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on
Sub-theme 1

Performance Auditing: Concepts, Mandates,
Methodologies and Practices,
Reporting and Problems

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Principal Paper
on
Sub-theme 1

Performance Auditing: Concepts, Mandates,
Methodologies and Practices,
Reporting and Problems

Prepared by:
Australian National Audit Office

Australian National Audit OFFICE

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Mr Toshio Higaki
ASOSAI Secretariat
Board of Audit
3-2-1 Kasumigaseki
Chiyoda-ku
TOKYO 100 JAPAN

Dear Mr Higaki

In response to your fax of 8 October 1996 I am pleased to provide the attached copy of the principal paper prepared by Australia for the 1997 Assembly and Seminar. Please feel free to contact me if you require anything further.

Yours sincerely

Ms Sharon Winks
Director
Information Management Branch

Address all mail to: GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit BARTON ACT 2600 Phone (06) 203 7300 Fax: (06) 203 7777

6TH ASOSAI INTERNATIONAL SEMINAR 1997

PRINCIPAL PAPER

Sub-theme 1: Performance Auditing Concepts, Mandates, Methodologies and Practices, Reporting and Other Issues/Problems.

FOREWORD

To add value in a climate of continuous improvement and ongoing public sector reforms is a major challenge for Supreme Audit Institutions (SAIs). From their unique position of being able to look across all agencies in the public sector, SAIs are well placed to make a significant contribution to the development and implementation of public sector reforms. This is done not only by producing high quality audits that 'add real value' by identifying areas where improvements in administration are required but by also identifying areas of best practice. By focussing attention more on best practice models and ways that administration can be improved, rather than by simply highlighting areas of deficiency, SAIs can be of greatest assistance to entity management and the Parliament.

The improvement in public administration through the exercise of the external audit function is achieved both directly and indirectly. It is brought about directly by the implementation of the audit report's recommendations and indirectly by providing agencies with an incentive to improve their performance through both the auditing and public reporting processes.

Performance auditing, a relatively new form of auditing, is an area with a continually evolving role and one that offers significant potential to 'add value'. Performance audits, together with the traditional financial statement audits, play an essential role in the accountability framework within the system of Government and aim to provide assurance to the Parliament about the efficient and effective administration of public sector agencies.

Performance auditing results in a broader view of accountability. Not only should money be expended properly but it should also be spent most effectively in attaining program objectives. There can be some sensitivity associated with performance audits as they often go to the heart of management practices. However, management is not an exact science and there are, legitimately, often differing points of view on the way in which programs can be managed. Because of these views, it is incumbent on the SAI for its performance auditors to have a clear understanding of the goals, objectives and priorities of any area subject to audit and that performance criteria or measures are, as far as practicable, agreed in advance.

SAIs have limited resources but normally a large number of public sector programs within their mandate. A rigorous strategic planning process and risk assessment for the purposes of identifying areas which will be subject to performance audit is therefore essential. The SAI should be open and consultative in the development of its performance audit programs. This requires extensive consultation with all key stakeholders and agencies. The benefits of conducting a performance audit should be assessed against relevant criteria and results of this analysis weighed against the resources available. It is then desirable to undertake a preliminary analysis or study before finally deciding whether or not to commit SAI resources, and of course those of an entity, to a full performance audit.

Structure of this paper

Using an Australian model, this paper discusses concepts in performance auditing and the mandates as applicable to INTOSAI and Australia. It also discusses possible methodologies and practices for the conduct of performance audits. The paper then highlights some aspects that need to be considered when reporting the results of performance audits and finally discusses two specific issues that might need to be considered by all SAIs when conducting performance audits. It is recognised that the paper will have varying interest for SAIs largely depending on the nature of their mandate. Nevertheless there are issues which are likely to be relevant to most, if not all, SAIs.

PERFORMANCE AUDITING CONCEPTS

Terms used in the paper

Although there are a number of terms used to describe the audit of performance (efficiency audits, value for money audits, management audits, operational audits, comprehensive audits) the term performance audit will be used throughout this paper.

Defining Performance Auditing

The International Organisation of Supreme Audit Institutions (INTOSAI) Auditing Standards (page 19) states that:

> 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 utilisation 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 the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with actual impact.

The concepts of efficiency, economy and effectiveness, which provide a framework for analysing the operation of a program, are defined by INTOSAI as follows:

- Economy - minimising the cost of resources used for an activity, having regard to the appropriate quality.
- Efficiency - the relationship between the output, in terms of goods, services or other results, and the resources used to produce them.
- Effectiveness - the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

Performance auditing is relatively new

Although financial statement auditing has been in existence for many years, performance auditing is relatively new. In Australia, until the late 1970s, legislation limited audit to financial statements audits and to ensuring that all monies spent were properly authorised. The legislation did not require the auditor to go beyond verifying the authority for expenditures and accuracy of the records of the expenditures. The question of how resources were used was not the responsibility of the auditor.

In 1978 legislation was introduced in Australia that allowed performance auditing to be conducted. The Australian National Audit Office (ANAO) conducts between 30 and 35 performance audits each year.

Objectives of performance auditing

A performance audit can have a broader objective than auditing efficiency, economy and effectiveness. It can also examine accountability and probity in the use of resources. In practice, performance audit objectives may focus on one or more of these interrelated elements, or be stated in more specific terms, for example the efficiency of a particular process.

SAIs by treating their business as being more than, say, auditing processes and focusing more on outcomes as well as the traditional inputs and outputs, can add real value to public administration through performance audits. SAIs can identify better practice because they have a cross public sector perspective not enjoyed by other organisations. SAIs can add value by promoting better practice observed in one organisation to the public sector as a whole.

The output from an audit need not be an audit report only but can also be other products such as Best Practice Guides, seminars or briefings which provide the forum for the SAI to ensure widespread dissemination and awareness by communicating lessons learned from one audit to the public sector as a whole.

The subject of a performance audit is usually a particular program or activity but it may extend to an issue that is common to or influenced by a range of agencies. These so called cross-entity audits may pursue issues that have applicability to many or all agencies, such as implementation of program evaluation, internal audit, purchasing and human resource issues such as training or performance pay. Alternatively, such audits may embrace issues that have significant topical community interest, such as the environment, client service standards, community welfare, fraud control and commercialisation (or privatisation) of public assets.

Cross-entity audits have the potential to increase the relevance and scope of audit findings and recommendations in the broader Government public sector. As such they have the potential to add considerable value to the overall performance to the public sector.

Performance auditing and financial statement auditing compared

Compared with conventional financial statement auditing, performance auditing takes new directions and extensively widens the scope and intentions of audit review and evaluation. Financial reporting is primarily concerned with the regularity and compliance within the rules set in appropriations, expenditure of public funds and financial reporting. Performance auditing brings attention to goals, objectives and results which take their form in the outputs or effects of a program.

INTOSAI Auditing Standards (page 63) states that 'In contrast to financial statement auditing which is subject to fairly specific requirements and expectations, performance audit is wide ranging in nature and is more open to judgement and interpretation'.

The audit mandate may require or enable the SAI to report a performance audit in two different ways. In an attest audit the auditor attests to assertions prepared by management to demonstrate management's regard for economy and efficiency and effectiveness. The attest type of performance audit is akin to a financial statement audit in this respect. Audits of performance indicators are likely to be of this nature.

In a direct reporting audit, the auditor prepares a report describing management's performance and presents the facts, findings and an opinion indicating the extent to which management has performed efficiently, effectively and economically.

PERFORMANCE AUDIT MANDATES

Postulates from INTOSAI

SAIs are established by the supreme lawmaking body, or by constitutional provision. In some cases, elements of the SAI's role may be provided by convention rather than by specific legal provision. Commonly, the establishing law or regulation sets out the form of the SAI (such as court, board, commission, statutory office or ministry), the terms and conditions of incumbency, tenure, powers , duties, functions and other matters governing the holding of office and the discharge of the functions and duties to be performed. Other legislation may also extend the SAI's mandate in particular areas.

Although the mandates for SAIs vary, INTOSAI's Auditing Standards state 'The basic auditing postulate stipulates that all audit activities should be within the SAI's mandate.' Traditionally in many countries the mandate for performance auditing will stop short of review of the policy bases of government programs. This is commonly referred to as administrative rather than policy effectiveness.

Legislative basis in Australia

The legislative basis for the Office of Auditor-General for Australia is the Audit Act 1901. The Auditor-General's mandate includes the conduct of financial statement audits and performance audits on any type of Government body, although performance audits on Government companies may only be undertaken at the request of the relevant Minister or both Houses of Parliament.

As well as setting out audit provisions, the Audit Act has also provided the legislative framework for public sector financial management and accountability within the terms of the Australian Constitution. There is currently no formal legislative provision which clearly sets out the obligation on management to achieve and report on performance. However, the regulations and directives issued subsidiary to the Audit Act make some provisions to this effect.

Following a Parliamentary review of the Auditor-General's Office in 1989 there has been a stronger emphasis on performance audits. Also, as a result of the review, a new legislative framework is now under consideration to replace the Audit Act. It is to provide new legislation for the appointment, responsibilities and mandate of the Auditor-General including the mandate for performance auditing. It will also allow redefinition of the national framework for financial management, accountability and reporting. Importantly it will separate legislation relating the Auditor-General from that relating to the resources (financial) management framework.

In Australia, the performance audit mandate stops short of commenting on Government policy decisions. It is, however, acceptable for a performance audit to incorporate the audit of information leading to policy decisions, an assessment of whether policy objectives have been met, and an assessment of the results of policy implementation both within the administering body and externally on others. In short, it does not question the appropriateness of the policy objectives.

The Auditor-General has a central place in the process of public accountability. The Executive is accountable to the Parliament and relies on the Auditor-General for independent assurance as to the fulfilment of the public accountability obligations of these bodies. This independence

means that the Auditor-General has complete discretion in the selection of areas subject to performance audit.

Powers to inspect records

The ability of the SAIs to inspect records of agencies that are being audited is an essential condition for SAIs to be able to audit effectively. Chapter I of the INTOSAI Auditing Standards states in part:

- Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under consideration.

- The SAI must have access to the sources of information and data as well as access to officials and employees of the audited entity in order to carry out properly its audit responsibilities. Enactment of legislative requirements for access by the auditor to such information and personnel will help minimise future problems in this area.

In Australia, the Auditor-General's powers to inspect records and enter premises are essential for the effective discharge of the functions of the office. The Auditor-General is provided with various powers, including the power to:

- call for persons and records;
- administer an oath or affirmation; and
- have full and free access at all reasonable times to accounts and records.

A provision of the Audit Act gives the Attorney-General the power to restrict disclosure of specific matters or documents from audit reports. This provision may be applied where publication of, say, classified defence information may prejudice national interests.

Similarly, the Auditor-General does not have a right of access to records of certain expenditures of some security agencies. In these cases accountability is accepted by the Attorney-General who is required to provide appropriate certification.

Parliamentary privilege

In Australia, the Parliament is the primary client of the ANAO and the audit reports tabled in the Parliament are protected under parliamentary privilege. While parliamentary privilege provides the SAI with an ability to report independently, it also imposes the obligation to ensure the quality of its work is commensurate with this privilege.

METHODOLOGIES AND PRACTICES

This section of the report discusses planning of performance audits (both strategic and operational), the stages of performance audit and the methodologies that might be applicable to all stages of an audit. Detailed consideration of the strategic planning process is shown at Appendix 1.

Audit planning

INTOSAI Auditing Standards state that the auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way

and in a timely manner. Planning includes all that is necessary at a strategic level to ensure that performance audit coverage is appropriate, as well as planning at the operational level to ensure that individual audits are conducted properly.

The importance of strategic planning

The SAI would need to select and schedule audit tasks that help achieve its mission, goals and objectives as laid down in its corporate plan. A well-structured planning process, based on a sound rationale, is necessary to ensure that the resources of the SAI are used in the most efficient and effective manner. Strategic plans may be developed annually.

The cost of conducting a performance audit is an investment of taxpayers' money and that investment should provide a return either in terms of recommendations for improved administration or accountability. The SAI has the same obligation to account for the use of resources and overall performance as other entities.

The objectives of strategic planning

Generally, the objectives of strategic planning are to:

- provide a firm basis for the SAI management to give a strategic direction for future audit coverage;
- identify and select audits with the potential to improve public sector accountability and administration;
- provide a platform for communication with agencies and the Parliament on our audit strategies;
- produce a work program that can be achieved with expected available resources;
- help management and staff at all levels to understand entity risks and audit selection; and
- provide a basis for accountability.

Audit topic selection

Performance audit topics are normally selected on two grounds: firstly, to focus on those audits which have maximum value added in terms of improved accountability, economy, efficiency and effectiveness; and secondly, to ensure appropriate coverage of entity operations within the limitations of audit resources available.

The analysis of the risks of inadequate economy, efficiency and effectiveness, or put another way the risks of poor performance, will generate a list of potential audit topics. Those topics are then subjectively ranked against criteria of:

- overall estimated audit impact;
- financial materiality;
- risks to good management;
- significance of the program to the activities of the entity;
- visibility of the program as reflected in its political sensitivity or national importance; and
- extent of recent audit coverage and internal and external review of the program.

Outputs of the strategic planning process

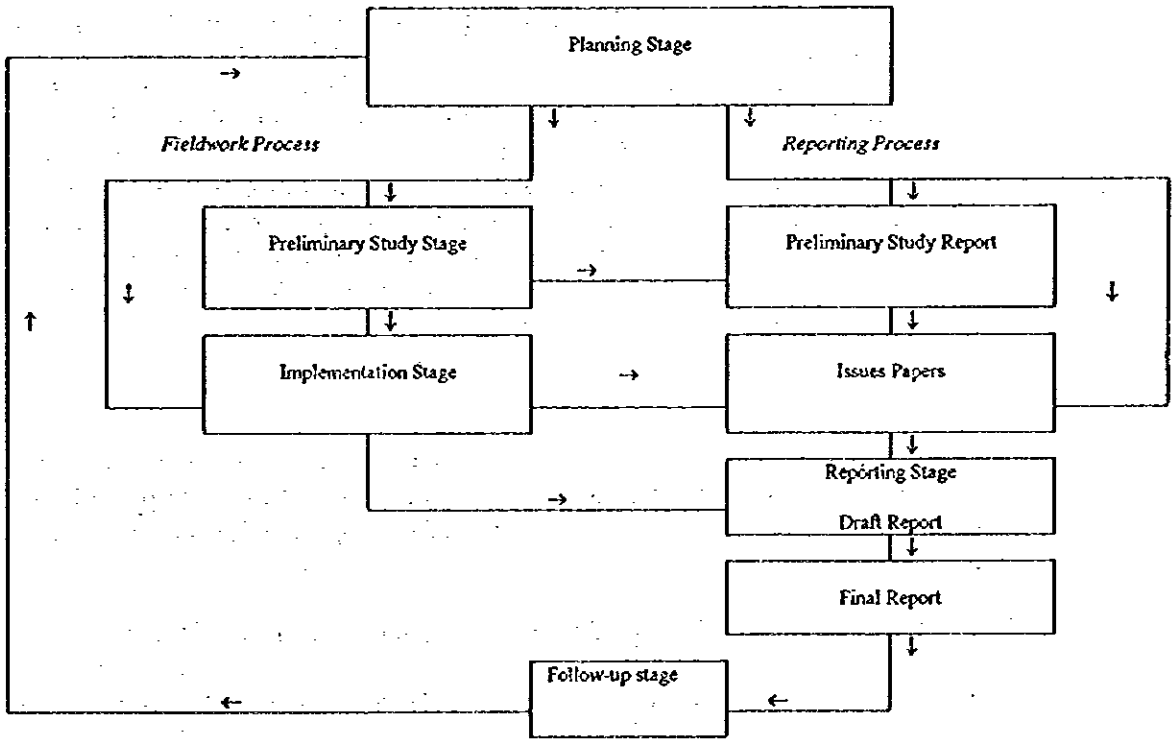
An output from the strategy planning process may be an audit strategy document (ASD). In Australia ASDs are generally prepared for each entity and presented to the SAI's senior management to enable it to assess critically the proposed entity planning strategy for overall consistency with the corporate objectives. Performance audit ASDs can provide useful information on the risks, as seen by the SAI, in the main areas of public administration as well as outlining the proposed audit coverage. The ASD can assist the SAI management in making appropriate resource allocations and assessing the strategic planning process for effectiveness.

The SAI may decide to present the results of the strategic planning process to entity audit committees and/or senior management before the audit cycle commences. ASDs will provide entity management with a useful independent, external perspective of the risks associated with programs and entity operations. By providing the ASD before the audit cycle commences, the ASDs can also contribute to a policy of consultation and 'no surprises' to the entity concerned. In part the latter is a recognition of the cost of audits to entities and the need to have complementary planning processes. ASDs can provide a focus for discussion with entity and departmental audit committees.

Stages of a performance audit

The figure below sets out the possible stages of a performance audit. Some activities in the model may be performed at the same time, some may be repeated, and the relative amounts of time spent on any stage may vary with audit size.

Stages in a performance audit



Besides the planning stage described previously there could be four other stages in a performance audit:

- **The preliminary study stage.** Once the strategic planning process is complete and a particular activity or topic has been selected to audit, the audit team would usually, but not always, conduct a preliminary study to further examine and understand the activity under audit. Important components in the preliminary study are the need to identify fundamental issues, define audit objectives, develop the scope of the audit, estimate potential impacts, develop audit criteria, collect preliminary audit evidence and prepare a preliminary study report. The output of the preliminary study is normally a report which recommends either terminating or continuing the audit. If it is recommended that the audit should continue, the report is likely to include an implementation plan for the conduct of the remainder of the audit.
- **The implementation stage.** The implementation stage involves the collection and documentation of relevant and reliable evidence in accordance with a detailed audit test program. Audit evidence is discussed later in the paper but it should be sufficient to support audit findings, conclusions and recommendations. The implementation stage also involves regular communication with the entity, the preparation of early discussion papers which identify and discuss issues that have emerged during the course of the audit, and a formal interview (the exit interview) at which the audit finding are discussed.
- **The reporting stage.** At the conclusion of the implementation stage, the SAI may decide to prepare a draft report which allows the entity to comment on what would normally be the format of the final report. Once the entity comments have been considered the report will normally tabled in Parliament. Presentations to the Parliament, the Minister, the Shadow Minister, the entity and other public audiences may also be conducted. Reporting is discussed in more detail later in the papers.
- **The follow-up stage.** The follow-up stage of a performance audit is an integral part of performance auditing and: may serve to increase the likelihood that entity management will implement the recommendations that were agreed; may be valuable in guiding the actions of parliamentary committees and providing feedback to the Parliament on the effectiveness of performance auditing; and can provide a basis for assessing and evaluating the SAI's own performance including validating cost savings and other benefits projected at the time the audit was tabled. As one of its objectives is to add to the impact of our reports, follow-up activity should be directed to encouraging the implementation of recommendations, rather than finding examples of lack of action. Working with entity audit committees may also assist the entity in implementing recommendations.

Managing the audit program

Audit reports produced by an SAI represent the culmination of a number of audit processes and should thus be tabled on time and within budget. Audits that are not managed properly will result in untimely reports which are less likely to produce improvements in public sector administration.

General control principles that will assist SAI management of performance audits are:

- the ASD (discussed earlier) for each entity can provide the basis for all work programs; and
- an approved audit work plan (AWP).

The AWP

While ASDs can identify audit topics for one or more years, the AWP is a key document for controlling and monitoring an individual audit in both the preliminary and implementation stages. AWPs are useful in that they can identify:

- the task to be completed;
- the resources to be used;
- the timing for each milestone including the reporting date;
- the final product to be produced by the program; and
- the expected outcome and impact.

AWPs have the potential to provide sufficient information to enable an informed decision to be made about the value and impact of the audit and also its relative priority in relation to other audits in the audit strategy document. The budget and timetable are documented in the working papers and progress against these targets monitored and recorded. This is necessary not only to meet targets specified but also to demonstrate accountability for performance.

Auditing Standards

Performance audits are conducted in accordance with auditing standards consistent with the professional standards required of private sector auditors. Ethical principles governing the auditor's and the SAI's responsibilities set standards on: independence; integrity; professional competence and due care; confidentiality; professional behaviour; and technical issues.

These standards are reflected in INTOSAI's Auditing Standards. In the Australian context, they are also reflected in ANAO Auditing Standards which incorporate the new series of Australian Auditing Standards and Auditing Guidance Statements.

Audit Objectives

Audit objectives should be chosen with a view to defining an audit which has the potential to improve public administration. Performance audits should therefore not only warn against defective practices but also identify and promulgate good practice.

One way of facilitating an analysis of economy, efficiency and administrative effectiveness is to view public sector activities in relation to the following:

- the program objectives, which should be clear enough to identify the desired outcomes;
- the financial, human, physical and information resource inputs used;
- the processes or activities by which the inputs are converted into outputs;
- the goods, services or other results which constitute the output of the program; and
- the actual impacts or outcomes, both intentional and unintentional.

Given the size, complexity and diversity of their operations, it is normally impracticable to attempt to assess the overall performance of departments or agencies in any meaningful way. Consequently, performance audits are usually directed towards specific functions, activities, programs or operations of the entity organisation.

Audit scope and focus

It is the scope of the audit which in practice determines the extent to which it addresses the balance of issues of economy and efficiency, matters of administrative effectiveness in policy implementation and legislative compliance. In the context of the range of programs being audited, the balance of emphasis varies from audit to audit.

The audit scope ensures that field work is clearly bounded, and so assists in producing an audit of reasonable extent and cost. Scope will often be defined by stating what an audit will not cover.

Audit focus defines those aspects within the scope which will receive greater emphasis. The danger associated with a vaguely defined focus is that field work can become unrelated to the objectives of the audit, leading to inefficiencies, budget overruns and insignificant findings. During the audit the focus will usually be readjusted through a continual assessment of the work against its possible impacts. This concentration should allow the focus to be on those areas which hold the most promise of net benefits to be derived from the audit. Audit scope and focus may address any combination of parameters. Some examples are:

- entity organisational segments;
- entity programs, sub-programs or sub-program components;
- entity management systems;
- entity services or product lines;, and
- specific aspects of entity performance, for example - equity and access.

Audit criteria

Audit criteria can be defined as reasonable and attainable standards of performance and control against which the adequacy of systems and practices and the extent of economy, efficiency and effectiveness of operations, programmes, or activities can be assessed. They reflect a normative (that is, desirable) control model for the subject matter under review. They represent good practice - a reasonable and informed person's expectation of 'what should be'. When they are compared with what actually exists, audit findings are generated. Meeting or exceeding the criteria might indicate 'better practice', while failing to meet criteria would indicate that improvements can be made. Where possible it is preferable to identify the nature of such improvements or even how they might be achieved.

Criteria can perform a series of important roles to assist the conduct of a performance audit. They:

- form a common basis for communication within the audit team and with the SAI's management concerning the nature of the audit;
- form a basis for communication with the entity management in that the audit team will often solicit entity management understanding of and concurrence with the criteria and eventual acceptance of audit findings in light of those criteria;
- link the objectives to the audit programs carried out during the implementation phase;
- form a basis for the data collection phase of the audit, providing a basis on which to build procedures for the collection of audit evidence; and
- provide the basis for audit findings, helping to add form and structure to observations.

The degree to which criteria are successful in serving these uses is often determined by their level of detail and the form they take. General and specific audit criteria are acquired or developed during the preliminary study. As the preliminary study progresses these are usually

expanded and made more specific. By the end of the preliminary study, the criteria should be sufficiently detailed and specific to give clear guidance for the implementation stage of the audit, in particular the development of specific audit programs to test the criteria. It is unrealistic to expect that activities, systems or levels of performance in economy, efficiency and effectiveness areas will always fully meet the criteria. Satisfactory performance does not mean perfect performance but is based on what a reasonable person would expect, taking into account entity circumstances.

Sources and development of audit criteria

Performance auditing criteria are not readily available from the accounting profession. Nevertheless, sources of relevant criteria do exist. To avoid the necessity to create criteria from first principles, the audit team should be encouraged to look at the following sources:

- criteria used previously in similar audits conducted by the SAI;
- criteria used in similar audits conducted by other audit institutions (local or overseas);
- general criteria developed by the SAI;
- criteria published by overseas audit institutions;
- performance standards used by the entity, or previous parliamentary or other official inquiries;
- entities that are similar to the entity, that is. organisations carrying out similar activities or having similar program clients both local and overseas;
- professional organisations and standard-setting bodies;
- subject matter literature; and
- general management literature.

These sources provide a basis for the development of criteria for the audit, but may require interpretation and modification to ensure their relevance.

Criteria must be realistic and take into account the context of the entity. Some key criteria relate directly to the entity itself, for example:

- enabling and related legislation;
- entity operating and procedures manuals; and
- central entity policies, standards, directives and guidelines.

It can often be useful during discussions with entity management about the audit to obtain their input to the development of criteria. Any disagreement with entity management about criteria can then be identified, discussed and, if possible, resolved at an early stage. It is essential to encourage ownership of the audit outcomes so that they will be implemented with conviction.

Test Programs

Developing a program for carrying out an audit is a key link between the development of audit objectives and the conduct of an audit. The program should be based on criteria or issues established for the audit and directed towards developing findings to be published in the final report.

The audit objectives and criteria will normally be tested by an audit program of procedures which include: observing; interviewing; documenting; testing and checking; and analysing. Performance audit test programs will need to be customised for each audit. Factors considered when developing the programs may include: audit objectives; size of task; geographic

dispersion; audit environment; the components of the system to be audited; and whether broad issues only have been identified, or specific criteria are available.

In developing an audit program, it is important that the procedures:

- relate to the audit objectives, that is they enable relevant evidence to be collected;
- are clearly stated and include sufficient detail to enable them to be readily understood by those carrying out the audit;
- are organised in a logical manner so the audit examination can be conducted as efficiently as possible; and
- form an efficient method of gathering sufficient evidence, that is. they do not call for superfluous testing.

Audit approach

The approach to an audit will develop as greater understanding of entity operations is achieved and as initial audit findings are made. Throughout each stage the emphasis should be on producing a final report that has impact and balance. Draft report segments will take shape as the audit progresses, even at the early preliminary planning stages when initial knowledge and insights are being formed. The report writing process should be viewed as a continuous one of formulating, testing and revising hypotheses about the audit topic. Consideration of the impact on the audit report of work being undertaken at any stage is an essential test of the relevance of this work.

More detail on audit approaches is at Appendix 2.

Evidence

Audit evidence, a fundamental concept in performance auditing as well as in financial statement auditing, is information collected and used to support audit findings. The conclusions and recommendations in the audit report stand or fall on the basis of such evidence. Consequently, performance auditors must give careful thought to the nature and amount of evidence they collect. An effective audit program helps in obtaining persuasive evidence to support findings in an economic, efficient and effective manner. Evidence is critical to the success of the audit and is a central concern from the planning phase to the end of the audit. While differences in judgement might also be highlighted it is important that maximum evidential support be provided in such instances.

The audit findings, conclusions, opinions and recommendations must be based on evidence that meets the basic tests of sufficiency, competence and relevance. Sources of evidence may include: government policy statements and legislation; published program performance data; interviews; file examination; management reports and reviews; databases; external sources; SAI sources; observation; and surveys and questionnaires.

Documentation standards

Auditors must adequately document the audit including the basis and extent of planning, audit methods and procedures, research design, the work performed and the audit results and findings. Thorough documentation in the form of working papers is a vital aspect of maintaining a professionally acceptable level of auditing. Working papers aid in the planning and performance of the audit, the supervision and review of the audit work and providing evidence of the audit work performed to support the auditor's opinion.

Working papers serve as the connecting link between the field work and the audit report. Thus they contain the evidence accumulated in support of the opinions, conclusions and recommendations included in the report and are themselves evidence that the auditor has conducted the audit in accordance with approved procedures.

The prime need is to demonstrate the quality of evidence and opinions, conclusions, analysis and supporting recommendations, in the interests of presenting a credible report for consideration by the Parliament and entity management. This need becomes even more pronounced in auditing to efficiency and economy criteria.

There are several broad characteristics which all working papers should exhibit:

- completeness and accuracy;
- clarity and conciseness;
- ease of preparation;
- legibility and neatness;
- relevance;
- organisation; and
- ease of review.

Increasingly such papers are likely to be held in electronic formats with scope for considerable productivity over paper formats.

Audit findings

The recommendations made by the SAI in performance audit reports have to be argued in a logical fashion. The development of audit findings, and the formulation of recommendations based on those findings, are critical phases in the audit process. The steps involved are likely to be:

- audit criteria (what should be);
- audit evidence (what is);
- audit finding (compare what is to what should be);
- assess the effects of the finding;
- determine the causes of the finding;
- develop audit conclusions and recommendations; and
- estimate likely impacts.

Audit observations and evidence are compared with the audit criteria to identify audit findings. The development and evaluation of audit findings should take place throughout the various phases of a performance audit. They may start in the planning stage as matters of potential significance. Potential findings identified during the preliminary study are followed up in the detailed examination phase.

The detailed evaluation of audit findings should generally be completed during the preparation of issue papers for distinct segments of the audit or near the conclusion of the audit fieldwork. However, it would not be unusual for the evaluation to extend into the reporting stage as findings are challenged and further evidence is obtained. It is at this stage that a final decision is reached on the findings and recommendations that will be reported.
Once an audit finding has been identified, two complementary forms of assessment take place - the assessment of the significance of the finding and the determination of the causes of the lack of performance. The effect of a finding may be quantifiable; for example, the effect of

expensive processes, expensive inputs or unproductive facilities can be estimated in dollar terms. Additionally, the effect of inefficient processes, for example, idle resources or poor management, may become apparent in terms of time delays or wasted physical resources.

Qualitative effects as evidenced in a lack of control, poor decisions or lack of concern for service may also be significant. The effects should demonstrate the need for corrective action. The effect can also have occurred in the past, be occurring now or possibly occur in the future. To make a finding stand, the auditor should be certain that, if the effect occurred in the past, the situation has not already been remedied to prevent it from recurring.

Developing recommendations

The auditor should identify the cause of a finding, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings. The cause may be outside the control of the organisation under audit, in which case the recommendation should direct attention outside the organisation.

The development of recommendations for improvement in administrative or operational performance is an important feature of performance audits. Recommendations should be developed where unfavourable findings are made and significant adverse effects have been identified. While recommendations focus on the improvements needed rather than how they should be achieved, it is appropriate to indicate broadly what issues might be examined by management when seeking solutions.

Communicating with the entity

There are, legitimately, often differing views on the way in which programs can be managed and there will be tensions between the entity and the SAI unless there is open, continual and honest communication. Performance auditors should have a clear understanding of the goals, objectives and priorities of any area subject to audit and that criteria are agreed in the early stages of the audit.

Findings are presented to entity management for comment as they arise. In this way entity responses can be documented and analysed. Where the entity disagrees with the audit findings and recommendations, the reasons for such disagreement should be fully analysed.

SAIs may have a requirement under natural justice guidelines to seek comment from the entity and anyone else whose reputations or interests might be adversely affected by the report. It is usual to put to such people only relevant parts of the report and they should be provided with adequate notice and opportunity to respond to the material.

REPORTING

INTOSAI Reporting Standards state that at the end of each audit the auditor should prepare a written report setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness and ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.

Clear, balanced and objective public reporting of audit observations is fundamental to the audit role in public accountability. The published final performance audit report is the product on

which the SAI performance audit function is judged by the Parliament and the public at large. It is therefore crucial that much thought be given to the development of the audit report. Its contents and the wording of recommendations, can be contested by entities and attention needs to be paid to the accuracy, logic and clarity of the reports. Any material errors could be potentially damaging to the credibility of a particular report and to the SAI. The importance of presentation should not be underestimated.

Audit reports may come under increasing scrutiny from Parliamentary Committees, the public sector and the media. The SAI's methodology, the interpretation of data, and the evidence used to reach audit conclusions can be questioned. For these reasons it is important that reports are of a high standard and follow the SAI's Auditing Standards and other guidance provided by the SAI.

It is usual for the SAI to establish system of control to ensure that the quality of the audit and audit report is in accordance with the SAI's standards. This control system may consist of quality assurance reviews conducted by internal and external reviewers as well as management review undertaken at various stages during the audit.

Benchmarking with other SAIs or organisations that conduct similar activities can be an important part of judging and then improving the quality of audit process and product but depends on reliable management information and a good understanding of the business of performance auditing.

The continuous report-writing process

Reports produced during an audit include the initial audit work plan, the preliminary study report, reports to the SAI executive, the exit interview discussion paper, the final draft report and the tabled report. Given the amount of reporting required during an audit, the reporting process should be as efficient as possible. This can be achieved by the use of a continuous report-writing process that starts at the beginning of the audit with an outline that gradually grows and changes throughout the course of the audit and results in a final audit report.

An alternative approach is to produce papers by topic during the audit. These are merged with relevant sections of the preliminary study report and any other relevant material to produce a report which can be discussed at the exit interview. Ideally, the format of the draft report should be as close as possible to that of the final report as this allows the entity to see the audit findings in context and comment accordingly.

Issue papers and the exit interview

At various stages during an audit there may be a need for papers to identify and discuss major issues that have emerged during the course of the audit. They serve to progress the development of audit findings and recommendations. Issue papers are a good way of exploring significant preliminary audit findings with an entity and generally help in communication with the entity.

Issue papers should be concise, including sufficient information to adequately describe the issue and its effect on entity operations, and the entity program. Suggestions for improvement may be included if thought appropriate. This may lead to early implementation of audit recommendations with an immediate effect in improving public administration.

The issue paper represents the first round in a series of challenges that findings will go through. It is better to detect possible imperfections in audit findings and their supporting evidence or logic at this early stage than when the entity reviews the final proposed audit report. If the entity can produce better evidence which demonstrates that that the auditor's initial conclusion was in error, this should be accepted with good grace and in a positive manner. The aim is to establish the facts of the matter. AS indicated earlier, differences in judgement should be carefully documented.

At the conclusion of the fieldwork, it is usual to hold a formal exit interview to discuss the issue papers or an exit interview discussion paper. An exit interview discussion paper is a good way of presenting a comprehensive view of total findings and recommendations as a basis for the entity to comment and provides the first opportunity for the entity to see the context of audit findings and conclusions in written form. In line with the continuous reporting concept, the format of paper should be closely aligned to the expected final report. To get maximum benefit, the paper should be provided before the exit interview.

Proposed Report

Once the comments from the entity at the exit interview are incorporated, it is useful to send a copy of the proposed report to the audited body for comment. This report represents the culmination of the audit field work, and associated analysis and consideration, and should represent the SAI's final conclusions and recommendations. This is usually the last opportunity for the entity to comment on the findings and a reasonable amount of time should be allowed for the entity to study the proposed report.

Providing an entity with a copy of the proposed report ensures that the entity is fully aware of the contents of the report before it is tabled in Parliament.

Entity responses

The entity's response should be reviewed to ensure completeness, particularly that each recommendation is commented on as to its acceptability. If it is not complete, a supplementary response may be requested. However, the audit team needs to bear in mind the resulting impact on meeting the targeted tabling date.

One way of ensuring that the entity's view is shown in the reports is to incorporate the entity's response in the appropriate part of the report. Of particular importance is the entity's response as to whether they agree to the recommendations.

OTHER ISSUES/PROBLEMS

There are two other issues that are relevant to the changing public sector environment being experienced in many countries and the relatively new concept of performance auditing. Firstly there is a need to develop some sort of client relationships with the entity being audited and secondly the skills required to conduct performance audits are quite different to those required for financial statements.

Client relationships

As discussed earlier, performance auditing, by its very nature, can lead to tension between the entity and the SAI. SAIs generally try to manage this tension through developing a relationship

with its clients. While the Parliament is the primary client for SAIs, there is a good case for SAIs to develop a secondary client relationship with agencies. Although SAIs may have in place a quite rigorous regime of Parliamentary review and scrutiny, improvements in performance and accountability of public sector agencies are less likely to occur where there are differences, particularly fundamental differences between the SAI and the entity being audited. This does not mean that there should be necessarily always be agreement. However, the basis of any disagreement should be apparent.

SAIs should endeavour to work closely with entity management to achieve an outcome both parties are at least broadly able to agree. This relationship can be built on the concept of open and timely consultation. It is not a case of settling for a low level compromise solution but a matter of ensuring good communication and understanding of issues and mounting a compelling argument. Often this can be achieved by a balanced presentation of the audit indicating good levels of performance as well as those that can be improved.

An important element in the SAI's continuous improvement process is to seek feedback from clients (which may include both the Parliament and agencies) on whether the audit reports have led to improvements in public administration and whether the SAI's work has been useful. This can be done in a number of ways but the most common one is through the use of a survey. Surveys can be structured at the strategic level to assess how the entity sees the SAI's work in general and at the operational level to receive feedback on the audit planning, audit process and product.

In its dealings with Parliament and public sector agencies, the SAI usually has a responsibility to act in an apolitical, impartial and objective manner.

Skills of performance auditors.

The SAI's credibility is mainly a product of the quality of its audit reports. Performance audits focus on decision making and management procedures and are by their very nature inter-disciplinary. Performance audits should employ persons with highly developed analytical skills who may not be accountants. These staff should also have management skills and skills in policy or program subject areas. INTOSAI General Standards in Government Auditing states that the conduct of performance audits may require training in such areas as administration, management, economics and social sciences.

SAIs cannot expect to have all the specialist knowledge in their organisations. The use of consultants for specialist tasks is a cost-effective option for obtaining skills appropriate for a specific audit. The use of specialists can add credibility to the audit report although SAIs must take care to assure itself of the consultant's competence and aptitude for the particular tasks involved.

Appendix 1

The strategic planning process

Objectives of strategic planning

Auditing Standards require that audit activities be properly planned; this covers planning at both the operational and strategic level. A well-structured planning process, based on a sound rationale, is necessary to ensure that the resources of the SAI are used in the most efficient and effective manner. Operational planning was discussed earlier in the paper.

A summary of the strategic planning process in diagrammatic form is shown on the next page.

Strategic planning is important as it can:

- provide a firm basis for the SAI Executive to give a strategic direction for future audit coverage;
- identify and select audits with the potential to improve public sector accountability and administration;
- provide a platform for communication with agencies and the Parliament on the SAI's audit strategies;
- produce a work program that can be achieved with expected available resources;
- help management and staff at all levels to understand entity risks and audit selection; and
- provide a basis for our accountability to Parliament.

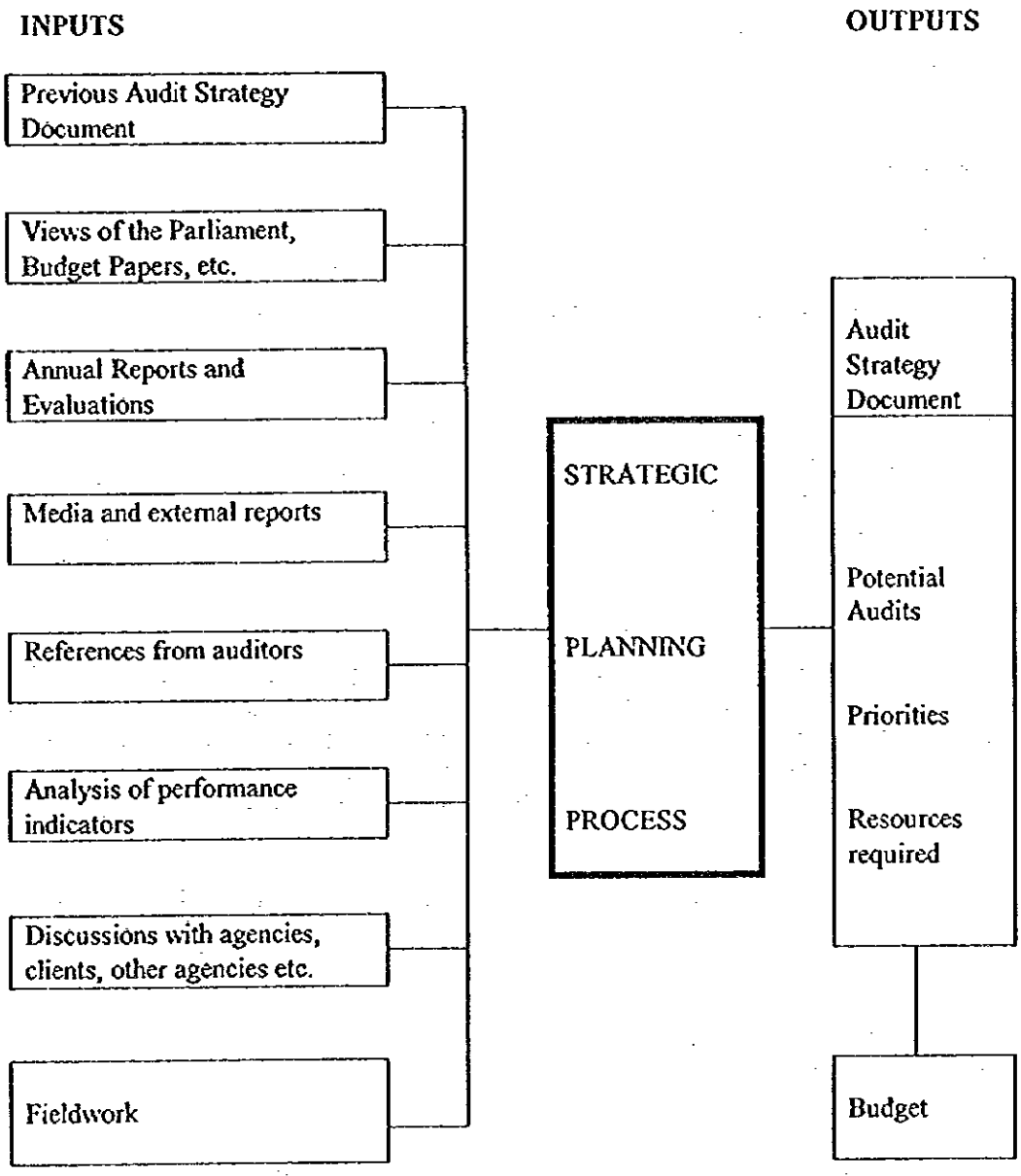
Gathering information

Knowledge of the entity's business is a major input into the development of strategic performance audit plans. Managers should gather sufficient information to be aware of the risks to good management of their assigned agencies. Sufficient information should be collected to:

- develop a good understanding of each entity - for example, its objectives, constraints, resources, activities, procedures and controls;
- identify the main areas of risk of poor entity management performance; and
- support the ASD.

The resources devoted to the process must be tailored to the current level of knowledge and potential risk assessment of the entity. Where the entity is well understood or there are few indications of risk, then only limited information gathering may be necessary.

The strategic planning process



Ways of gathering portfolio information include:

- liaison with other performance audit staff, and with financial statement and IT auditors, to identify:
- previous audit coverage;
- issues for consideration; and
- existing SAI information about the entity;
- reviews of media coverage, annual reports, Budget papers including program performance statements,
- discussions with:
- Board and/or audit committee members and internal auditors;
- senior entity management, including the chief executive and divisional or national program management;
- evaluation unit staff;

- clients or client organisations, and other stakeholders;
- major suppliers;
- central coordinating agencies,;
- relevant review agencies;
- relevant parliamentary committees;
- analysis of trends and patterns in existing performance indicators and other relevant data;
- reviews of available documents such as management committee or audit committee minutes;
- reviews of previous audits and evaluations and other internal and external reviews;
- fieldwork to examine key documents and hold discussions with a small number of officers; and
- participating in an entity's orientation/subject matter training courses where available.

Selecting audit topics

Audit topics are generally selected on two grounds: firstly, to focus on those audits which have maximum value added in terms of improved accountability, economy, efficiency and effectiveness; secondly, to ensure appropriate coverage of entity operations within the limitations of audit resources available.

Definition of auditable areas

Managers should define potential audits in their assigned agencies. One way of ensuring that no potential audit topic is overlooked is to first divide the activities of the entity into a number of auditable areas. The program structure of an entity provides a useful starting point in enumerating the auditable areas. An audit topic could also address one level of the organisation, e.g. the performance of regional offices, or some other cross-program topic such as use of assets.

The analysis of risks to poor performance or, expressed another way, risks of inadequate economy, efficiency and effectiveness will lead to a list of potential audit topics. Those topics are then subjectively ranked on a scale of one to five against several criteria. These are:

- overall estimated audit impact;
- financial materiality;
- risk to good management;
- significance of the program to the activities of the entity;
- visibility of the program as reflected in its political sensitivity or national importance; and
- lack of recent audit coverage and internal and external review of the program.

Portfolio managers should assess potential audits in their assigned agencies against these criteria in order to provide adequate assurance that significant audit topics are not overlooked and that those that are chosen are reasonably likely to lead to worthwhile audits.

Overall estimated audit impact

Of major importance in the final selection of topics is the added value expected from the audit. This focus on outcomes from a performance audit should guide auditors through all stages of the audit, from the initial identification of potential topics to the reporting of findings and recommendations to the Parliament.

A preliminary estimate of the audit's benefits should be made at this strategic planning stage. Expected benefits can take many forms and although quantification is desirable it is unlikely to be feasible at the strategic planning stage.

Financial materiality

Each SAI will view financial materiality differently. In Australia, this criterion is based on an assessment of the total value of the Government's assets plus annual expenditure plus annual revenue of the auditable area. Points should be awarded on the following basis.

$ 0 - 30 million	-	1 point
$ 30 - 100 million	-	2 points
$ 100 - 300 million	-	3 points
$ 300 - 1000 million	-	4 points
$1000 million and higher		5 points

Risks to good management

An important input to the planning process is the assessment of risks to good performance in the entity. This requires the auditor to assess the risk that management of the activity to be audited is deficient in economy, efficiency and effectiveness.

Evidence of risk to good management includes:

- management inaction in response to identified weaknesses;
- adverse parliamentary or media comment;
- non-achievement of stated objectives such as revenue raised or clients assisted;
- high staff turnover;
- significant underspending or overspending;
- sudden program expansion; and
- overlapping or confused responsibility relationships.
- An entity program or activity that is more complex to manage and operates in an uncertain environment is more likely to have problems associated with performance.

Some possible indicators of high complexity and uncertainty are:

- highly decentralised operations with devolved management decision-making responsibilities;
- a multiplicity of interested parties;
- use of rapidly changing and sophisticated technology;
- a dynamic and competitive environment; and
- controversial social and political debate surrounding the issue.

The stage of the entity's program development should also be kept in mind when assessing management performance. For example, in the development stages it will be particularly important for the entity management to set measurable, operational objectives which clearly identify how the program will contribute to the organisation's objectives. In other words, has the program need been justified and clearly documented? During program implementation it will be important to see whether appropriate performance measures are maintained and analysed to assess performance, and whether there is a clear identification of roles and responsibilities for each level of program administration. If the program has been in place for some time it will be important to assess whether a formal evaluation has been undertaken to

assess whether the program is continuing to meet relevant needs and the extent to which those needs still exist or are being met by other programs.

Significance

The significance of an audit topic would have regard to the magnitude of its organisational impacts. It will depend on whether the activity is comparatively minor or whether shortcomings in the area concerned could flow on to other activities within the entity. For example, a small organisational unit with low materiality may be responsible for decisions with long-lasting strategic and operational impacts on the organisation, its costs and effectiveness, e.g. selection and design of IT systems. Similarly, weaknesses in a particular system may have widespread effects, while another may be comparatively self-contained and therefore limited in its impact on the systems and activities.

Significance will rate highly where the topic is considered to be of particular importance to the entity and where improvement would have a significant impact on the operations of the entity. A low score would be expected where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or be likely to have minimal impact.

Visibility

This criterion is similar to significance but is more concerned with the *external* impact of the program. It is related to the social, economic and environmental aspects of the activity and the importance of its operations to the Parliament and the public. In considering this criterion some weight would be attached to the impact of an error or irregularity on public accountability. It would also have regard to the degree of parliamentary and public interest in the outcome of the audit.

Lack of coverage

Coverage refers not only to previous SAI coverage but also to other independent reviews of the activity. Such reviews may have been conducted by internal audit, external consultants or parliamentary committees or the activity could have been subject to program evaluation. As a general rule, a low score would occur when there has been a substantial review of the activity within the past two years. A higher score would be warranted where a follow-up review has been requested by a parliamentary committee or the previous review indicated that such a follow-up should occur.

The materiality, risk, significance and visibility of an activity will also influence the score for coverage. If a program has scored highly on all or most of these elements it would be expected that the coverage cycle would be at fairly frequent intervals.

Summary of factors

Each of the six factors discussed is of importance. To gain an overall perspective, it can be useful to prepare a summary table containing the rating for each auditable area evaluated, for example:

Auditable area	Impact	Materiality	Risk to good management	Significance	Visibility	Coverage
Area # 1						
Area # 2						
etc.						

Simple summation of the scores to give an overall ranking of each auditable area would not be an accurate indication, as each of the factors will have a different weighting; for example the first factor, overall impact, will often have the greatest weight, and materiality will usually have a higher than average weighting. Therefore, ranking of audit areas will remain a matter of judgment.

Resource considerations

The previous sections of appendix have discussed identification and selection of audit areas for each entity without considering the resources required. In order to come to a judgment on audits proposed to be carried out in the immediate future, Managers should estimate the resource requirements of proposed audits. (Such estimates will be refined in the preliminary study stage of an audit.)

At the strategic planning stage, it will not be possible to determine an accurate budget for each proposed audit, but it may be possible to get an indication of audit cost, including travel and consultancy. These estimates will help in forming a judgment on the overall cost-benefit of each proposal. It would thus be possible that a small audit would be recommended over a larger audit even if it had somewhat lower predicted impact. Audits should be ranked using cost-benefit considerations.

As part of cost estimation, the Manager should also consider the risk to the audit. This involves consideration of such risks as delay caused by the entity, audit irrelevance due to significant program change, and having key audit staff depart. Measures to alleviate such risks should be considered.

Detailed scheduling of audits will take into account the availability of suitably qualified and experienced personnel within the SAI, but these considerations should not significantly influence strategic planning. For example, if a high-priority audit would require special skills not available in the SAI, it should still be identified in the strategic planning process. Expertise may be available under external contract to enable the audit to be completed in a timely and professional manner. The need to conduct strategic planning work itself should also be considered when setting schedules for other audits.

Audit approaches

Introduction

There are a number of approaches to conducting audits, but the more common are analysis of procedures, analysis of results, case studies, surveys and the use of existing data. These are explained in this appendix. The appendix also gives guidance both on the selection of an approach or approaches to use when developing the audit program and on how to implement the audit approaches.

Although performance audits often employ analysis of results or case studies (which are similar approaches), there are occasions when an audit will be primarily an analysis of procedures. The use of surveys or the use of existing sources of data may also be appropriate and valuable, as a primary approach or as an adjunct to one of the other approaches. The decision on which approach or approaches to use should be made after consideration of the strengths and limitations of each of the approaches for the audit or part of the audit under consideration. Different approaches may be required for different issues.

Analysis of procedures

An analysis of procedures is often a start point to audit analysis. This is an analogous approach to the financial statement analysis of controls, or compliance testing. The auditor will review systems in place for planning, conducting, checking and monitoring the activity being audited. This will involve interviews of managers and examination of documents such as budgets, financial reports, program guidelines, annual or other plans, procedures manuals, delegations, and reporting requirements. Procedures will be tested against established criteria or a desirable control model. This will typically mean that procedures will be checked among other things for completeness, relevance against the legislation and Government decisions, internal consistency and practicability.

If procedures are found to be inadequate, then it is unlikely that performance will be satisfactory, and so it may be feasible to curtail other planned audit examinations such as case studies or data analysis. For example, if an audit objective was to establish whether an entity had achieved its aims, and it was found that the entity had no performance indicators to measure achievement, then the SAI could report the absence of knowledge about performance, rather than trying to do work which may or may not answer the question.

Alternatively, the audit team may choose to analyse the results of inadequate procedures by quantifying the occurrence of error to provide a basis for a recommendation. This approach may help persuade agencies of the need for action to improve procedures.

The degree of confidence that the auditors have in the procedures will affect judgments of risk and hence the extent of substantive testing required. In addition, the validity of entity data, from files or from databases, will also depend on the soundness of internal controls on the collection of data.

Assessment of whether procedures are adequate to meet their objectives will be carried out by a number of means, depending on the nature of the procedure. These include observation, file analysis and discussions.

Analysis of results

Analysis of results means examining a number of instances of entity activity in a particular area to determine whether entity performance in that area conforms to audit criteria, or is otherwise satisfactory, e.g. by comparison with performance benchmarks. It is distinguished from analysis of procedures (see previous section). For example, analysis of results applied to a grant program might lead to examining a sample of grants to check whether every applicant is eligible under the grant guidelines.

Analysis of results is related to substantive procedures in financial statement auditing. Substantive procedures are designed to obtain evidence as to the completeness, accuracy and validity of the data. Substantive procedures also include analytical review (analysis of rates and trends, including the resulting investigation of unusual fluctuations).

This form of analysis differs from case studies in that, for case studies, the emphasis is on understanding each case in every relevant aspect. For analysis of results, the emphasis is on deriving results representative of the whole (either by choosing examples or by testing the entire population) against specific issues or criteria. The samples may even be different for different tests, although in practice it is usually simpler to use the same set of examples for a battery of tests. In this case, analysis of results and case studies can become very similar activities.

Activities carried out in analysis of results can include, as necessary, observation, interviews, file examination and data analysis.

Sampling

Where practicable, entire populations should be analysed. Where this is not feasible, sampling techniques should be used.

Auditors need to be aware that, if they are extrapolating from specific cases to make assertions about the population as a whole, they need to be very careful about the randomness and size of the sample chosen for testing. Where only indicative or exploratory results are required, it may be more instructive to choose instances to be illustrative, eg. make sure there is a case of large and small expenditure, of a city and rural client, and of several States or provinces. Conclusions from this sort of 'sampling' must be carefully interpreted and reported.

The extent of testing required depends on the aims of the test, the confidence level required, and to some extent the results of the testing. For example:

- for some tests, the finding of a single failure to meet criteria can be sufficient to show a negative overall result;
- a higher confidence level, requiring more testing, may be required if the finding is controversial; and
- if all tests show the same result, the sample size can be reduced.

The case study approach

The case study is a common approach used in the conduct of performance audits both in Australia and overseas. The United States General Accounting Office defines the case study as 'a method for learning about a complex instance, based on a comprehensive understanding of

that instance obtained by extensive description and analysis of that instance, taken as a whole and in its context'.

In applying the case study approach, the issue of generalisation is paramount. Some issues do not require the findings to be generalised; for example, issues for which the illustrative, exploratory and critical instance applications would be useful. However, the requirement to generalise is not uncommon and the ability to do so depends on how the cases were selected and the diversity of cases in the population being studied.

There are a number of ways to select cases for examination and each allows the auditor to answer particular types of questions. In the performance audit context, the selection of cases by probability sampling is often not feasible and thus the purpose of the study must guide the selection of cases.

Surveys

A survey is a method of collecting information from members of a population to determine the incidence, distribution, and interrelation of events and conditions. It is becoming a widely employed tool in performance audit work. Surveys are often used in conjunction with other methods to provide a coverage of a larger sample than would otherwise be possible.

Surveys have been used in performance audits to gather information about programs administered by a variety of agencies as well as the views of the clients and staff of agencies. Surveys are a very versatile information collection strategy and can be used as an exploratory tool in the preliminary study stage of an audit and also to provide evidence in the full investigation.

In deciding whether to use a survey the following issues should be considered:

- Is there a need for a survey? Is survey data required to make appropriate conclusions about the topic under consideration?
- Is information already available? The SAI may have access to an organisation that collects relevant data or the program area under review may have undertaken surveys of clients, staff etc.
- Is information needed from a sample of respondents to make generalisations to the wider population of interest?
- Is it necessary to gather data on a topic from a widely dispersed group of people?
- Will the information collected meet audit needs? For example, compliance issues do not lend themselves easily to the survey approach, as respondents have a high probability of providing incorrect responses.
- Are resources available to conduct a survey? A properly conducted survey can be time-consuming and requires diverse expertise. This will include knowledge of the subject area, survey design, questionnaire design, sampling, data collection skills, data analysis skills and interpretation skills.

Surveys can be undertaken by the SAI or on behalf of the SAI by consultants. Where surveys are to be conducted by the SAI, it is important that managers anticipate the level of resources required to complete the project effectively and avoid hastily prepared or improperly conducted surveys that will limit the value of, or invalidate, the information collected.

Where surveys are to be conducted by consultants, it is important that a comprehensive brief is prepared and appropriate contracts are put in place to allow effective management of the job.

Regardless of the means by which the survey is conducted, the SAI must ensure that it is executed professionally. The rigorous application of the survey technique is very important in the conduct of performance audit work, as the quality of the data collection mechanisms underlies the value that can be placed on the information collected. In addition, great care should be taken to ensure that any conclusions drawn from the data match the strength of the survey design. For these reasons it is essential the methodology employed in the conduct of the survey is clearly documented in the audit report. This allows the reader to establish the reliability that can be placed on the statements drawn from the data.

Further, gaining the assistance and support of the entity is invaluable, not only in gaining acceptance of the audit report but in using its knowledge of the subject to assist in the survey design, sample selection and interpretation of the results.

Use of existing data

It is important for audit staff to investigate the data held by entity management and by other relevant sources. This may include management information systems the organisation uses to manage the programs or the data collected on individual programs. These databases have the potential to provide a wealth of relevant material for performance audit work.

Use of existing data is sometimes referred to as 'secondary data analysis' because it involves using data collected for some other purpose and analysing the data in an appropriate manner. Many large data sets collected as part of a program's administrative procedures or through surveys are available for secondary analysis. However, great care should be taken in using second-hand data. Documentation relating to how the variables were defined, how the sample was selected, how the data were collected, how the variables were manipulated to create new variables, etc. must be obtained. The data, of course, must be assessed as to how well they fit the current topic. If the fit is not exact it is important that the evaluator reports the caveats on the conclusions developed.

The auditor should pay particular attention to 'exploratory analysis' of the data. This will include graphing the data to examine the relationships between variables or to examine trends over time. It will also include basic data manipulations such as descriptive statistics (that is, measures of central tendency, dispersion, association etc), frequency counts on the data and the use of contingency tables. These simple manipulations and presentation of the analysis in diagrams, tables, and graphs can provide useful results without use of advanced statistical procedures.

Comparative Review Paper
on
Sub-theme 1

Performance Auditing: Concepts, Mandates,
Methodologies and Practices,
Reporting and Problems

Prepared by:
Australian National Audit Office

6th ASOSAI INTERNATIONAL SEMINAR, 1997

COMPARATIVE REVIEW PAPER

SUB-THEME 1 :

PERFORMANCE AUDITING

CONCEPTS, MANDATES, METHODOLOGIES AND PRACTICES, REPORTING AND OTHER ISSUES/PROBLEMS

Background

The principal paper, prepared by Australia, took the INTOSAI standards as a basis for discussing performance audit concepts and methodologies. Practical examples were provided by using the Australian approach as a model. At the time of preparing this comparative review paper, responses had been received from 15 member countries. These were: Bangladesh, Brunei Darussalam, the Republic of Cyprus, India, Japan, the Hashemite Kingdom of Jordan, the Republic of Korea, the Kyrghyz Republic, the Kingdom of Nepal, New Zealand, Pakistan, the Kingdom of Saudi Arabia, Turkey, and the Republic of Yemen.

The nature of the mandate of different SAIs, and the length of experience in conducting performance audits, resulted in country papers of varied approaches and levels of detail. However, some key themes were evident across all SAIs. This degree of commonality provides the basis for a fruitful discussion of issues and approaches, and for the exchange of information and experience.

PART A: PERFORMANCE AUDITING CONCEPTS

The principal paper used the term "performance audit" as synonymous with efficiency audit, value for money audit, management audit, operational audit, and comprehensive audit. This comparative review paper does the same.

Most countries accepted the INTOSAI definition:

> 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 the utilisation 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 the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

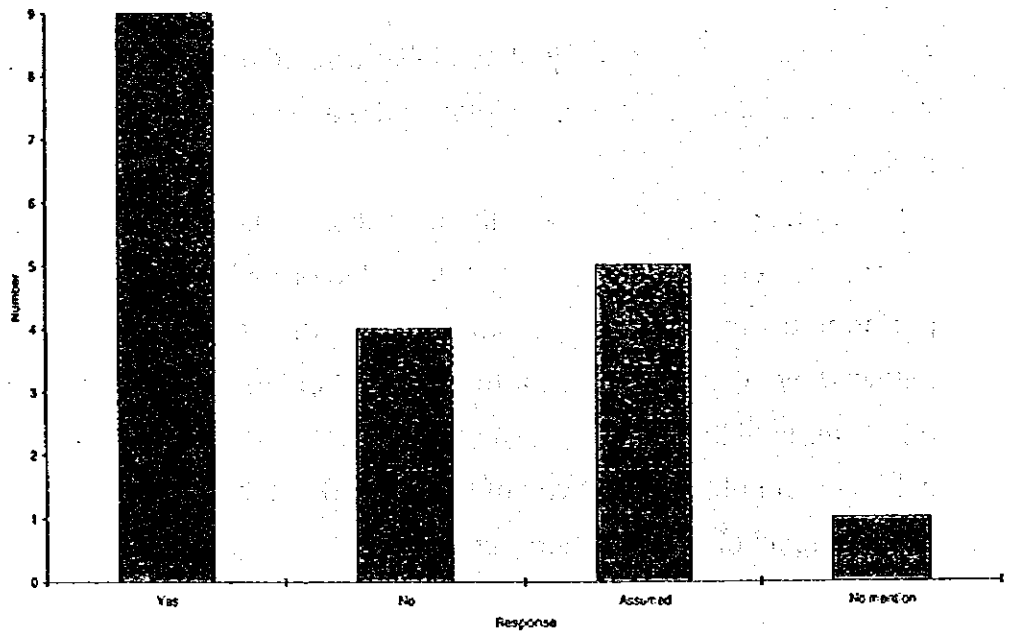
The key concepts are defined as:

- economy - minimising the cost of resources used for an activity, having regard to the appropriate quality;
- efficiency - the relationship between the output, in terms of goods, services or other results, and the resources used to produce them;
- effectiveness - the extent to which objectives are achieved and the intended impact and the actual impact of an activity.

Mandate

As Figure 1 shows, nine of the 15 country respondents have an explicit legislative mandate for the conduct of audits assessing efficiency, effectiveness and economy. This mandate is generally accepted in a further three countries, and in two more, the SAI's jurisdiction covers some of the elements of performance audit.

Figure 1 - Explicit Legislative Mandate



The nature of the mandates, however, varied between countries. In the main, the SAIs fall into two categories:

(a) those whose mandate covers performance audits; and
(b) those which also evaluate the outcomes of government programs.

A common theme running through all papers, however, was the concern to see audits of performance as more than just an end in themselves. The provision of assurance about the efficiency, effectiveness and economy of government operations, and their accountability and probity, was seen as

crucial to the work of SAIs. But so, too, was the contribution that SAIs could make to improved public administration.

The basis for this added value was seen to lie in the whole-of-government perspective available to SAIs, particular the capacity for cross-agency comparisons, and the capacity to identify cross-agency issues and challenges.

Access to records

The nature of the individual mandate also meant that SAIs access to records varies widely. Some SAIs have very powerful rights of access. For instance, the Comptroller and Auditor General of Bangladesh has access to "all records, books, vouchers, documents, cash, stamps, securities, stores, or other government property in the possession of any person in the service of the Republic." This compares with, say, Australia, where the Auditor General does not have a right of access to records of certain expenditures of some security agencies.

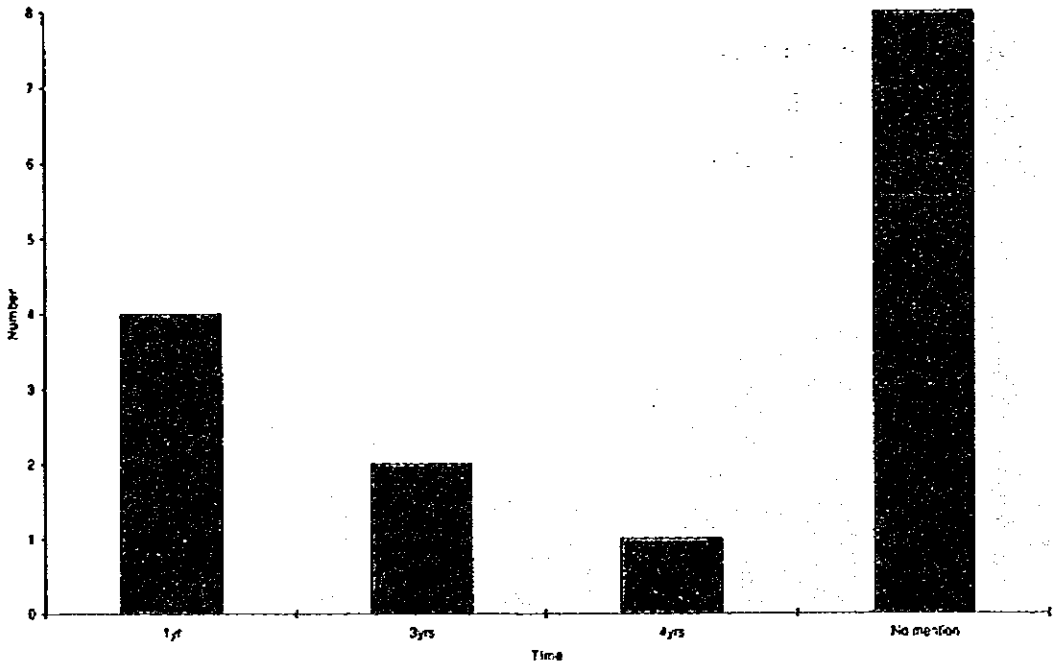
There were also reported restrictions applying to the disclosure of certain types of information in some countries. Other SAIs, for example, the Auditor General of the Republic of Cyprus, have no such restrictions.

PART B: METHODOLOGIES AND PRACTICES

Most respondent countries undertake some form of strategic audit planning, although the extent and detail of this activity differ according to variables such as resources available for performance auditing (including whether or not those resources are dedicated, or are shared across all audit work), the nature of the mandate, and the length of time the SAI has been undertaking performance audit work.

In general, the strategic plans identify potential audit topics and timeframes, and make an estimate of resources required. Some countries, for instance, New Zealand and Pakistan, work on a three year rolling plan, with annual reviews, while the Republic of Korea has a four year cycle. In these cases, the annual reviews provide the basis for a more detailed operational plan for the first year. Figure 2 sets out the range of responses on strategic planning horizons.

Figure 2 - Strategic Planning Horizons



Audit topic selection is guided by different principles, according to the objectives of individual SAIs. Common factors include:

- materiality;
- risk factors;
- audit coverage;
- public interest, topicality or political sensitivity;
- impact;
- improvements in public administration or accountability; and
- significance.

Several countries mentioned that, in considering whether or not to include proposed topics in a strategic plan, SAIs take account of resource capacity, the availability of information, and the operating environment of the proposed auditee.

All SAIs acknowledged the importance of good strategic planning, not only for performance audit but also for all audit work. The following objectives of strategic planning set out in the principal paper were generally endorsed:

- provide a firm basis for the SAI management to give a strategic direction for future audit coverage;
- identify and select audits with the potential to improve public sector accountability and administration;
- provide a platform for communication with agencies and Parliament on audit strategies;
- produce a work program that can be achieved with expected available resources;
- help management and staff at all levels to understand entity risks and audit selections; and
- provide a basis for accountability.

The reported outputs of the strategic planning process differed. Some SAIs noted that a work plan was produced and provided to stakeholders (that is, auditees and Parliaments). Others seem to use the process primarily as an internal management tool. Similarly, the extent of auditee and other stakeholder involvement in the strategic planning process was not clear across respondent country papers. However, most SAIs noted, under the "Other issues/problems" section, the importance of maintaining good lines of communication with agencies, so it may be that a greater level of involvement actually occurs than was mentioned in various country papers.

Two different approaches to strategic planning were apparent from the respondent SAIs. These can be summarised as:

(a) planning by entity - that is, specific plans are developed for each entity, which may be based on common criteria for topic selection but which also take into account agency-specific factors such as the operating environment and topicality; and
(b) planning by theme - that is, criteria for topic selection are the key factors in determining audit coverage.

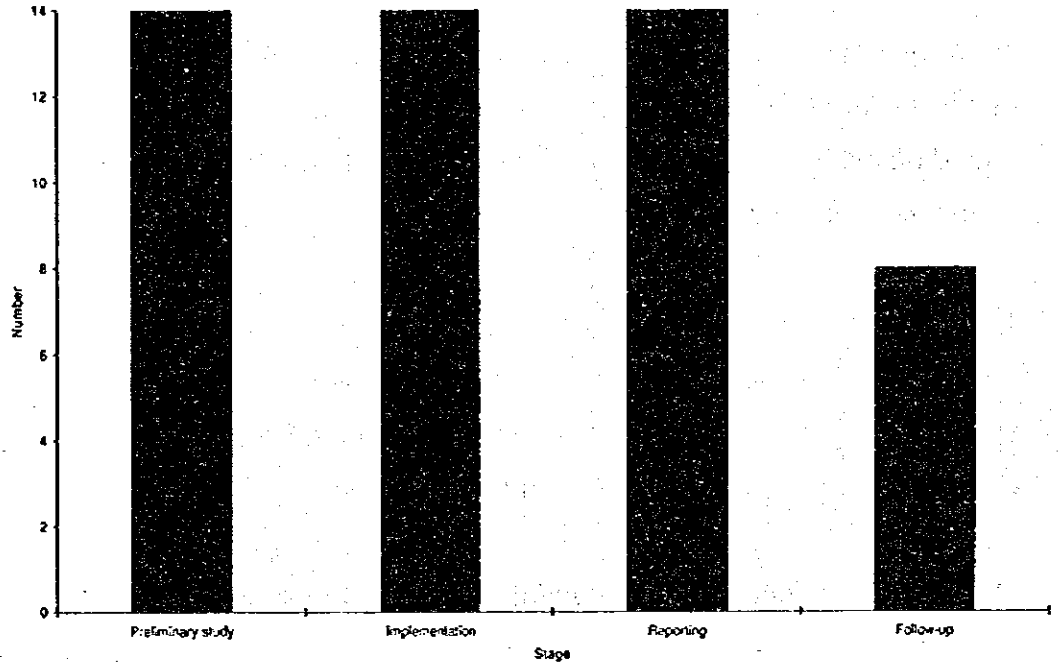
Stages of a performance audit

Implementation of the strategic plan is underpinned by the development of operational plans for each audit topic. Generally, three key stages were identified by SAIs:

- planning;
- implementation; and
- reporting.

Some also included a fourth stage, that of follow-up. The actual distribution of responses is set out in Figure 3 below.

Figure 3 - Audit stages



The purpose of the planning stage (the "preliminary study" stage in the principal paper) was generally accepted by SAIs as a scoping exercise. Important, commonly identified, outputs from this stage included:

- background information on, and understanding of, the audit topic;
- identification of fundamental audit issues;
- an opinion on whether an audit is justified; and if so
- identification of audit objectives and criteria;
- definition of the scope of the audit;
- a plan for gathering and testing evidence;
- an estimate of resource requirements; and
- a timeframe for completion of the audit.

Some SAIs, such as Brunei and the Philippines, adopt a multi-level approach to the planning of specific audits, whereby a proposal is developed and considered, before a detailed audit work plan is prepared.

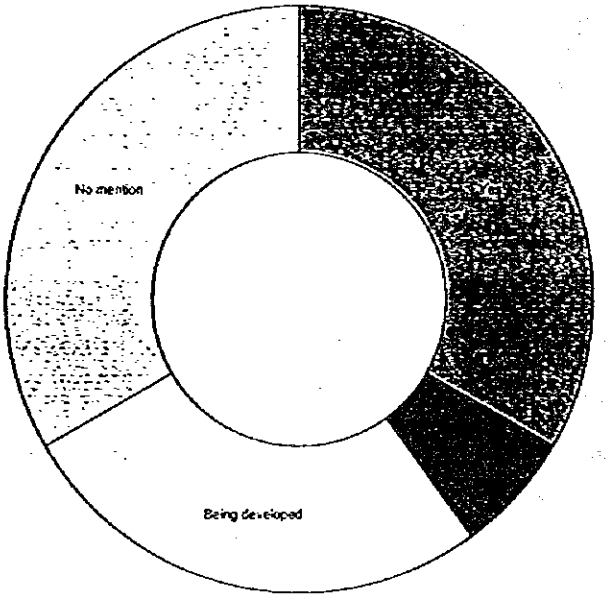
All SAIs stressed the importance of gathering evidence relevant to the audit criteria during the implementation phase. The importance of storing evidence in a way that made retrieval easy was also a key common requirement. The necessity for audit findings, conclusions, and recommendations to be firmly based on evidence, and in accordance with audit criteria, was also highlighted by the vast majority of SAIs.

The approach to the identification of audit objectives and criteria differed between SAIs, although most incorporated an assessment of efficiency, effectiveness and economy, and dealt with accountability as well. Some SAIs also explicitly covered probity or compliance issues.

The difficulty of identifying appropriate criteria in the absence of performance indicators was raised as an issue by several SAIs. Others noted the basis for developing criteria as the definition of "reasonable standards against which to assess existing conditions"; or they apply a normative control model.

Several SAIs have promulgated specific performance audit standards to assist the conduct of quality audit work. In most cases, these standards are based on those established by INTOSAI, but amended to meet local requirements. Some SAIs, however, use either relevant professional standards developed for private sector purposes, or the INTOSAI standards themselves. The range of responses is shown in Figure 4 below.

Figure 4 - Specific Audit Standards



Respondent SAIs were unanimous in their insistence that recommendations flow logically from the evidence and findings. Some, however, include an additional requirement, that recommendations address "significant" findings.

Reporting

Respondent SAIs generally favoured one of two major approaches to reporting:

- individual reports on specific audits; or
- some form of collated report.

In most cases, explicit mention was made of agency opportunity to comment on a report before finalisation, especially when the client audience was outside the agency being audited. The majority of SAIs indicated that reports were forwarded to the relevant parliament, although some provided reports to other authorities. Yemen provided an interesting example of an amalgamated approach to reporting: specific audit reports are issued to the concern

entities, with copies to the Prime Minister, Presidential Office and any related parties; and periodic or annual reports are submitted to the President of the Republic, Parliament, and Prime Minister.

Follow-up

Most SAIs reported some mechanism for follow-up of performance audits. In the main, this was handled through parliamentary committees, or by the SAI. Follow-up usually includes monitoring of the extent to which recommendations have been implemented. More rarely, it involves an assessment of whether an audit has led to improvements in public administration.

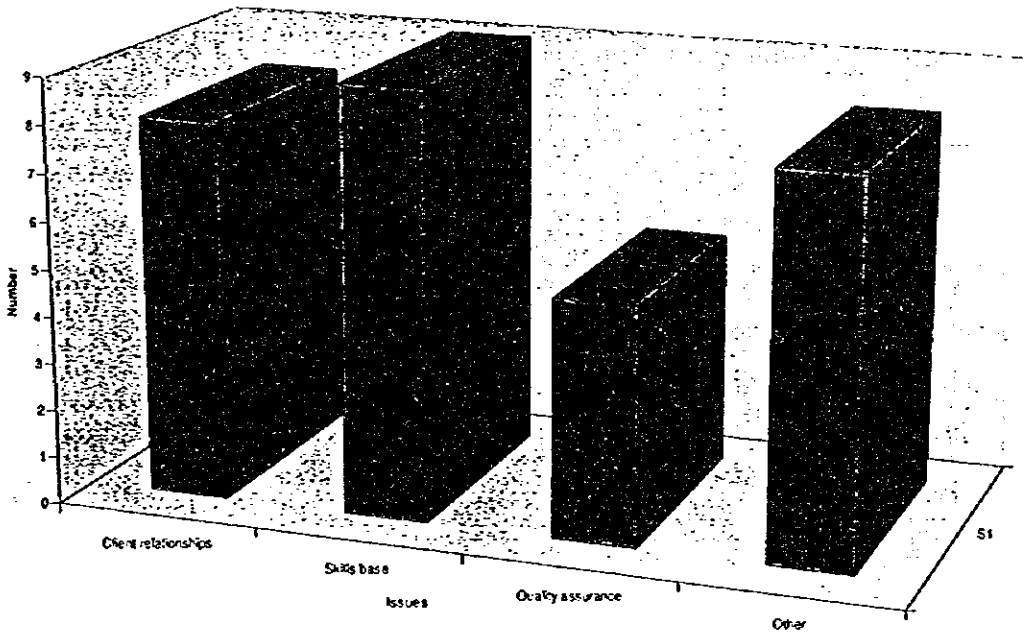
There was no dissension from the view of the principal paper, that:

> The follow-up stage of a performance audit is an integral part of performance auditing, and may serve to increase the likelihood that entity management will implement the recommendations that were agreed; may be valuable in guiding the actions of parliamentary committees and providing feedback to the Parliament on the effectiveness of performance auditing; and can provide a basis for assessing and evaluating the SAI's own performance including validating cost savings and other benefits projected at the time the audit was tabled. As one of its objectives is to add to the impact of our reports, follow-up activity should be directed to encouraging the implementation of recommendations, rather than finding examples of lack of action. Working with entity audit committees may also assist the entity in implementing recommendations.

PART C: OTHER ISSUES/PROBLEMS

The principal paper identified two other issues relevant to the changing public sector environment of many countries, and to the conduct of performance audits. The first concerned the development of client relationships with entities being audited; and the second, the development of an appropriate skills base for the conduct of performance audits. The extent of commonality of these issues is shown in Figure 5 below.

Figure 5 - Other Issues Identified



Virtually all SAIs responding to the principal paper identified relationships with auditees as an issue. A reasonably common concern was the lack of appreciation on the part of auditees about the value of performance audits. This seemed to be more of a problem where SAIs lacked an explicit mandate for performance audits; and in countries where performance auditing had only recently been introduced. While relationships with entities being audited was identified as an issue, there was less discussion on the implications of viewing the auditee as a client.

All respondent SAIs agreed on the need to supplement the existing in-house skills base. This was approached in four different ways:

- by buying additional skills on an "as needs" basis;
- by recruiting staff with more diverse skills;
- by providing in-house development opportunities; and
- by using the expertise of sister SAIs, usually made available through official development assistance programs.

This last method was considered particularly valuable by participating SAIs.

Some SAIs identified additional issues, including:

- quality assurance;
- availability of information, especially on agency performance;
- availability of training/development opportunities; and
- the changing role of auditors (away from strictly control-oriented to the provision of guidance on overall direction).

Of these, the most commonly identified issues concerned quality assurance and the availability of performance information.

1. Bangradesh

Country Paper
on
Sub-theme 1

Performance Auditing: Concepts, Mandates,
Methodologies and Practices,
Reporting and Problems

Prepared by:
Office of the Comptroller & Auditor General,
Bangladesh

6TH ASOSAI INTERNATIONAL SEMINAR 1997

SUB THEME 1 : Performance Auditing Concepts, Mandates, Methodologies And Practices, Reporting and Other Issues

COUNTRY PAPER : BANGLADESH

Prepared by : SAI of BANGLADESH, Nov. 1996

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NTRODUCTION

Bangladesh's experience with Performance Auditing is a very recent phenomenon. Although the SAI of Bangladesh has been aware of its development in other countries since the INTOSAI's Lima conference of 1977, in practice Performance Audit in Bangladesh began only in 1995. Initially, seven out of nine audit directorates took up performance auditing programme as pilot schemes. This was fairly successful considering the meagre audit resources and little previous experience of the auditors. Till date performance auditing is going on in sixty seven units/projects. Today performance auditing is a regular programme in most of the audit directorates.

FACTORS OF DEVELOPMENT

It is generally agreed that three factors are responsible for the development of Performance Auditing world wide : 1) The expansion of government activities from mere revenue collection and maintenance of law and order to active participation in the socio-economic development of the country and the consequent increase in public expenditure and investment; 2) The competing demand on scarce resources which necessitated for more efficient resource allocation and maximum return on the money spent; and 3) The growing awareness among the members of the public and their representatives for more transparency and accountability of the managers of public resources.

These factors have been creating moral pressure on the Comptroller and Auditor General (C&AG) of Bangladesh to expand scope and area of audit beyond the traditional regularity and financial attest audit. But mainly the lack of resources, in terms of both human and material, did not allow an earlier commencement of Performance Audit in the country.

DEFINITIONS AND CONCEPTS

Performance Audit is in fact an expansion of audit exercise beyond the limits of traditional propriety and regularity audit to ensure that the resources are used for the purpose for which they were allocated having due regard to economy, efficiency and effectiveness. INTOSAI auditing standards has defined Performance Auditing as the audit of economy, efficiency, and effectiveness and embraces :

1. audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;

2. audit of the efficiency of utilisation 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;

3. audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with actual impact.

INTOSAI also defines the three terms - economy, efficiency and effectiveness as follows :

- Economy - minimising the cost of resources used for an activity, having regard to the appropriate quality.
- Efficiency - the relationship between the output in terms of goods, services or other results, and the resources used to produce them.
- Effectiveness - the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

AUDIT MANDATE OF THE COMPTROLLER AND AUDITOR GENERAL

The audit mandate of the C&AG is based on the legislative provisions. Article 128(1) of the Constitution of the People's Republic of Bangladesh mentions that[1],

"The public accounts of the Republic and of all courts of law and all authorities and officers of the government shall be audited and reported on by the Auditor General and for that purpose he or any person authorised by him in that behalf shall have access to all records ; books, vouchers, documents, cash, stamps, securities, stores, or other government property in the possession of any person in the service of the Republic".

Traditionally audit operations by the C&AG have been limited to financial and regularity audit. The C&AG's Additional Functions Act of 1974 has vested additional function of keeping accounts of the Republic and certification of the accounts of the state owned corporations and local bodies on the C&AG. The present provision of the constitution and the act of 1974 may be sufficient for auditing economy and efficiency of the public expenditure. But it is felt by many that for auditing effectiveness of public expenditure and in that connection for evaluating wisdom of the management decision, a separate act of the legislature is required. So far the auditors of the C&AG have not encountered any challenge from the auditee while doing performance audit. But for better guidance of the auditors and assured compliance of the auditee a new audit act may be necessary.

STRUCTURE OF AUDIT UNITS

Audit units are organised according to the type and functions of the auditee organisations. They were also named after the names of the auditee organisations. Presently there are nine audit offices. Each of them is headed by a very senior level officer designated as Director General of Audit. Each Director General is supported by a Director and a few Deputy Directors. Deputy Directors act as functional heads. Each Deputy Director is responsible for either a region, or a department or a programme of auditee organisation. A typical audit team consists of an audit officer (designated as Audit and Accounts officer), a Superintendent and two Audit clerks (designated as Auditor). The number and composition of such team varies according to the need of the audit task. A brief description of the nine Audit Directorates are as follows :

[1] Government of the People's Republic of Bangladesh, Ministry of Law and Justice. *The Constitution of the People's Republic of Bangladesh* [as amended up to the 10th of October, 1991]. Government Printing Press, Dhaka. 1991, Article 128(1)

1. Civil Audit Directorate

This office is responsible for auditing the cost centres (except those of Railways and of Defence formations) of the government and preparing audit report for the C&AG. It is also responsible to audit and certify the Finance Accounts and the Appropriation Accounts of the government each year on behalf of the C&AG.

This office has not planned to carry out any performance auditing this year.

2. Local and Revenue Audit Directorate

This office is responsible to audit all the Local government offices, Local bodies, Statutory and Autonomous bodies, and the revenue earning departments (i.e. Customs and Taxation Departments) and all government offices and ministries . Because of the link between the government cost centres and the government offices and ministries there has been overlapping of audit operations from The civil Audit office and this office in these areas. Of late there has been proposals to put the auditing of government offices and ministries under the Civil Audit Office so that this confusion and duplication of efforts can be avoided and to rename Local and Revenue Audit Directorate as Local Audit Directorate.

This office has planned to carry out performance auditing in twelve units (projects) such as 'Bangladesh Rice Research Institute (BRRI)' this year.

3. Works Audit Directorate

This office is responsible for auditing the Public Works Department, Roads and Highways Department, Public Health Engineering Department, Facilities Department of the Ministry of Education, and Local Government Engineering Department.

This office has planned to carry out performance auditing in twelve units/activities (projects) such as 'Link Road between Green Road-Mirpur Road' project and 'System Loss Reduction Scheme for Power Board' this year.

4. Post, Telegraph and Telephone (T&T) Audit Directorate

This office is responsible for auditing the activities and offices of Postal Services Department and those of T&T Board.

This office has planned to carry out performance auditing in five units/offices such as Bangladesh Telephone Shilpa Sangstha (TSS) this year.

5. Railway Audit Directorate

This office is responsible for auditing all the activities of, and offices under Bangladesh Railway Board.

This office has planned to carry out performance auditing in eleven units (projects) such as 'Re-modelling Project At Chittagong Railway Station' this year.

6. Defence Services Audit Directorate

This office is responsible for auditing all the establishments and formations of the three defence services i.e. Bangladesh Army, Bangladesh Airforce and Bangladesh Navy. It also audits the inter-service offices such as the Combined Military Hospitals, Directorate General Defence Purchases, Inter Service Selection Board etc.

This office has planned to carry out performance auditing in three organisations (projects) such as 'Savar Military Dairy Farm' this year.

7. Commercial Audit Directorate

This office is responsible for auditing all the government owned commercial enterprises like Banks, Insurance Companies. Airlines, Shipping Corporation, Chemical Industries Corporation, and Steel and Engineering Corporation etc.

This office has planned to carry out performance auditing in twelve organisations (projects) such as 'Urea Fertiliser Factory' this year.

8. Foreign Aided Projects Audit Directorate

This office is a new office. It was established to ensure proper use of the investments in the foreign aided development projects in the country. The purpose was to serve the public accountability requirements of both the receiving and donor countries. Auditors of this office need to be familiar with the different financial rules and accounting format of the donors.

This office has planned to carry out performance auditing in 12 units (projects) such as 'Development of 18 District Hospitals Project' this year.

9. Mission Audit Directorate

This office is responsible for auditing all the Bangladesh Missions abroad i.e. High Commissions, Trade Offices, Government owned Banks, Shipping Corporations offices and Airlines offices. Audit teams, generally two persons in each team, are formed by senior officers of different audit offices It acts as a co-ordinating office for audit operations abroad. The Audit reports are submitted to the Director who incorporates them into the final audit report and then submits to the C&AG for his final approval.

This office has not planned to carry out any performance auditing this year.

AUDIT METHODOLOGIES AND AUDIT PRACTICES

In the following paragraphs audit methodologies and practices regarding performance audit in Bangladesh will be discussed under the headings - Programming, Planning, Executing, Reporting and Following up.

Programming

Programming for performance audit is a challenging job for audit managers. Because of variation in situation in auditee organisation/unit in terms of background, type, and size, audit programmes are tailor-made for each of them. The state of internal control in the auditee organisation/unit is an important consideration which affects the scope, logic and criteria for audit. A typical audit programme consists of audit objective, audit criteria, audit procedures and special instructions.

Planning

Planning is important for achieving audit objectives within given resources. INTOSAI Auditing Standards state that SAI should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner. In the SAI of Bangladesh each audit directorate makes its own plan for performance audit in consultation with the C&AG's office. Audit Plan includes strategic plan to ensure that audit coverage is appropriate as well as operational plan to ensure that individual audits are conducted properly. Generally audit directorates make audit plans on yearly basis.

Audit Objectives

Generally examining and evaluating economy, efficiency and effectiveness are considered to be the main objectives of Performance Auditing. But for an audit organisation like SAI of Bangladesh the audit objectives for Performance Audit may be much broader. Like any other audit, Performance Audit would also include examining the accountability, compliance with the set procedures and fairness. Audit objectives define the scope, approach, logic and procedures of audit.

Audit Criteria

Audit criteria is what an auditor expects to find in normal circumstances. In case of performance audit the Preliminary Survey Report indicates the criteria to be adopted.

Audit Procedure

Audit procedure includes the list of all the steps an auditor must go through in order to substantiate the findings of the Preliminary Survey Report.

Selection of Auditable area or programme

Audit topics are selected after assessing such factors of the auditable area or programme as size of its budget, degree of importance in the national life, perceived reputation and other risk factors. Some time the amount of news reports in the national media about a particular development programme also act as a catalyst to initiate audit of that unit/programme.

As mentioned in the first paragraph, at present seven audit directorates have selected about sixty seven units/organisations/projects for performance audit. For example the Commercial Audit Directorate had planned to undertake performance audit in 12

auditable units in 1995-96. For undertaking audit operations in the year 1996-97, auditable units are being selected now and audit plans are being formulated.

Auditing Standards

SAI of Bangladesh do not have separate auditing standards for performance audit. The standards for the regularity audit such as -professional competence, independence, supervision and due care are also followed for the performance audit. It is hoped that a new audit act will incorporate provision for performance and VFM audit which will enable to adopt new sets of audit standards for the SAI of Bangladesh.

REPORTING RESULTS

Reporting results of audit is the culmination of auditor's work. In the context of public accountability, SAI's report to the national parliament is very important. In Bangladesh audit reports are prepared by the respective Director General and then submitted to the C&AG's office for his approval. After the approval of the C&AG, audit reports are sent to the President who then causes them to be laid before the Parliament (Jatiyo Sangsad). These are then passed to the Public Accounts Committee (PAC) of the Jatiyo Sangsad for discussion.

Over the last three years there have been significant improvements in the printing process, format and contents of the audit reports. This is more so in the case of performance audit reports. Previously the printing of reports would take about one year . Now with use of computers it takes only three weeks to print a report. The use of computers has also contributed to better format and better type-faces which attract readers attention. The size of the reports has also become smaller. In the past reports were large and cumbersome which did not encourage good reading. Now reports are small in size. These are particularly true for the performance audit reports recently published from the SAI of Bangladesh.

There are still lot of scope for further improvements in reporting the results of audit. Traditionally the audit reports are published in Bangla only. Therefore the SAI of Bangladesh do not send them to other SAIs of the world.

FOLLOW UP

The Public Accounts Committee (PAC) of the Jatiyo Sangsad and the respective audit office keep track over the progress of actions recommended by the PAC. The respective officer/office informs the audit office about the corrective measures which are formally noted by the latter.

OTHER RELEVANT ISSUES

Training

The Performance auditing is quite new for our auditors. Elsewhere in the world, auditing has undergone tremendous amount of change both in forms and essence. Auditors are required to keep pace with these changes. One of the auditing standards is professional competence. To maintain this standard, auditors should receive continuous education and training in auditing and in all relevant subjects and skills. This is more so in the C&AG's department where both audit cadre officers and audit

clerks are recruited from general disciplines. The only training institute for the auditors Audit and Accounts Training Academy is now being developed to impart professional training to auditors. Such workshops and seminars are one of the ways to ensure continuous professional development of the SAI auditors of Bangladesh.

Auditee-Auditor relation

This is one of the important subjects in all the SAIs of the world. So far the C&AG's auditor have been able to maintain good working relations with the auditee organisations. There have been some situations of misunderstanding and confusion between the auditor and auditee but they were amicably removed. Due Care and proper Supervision are some of the standards which should be diligently maintained in order to promote and sustain an atmosphere of mutual support and co-operation between the two parties.

Quality assurance of Audit Reports

Generally this exercise is done during the process of final approval of each audit report in the C&AG's office. Directorates are instructed by the C&AG to change, modify or improve the reporting format or any other contents of the report so as to make it a quality report. The C&AG is putting more emphasis on quantitative analysis with graphical presentation so that the audit reports are easily understood by different types of readers.

CONCLUSION

The introduction of performance auditing by the Comptroller and Auditor General is a major event for both government auditing and public accountability in Bangladesh. This not only symbolises the growing awareness of the taxpayers to see maximum value of their money but an additional responsibility of the SAI of Bangladesh to add real value to auditing. The office of the C&AG is aware of the fact that growing expectation of the people and their representatives should be adequately matched by quality audit and useful reporting. Therefore it is contemplating to take up an audit improvement project. The idea is to introduce comprehensive auditing in the country so that all types and dimensions of audit such as regularity, compliance, propriety, financial, performance and Value For Money (VFM) audit can be developed. Pending that, improved and appropriate training to auditors, arrangements for continuous professional development of the auditors, changes in management of audit operations and increasing use of Information Technology are some of the measures which the C&AG's office is considering now. These measures would ensure the quality of audit expected from the C&AG and enable his auditors to remain up to date with global state of the art.