedule of Audit

[Give a plan for dates on which various activities will be carried out. Use the format of Table G.2 below]

Table 23: Schedule for Performance Audit of...

Activity	Target Dates
End of Planning	
End of Fieldwork	
Draft Report Issued	
Final Report Issued	

Travel and Other Marginal Costs

Pay and allowances of the auditors are charged to the Government budget as going expenditure. However, expenditure on travel and other expenses such as any special equipment required or consultancy services needed should be specifically provided for. It is the responsibility of the Auditor Incharge to check with the Administration Section of the office if the funds for these purposes are available. If there is a shortfall, the Auditor In-charge should initiate a case for additional funds and submit it to DG through Director along with the assignment audit plan.

Prepared by:

Date:

Approved by:

Date:

¹⁹

¹⁹ Add more columns if the number of auditors is more than two.

PERFORMANCE AUDIT OF [Insert title of assignment]**YEAR** _____

Ref: ...

Date:

To:

From: ... Director General

Subject: **Notification of planned performance audit**

1. I wish to inform you that the Directorate General of Audit... plans to conduct the following performance audit:

Audit Subject	
Director Responsible	
Auditor In-charge	
Auditors	
Planned Audit Starting Date for Fieldwork	

2. As part of our preparations, we would like to meet with you and/or your representatives to discuss and obtain your views on various aspects of the audit, including its proposed objectives, scope, procedures, and timetable, as well as how any related disruptions to your operations could be minimized.
3. The Auditor-in-charge will contact your office to arrange a mutually convenient date and time for the meeting.
4. Thank you in advance for your assistance and cooperation in ensuring the proper and efficient conduct of this audit.

(Signature of DG)

H. Template for Letter of Notification

OFFICE OF THE DIRECTOR GENERAL
OF AUDIT (Insert Name)

I. Template for Audit Program OFFICE OF
THE DIRECTOR GENERAL OF AUDIT (Insert Name)
PERFORMANCE AUDIT OF [Insert title of
assignment]

YEAR

Audit issue: # 1			
Audit objective:			
Audit criteria:			
Audit procedures		Done by	Ref to WP
1.1			
1.2			
1.3			
And so on			
Audit issue # 2			
Audit objective:			
Audit criteria:			
Audit procedures:			
2.1			
2.2			
2.3			
And so on			

J. Template for Exit Conference Working Paper

OFFICE OF THE DIRECTOR GENERAL OF AUDIT

(Insert Name) **PERFORMANCE AUDIT OF***[Insert title of assignment]***YEAR**

Audit Findings and Recommendations	Annotate Replies by the Auditee
Audit issue: Audit findine: Audit recommendation #: 1	
Audit issue: Audit findine: Audit recommendation #: 2	
And so on	

WP#

K. Template for Working Paper OFFICE OF
THE DIRECTOR GENERAL OF AUDIT (Insert Name)
PERFORMANCE AUDIT Oinsert title of assignment]

YEAR _____

Audit Issue:...

Audit procedure #... [Refer to Audit Program]

Date...

S. No.#	Work Done	Done By
Audit Conclusion		Reference to Audit Observation #

Note: The audit conclusions should be used to prepare audit observations. There should be a cross reference of the working paper on each audit observation.

L. Financial Benefit-Cost Analysis

Illustration 8.1

A Dam Construction Project had a planned capital cost of Rs 10 millions, all to be incurred in the first year. The dam had an estimated life of 30 years. The operational costs of the project during years 2-30 were estimated as Rs 1.00 million per year. It is estimated that the project benefits will start flowing from year 2 when they will be only Rs 0.5 million. They will grow by Rs 0.5 million till year 7. From year 7 to the end of the project life the benefits will stabilize at the level of year 7. The discount rate for the project was 10 percent. The PCI of the project calculated NPV as Rs 2.45 million and IRR as 12.33 percent.

When implemented the total project capital cost was Rs 12.45 million (year 1 =Rs 5; year 2 = Rs 7.45). It took two years to complete and the actual benefits started flowing from year 3. However, the benefits were merely Rs 0.45 million for years 3 and 4; from year 5 to9, the benefits increased by Rs 0.35 million. From year 10, the dam attained full capacity and the actual benefits stabilized at the level of year 9. The expected life is 30 years as planned. The operation and maintenance cost is Rs 1.2 million for the years 3-10, Rs 1.5 for year 11-20 and Rs 2 million for year 21-30. The auditors worked out the cost benefit analysis of the project on the basis of actual data which was as follows.

Benefit Cost Analysis of Dam Construction Project

Year	Cost(Rs M.)	Benefit	Net Benefit	Actual Data	
				NPV at 10 %	NPV at 4%
1	5	0	-5	-4.55	-4.81
2	7.45	0	-7.45	-6.16	-6.89
3	1.20	0.45	-0.75	-0.56	-0.67
4	1.20	0.90	-0.3	-0.20	-0.26
5	1.20	1.25	0.05	0.03	0.04
6	1.20	1.60	0.4	0.23	0.32
7	1.20	1.95	0.75	0.38	0.57
8	1.20	2.30	1.1	0.51	0.80
9	1.20	2.65	1.45	0.61	1.02
10	1.20	2.65	1.45	0.56	0.98
11	1.50	2.65	1.15	0.40	0.75
12	1.50	2.65	1.15	0.37	0.72
13	1.50	2.65	1.15	0.33	0.69
14	1.50	2.65	1.15	0.30	0.66
15	1.50	2.65	1.15	0.28	0.64
16	1.50	2.65	1.15	0.25	0.61
17	1.50	2.65	1.15	0.23	0.59
18	1.50	2.65	1.15	0.21	0.57
19	1.50	2.65	1.15	0.19	0.55
20	1.50	2.65	1.15	0.17	0.52
21	2.00	2.65	0.65	0.09	0.29
22	2.00	2.65	0.65	0.08	0.27
23	2.00	2.65	0.65	0.07	0.26
24	2.00	2.65	0.65	0.07	0.25

25	2.00	2.65	0.65	0.06	0.24
26	2.00	2.65	0.65	0.05	0.23
27	2.00	2.65	0.65	0.05	0.23
28	2.00	2.65	0.65	0.05	0.22
29	2.00	2.65	0.65	0.04	0.21
30	2.00	2.65	0.65	0.04	0.20
Total	57.05	66.75	9.7	-5.82	-0.18

Conclusion:

The project had NPV of Rs -5.82 million at 10 percent discount rate. The project went into losses at the planned rate of discount. It had an IRR of merely 4 percent as compared to the planned IRR of 12.33 percent, less than one third of what was planned.

Economic Benefit-Cost Analysis

Illustration 8.2

Note: The following illustration tries to show how economic benefits are quantified for conducting economic benefit cost analysis. The illustration does not show the benefit cost analysis itself because it is the same methodology as illustrated in the previous example.

A paved road project was planned at a capital cost of Rs 42 millions. The maintenance cost of the project from years 2 to the end of its life would be Rs 0.30 million per annum. The road would connect several small villages to the market. The length of the road is 21 km and its expected life is 21 years. The financial benefits from the project are negligible since the toll tax to be collected would be at a low rate to facilitate the poor population of the villages. The real benefits of the project are estimated to be in terms of economic efficiency. The villagers have lower vehicle operating cost due to reduction in distance, reduced vehicle maintenance costs due to lesser wear and tear of tyres and saving in terms of travel time. The estimated benefits were quantified as follows:

Estimated benefits:

(a) Reduced vehicle operating cost calculated as below:

- i. Total kilometers of distance saved = Average daily traffic x Reduction in distance x 365
- ii. Total cost of oil saved = Total kilometers saved x Average consumption of oil per km x Average price of a liter of oil

(b) Reduced maintenance cost was calculated as follows:

- i. Total kilometers traveled before the project = Average daily traffic in terms of number of passenger car units x 365
- ii. Total kilometers traveled after the project = Average daily traffic in terms of number of passenger car units x 365
- iii. Reduction in kilometers of travel [(i) -(ii)]
- iv. Number of tyres required for the total kilometers traveled *before* the project
- v. Number of tyres for the total kilometers traveled *after* the project
- vi. Number of tyres saved = Difference of (ii) and (iii) above
- vii. Total reduction in maintenance cost = (iv) above x average price of a tyre

(c) Savings in terms of time, monetized at average daily wage of an unskilled worker (taking the most conservative point of view) was calculated as follows:

Savings due to time saved = Average time saved in a trip from village to market x Number of persons traveling everyday x 365 x daily wage rate

Calculated on the above basis, the estimated benefits were as follows.

Road Project Estimated Benefits					
Years	Reduced operating cost (Rs million)	Reduced maintenance cost (Rs million)	Time savings (Rs million)	Total benefits (Rs million)	
2-5	2.3	0.2	1.5	4.00	
6-10	4.5	0.4	2.0	6.90	
11-15	7.9	0.5	2.7	11.10	
16-21	15.3	0.6	3.5	19.40	

PC 1 calculated the net present value as Rs 23.71 million and IRR as 15.5 percent and economic internal rate of return (EIRR) for the project. The rate of discount is 10 percent.

The auditors will get the data for actual costs and benefits and prepare estimates of benefits and costs on that basis. Using the actual data they will follow the same methodology as illustrated in Illustration 8.1 above.

Illustration 8.3 Output Budgeting

In a water supply scheme the planned and actual data were as follows.

Particulars	Planned	Actual
Capital cost	Rs 30 million	Rs 38 million
Construction period	1 year	2 years
Maintenance cost	Rs 1 million per annum	Rs 1.5 million per annum
Water supply	365 million gallons per annum	412 million gallons per day

The cost of a gallon of water as planned was Rs 0.01.

The auditors calculated the unit cost of water by using actual data. Their calculations were as follows:

Output Budgeting Illustration Actual data					
Year	Cost(R M.)	Water (Gal. M.)	Discounted cost at 10percent	Discounted output at 10 percent	
1	19	0	17.3	0	
2	19	0	15.7	0	
3	1.5	412	1.1	310	
4	1.5	412	1.0	281	
5	1.5	412	0.9	256	
6	1.5	412	0.8	233	
7	1.5	412	0.8	211	
8	1.5	412	0.7	192	
9	1.5	412	0.6	175	
10	1.5	412	0.6	159	
11	1.5	412	0.5	144	
12	1.5	412	0.5	131	
13	1.5	412	0.4	119	
14	1.5	412	0.4	108	
15	1.5	412	0.4	99	
16	1.5	412	0.3	90	
17	1.5	412	0.3	82	
18	1.5	412	0.3	74	
19	1.5	412	0.2	67	
20	1.5	412	0.2	61	
Total	65	7416	43.1	2793	
Unit cost (Rs)	0.02	per gallon			

Conclusion:

The unit cost of water is Rs 0.02 (just double of what was planned).

Simple Regression and Coefficient of Correlation Analysis Illustration 8.4

During the audit of 'Rescue 4444', an emergency response organization, the auditors noted that maintenance operation of vehicles, etc was rising steeply. It was Rs 15000 in January 2010 but by June 2011 it had reached the limit of Rs 100,000. On enquiry they learnt that the management of 'Rescue 4444' had started a crash program for reducing its response time to reach the place of emergency. The response time to complaints was 40 minutes in January 2010 when the program was launched. The management aimed at cutting this time to 5 minutes. For this purpose, they required a fleet of vehicles so that the maintenance staff could rush to the troubled spot quickly. The management started adding to its fleet of service vehicles until it reached 30 vehicles in June 2011 from 4 in January 2010. It planned to have another 10 vehicles that would increase the monthly expenditure on maintenance and operations to Rs 110,000.

The auditors were skeptical about the effectiveness of the program. They hypothesized that there was a weak relationship between the expenditure on vehicles and the response time as most of the vehicles seemed to run errands for personal needs of the staff and officers. They also wanted to ensure that the planned increase in monthly expenditure to Rs 110,000 was justified.

They carried out the coefficient of correlation exercise on Excel sheet and found as follows:

Rescue 4444 Monthly Expenditure on Maintenance and Operations of Vehicles and

Response Time Months

	Expenditure (Rs) (X)	Response time (minutes) (Y)
Jan-10	15000	40
Mar-10	30000	30
Jun-10	40000	25
Aug-10	60000	22
Dec-10	70000	20
Apr-11	90000	20
Jun-11	100000	15
Coefficient of correlation		-0.923482693

Note:

For calculating Coefficient of correlation, in Excel program: Select Formulas, then Statistical and then Correct and fill the dialogue box. On the Enter command, you will get the coefficient of correlation.

The value of -0.923482693 shows a high correlation between the expenditure and response time. As the expenditure on vehicles increased the response time coming down.

Measuring response time for Rs 110,000, assuming the trend remains the same²⁰:

By entering the data on the dialogue box for the same series of Y and X and the New Value of Rs 110,000 we get

Response time value as 12 minutes. It means if we increase the expenditure to Rs 110,000, the response time

Should be 12 minutes, assuming the present trend of response time.

Finding the level of monthly expenditure to reduce the response time to 5 minutes:

By hit and trial the auditors found that a monthly expenditure of Rs 138000 would be necessary to reduce the response time to 5 minutes.²¹

Response time for New Value of Rs 138000 (new value of X, Constant is True) = 5.104 **Audit Conclusions**

(1) The auditors found that there was strong correlation between expenditure on maintenance and operations of vehicles and the reduction in response time. The program was effective. The hypothesis of the auditors was untrue.

(2) If the management desires to reduce the response time further to 5 minutes and the present trend of efficiency continues, it would require a monthly expenditure of Rs 138000. For achieving its target of Rs 110,000 and response time of 5 minutes, the management needs to increase the efficiency of its staff by monitoring the actual movements of the vehicles and cutting on wasteful expenditures. The trend needs to be changed.

²⁰ The calculation uses Excel worksheet (Statistical formula for measuring "Trend"). The value for new „XD is put as Rs 110,000. The value of „Constant^ required in the formula has been give a\$,TrueD.

²¹ By changing the value of new „XD iteratively, until we arrived at the desired response time of 5 minutes.

M. Supervision Tool for Reviewing Audit Plan of a Performance Audit**Assignment OFFICE OF****THE DIRECTOR GENERAL***OF AUDIT (Insert name)*

PERFORMANCE AUDIT OF [insert title of assignment]

YEAR _____

Auditor In-charge _____ Assignment No _____

Notes:

1. The Director will use this tool to assess if the audit plan prepared by the Auditor in-charge for a performance audit assignment satisfies audit standards and complies with policies of the FAO.
2. Column (4) will refer to the source document or any other basis on which the opinion in column (3) is based.
3. Column (5) will record any further observation(s) that the supervisor likes to record. Use additional pages, if required.

S. No	Review Questions	Y/N/NA	Reference to basis	Remarks, if any
(1)	(2)	(3)	(4)	(5)
1	Is the time taken by the Auditor In-charge to prepare the audit plan reasonable since the approval of the PSR ²⁴ ?			
2	Did the Auditor In-charge involve all team members in preparing the audit plan?			
3	Does the audit plan state audit objectives clearly?			
4	Has the Auditor In-charge carried out risk assessment for the assignment?			
5	Has the Auditor In-charge prepared the risk register for the assignment?			
6	Does the risk register document existing internal controls of the auditee?			
7	Does the audit plan identify audit criteria?			

²⁴ Generally, two weeks will be a reasonable time.

8	Do the audit criteria include applicable laws, rules and regulations?			
9	Do the audit criteria take into account best management practices relevant to the audit assignment?			
10	Do the audit criteria encompass key performance indicators applicable to the audit assignment?			
11	Do the audit criteria include any technical aspects of performance?			
12	Has the FAO got agreement of the auditee on the audit criteria?			
13	Does the scope of audit directly tie to the audit objectives?			
14	Does the scope of audit define the period to be covered by audit?			
15	Does the scope of audit determine the locations to be covered during audit?			
16	Does the audit plan identify issues of potential significance?			
17	Do the issues of potential significant tie in with the long term strategy of the SAI and policy of FAO?			
18	Will the issues identified be of interest to users of the audit report such as parliamentarians, executive authorities, media and the general public?			
19	Does the approach to audit identify the methods for collecting audit evidence?			
20	Does the audit plan include conduct of a survey?			
21	Has the Auditor In-charge prepared basic strategy for conducting the survey, including the possibility of out-sourcing the survey?			
22	Does the audit plan provide a realistic estimate of the time for various stages of audit?			
23	Are the target dates for various milestones of audit assignment realistic?			
24	Is the estimated cost of audit realistic?			

25	Is it possible to economize on the cost of audit without compromising audit objectives? If so, suggest alternatives.			
26	Does the audit team possess collectively the expertise required for the audit?			
27	Are the identified team members for the assignment available for the period of audit?			
28	Does the audit plan visualize engagement of consultant(s)? If so, has the Auditor In-charge done necessary preparatory work, including budget and approvals for the consultant(s) and selection of the consultant?			
29	Overall assessment			

Name and Signature of the Director

Date

Name and Signature of DG

Date

N. Supervision Tool for Reviewing Field Work of a Performance Audit**Assignment OFFICE OF****THE DIRECTOR GENERAL****OF AUDIT (Insert name)****PERFORMANCE AUDIT** [Insert title of assignment]**YEAR** _____**Auditor In-charge** _____ **AssignmentNo** _____**Notes:**

1. The Director will use this *Tool* to review field work of the performance audit team.
2. Column (4) will refer to the basis on which opinion in column (3) has been recorded. Column (5) will record any further observation(s) that the supervisor likes to record. Use additional pages, if required.
3. The Director will use this *Tool* to review the work during the audit at least twice, though more often will be desirable.

Date of Review:

S. No	Review Question	Y/N/NA	Evidence for the basis	Remarks if any
(1)	(2)	(3)	(4)	(5)
1	Is the time taken to prepare audit program since the approval of the audit plan reasonable ²⁵ ?			
2	Did the Auditor In-charge prepare a field work plan and define clearly the work to be done by each member of the team?			
3	Is progress of the team in covering the audit program satisfactory?			
4	Will the audit team be able to complete the work as planned by due date?			
5	Will the audit team require any extension to complete the work? If so, what is the reasonable estimate?			
6	Does the audit team require any additional human resources? If so,			

²⁵ Generally, two weeks will be reasonable.

	specify the extent and nature of the resource.			
7	Select at least one audit procedure completed by each member of the team and review the work done with reference to working papers. Assess if the working papers are complete and the evidence collected is reasonable? Record instructions for any further work to be done by the team member.			
8	Check if the audit program completed has cross-references to working papers and vice versa.			
9	Does the audit program require any changes in the audit procedures to be carried out? If so, suggest the changes and state reasons for this assessment.			
10	Are there documented reasons for any changes made by the audit team on its own in the audit procedures without approval of the DG?			
11	Did the Auditor In-charge submit any request for approval to make changes in the original audit program?			
12	Review samples for various tests and assess in each case if the size of the sample is reasonable. Where necessary, issue written instructions to increase/reduce the sample size with reasons.			
13	Review data analysis done by the audit team and assess if the analysis is based on reasonable methodology and defensible assumptions? Also assess if the conclusions arrived at through data analysis seem to be reasonable on a <i>priori</i> basis.			
14	Has the audit team discussed their tentative understanding and audit conclusions with the auditee staff in all cases? Record exceptions where this has not been done.			
15	Review travel program of the team/members and assess if it is reasonable and most economical?			
16	Has the audit team used cameras/ video cameras for documenting the evidence?			
17	Did the audit team take members of the auditee's staff along for physical			

	verifications, if any?			
18	Do the working paper files contain notes of physical verifications done by the auditors?			
19	Did the audit team collect any evidence from outside such as market research, independent enquiries from third parties, etc? If so, assess if the methodology adopted was reasonable and defensible?			
20	Review the questionnaires for written replies and assess if the questions are: (a) clear (b) non-suggestive (c) do not require hard work by the respondent (d) relevant to the audit objectives (e) brief.			
21	Review the interview questionnaires to assess if the questions are (a) clear (b) non-suggestive (c) do not require labor by the respondent (d) relevant to the audit objectives (e) brief.			
22	Check a sample of interviews and see if the audit team has documented the replies soon after the interviews? Document the sample checked.			
23	Check if the audit team followed the generally accepted format of interview of four-eyes in all cases (i.e. at least two persons conducted the interview).			
24	Assess if some of the minutes of the meeting require confirmation by the auditee. If so, plan with the audit team to get the confirmation.			
25	Check if the audit files contain replies to the audit questionnaires sent to the auditee? See if some replies are still awaited and plan action for getting the replies.			
26	Review any requests for information which have not been responded to by the auditee's staff and plan action with the audit team to get the information.			
27	Check if the auditee has replied to all audit observations issued during the field work?			

28	Overall Assessment			
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Name and Signature of the Director of Audit

Date

Name and Signature of DG of Audit

Date

O. Audit Completion Checklist

Performance Audit Completion Checklist

OFFICE OF THE DIRECTOR GENERAL OF

AUDIT (Insert name) **PERFORMANCE AUDIT**Offr|sert title of assignment] **YEAR**__

Auditor In-charge _____ Assignment No

Notes:

1. The Director shall complete this checklist while submitting the Draft Performance Audit Report to DG for approval.
2. Column (4) will refer to explanatory notes which will be attached to the Checklist.

s#	Review Questions	Date Yes/No/NA	Note#
(1)	(2)	(3)	(4)
1	Assignment audit plan approved by DG (date)		
2	Audit notification letter issued (date)		
3	Entry Conference held? (date)		
4	Final audit program approved by DG (date)		
5	Significant changes in planned objectives or scope?		
6	Changes notified to auditee?		
7	Fieldwork completed (date)		
8	Audit observations issued to auditee?		
9	Working papers completed by auditor in-charge?		
10	Working papers review completed by the Director?		
11	Audit work covers all planned objectives?		

12	Exit Conference involved main auditees?		
13	Draft Performance Audit Report Quality Assurance Review completed by AQMW?		
17	Major disagreement with auditee?		
18	The audit report follows the prescribed template?		
19	The report incorporates replies/comments of the auditee where necessary?		
20	Overall Assessment		

Name and Signatures of Director

Date:

Name and Signatures of DG

Date:

P. Review of Working Papers Sheet OFFICE OF

THE DIRECTOR GENERAL OF AUDIT (Insert name)

PERFORMANCE AUDIT OF [Insert title of assignment]

YEAR _____

Auditor In-charge _____ Assignment No _____

A. General Review

S. No	Review Question	Yes/No/NA
1	Does the working paper file have page numbers?	
2	Does the working paper file have an index?	
3	Has the Auditor In-charge taken off all irrelevant papers from the working paper file?	
4	Does the working paper file follow the same order as the Audit Program?	
5	Have members of the audit team signed the working papers prepared by each one?	

B. Detailed Review:

Working Papers Reviewed (Page No

(s):...

Result of the Review

Working Papers page numbers	Subject/Title of Working Paper	Comments, if any

**Name and Signature of
Director**

**Date
:**

Q. Template for Audit Observation OFFICE OF*THE DIRECTOR GENERAL OF AUDIT (Insert name)***PERFORMANCE AUDIT OF** [Insert title of assignment]**YEAR****Auditor In-charge** _____ **AssignmentNo** _____**Reference: Mention:** [Audit Program procedure #]**Subject:** [Mention main heading of the Audit Observation as it would be inserted in the Draft Audit Report+...]**Topical Sentence:** [Summarize the main message of the observation as it would be inserted in the draft audit report+...]

Criteria	
Conditions	[Insert working papers reference in the text within brackets and in distinct color]
Causes	[Insert working papers reference in the text within brackets and in distinct color]
Effect	[Insert working papers reference in the text within brackets and in distinct color]

Recommendation(s)

Name and Signature of the Auditor

Name and Signature of the Auditor In-charge

Date

Date

Certified that I have reviewed the audit observation and related working papers. I am satisfied that the audit evidence is sufficient, relevant and valid.

Name and Signature of the Director

Date

Name and Signature of DG

Date

R. Performance/Project/Program Audit Report Template and Guidance Notes

APSS Wing

Auditor-General's Office

April 2011

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Performance/Project/Program Audit Report Template and Guidance Notes

1. This Template and Guidance Notes are structured to cover most aspects of performance/project/program audits. Thus, what is described may not be relevant to every individual audit. Field Audit Offices (FAOs) will need to pick the Template elements that relate to specific audit assignments they have undertaken. Similarly, FAOs may find additional aspects not covered in the Template worthy to be included in their Audit Report. FAOs may cover those additional areas/aspects in the Reports. Thus, the Template is "flexible" and not "restrictive".
2. The Template includes Guidelines in italics. These Guidelines indicate what should be covered under each section/sub-section of the Audit Report. Further, the Guidelines suggest the structure of sentences to be used in drafting. Standardized phrases have been given in some sections to help you with writing. Blank space has been left in standardized text for you to fill in. You can modify phrases if necessary.
3. The paragraph numbers in the template are only for purpose of illustration. In practice, this will change according to each audit report.
4. Findings are to be given under sub-headings. Under each sub-heading, the Template indicates one recommendation. In practice, an Audit Report may have more than one recommendation under one sub-heading. The general principle should be that in cases where a recommendation can logically respond to multiple findings, an Audit Report should not have two recommendations in such situations.
5. First line of each paragraph will have a left indent of 0.5 spaces.
6. All paragraphs will have a justified format.
7. Except for headings and sub-headings, the normal text should use Times New Roman Font size 12.

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**[Performance/Project/Programme] Audit
Report**

**[insert name of audited entity][Times New
Roman Bold 20]**

[Insert Date] (Day/Month/Year e.g. 15th April 2011)[Times New Roman Bold 14]

AUDITOR- GENERAL OF PAKISTAN [Times New Roman Bold
20]

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PREFACE [Times New Roman Bold Size 14]

[The objective of the preface is to introduce the report as a document. Preface may highlight information, which requires immediate attention of the audited organization or the readers in general. Only in rare cases the Preface should be of more than one page. No reference should be made in the preface about the results of the audit.]

The Auditor-General conducts audits subject to Article 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with sections 8 and 12 of the Auditor- General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001[add reference of any other relevant laws and regulations as applicable to the subject of audit]. The audit of [activity²²/project/programme, Ministry/Department of] was carried out accordingly.

The Directorate General [give your office name] conducted audit of the [activity/project/program] during [indicate the period during which audit was carried out] for the period [indicate the period covered in this audit] with a view to reporting significant findings to stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of the [activity/project/programme]. In addition, Audit also assessed, on test check basis [amend if basis are different] whether the management complied with applicable laws, rules, and regulations in managing the [activity/project/programme]. The Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the [activity/project/program]. Most of the observations included in this report have been finalized in the light of discussions in the DAC meetings.

The Audit Report is submitted to the [insert Governor of Province or President as appropriate] in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, [add reference of any other relevant laws and regulations as applicable to your area of audit].

[insert name of the Auditor General]

Dated: , 2011

Auditor-General of Pakistan

²² Activity covers other than PSDP initiatives such as waste management operations, imports operations, large scale procurements etc. This footnote is given for guidance only. The report will mention the activity covered in audit in the preface.

TABLE OF CONTENTS [Times New Roman Bold Size 14]

**EXECUTIVE
SUMMARY**

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No.**

SECTIONS

- 1. INTRODUCTION**

- 2. AUDIT OBJECTIVES**

- 3. AUDIT SCOPE AND METHODOLOGY**

- 4. AUDIT FINDINGS AND RECOMMENDATIONS**
 - 4.1 Organization and Management**
 - 4.2 Financial Management**
 - 4.3 Procurement and Contract Management**
 - 4.4 Construction and Works**
 - 4.5 Asset Management**
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 - 4.7 Compliance with Grant/ Loan Covenants**
 - 4.8 Environment**
 - 4.9 Sustainability**
 - 4.10 Overall Assessment**

- 5. CONCLUSION**

ACKNOWLEDGEMENT

ANNEX 1 - Response and implementation of recommendations

[ANNEX 2, etc. - as needed]

Abbreviations and Acronyms [Times New Roman Bold 14]
Abbreviations and Acronyms should be given alphabetically.

EXECUTIVE SUMMARY [Times New Roman Bold Size 14] [Insert Audit Title[Times New Roman Bold Size 14]

[From here onward: Font Times New Roman, Size 12, formal text

Director General of Audit [insert name of the office] conducted an audit of [audit title] [in (month, > or from (month) to (month, year)]. The main objectives of the audit were to [insert (only brief objec to be provided, details to be given in Section2 Obectives)].The audit was conducted in accordance with the INTOSAI Auditing Standards.

[Start typing the summary from here onward. Mention main findings only. Close the summary with recommendations. The summary should not .] exceed two pages

1. INTRODUCTION [Times New Roman Bold Size 14]

a. This section should include a brief description of the audit subject and how it relates to the overall management of the auditee. When feasible, this section should also include statistics, budgets, etc. in order to give the reader an overall picture of the audit subject.]

b. Following are specific areas that need to be covered in this section. Sub headings may be used for structured description.

- i. Rationale of the project /activity²³ and its linkage with MTDf and PSDP.
- ii. Approval by competent forum, specific instructions given, if any. Significant decisions
 - i. e. by Prime Minister, ECNEC/ CDWP related to project/activity
- iii. Time lines/ period of the project/activity.
- iv. Paragraph on description of project/activity.
- v. Project/activity objectives and outputs as provided in PCI/other policy documents and a brief on achievement against these objectives and outputs.
- vi. Cost of the project/activity and financing including donor support.
- vii. Summary of the financial results yearwise (resource allocation PSDP or through other means funds released, actual expenditure).
- viii. Progress (in both quantitative and qualitative terms) as per PCI/other approved plans
- ix. Details of revisions in project. How many times has PCI been revised; variation in objectives, cost and scope vs originally approved PCI.
- x. Major loan/ grant covenants (if applicable)
- xi. Analysis of major findings in PC IV for completed projects/other reports on the activity audited

c. The subheadings that are not relevant to the audit subject may be ignored.

1. [Start typing here] The Director General of Audit [insert the name of office] conducted an audit of [audit title] [in (month, year) from (month) to (month, year)]. [This is the first paragraph of introduction.] [Add more paragraphs if necessary]

²³ Activity covers other than PSDP initiatives such as waste management operations, imports operations, large scale procurements etc.

2. AUDIT OBJECTIVES [Times New Roman Bold Size 14]

2.1 *The major objectives of the audit were to: [New Times Roman, font size 12, normal text]*

- i. Review project's performance against intended objectives.*
- II. Assess whether project was managed with due regard to economy, efficiency, and effectiveness.*
- iii. Review compliance with applicable rules, regulations and procedures.*

Audit objectives should be specific and carefully determined before commencement of field audit activity. Management's input may also be obtained where appropriate to come out with responsive reports.

3. AUDIT SCOPE AND METHODOLOGY [Times New Roman Bold Size 14]

This section should also indicate any areas that were excluded from the audit scope and limitations of audit coverage. On scope of audit, mention the period covered, geographical areas included or any other information that defines the scope of auditors work. The section should also state the methodology used such as file review, field survey, auditee interviews, focused group discussion, market research etc.]

3.1 *[Start typing text here Add paragraphs sequentially] [New Times Roman, font size 12, normal text.]*

4. AUDIT FINDINGS AND RECOMMENDATIONS [Times New Roman Bold Size 14]

Findings should be given sub headings covering core components of projects/programmes/activities. Some areas/components that are worth scrutinizing are indicated below.

Suggestive finding areas may be modified subject to the scope of audits and reporting requirements. Each finding should discuss the condition, cause, criteria and impact. This should follow a specific recommendation that addresses the cause and condition noted in the findings

4.1 Organization and Management (1-2 pages)

Efficiency of the management, coordinating mechanisms, IT system, appointment and capability of management and staff are documented in this section. Following subheadings reflect potential areas that may be focused:

- i. Review of organizational structure (VFM)*
- II. Turnover against key posts including post of the project director (VFM)*
- iii. Actual vs. sanctioned strength (Regularity)*
- iv. Qualification and experience of staff vs. provisions in PC I (VFM)*

- v. *Mode of appointment of management and staff, process followed (VFM)*
- vi. *Job description for each position available and provided to staff (VFM)*
- vii. *Trainings and capacity development of staff (VFM)*
- viii. *Identification of trainings (foreign and local) provided to contract employees (Regularity)*
- ix. *Quality and periodicity of internal work plans (VFM)*
- x. *Mechanism of staff evaluation and reward (VFM)*
- xi. *Communication Strategy and Plan (VFM)*
- xii. *Internal auditor appointment and details of internal audit reports (VFM)*
- xiii. *IT system used by the entity/project, if any (V)FM*

The subheadings that are not relevant to the audit subject may be ignored. Similarly, if you consider an area not covered above as material for purpose of reporting in the Audit Report, you should take that into account.

Recommendations: The [client] Administration should [insert recommended action addressing the cause and conditions discussed above]

4.2 Financial Management (3-4 pages)

This sub- section helps in assessing financial management aspects of the activity/project/program audited. It may include audit comments on:

- i. *Quality and timelines of submission and approval of Cash and Work Plan (VFM)*
- ii. *Details of release requests and lead times from submission of release request to actual release of funds (VFM)*
- Hi. *Details of funds lapsed (Regularity)*
- iv. *Reappropriations and surrenders (Regularity)*
- v. *Periodicity of financial reports preparation and circulation (Regularity)*
- vi. *Format of financial reports PSAS, FARAH etc. (Regularity)*
- vii. *Submission of accounts to accounting offices (Regularity)*
- viii. *Reconciliation with accounting offices (Regularity)*
- ix. *Details of project's bank accounts (Regularity)*
- x. *Reconciliation of bank accounts (Regularity)*
- xi. *Procedure for recording and details of third party payments (Regularity)*
- xii. *Payments made in accordance with terms and conditions of the agreement. Cost escalations not allowed on foreign exchange component. (Regularity)*
- xiii. *Fixed exchange rate agreed in contract whereas payments made at rate prevailing on date of payment.*
- xiv. *Advance payments made against bank guarantee/ security and adjusted in time. (Regularity)*
- xv. *Advances to employees after proper approval and adjusted in time. (Regularity)*
- xvi. *Data archiving and record management to ensure safe custody of record. (Regularity)*

The subheadings that are not relevant to the audit subject may be ignored. Similarly, if you consider an area not covered above as material for purpose of reporting in the Audit Report, you should take that into account.

Recommendations: The [client] Administration should [insert recommended action addressing the cause and conditions discussed above]

4.3 Procurement and Contract Management (3-4 pages)

Results of review of the activity/project/ program's procurement process and resulting contract management may cover:

- i. Details of major procurements in comparison to PCI. (VFM)
- ii. Need assessment to assess the requirements of end users carried out before start of procurement or not. (VFM)
- iii. Preparation of annual procurement plan on the basis of needs analysis.(VFM)
- iv. Splitting of procurements to avoid competition.(Regularity)
- v. Compliance with Public Procurement Rules or applicable procurement rules of donors(Regularity)
- vi. Managing service delivery - mechanisms to ensure that goods and services delivered within time and meets quality standards.(VFM)
- vii. Amendments in contracts and purchase orders - were they fully justified and properly approved.(VFM)
- viii. Payments to contractors - after delivery of goods and certification of quality/ working by a technical person and end users.(VFM)

The sub-headings that are not relevant to the audit subject may be ignored. Similarly, if you consider an area not covered above as material for purpose of reporting in the Audit Report, you should take that into account.

Recommendations: The [client] Administration should [insert recommended action addressing the cause and conditions discussed above]

4.4 Construction and Works (2-3 pages)

Audit report may include comments on construction and works related activities carried out by an entity/ project/program in following areas.

- i. Site Selection; ideally before preparation of design and cost estimates. Sites identified in PCI vs. actual site of construction. Any survey conducted for site selection to ensure it is suitable for the purpose.(VFM)
- ii. Acquisition of Land; method of acquisition either through govt, department or by project/ programme directly from owners. Any market survey conducted to assess the price/ rate of land. Payment made for land acquisition vs. provision in PCI.(VFM, Regularity)
- iii. Preparation of design and drawings. Who prepared the design, whether approved by relevant authorities, compliance with approved standards. Procedure for hiring of consultant for design.(VFM)
- iv. Cost estimates prepared in accordance with design. What standards/ system was used for cost estimation. Approval of cost estimates and comparison with PCI.(VFM)
- v. Contract award; process followed, evaluation criteria, details of competition (how many parties participated and bid price), basis of selection (technical and financial), approval of selected bidder, drafting of proper contract to safeguard project's interest. Cost comparison of contract price with cost estimates and PCI.(VFM, Regularity)
- vi. Construction: construction schedule prepared by contractor and approved by management, monitoring of construction for timely completion, preparation of periodic status reports and submission to management, physical progress actual vs planned, procedures to ensure quality of work, results of physical inspection conducted by audit

(if any), details of any scope changes, cost charged for additional work with justification.(VFM)

- vii. Operation: identification of issues which have or can delay an asset from becoming operative, e.g. delay in installation of utility connections, delayed procurement of office equipment or non provisioning of funds for office equipment in PCI.(VFM)

The sub-headings that are not relevant to the audit subject may be ignored. Similarly, if you consider an area not covered above as material for purpose of reporting in the Audit Report, you should take that into account.

Recommendations: The [client] Administration should [insert recommended action addressing the cause and conditions discussed above]

4.5 Asset Management (1-2 pages)

This sub-section will present assessment of internal controls and utilization of assets by an entity/project/programme, including:

- i. Maintenance of proper record of assets (Regularity)
- ii. Assets coding and identification of custodian (Regularity)
- iii. Policy for acquisition, use, replacement, depreciation of assets (VFM)
- iv. Misuse of assets/ vehicles including details of project's assets used by higher government functionaries and official of the controlling ministry/ division. Also mention whether operational expenditure of these assets is borne by the project. (Regularity)
- v. Procurement of assets in comparison to PCI; what was approved and what was procured. (VFM)
- vi. Periodic physical verification reports. (Regularity)
- vii. Controls regarding proper safeguarding and maintenance of assets (Regularity)
- viii. Proper utilization of project assets whether used for intended purpose or not(VFM)
- ix. Details of project's assets disposed off, reasons and mode of disposal, proper approval and deposit of money received (Regularity)

The sub-headings that are not relevant to the audit subject may be ignored. Similarly, if you consider an area not covered above as material for purpose of reporting in the Audit Report, you should take that into account.

Recommendations: The [client] Administration should [insert recommended action addressing the cause and conditions discussed above]

4.6 Monitoring and Evaluation (M&E) (1 page)

Brief account of the M&E arrangements applicable to the activity /project/programme audited may be given in Audit Reports. The description may include comments on regarding:

- i. Description of M&E mechanism/ framework of project (VFM)
- ii. Key indicators developed for monitoring (VFM)
- iii. Summary of baseline data to measure indicators (VFM)
- iv. Preparation and circulation of periodic monitoring reports (VFM)
- v. Monitoring/ steering committees meetings (VFM)
- vi. Evidence of follow-up on actions agreed (VFM)
- vii. Details of reviews carried out by Planning Commission and Donors (VFM)

- viii. Major issues highlighted in Aid Memoirs and monitoring reports and their current status (VFM)

The sub-headings that are not relevant to the audit subject may be ignored. Similarly; if you consider an area not covered above as material for purpose of reporting in the Audit Report, you should take that into account.

Recommendations: The [client] Administration should [insert recommended action addressing the cause and conditions discussed above]

4.7 Compliance with grant/ loan covenants (1/2 page)

This sub-section covers a review of loan covenants applicable to an entity/project/programme. The review will help see whether or not loan covenants were complied with and, if not, what were the implications thereof for the entity/project/programme..

- i. Assessment of compliance with grant/loan covenants (Regularity)
- ii. Identification of instances of non-compliance (Regularity)
- iii. Details of funds provided by donors; in-time or delayed (VFM)

The sub-headings that are not relevant to the audit subject may be ignored. Similarly, if you consider an area not covered above as material for purpose of reporting in the Audit Report, you should take that into account.

Recommendations: The [client] Administration should [insert recommended action addressing the cause and conditions discussed above]

4.8 Environment (1 page)

Auditor may consider significant impacts as well as remedial measures that have been taken or may be needed and audit report should mainly cover:

- i. Review of compliance with Pakistan Environmental Protection Act, 1997(VFM)
- ii. Review of environment impact assessment carried out at start of the project (VFM)
- iii. Environmental monitoring data compiled by project management and comparison of planned and actual environmental impact.(VFM)
- iv. Assessment of degree and scope of necessary improvements or remedial work required in case planned results have not been achieved. (VFM)

The sub-headings that are not relevant to the audit subject may be ignored. Similarly, if you consider an area not covered above as material for purpose of reporting in the Audit Report, you should take that into account.

Recommendations: The [client] Administration should [insert recommended action addressing the cause and conditions discussed above]

4.9 Sustainability (1 page)

Assessment of the likelihood that human, institutional, and financial resources would be available to achieve project results as well as after project completion for continued service delivery.

- i. Probability of continued funding for project completion (VFM)
- ii. Estimated annual recurring cost after completion of project. Comments on whether recurring cost is underestimated. (VFM)
- iii. Agency responsible for annual maintenance (VFM)

- iv. How will recurring cost be financed (VFM)
- v. Changes in technology and legislations which may impact future sustainability(VFM)
- vi. Probable availability of required expertise and skill to operate the project (VFM)

The sub-headings that are not relevant to the audit subject may be ignored. Similarly, if you consider an area not covered above as material for purpose of reporting in the Audit Report, you should take that into account.

Recommendations: The [client] Administration should [insert recommended action addressing the cause and conditions discussed above]

4.10 Overall Assessment (1-2 pages)

All major elements that determine whether an activity/project/ programme is delivering/has delivered are indicated below. Further, it is also important to rate whether the activity/project/programme audited has been successful of note. Proposed ratings have been indicated below. FAOs are expected to use objective criteria for rating.

Activities/projects/programmes should also be rated for risks. The analysis made under sub-section 4.9 provides some guidance on risk assessment. Risk assessment becomes more critical in case of ongoing activities/projects/programmes as it can point toward remedial steps that can eventually lead to an activity/project/programme reaching intended objectives. FAOs are expected to use objective criteria for rating.

- i. **Relevance:** Whether project/activity audited was within overall MTFD framework and in-line with government's sectoral policies.
- ii. **Efficacy:** Achievement of physical outcomes, financial performance, likelihood of achievement of project outcomes leading to achievement of project goals with reference to originally concerned objectives.
- iii. **Efficiency:** Cost overruns and time overruns in the project, timeliness in submission of cash plans and release requests by project, timelines in funds availability to the project, timeliness and competitiveness in procurement.
- iv. **Economy:** Procurement of goods and services at competitive rates without compromising quality. Specifications, BOQs, bidding process, timely delivery and quality etc.
- v. **Effectiveness:** Using a range of performance measure and indicators to assess entity's effectiveness. Whether desired results, objectives and targets have been successfully achieved.
- vi. **Compliance with Rules:** Seriousness of non compliance with applicable rules and regulations. Major instances of non-compliance.

vii. Performance Rating of Project

- a. Highly Satisfactory
- b. Satisfactory
- c. Moderately Satisfactory
- d. Unsatisfactory

viii. Risk Rating of Project

- a. High
- b. Substantial
- c. Medium
- d. Low

5. conclusion (i page) [Times New Roman Bold Size 14]

Insert sub-heading (underlined) where relevant

*Begin with a topical sentence 'Bold Font Size 12. No paragraph number on this sentence]

This section includes:

5.1 Key Issues for the Future: Issues that has hampered/can hamper an activity/project/programme achieving intended objectives. This may include issues not within project's control.

5.2 Lessons Identified: General conclusions, both positive and negative arising from the review. This will include practices, processes and management practices contributing to the successful implementation of an activity/project/programme or otherwise and can be lessons for similar activities/projects/programmes.

ACKNOWLEDGEMENT [Arial Bold 14]

32. We wish to express our appreciation to the Management and staff of [client] for the assistance and cooperation extended to the auditors during this assignment.

S. QAR Plan for Performance Audit Assignment Audit
Quality Management Wing
Year...

1. Background
 - a. Title of performance audit being reviewed

 - b. Audit team members and Team Leader

2. Objective of QAR

3. Approach and methodology of QAR

4. Key areas to be reviewed

5. QAR schedule

6. QAR Budget (If travelling is required)

Prepared by:

Date:

Approved by:

T. Quality Assurance Tool for a Completed Performance Audit Assignment

Purpose:

The purpose of this tool is to provide the Quality Specialist Managers assess the quality of the Performance Audit completed by a Field Audit Office.

S. No.	Element of QA	Total Score	Criteria for scoring	Score obtained	Reference to WP
1.	Audit Planning				
1.1	Whether the topic for PA was selected within the strategic plan approved by the AGP?	2	Yes =2 No =0		
1.2	Whether the topic selected had appropriate prioritization in light of scoring tool?	3	Yes =3 No =0		
1.3	Did the auditor in-charge prepare the PSR on prescribed template?	5	Fully= 5 Partly =3-4 Not=1-2		
1.4	Did the auditors agree the audit criteria with the auditee management before the audit was undertaken?	3	Yes formally=3 Yes informally=2 No =0-1		
1.5	Did the auditors carry out risk assessment at the planning stage?	5	Properly=5 Yes but not properly=3-4 No =0-2		
1.6	Did the auditors follow the PA planning template for audit planning?	2	Completely =2 Partly =1 Not all =0		
	Sub-total-1	20			
2.	Audit Execution				
2.1	Did the DG/Director attend the Entry Conference?	2	DG =2 Director =1 None of them =0		
2.2	Did the DG/Director attend the Exit Conference?	2	DG =2 Director =1 None of them= 0		
2.3	Is there documented evidence that the DG devoted the planned time for supervision?	2	Yes, as planned= 3 Yes, but less than 100 % of the planned= 2		

	(e.g. meetings with the audit team/Auditor In-charge/ field visits, etc)		Yes, but less than 50 % of the planned= 1 Not at all=0		
2.4	Is there documented evidence that the Director devoted the planned time for supervision to the audit? (e.g. meetings with the audit team/Auditor In-charge/ field visits, etc)	2	Yes, as planned= 3 Yes, but less than 50 % of the planned= 2 Yes, but less than 50 % of the planned= 1 Not at all=0		
2.5	Was the audit completed according to the planned schedule?	3	On time= 3 Exceeded plan up to 15%= 2 Exceeded plan up to 50%= 1 Exceeded plan more than 50%= 0		
2.6	Did the office copy of the draft report have cross references to working paper file?	4	Completely= 4 Partly =2-3 Not at all =0-1		
2.7	Do the working paper files contain (a) index; (b) page numbers; (c) cross references to audit program; (d) detail of the work done by the auditor for each element of the audit program ; (e) audit conclusion for each element of the audit program.	5	One mark for each of the elements		
	Sub-total-2	20			
3.	Audit Report				
3.1	Did the auditors cover all audit objectives?	2	Fully =2 Partly =1 Not at all =0		
3.2	Is the executive summary short?	2	Up to 2 page= 2 More than 2 pages= 1		
3.3	Does the report devote separate sections to the following: Preface Executive summary Introduction	9	1 for each segment		

	Audit objective Audit scope, approach and methodology Audit findings and recommendations Conclusion Acknowledgment Annexes				
3.4	How many of the recommendations deal with economy?	4	Percentage of recommendations pertaining to economy multiplied by 4		
3.6	Does the audit report make specific recommendations for improving efficiency?	4	Percentage of recommendations pertaining to efficiency multiplied by 4		
3.7	Does the audit report make specific recommendations for improving effectiveness?	4	Percentage of recommendations pertaining to effectiveness multiplied by 4		
3.8	How many of the total recommendations have the auditee management accepted?	4	Percentage of recommendations accepted fully multiplied by 4		
3.9	What is the extent of savings as a result of implementation of audit recommendations? Less than Rs 1 million; between Rs 1-10 million; more than 10 million	4	Up to Rs 1 million =1 For Rs 1-10 million=2 For Rs 10-50 million= 3 More than 50 million= 4		
3.10	Has the audit led to any significant revision of procedures, rules and regulations by the auditee management for getting better value for money?	4	In one case= 1 In 2 cases= 2 In 3 cases=3 More than 3 cases =4		
3.11	Did the Departmental Audit Committee (DAC) discuss the audit report?	1	Yes =1 No =0		
3.12	Did the draft audit report incorporate point of view of the auditee?	2	In all cases =2 Partly =1 Not at all=0		
3.13	Did the final audit report contain graphics, charts,	2	Yes where possible= 2 Partly =1		

	tables, and figures to illustrate the findings of the audit?		None= 0		
3.14	Did each main observation of the report start with a topical sentence that sums up the main point of the report?	2	Percentage of the observations that start with a topical sentence multiplied by 2.		
3.15	Did the office copy of the draft report clearly show on its margin for each observation the following: (a) criteria (b) conditions (c) cause (d) conclusion (e) corrective action?	5	Percentage of the total audit observations having all these elements multiplied by 5		
3.16	Was the audit plan approved by the DG before the audit was actually undertaken?	1	Yes =1 No =0		
		50			
4.	Audit Management				
4.1	Did the audit team leader have training and experience in PA?	4	Training and experience= 4 Training or experience= 2-3 None=0-1		
4.2	Did the audit team collectively had the competence to cover all audit objectives?	2	Yes = Partly=1 Not sure=0		
4.3	Was the audit completed according to the planned schedule?	1	Yes =1 No =0		
4.4	Was the cost of audit according to the audit plan (Total of TA/DA, consultancy costs)?	1	Yes =1 No =0		
4.5	Has the final audit report been prepared according to the schedule?	1	Yes =1 No =0		
4.6	Has the draft audit report been issued to the client according to the planned schedule?	1	Yes =1 No =0		
	Su-total-4	10			
	Grand Total	100			

Conclusion

[The Quality Management Specialist can work out the percentage of the score obtained with reference to the total score.]

Signature of the Quality Specialist Manager Date:

Comments of the DG

Serial no in the QATool	Comments of the DG

Signature of the DG Date

1). Report on Quality Assurance Review of Performance Audit Assignment

Name of the FAO:

Title of Assignment:

Year:

Dates of QAR:

Member of the QAR Team:

1. Executive Summary of report
2. Objective of QAR
3. Methodology, scope and approach of QAR
4. Summary of the work done by QAR team
5. Background:
 - a. Brief introduction to the audit assignment
 - b. Brief introduction the draft performance report under review
6. Findings and observations
 - a. Positive observations
 - b. Areas for improvement:
 - i. Planning
 - ii. Execution
 - iii. Reporting
 - iv. Audit management
7. FAO comments during review and Exit Conference
 - a. Evaluation of FAO's Response.
8. List of recommendations
9. Concluding remarks
10. Acknowledgements
11. Annexes

V. Client Satisfaction Survey

The Department of the Auditor General is assessing the overall quality of its audit process. A key element of this assessment involves determining how our clients rate the quality and value added by the audits. As such, I am requesting that you consult with your managers who dealt directly with the auditors, and complete the survey below. I assure you that the information you provide will remain strictly confidential.

Audit Title & Assignment No.:

By ticking the columns please rate your satisfaction level where 1 is the lowest and 4 is the highest score.

S. No.	Particulars	1 (poor)	2	3	4 (excellent)
1.	The extent to which the audit addressed your concerns as a program manager				
2.	The audit staff's understanding of your operations and objectives				
3.	The professionalism of the audit staff (Communications, integrity, professional knowledge and responsiveness)				
4.	The quality of the audit report in terms of: - accuracy and validity of findings and conclusions -- clarity and conciseness -- balance and objectivity -- timeliness				
5.	The extent to which the audit recommendations were appropriate and helpful				
6.	The extent to which your comments were considered by the auditors				
	Your overall satisfaction with the conduct of the audit and its results				

Please comment on any areas in which you have rated the audit team's performance as below your expectations. Also, please feel free to provide any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Annex-V

Client Satisfaction Survey

Name: _____ **Date:**

Title: _____

Name of the Organization:

Thank you for taking the time to fill out this survey. Please send the completed survey form as soon as possible in the enclosed envelope addressed to:

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