

*7. Jordan*

**Country Paper**  
**on**  
**Sub-theme 1**

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

Prepared by:  
The Audit Bureau,  
Jordan

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

*Submitted by :  
The Audit Bureau of the  
Hashemite Kingdom Of Jordan*

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### Abbreviations

The Audit Bureau of the Hashemite Kingdom of Jordan	ABJ
Supreme Audit Institutions	SAI
<u>E</u> conomy, <u>E</u> fficiency and <u>E</u> ffectiveness	Three E's
International Congress of Supreme Audit Institutions	INCOSAI
The Planning and Control Supervision Department	PCSD





## 1- Introduction:

With the expansion of economic development in early 1990's that resulted in an increasing pace in the scope and extent of activities undertaken by the Government, the need to evaluate and assess the efficiency and effectiveness of development projects has rapidly increased.

The Audit Bureau of Jordan ( ABJ ) has traditionally occupied a pivotal position and played more than a significant role. This role has to change as the public sector grew larger and larger and the emphasis of government has shifted over the past few decades from the traditional role of maintenance of law and order, administration of justice and security of national borders to the more pressing issues of socio-economic development and the consequent explosive increase in national budgets coupled with an urge for good governance forced government auditors to think of a new type of audit which could bring all areas of managerial performance to its field. In the beginning of 1990's , the ABJ has begun to convert its audit direction as conventional audit clearly could not be an adequate tool. As a means of ensuring effective execution of public funds, performance audit has been a worldwide trend , and the ABJ has made strenuous efforts to adopt this concept in its wide aspect.

An ambitious programme of performance audit has been envisaged. For the time being, there is no immediate proposal to audit policies. Currently, the selected projects are being audited . In the time to come, program audit and government - wide audit of selected operations has also been contemplated.

## 2. Purpose of the Paper:

It is often said that each type of audit has its own features and characteristics that distinguish it from other types of audit. This paper attempts to identify the features that may

characterize performance auditing . Stated more specifically , this study aims at exploring the concept, mandates, methodologies and practices and reporting of performance audits. Furthermore, it will highlight some important issues relating to such audit as problems confronting auditors while practicing in field.

### 3- Significance of the Study:

The significance of the study lies in its theoretical and practical implications. Theoretically, the findings of this paper will contribute to the theoretical investigation in performance auditing as the study is expected to identify features and characteristics of such audits. From a practical point of view, the findings of this study may be utilized in teaching performance auditing for auditors , in providing auditors with basics for performance auditing to be used in all phases of practicing such audits and in exchanging knowledge and information among SAI's.

### 4- Performance Auditing Concept:

This section reviews the different definitions of the concept of performance auditing, the history of such audit and its objectives . In addition, it discusses performance auditing and financial statement auditing in comparison.

#### 4.1. Terms used in this regard:

The genesis of performance auditing can be traced back to 1977 in the Declaration of Lima Conference of the International Organization of Supreme Audit Institutions ( 1 ) which described performance oriented audit as follows:

" There is another type of audit which is oriented towards performance , effectiveness , economy and efficiency of

*public administration . This audit includes not only specific aspects of management but comprehensive management activities including organization and administrative systems."*

and distinguished formal audits ( audit of legality and regularity) from performance audits.

The concept was further modified in the Tokyo Declaration of " Guidelines on Public Accountability " (2) in 1985 considering " Performance Auditing as a Means of Enhancing Accountability " . The guidelines declared:

*" while the primary function of SAIs in the past has been to express an opinion and lend credibility to the financial statements of the various public sector entities subject to its audit , its role should now be more performance oriented, it should make efforts to equip itself adequately for these responsibilities. "*

The United Nations in its Handbook on Government Auditing in developing countries ( 3 ) defines performance auditing as :

*" An objective examination of the financial and operational purposes of an organization, program, activity, function and is oriented towards identifying opportunities of greater economy, efficiency and effectiveness ."*

It is clear from the above mentioned definitions that an auditor can undertake performance audit of anything from an organization to a project, program , function or activity.

The Director-General of the Department of the Auditor-General of Pakistan in his article " Performance Auditing- The Three E's " (4: 1988) stated that performance auditing is

*" an assessment of the activities of an organization to see if the resources are being managed with due regard for economy, efficiency and effectiveness and accountability requirements are being met reasonably ."*

Performance audit is conducted primarily to verify and evaluate whether the operations and activities of the audited agency have been undertaken with regard to the following :

- 1- Economy : refers to acquiring resources at the lowest cost keeping in view the objectives of the organization . An audit for economy will determine whether the audited agency has been performing or functioning at the possible cost or under the terms most advantageous to the government.
- 2- Efficiency : refers to the relationship of inputs and outputs. It relates to utilization of resources. An efficiency audit will determine whether the audited agency is managing or utilizing its resources ( personnel, property, space, etc,.....) in an efficient manner and the cause of any inefficiencies including inadequacy in management information systems, administrative procedures or organizational structure.
- 3- Effectiveness : concerns the extent to which an organization achieves its objectives . An audit for effectiveness will determine whether the desired results or benefits are being achieved whether objectives established by the authorizing body are being met and whether the agency has considered alternatives which might yield desired results at a lower cost.

#### 4.2. Performance auditing is relatively new:

Since 1990 , the ABJ has begun to engage in performance auditing on a step by step basis. The Audit Bureau Law No. (28) for the year 1952 ( s ) contains no specific provisions authorizing the Bureau to conduct performance auditing , but there is no prohibition against performing such audits. It was argued that the pertaining Bureau Law could be interpreted and amended to include performance auditing among the other responsibilities of the Bureau.

In this regard, steps have been taken to amend the Bureau's Law in order to enlarge the ABJ authority with a view to enabling it to practice performance auditing. Although, the ABJ carries out between (2-4) performance audit studies each year.

#### 4.3. Objectives of Performance auditing:

The objectives of performance auditing were defined later in the year 1986 in XII INCOSAI meeting in Sydney as including :

- ♦ provision of a basis for improvement of all resources;
- ♦ improvement in the quality of information on the results of public sector management that is available to policy makers, legislatures and the general community;
- ♦ encouragement of public sector management to introduce processes for reporting on performance ;and
- ♦ provision for more adequate accountability.

Furthermoer, performance audit is carried out to provide independent assurance and evaluation to Parliament, Executive Government , Boards, management and to the community on the economy , efficiency and effectiveness of administration of public sector by:

- \* undertaking in a cost effective manner a programme of audits designed to evaluate the performance, economy and efficiency of the activities of public sector entities
- \* identifying good practices and deficiencies and recommending ways of improving the 3E's of the administration of government bodies
- \* encouraging and assisting entities to remedy deficiencies and practices by improving systems and controls, and

- \* identifying and communicating good management principles and that are inapplicable to the wider public sector.

Performance audits are done not only to locate responsibility of public officials concerned, but also to make suggestions to the decision - makers of audited agencies on the areas to be improved for the promotion of operation efficiency.

#### 4.4. Comparison of Performance Auditing and Financial Auditing :

The ABJ audits various accounts of the government and confirms the closing of revenues and expenditures accounts of the state and mostly functions financial audits and compliance audits . Furthermore, in article ( 21/ a ) of the Audit Bureau Law , the President of the Bureau shall submit to the Parliament an annual report presenting the audit results. It also includes irregularities and makes recommendations to have the auditee take corrective measures and properly follow the rules, and regulation prescribed and also includes the findings and recommendations of performance audits.

In this respect, the " Government Auditing Standards " ( 6 ) issued by the General Accounting Office of the United States of America classifies financial audits into financial statement and financial related audits. As far as financial statement audits are concerned, reasonable assurance about whether the financial statements of an audited entity present fairly the financial position , results of operations, and cash flows in conformity with generally accepted accounting principles shall be provided. Financial statement audits include audits of financial statements prepared in conformity with any of several other bases of accounting.

For financial statement audits , reports shall state whether the financial statements are presented in accordance with generally accepted accounting principles. Information

disclosure in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report. The report shall either contain an expression of opinion regarding the financial statements , taken as a whole , or an assertion to the effect that an opinion cannot be expressed.

However, the ABJ had well realized that performance auditing would be a more important and more effective means of enforcing public accountability . Thus , it chose to extend its audit scope beyond the traditional financial auditing to encompass the assessment of economy , efficiency and effectiveness.

In comparison to financial statement audits, performance auditing is an objective and systematic examination of the management of an organization , programme or function for the purpose of providing independent assessment as to whether the organization , programme or function is being managed in an economical and efficient and effective manner. It also checks the adequacy of internal procedures for promoting and monitoring economy, , efficiency and effectiveness. Furthermore, it provides information to improve public accountability and facilitates decision-making by parties with responsibility to oversee or initiate corrective action.

### 5. Performance Audit Mandates:

This section deals with the mandates of performance auditing in the ABJ .

The ABJ audit mandate is primarily contained in the Constitution of the Hashemite Kingdom of Jordan in Article (119 ) which reads as follows:



*" An Auditing Office shall be set up by law for supervising state revenues and expenditures and the manner of spending them:*

- 1. The Audit Office shall submit a general report to the Parliament exhibiting its observations and a description of violations committed and the consequent responsibilities thereon at the ordinary session of the Parliament or when requested by it.*
- 2. The law shall provide for the immunity of the President of the Audit Office.(7)"*

Pursuant to the postulates of the Constitution , the ABJ has been established and a law thereof has been issued. According to the legal provisions of the law, the SAI performs a number of attest audits on the accounts of various government bodies.

The Audit Bureau's mandate includes the conduct of financial statement audits , financial related audits , compliance audits on any type of government entities.

In connection to carrying out performance audits , and in accordance with articles ( 13 ) and ( 14 ) of the Audit Bureau Law No. ( 28 ) for the Year 1952, the President of the Bureau has to ascertain that laws and regulations in all matters of financial are strictly observed and will bring into notice any failure in the administrative or financial legislation that has a material effect on the financial statements. He shall also have access to all reports and financial information submitted by financial and administrative inspectors on matters pertaining to financial statement and to the reports of investigating irregularities and he may request the government entities to provide him with any document and explanation on matters regarding questions which concern audits.

In addition, article ( 21/b) of the Audit Bureau Law authorizes the President of the Bureau to submit special reports to the Parliament at any time to draw its attention to important issues that need urgent consideration and action.

## 6. Methodologies and Practices:

In this section , the planning phase , the stages of performance auditing and the methodologies for conducting such audit will be studied.

### 6.1 Audit Planning :

Performance audit methods improve by major steps as planning. The purpose, emphasis , and scope of the audit should be clearly defined in the Audit Plan. Audit procedures and techniques should be included in the plan. Advance training may be added, as well.

Audit plan in the ABJ is set by a specialized Department newly established : the Planning and Central Supervision Department ( PCSD ) . In this plan, all necessary information to ensure performance audit coverage is included as well as planning phase at the operational level. At the beginning of each year, the PCSD determines the government entities and the activities and functions needed to be evaluated and assessed in coordination with the President of the Bureau , the Prime-Ministry and the Council of Ministries.

The tasks of the PCSD is primarily oriented towards:

1. scheduling audit operations and activities to be reviewed in the following:
  - a. observations made during conducting financial audits,
  - b. economic development expenditures that has a high profile,
  - c. specific problems highlighted in the Parliament , Financial Committee , media, and in public representation to the President of the ABJ.

2. listing the audited entities selected to be evaluated .
3. determining staff qualified for conducting such task .
4. ensuring and utilizing available resources economically , efficiently, and effectively.

#### 6.1.1. The Importance of Strategic Planning :

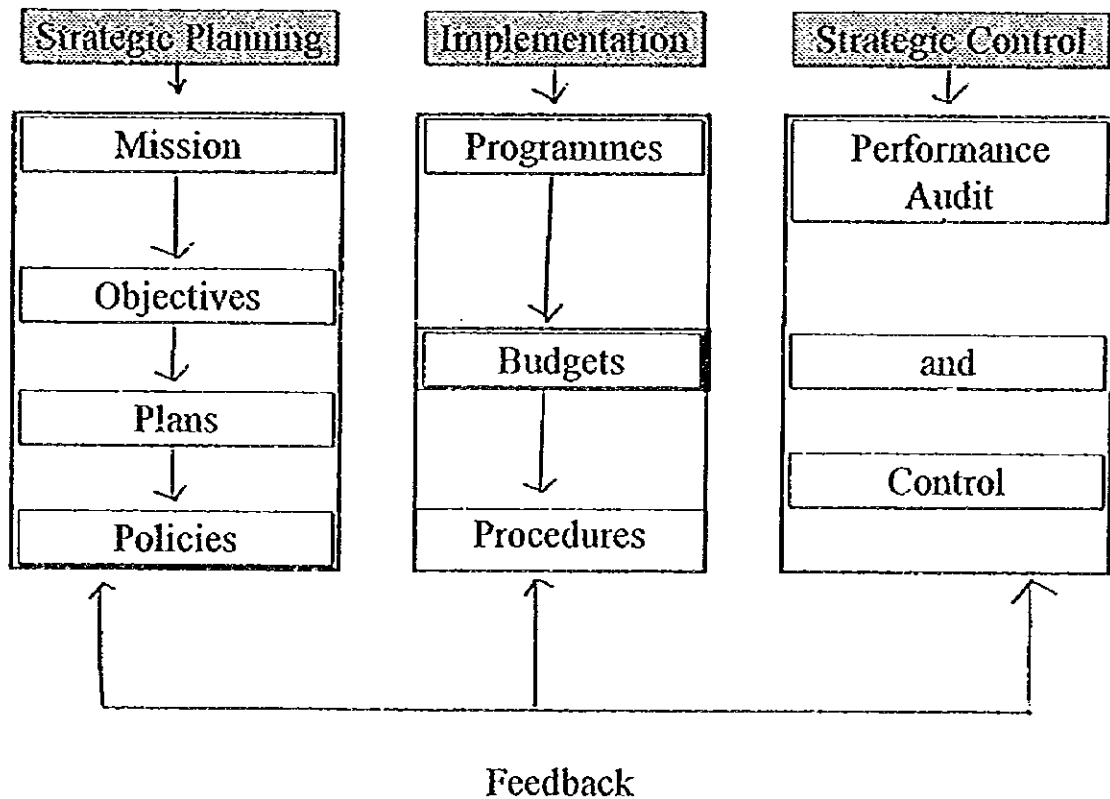
Planning activities through setting strategies , programmes and projects help the government in achieving its goals which are supposed to aim at an improved standard of living for people . Planning formulates strategies to realize the aims of government policies, translate these strategies into programmes and details the programmes into projects.

The ABJ, represented by its different departments, prepares annually a strategic plan aiming at developing the SAI's mission, objectives, plans, and policies. At the first stage, the Bureau determines goals for establishing SAI of Jordan, the final results for activities planned earlier ( what , when & who ), ways and manners for achieving the prescribed goals, and the general framework for decision-making processes carried out by the management. At the next stage, policies and plans set will be implemented through particular programmes prepared for such task, financial budgets and procedures and methods describing the manner of accomplishing every authorized responsibility. Evaluation of the different facets of performance for the strategic planning will be the final stage.( 8 )

The following figure clarifies the stages of strategic plan , its implementation, and the strategic control.

*Figure (1)*

*Stages for Strategic Planning , Implementation and Control*



On this basis, the PCSD of the ABJ prepares a strategic plan including general aspects of performance auditing methodology and determines the economical sectors in the government that have priorities for evaluation .

As a second step, the ABJ translates the plan into an operational project in which the organization to be audited will be studied and realized in terms of its responsibilities , organizational structure, and its performance. The objectives of evaluation process will be clarified as a cyclic study or a goal - oriented one , a comprehensive or for a particular function or activity.

### 6.1.2. The Objectives of Strategic Planning :

The audit objective depends on the problem to be addressed in audit. Generally, the Bureau of Jordan adopts an approach of doing performance audit, with priorities, aiming at :

- \* selecting audits with the potential to improve public sector accountability and administration;
- \* providing a basis for accountability;
- \* producing a work program that can be achieved with expected available resources.

### 6.1.3. Audit Topic Selection :

Topics of performance audits are selected to assist an activity of an organization to see if resources are being managed with due regard to economy, efficiency, effectiveness and that the accountability requirements are being met adequately and to ensure appropriate coverage of entity operations and activities within resources available.

In planning, selection of audit entities either trivial or of distant past may result from inadequacy of planning effort that in return hamper healthy growth of performance audit. Thus, audit needs to concentrate on areas where audit can produce maximum results in terms of promoting public accountability.

The PCSD as an output of realizing poor performance of some government entity, or administrative and financial inadequacy or for special economical circumstances as privatization may select within limited duration determined by the prime-Ministry, the Representatives or the President of the ABJ to conduct performance auditing according to priorities.

#### 6.1.4. Outputs of the Strategic Planning Process:

As mentioned , the PCSD prepares the strategic plans related to performance audit studies annually. Outputs of such audits are presented to the top government of the Bureau to approve at the future plans that comply with goals and objectives set . In process, the concerned entity subject to evaluation will be notified. The processes of the strategic plan of performance audit reflect the management vision in this field and clarify the procedures needed , resource allocations, timing and other related factors.

#### 6.2. Stages of Performance Audit :

Stages of performance audit in the Audit Bureau of Jordan are divided into:

1--Planning: aims at , as earlier mentioned, selecting audit topics, and producing a work programme that will be achieved with available resources. It is further divided into strategic and operational planning. The PCSD conduct operational audit to determine entities to be evaluated according to priorities, to provide staff with appropriate skills and knowledge and other resources for carrying out planned tasks , to collect preliminary information about the organization under audit , to perform survey processes helping in determining materiality of the organization subject to audit activities.

2--Implementation: involves collection of relevant work procedures in accordance with the audit work plan and reliable evidence on work accomplishments and whether decision issued were in pursuant with laws and regulations. It also involves the documentation of information received . and considers the internal control systems used, organizational structure and job description of entities under evaluation. The audit team in this stage reviews such information and classifies it to ensure accuracy of data provided. Incompleteness of information

will be further studied and a formal interview with the entity subject to audit will be initiated.

3-Reporting: accomplished at the conclusion of the implementation stage. Consequently, the Bureau decides to prepare a draft report communicated firstly to the official responsible of the audit team for discussion, secondly to the President of the Bureau to comment on the findings and thirdly to the entity under audit to discuss findings in a discussion session. During discussion, the Bureau may change some of the findings or approve at them in order to rest at the format of the final stage.

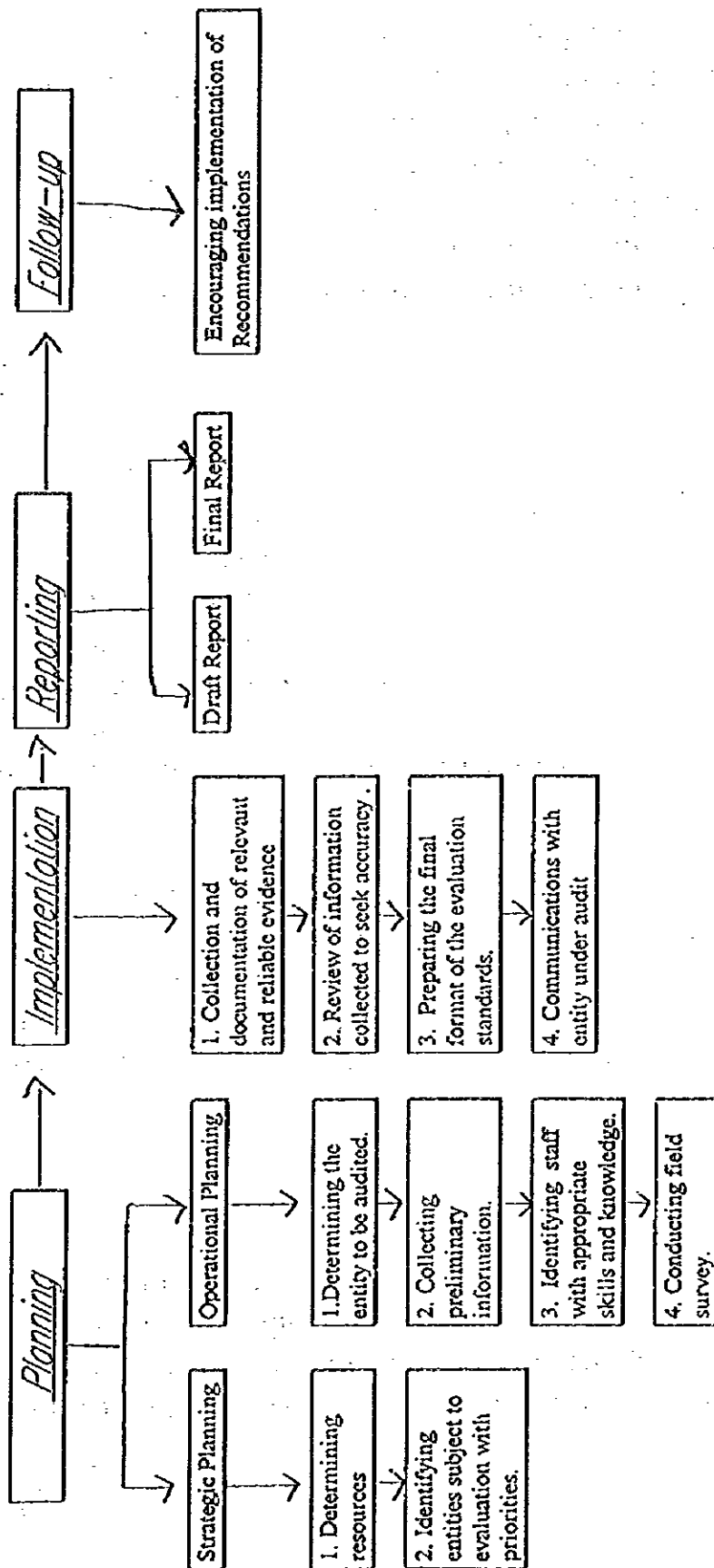
The final report after negotiations will be issued in several copies sent to the Prime-Minister, Head of the Representatives, the Shadow Minister, the entity subject to audit, and the public audience.

4-Follow-up: represented by following up recommendations suggested in the final report and significance findings to determine whether timely and appropriate corrections have been taken by auditee officials and to assure that the benefits of the audit work are realized.

Figure (2 ) below shows the stages of performance audit as conducted in the ABJ.

Figure (2)

Stages of Performance Audit





### 6.2.1. The Audit Work Plan:

The audit work plan provides sufficient information about the audit topics selected to identify the task to be completed, the resources to be used, the timing for conducting the audit, the final product to be produced by the programme and the expected outcome.

### 6.2.2. Audit Criteria :

The ABJ conducts performance audits in accordance with auditing standards consistent with legislations, laws and regulations, and international auditing standards. In addition, criteria selected should be reasonable, attainable, and relevant to the matters being audited. The following are some examples of possible criteria:

- 1- purpose or goals prescribed by laws or regulations or set by the management.
- 2- technically developed standards or norms,
- 3- expert opinions,
- 4- prior year's performance,
- 5- performance of similar entities, and
- 6- performance in the private sector or in similar entities abroad.

### 6.2.3. Evidence :

The auditor's findings and conclusions should have a reasonable basis through obtaining a sufficient, competent and relevant evidence. A record of the auditors' work should be retained in the form of working papers. Such papers should contain information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments. ( 6: 80 )

Evidences are categorized as physical, documentary, testimonial and analytical. Evidences obtained by the Bureau's

auditors vary with the nature of work entity subject to audit performs. If physical evidence shall be obtained , the auditor should conduct direct inspection or observation of people, property, or events and should document such evidence in memoranda, photographs, drawings, charts, maps, or physical samples. Documentary evidence consists of created information such as letters , contracts, accounting records, invoices, and management information on performance. On the other hand, testimonial evidence is obtained through inquiries, interviews, or questionnaires. Analytical evidence includes commutations , comparisons. separation of information into components, and rational arguments. (6:81)

#### 6.2.4. Documentation Standards:

Working papers serve as a means for documenting all information related to an audit. They provide the principal support for the auditors' report , aid the auditors in conducting and supervising the audit, and allow others to review the audit's quality as they provide written documentation of the evidence supporting the auditors' significant conclusions and judgments.

The Bureau urges auditors performing performance audits to include in their working papers the objective , scope and methodology and any sampling criteria used, documentation of the work performed to support significant conclusions and judgments, evidence of supervisory review of the work performed.

#### 6.2.5. Audit Findings:

Auditing findings should contain the elements of criteria, condition, and effect, plus cause when problems are found. The elements for a finding depend entirely on the objectives of the audit.

If the audit objectives include explaining why the poor performance determined in the audit happened , the reasons ( cause)

for that performance should be studied to assist auditors in making constructive recommendations for corrections.

When the auditors' objectives include identifying the actual or potential consequences of a situation that exists, determined and documented during audit and which varies from the criteria identified in the audit, auditors often measure these consequences using effect that demonstrates the need for corrective action in response to identified problems.

#### 6.2.6. Recommendations :

Auditors should report recommendations when the potential for significant improvement in operations and performance is substantiated by the reported findings. Recommendations should be reported to improve management control. Auditors should also report the status of uncorrected significant findings and recommendations from prior audits that affect the objectives of the current audits. (6 : 92)

In the Yellow Book (Government Auditing Standards) 1994(6), the Comptroller General of the General Accounting Office of the United States of America refers to report contents, particularly recommendations, mentioning that constructive recommendations can encourage improvements in the conduct of government programs. Recommendations are mostly constructive when they are directed at resolving the cause of identified problems, are action oriented and specific, are addressed to parties that have the authority to act, are feasible, and, to the extent practical, are cost-effective.

The audit team of the ABJ suggests solutions in specific areas evaluated through the recommendations mentioned in reports to improve the administrative performance of entities under audit, to eliminate bottlenecks, problems and obstacles and to develop their operational performance.

## 7. Reporting

In this section , the phase of reporting will be highlighted in terms of the legitimacy of reports , reporting the findings of audit results , criteria of establishing the report , form of the report, its presentation and guidelines for preparing a good report.

### 7.1. Reporting Findings

Presenting the audit findings and recommendations to those who can really act on them is the climax of the audit process. Disposition of audit results should be communicated in written audit reports that maintain public accountability for government programmes. Accordingly, one of the most necessary element for the establishment of public accountability is timely, complete, and even-handed consideration of the audit report by the authority responsible for enforcing corrective actions.

When an audit is terminated prior the completion auditors should communicate the termination to the auditee and other responsible officials , preferably in writing ( 6 ). Tentative audit findings on deficiencies and liabilities as well , and the corresponding recommendations are discussed with agency officials to give them a chance to react or give some clarification or justification.

The ABJ , upon completion of a review, presents the audit findings in a draft report communicated to the audited agency management for their comments thus commencing a negotiating process. On completion of the negotiating , a formal report shall be submitted to the management.

The audit report of the Bureau includes an overview of the audit and inspections activities, major findings, matters unaudited , summary of auditees business operation, and other attachments.

Audit reports are divided into financial reports and performance ones and submitted to the President of the Bureau, the

Parliament, the Head of the Representatives , the entity subject to audit, the entity connected in work to the audited entity .

### 7.2. The Legitimacy of Reports:

The legality of the Bureau's report is acquired from the followings:

- 1- article (119/1 ) of the Constitution of the Hashemite Kingdom of Jordan which provides an authority for submitting a general report including irregularities and consequent responsibilities thereon.
- 2- Articles ( 21 ), (22 ), ( 16 ) of the Audit Bureau Law No. ( 28 ) for the year 1928.
- 3- The international declarations such as : Lima Declaration ( 1977 ), Tokyo Declaration ( 1985 ).
- 4- Official Circulars and proclamations issued by the Bureau .

### 7.3. Reporting Criteria:

Audit reports shall meet the following reporting criteria:

1. factual matters be accurately , completely and fairly presented.
2. findings must be presented objectively and in a language clear and simple as the subject matter permits.
3. findings must be adequately supported by evidence in the audit working papers.
4. reports must be concise yet complete enough to be readily understood by the users.

### 7.4. Form of the Report:

Auditors should prepare written audit reports communicating results of each audit. Written reports should make the results less susceptible to misunderstanding , make the results available for public inspection, and facilitate follow-up to determine whether appropriate correctives have been taken.

### 7.5. Guidelines on Audit Reports:

To ensure that reports meet standards, the ABJ has issued detailed guidelines on the " how's " of audit report preparation in which several standards were prescribed. Timeliness is one standard. Auditors should appropriately issue the reports to make the information available for timely use by the management , legislative officials, and other interested parties. Form is another standard that refers to written audit reports. Auditors should confine to another standard covering the report contents by which they should report the audit objectives and the audit scope and methodology . In addition, auditors should report significant audit findings developed in response to each audit objectives , and where applicable , auditor's conclusions. They also should report recommendations for actions to correct problem areas and to improve operations.

Furthermore, the guidelines includes standards of report presentation which enforce the following :

completeness, accuracy, objectivity, clarity, conciseness and convincing.

In connection, and in compliance with laws and regulations, auditors should report all significant instances of noncompliance and all significant instances of abuse that were found during or in connection with all audits.

### 8. Problems :

This section presents some problems that hinder promotion of performance audit.

#### 8.1. Staffing for Performance Audit:

Performance auditing requires increasingly better qualified staff who has knowledge on technology in the fields of engineering, law, accounting, economics, management, etc. This factor directly affects the success or failure of the performance audit since such

audits need much more time and efforts than simple legality audit and require conducting comprehensive and systematic approach with specific expertise.

The ABJ has started developing a comprehensive proficient audit group to perform the performance audits conducted at the PCSD. In addition the Bureau has taken steps to train its staff to be adaptable to any kind of audit objects and encouraged them to take training courses inside and outside the Bureau, or to expose the existing and the new staff to experience necessary for the acquisition of needed skills.

### 8.2 Auditee's Attitudes:

A constraint an auditor has to live with is the auditee's reluctance and inability to give auditors access to required documents since the auditee is not familiar with this type of audits and the information and documents required. Without such information and documents that present the agency's accomplishments, the auditor may have to do their own performance data gathering thereby extending the audit duration and accordingly increasing the audit costs.

The ABJ, in this regard, has started to convince the management of entities under audit and the public of the characteristics and usefulness of performance auditing through exposing them to the relatively new responsibility of the Bureau that will improve the audited agency and the country as a whole.

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***8. Korea***

**Country Paper**  
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**Prepared by:  
Board of Audit & Inspection,  
Republic of Korea**

## **6th ASOSAI INTERNATIONAL SEMINAR 1997**

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## 1. PERFORMANCE AUDITING CONCEPTS

### 1.1 Concept of Performance Audit

The term "performance audit" was not used in Korea until the early 1990s. Prior to that time, a number of similar terms, such as efficiency audit, effectiveness audit, policy audit, comprehensive audit and/or cross-sectional audit within the same program or activity across related entities, were used to describe "performance audit" as defined in the INTOSAI Auditing Standards.

No matter what term was used for performance audit, the Board of Audit and Inspection (BAI) has been in fact conducting efficiency and effectiveness audits since 1948 when the Commission of Inspection - one of the predecessors of BAI - was established to supervise and inspect the administrative activities of employees of the central and regional governmental administrations and government-invested organizations. The BAI, however, does not completely conform to the concept of performance audit as defined in the INTOSAI Auditing Standards. BAI regulations have provisions regarding performance audit. According to these regulations, the BAI conducts three types of audit - general audit, performance audit, and special audit. These are as follows :

- **General audit** : The BAI periodically examines the overall business of entities prescribed in law. An examination is made of their accounts, main duties, and major functions.

- Performance audit : The BAI comprehensively and systematically carries out performance audits of major government programs, projects and activities when improvement can be expected in terms of economy, efficiency, and effectiveness. Government operations which affect the daily life of the people are frequently selected as a subject of performance audit as well.

- Special audit : In special cases, the BAI carries out special audits and inspections to eliminate corruption and irregularities in such vulnerable areas as the granting of authorizations and permits where irregularities have been found in the past.

## 1.2 Objectives of Performance Auditing

### 1.2.1 Controlling and Supporting

Performance audit is a broader concept which examines more than just economy, efficiency, and effectiveness. It can also examine accountability and probity in the use of resources. Compared with the GAO, the BAI seems to expect performance auditors to play more of a controlling role than a supporting role. There is no doubt, of course, that improvement of administration in terms of economy, efficiency, and effectiveness is one of the most important objectives of performance audit in Korea.

### 1.2.2 Identifying Good and Bad Practice

SAIs can identify good as well as bad practice because they have government-wide perspective and experience not enjoyed by other organizations. The BAI tries to reveal cases of good practice and make them widely known to as many people as possible in the public sector. In 1995, it identified 60 cases of exemplary work performance which were published in a book and distributed to the pertinent entities or supervising organizations of such cases.

## 2. PERFORMANCE AUDITING MANDATES

### 2.1 Legislative Basis

There were explicit legal provisions which clearly set out BAI's mandate for performance audit until 1995. Before 1995, the Constitution and the BAI Act had provisions which were interpreted to empower BAI to carry out performance audits.

The BAI is a constitutional agency whose functions, status and organization are clearly prescribed in the Constitution. According to Article 97 of the Constitution, the BAI shall be established under the President to audit the closing of accounts of revenues and expenditures of the State, the accounts of the State and such organizations as prescribed by law, and to inspect the administrative functions of the executive agencies and public officials.

Article 20 of the BAI Act states that the BAI shall examine the final accounts of revenues and expenditures of the State, and shall constantly audit and supervise other accounts as prescribed by this Act and other laws in order to ensure their correctness, and shall inspect the duties of the administrative agencies and public officials in order to improve and promote the operation of public administration.

Article 34 of the BAI Act states, "Should the BAI identify inconsistencies or possible improvements in laws and decrees, institutions or administration as a result of audit and inspection, it may request the Prime Minister, responsible Minister, the chief of pertinent supervisory agency or the chief of the agency concerned to take measures necessary for enactment, revision or abolition of laws and decrees or improvement of institutions or administration".

Since 1993, there has been a stronger emphasis on the performance audit. In 1995 the BAI Act was revised to provide a clear mandate to conduct performance audit as follows :

Article 34-2 of the BAI Act provides that when the results of audit and inspection show that it is inappropriate for the BAI to make a request for disciplinary action and a request for correction, or it seems necessary for the chief of the relevant agency to handle the matter on his own initiative or it is needed for the economy, efficiency, effectiveness, and fairness of administration, the BAI may make recommendations or advice for improvement to the responsible Minister, supervisory agency, or chief of agency concerned.

## **2.2 Right of Access to Records**

SAIs' access to records of agencies that are being audited is essential for them to be able to audit effectively. BAI's right of access to documents appears very powerful.

According to the BAI Act, auditees have to submit evidence, financial statements and other documents to the BAI in accordance with the BAI Regulation. The BAI may, if it deems necessary for auditing, request the persons involved in a matter subject to audit and inspection be summoned to give adequate explanation or to submit evidence, explanatory descriptions and other pertinent documents.

Futhermore, the BAI may request assistance and cooperation necessary for gathering evidence or secondment of some employees of the audited body to the BAI.

## **3. METHODOLOGIES AND PRACTICES**

### **3.1 Audit Planning**

The BAI, like other entities, sets up its medium term development plan comprising audit activities and other projects every four years and also formulates the following year's annual corporate audit plan at the end of each year according to the medium term plan. This annual corporate audit plan is divided into quarterly audit plans and audit plans by auditee and project.



To make an annual audit plan, the Director General of the Planning and Management Office prepares the guidelines for the formulation of the annual audit plan and circulates it to each bureau in order to collect bureau level drafts.

Each audit plan delineates procedures to reach audit objectives which are based on the BAI Policy Guidelines. In audit planning, such factors as audit ability, resources, timeliness, and BAI Policy Guidelines are always taken into consideration to maximize audit output and to minimize problems arising from audit and inspection activities.

As a good example of strategic planning, the BAI may, if it considers that internal audit has been properly conducted as the results of the internal control of central government agencies, provincial and local governments, government-invested organizations, dispense with partial or whole audit unless confirmation of the final accounts and so forth are hindered.

Performance audit is conducted in the latter half of the year, while general audit is carried out in the first half of the year to meet the deadline for submission of the report on the final accounts of the State.

### 3.2 Audit Topic Selection

While the BAI conducted 161 general audits (with 11,492 man-days), it conducted 51 performance audits (with 26,127 man-days) in major audit issue areas which were considered important for the promotion of quality of life, the prevention of

defective construction, the reinforcement of safety management, the establishment of a sound accounting system, the prevention of budgetary waste, and the strengthening of the international competitiveness of the nation.

The annual corporate audit plan may be modified in accordance with changes in primary government policy objectives or by unanticipated events. For example, should a town suffer from destructive flooding, the BAI may postpone auditing the local government until damages have been recovered, or may check, among other matters, if the town had taken sufficient measures to prepare for the unanticipated disaster.

### **3.3 Methodologies and Practices**

#### **3.3.1 Preliminary Studies**

Preliminary studies are conducted to collect information and data on the current status of the agencies to be audited and their problems. In this preparatory stage, the audit team examines : <sup>a)</sup> various documents submitted to the BAI by the auditee, <sup>b)</sup> audit findings from previous years, <sup>c)</sup> reports on the internal audit results, and <sup>d)</sup> various related data stored in BAI's database.

#### **3.3.2 Operational Plans**

Detailed plans are developed based on the results of preliminary studies. The plans include audit scope, audit duration, list of auditors and the division of their duties, and the reasons for conducting a performance audit with audit emphasis

and techniques specified. Audit team members are given a brief review prior to the official audit and inspection trip so that they may have a better understanding of the audit plan.

The BAI does not have a special organizational unit for performance audit. Every division conducts both general audit and performance audit.

### **3.3.3 Audit Activities**

Audit activities are conducted to examine legality, economy, efficiency, and effectiveness. In the course of these activities, the auditee concerned is asked to submit necessary documents, and the head or officials concerned are interviewed so that their opinions are fully reflected in the disposition of audit and inspection results. An auditing place is prepared by the audited entity for interviewing and examining documents. As a rule, auditors spend 12 days in the audit target. This part of the audit is called the 'field audit'. During this period, auditors conduct their duties in the target locale from 9 am to 6 pm. Auditing activities sometimes appear to impede the normal operations of the auditee.

### **3.3.4 First-Instance Report to the Chairman on Audit Results in Brief**

Upon returning to the office from the field audit and inspection trip, the audit team leader is to submit a brief report of the field audit and inspection to the Chairman of the BAI. This is to include audit findings and field audit activities in brief.

### **3.4 Auditing Standards**

Formulation and execution of auditing and inspecting standards are in the hands of the BAI authorities. The BAI does not have general auditing standards which may be applied, in one way or another, to auditing government organizations. Instead, the BAI has issued the "Audit Requirements on Examination and Reporting", which includes audit scope, examination process, and reporting contents. The Requirements can be compared to the auditing standards of other countries. However, the Requirements are not applied to all auditors in the public sector but only to BAI auditors. In recognition of the necessity of audit quality control, formulating auditing standards is now under consideration.

### **3.5 Audit Criteria**

Audit criteria reflects a normative control model for the subject matter under review. They are critical to a successful performance audit. General and specific audit criteria should be acquired or developed during the preliminary study. For example, criteria for customer satisfaction are shown in Appendix 1. These criteria can provide ideas for developing criteria for the audit, but may require interpretation and modification to ensure their relevance.

### **3.6 Communicating with the Target Agency or Institution**

It can often be useful to obtain input for the development of

audit criteria during discussions with target agency management. Any disagreement with target management about criteria can then be identified, discussed and, if possible, resolved at an early stage. Communicating with the target is essential to facilitate the acceptance of audit outcomes. This may encourage the auditee to take follow-up measures in response to audit findings on its own initiative and in an active way.

## 4. REPORTING

### 4.1 Reporting Process

The BAI employs a council system in which important decisions are made by a Council of Commissioners. One reason for collective decision-making is to stress fairness rather than efficiency and expediency. Another reason is to ensure independence in operation, independence which may be easily sacrificed in an organization with an authoritarian system of decision-making.

The Council is composed of seven Commissioners including the Chairman of the BAI, who presides over the Council. It makes resolutions based on majority vote of the constituent Commissioners on matters pertaining to results of audit and inspection.

Conducting a performance audit usually takes about three months from preliminary studies to the publication of the report.

Due to the rapid specialization of public administration, it is thought that more time should be given to the conduct of performance audits.

#### 4.2 Types of Reports

The BAI prepares two kinds of reports on its activities : the annual report and interim reports. The annual report is submitted to the President and the National Assembly. When deemed necessary, the Chairman may make interim reports to the President. The interim report includes not only significant findings, but also requests made more than twice by the BAI but not responded to, as prescribed in Article 42 of the BAI Act.

### 5. OTHER ISSUES / PROBLEMS

#### 5.1 Client Relationships

Management is not an exact science and there are, naturally, often differing points of view on the way programs should be managed. Because of these, it is incumbent on the SAI to have its performance auditors possess a clear understanding of the goals, objectives and priorities of any area subject to audit, and to have performance criteria or performance indicators, as far as practicable, agreed to in advance.

A first step in lessening conflict between auditors and auditees is for both groups to understand their differences in

viewpoint. It would be naive to presume that conflict between auditors and their clients can be eliminated altogether. Auditors tend to look into a client's performance with a certain amount of suspicion and distrust. However, an awareness of problems in auditor-client relations can allow both parties to handle conflict more effectively and hopefully lessen tension.

These suggestions to improve auditor-client relations certainly will not eliminate all existing conflicts. However, audit executives have a responsibility to do what they can to manage the adversarial relationship and to take advantage of the tension in a constructive way. Better auditor-client relationships will contribute to making government operations more economical, efficient, and effective. In the long run, managers and auditors will both be winners.

## 5.2 Skills of Performance Auditors

The BAI appointed some 60 experts from various walks of life as performance audit advisors in order to carry out performance audit efficiently and enhance the creditability of the results of audit and inspection. The experts provide advice and suggestions on the importance of government programs and projects, the necessity of audit, and the methods of selecting the subjects of audit and inspection at the planning stage. At the implementation stage, they offer objective opinions on matters which may influence the life of the populace significantly or on which the BAI and the auditee have conflicting views. At the reporting

stage, they help the BAI achieve greater accuracy and thereby increase the credibility of reports.

In order to conduct efficient audit and inspection in an environment where administration is increasingly specialized and complicated, the BAI currently has 28 experts from its target agencies on a secondment basis. Their work experience or research achievements are utilized to improve the BAI's role in audit and inspection. These experts participated in performance audits in eight areas of pressing concern including the prevention of railway accidents and defective construction practices in 1995.

### 5.3 Changing Image of Auditors : Magnifier and Compass

A magnifying glass is often used in newspapers and magazines as a symbol for auditors. However, the role of SAls in promoting efficient and effective public administration through performance auditing means not only scrutinizing with a magnifying glass but also pointing out the right direction with a compass.

It is advisable, therefore, for SAls to try to add the image of a compass to the traditional image of SAls in order to live up to the rising expectations of the general public.



## Appendix 1

### Criteria for customer satisfaction

#### I . Satisfaction with Access and Facilities

- Appropriateness of location
- Appearance of buildings, offices and waiting areas
- Adequacy of parking facilities
- Appropriateness of hours of operation
- Ease of receiving appointments or receiving service
- Amount of waiting time
- Comfort of offices and waiting areas

#### II. Satisfaction with Communication

- Appearance and clarity of signs/posted instructions  
/announcements
- Service offered in language of choice
- Ease of getting information
- Ease in understanding information, instructions, forms or  
documents provided
- Ease of completing forms
- Extent to which service procedures and levels are understood
- Ease of understanding regulations

### III. Satisfaction with Personnel

- Courtesy and helpfulness of support staff
- Skillfulness, competence of officers, professionals
- Clarity and adequateness of information/advice provided by personnel
- Thoroughness of personnel
- Humaneness of personnel
- Consistency of service for repeated transactions
- Amount of time spent with client
- Personnel more concerned by procedures or clients?
- Interest of personnel in helping clients
- Efforts of personnel to understand/listen to clients
- Personnel respectful of client's rights
- Extent to which clients are treated fairly by personnel

### IV. Satisfaction with the Service perse

- Satisfaction with overall quality of service offered
- Satisfaction with kind of service offered
- Extent to which service offered meets client needs
- Extent to which program or service addresses key concerns, problems of clients
- Appropriateness of service level
- Acceptance of service/program procedures
- Simplicity of procedures
- Timeliness of service provided

#### V. Satisfaction with Service Results/Outcomes

- Usefulness of services
- Success of service
- Speed of results achieved due to service
- Quality of results achieved due to service
- Extent to which results meet a priori goals
- Value of service
- Amount of improvement in situation after receiving service

#### VI. Overall Satisfaction

- Likelihood of recommending service to a friend
- Likelihood of return
- Extent to which service represents good value for money
- Overall assessment of satisfaction
- Fairness of program
- Relevance/importance of program

## ***9. Kyrgyzstan***

### **Country Paper on Sub-theme 1**

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

**Prepared by:  
Chamber of Control,  
Kyrgyz Republic**

1. The first part of the report is a general introduction to the subject of the study. It discusses the importance of the study and the objectives of the research.

2. The second part of the report is a detailed description of the methodology used in the study. It includes information about the sample, the data collection methods, and the statistical analysis.

## COUNTRY PAPER

of Damir Oskombaev, the Chairman of the Accounts Chamber of Kyrgyzstan at  
the 6-th ASOSAI International Seminar 1997

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

Dear Ladies and Gentlemen - participants of the seminar!

First of all, let me express my gratitude to the organizers of this seminar for the invitation and opportunity to make a report on the proposed theme.

I am a Chairman of the Chamber of Accounts of the Kyrgyz Republic, one of the independent states of Central Asia, which got its status only five years ago. But before this, during 70 years our republic was a part of the former USSR.

With the purpose of general acquaintance, I would like to note that Kyrgyzstan is a small country by its territory and number of population. Total area is 1 990,9 square kilometres; the population is 4,5 million people of 80 nationalities, about 60 % of population are the kyrgyzs.

More than 90 % of the territory are mountains which are rich in minerals. Particularly, kyrgyz depths are famous for stocks of gold, mercury and antimony. Our republic takes the third place in stocks of gold after Russia and Uzbekistan among the other states of the former USSR.

Kyrgyzstan is an agrarian and industrial country. By virtue of natural and climatic conditions, such forms of agriculture as stock-breeding and sheep-breeding are highly developed.

Industry is represented by light, power and food branches which give nowadays 60% of general volume of industrial production.

As a result of social and economic reforms in our republic, together with the State property there are also collective and private forms of property. And their role become more appreciable.

Nevertheless we are faced with great difficulties and problems. Great number of factories which are at a standstill, tense financial situation, deficit of the State budget, great non-payments, tense criminal atmosphere - it is an incomplete list of

problems of my country and its state structures including the Supreme Audit Board - Chamber of Accounts.

In the Law, adopted by the Parliament of the Republic, the status of the Chamber of Accounts is defined as " the supreme standing board of the state financial and economic control." Unlike former Control Chamber, Chamber of Accounts is organized by two supreme organs of the Government: President and Parliament of the Kyrgyz Republic.

In the concrete, this position manifests itself in the principle of formation of Chamber of Accounts audit members for 5 year term equally by the President and chambers of the Parliament.

The main task of the Chamber of Accounts of the Kyrgyz Republic is the control over working out and performance of republican and municipal budgets. Control powers of the Chamber are very wide. For example, according to the Law on the Accounts Chamber of the Kyrgyz Republic we have a right to control legality and rationality of using of the State property including processes of privatization; to study and if necessary to control the activity of National and commercial banks but only in case of motion of budget through them; to control the correctness of expenses on the maintenance of government organs.

The Chamber of Accounts also carries out a control over financing of the state public programs including measures of urgent character. Besides, only the Chamber of Accounts has a right to control exploring of gold stocks of the Kyrgyz Republic, investments and credits which come along the line of foreign states and international financial structures.

Being guided by its law in 1996-1997 the members of the Chamber of Accounts of the Kyrgyz Republic ( auditors and apparat specialists ) are carrying out important and useful control-economic activity on the questions of the State's interests.

In the concrete, in 1996 the Chamber paid great attention to the process of performance of republican and local budgets, reasons of irregular payment of salaries, pensions and allowances in some regions. Great deal of time was paid to the matters, connected with administration of tax and custom policy on tax and custom organ's part. On the request of the Parliament we performed a great in scale control work on using of state credits and grants allocated by the government in rural regions in 1992-1996.

We also review the process of performing of budget, affirmed by the Parliament; prepare and give corresponding presentations and orders for taking actions on exposed defects to the boards of executive power ( region governors , heads of municipal State administrations and Government. )

During last years one of the most important problems which has caused social tensivity of population in Kyrghyzstan was a vicious practice of irregular payment of sallaries, pensions,allowances and other forms of payment. It should be noted that the majority of population, particularly children and aged pensioners suffer from it.

With the purpose to control these issues we visited one north and two south regions of Kyrghyzstan, where according to the preliminary information the situation was unfavourable.

Taking into account that financing of state credits and grants in the expense structure of republican budget comes to a great specific gravity , checkings on this questions were carried out in all regions of the Republic.

It turned out that together with positive moments in its performance, there were also essential breaches: in most regions of the republic as a result of uncontrol on higher authorities' part there were facts of inexpedient using of allocated credits, in some regions they were just appropriated. Results of the checking were presented to the Parliament floor.

On the results of this session an important resolution of principle was adopted. There were given concrete orders to the Government on facts of exposed defects and abuses. A number of criminal cases were instituted. There is a system of measures which will considerably approve using of government credits increasing their effectiveness.

In our republic there are some problems with the ensuring of proper performance of its state budget.

Inspite of energies devoted by state structures, it is difficult to ensure collection of taxes in outlined volumes and foreseen terms.

Non-fulfilment of tax collection in the main structural forms of profits, such as tax on profit, value tax added and income-tax causes essential loss for the budget. According to the preliminary information, in 1996 on enumerated forms of taxes there was exposed a deficit of 19% of outlined sums. In first place, it is a consequence of objective circumstances, connected with unsatisfactory activity of our industrial and agricultural enterprises, which have always been a basis of budget.



In 1996 work of more than 40 % of our enterprises was unprofitable. In other words, we experience consequences of rupture of economic and agricultural relations, strained after disintegration of the former USSR.

Also there are problems in the level of administration of tax budget processes. Unfortunately some financial and tax services do not carry out their control- fiscal activity duly. And as a result, great number of tax payers evade paying taxes.

Measures of tax structures in imposing fines to the offenders of tax policy often do not work, sums of fines are not exacted completely. Thus, there is a peculiar " devaluation " of these sanctions, and the work of tax services becomes just formal.

There are also serious defects and problems in using of expense part of the State budget. There is no ensuring of proportionality in expenses, e.g., between social sphere ( education, science, culture, health services ) on the one hand, and state services of general purpose ( maintenance of authorities ) on the other hand.

The second problem is connected with incomplete financing of so called " protected articles " of budget expenditure. The talk is about payment of salaries to teachers, physicians, culture and science workers, student stipends, pensions and allowances.

Another important problem of the republic is financial defects, illegal expenditure which are often disregarded by organs of executive power. In other words there is no ensuring of observance of one basic principle of budget - to carry out financing of expenses in accordance with collection of taxes and other profits.

And as a result in some regions of Kyrgyzstan, instead of concentration of financial resources to solve urgent social problems, budget means are not directed to the needs of the first necessity, e.g., to the organization of different ceremonies, sport and entertainment measures. Besides, great sums of budget assignments were spent for arrangement of officials' studies, purchase of furniture, renewal of a car park, payment of unplanned missions, expenditures, etc.

The most serious defect of the legislation are facts, when certain treasuries, enlisted local authorities' aid do not allocate to the republic budget great sums of payments, unfoundedly leaving them in local budget. So, it is a local approach of profit allocation between budgets of different levels.

Also there are problems in the activity of national custom bodies. Only as a result of admitting of export goods without levying of custom taxes and duties, there was a deficit of 900 000 dollars in the State budget in 1996.

I would like to point out one more problem. The point is that the transfer of Kyrgyzstan to market relations caused active policy of privatization of the State property. Taking into consideration complexity and novelty of privatization processes, its development may be subdivided into three stages: 1991-1993, 1994-1995, and 1996-1997. Every period has its own peculiarities.

1991-1993 was a period of laying of legislative basis, creation of corresponding organizing structure, testing of privatization instruments. During this time we achieved certain results in "slight" privatization, began reorganization of enterprises of industry, agriculture, building and other branches of economy.

Speaking about results of this period, it should be noted that the positive moment of "slight" privatization was a destruction of the state monopoly in trade and sphere of services, creation of rival surroundings and liquidation of goods shortage that was typical for the Soviet time.

Specifically, in 1991-1993 there were privatized 86,7 % enterprises and objects in trade and 96 % in services.

The second stage was a period of privatization of middle and large enterprises in such fields as mining, metallurgy and energetics. One of the main directions of privatization in this period was drawing of investments with purpose to reconstruct national economy and ensuring of wide public participation in the process of privatization for creating of stratum of new owners.

By the end of 1995 the share of privatized enterprises came to 39 % to the whole number. ( In industry - 77 %, in building - 53,4 % , in transport - 46,1 %, in trade - 96 %.

For the realization of the third stage of privatization, Kyrgyz Government adopted a detailed Program for 1996-1997. The main task of this stage is reorganization of large monopoly structural sectors of economy using individual schemes of privatization and also reorganization of objects of unproduction sphere. Adopted Program envisages drawing of investors including foreigners into the process of reorganization of the state enterprises.

However, in the process of privatization there was revealed a number of defects. The first period is characterized by great unfounded privileges of enterprises-shareholders, sale of objects without any auctions. As a result of muddle and uncontrol, typical for the first period of privatization, the most prestige and profitable objects were sold for next to nothing. Taking advantage of imperfection of

legislative-normative basis, abusing official status, most of these objects were headed by certain deputies and official workers.

According to the results of checkings all officials, responsible for this, were punished. Specifically, all heads of the State property of the Kyrghyz Republic were relieved of their duties, because of negligense and uncontrol, which caused the waste of the State property.

Now I would like to speak about our methods and ways of control. To my opinion we have a good legislative-normative basis.

So, checkings may be integrated and partial. In integrated checkings all sides of object's activity are subjected to a thorough studing. In partial checkings we examine only certain questions. With purpose to increase the quality of control, we often use reciprocal checkings which give good results.

Besides it, control is carried out by group of specialists, including financiers, inspectors, accountants, lawers and other specialists. As a rule they are given enough time for the preparation to the forthcoming checking. During this time they study laws and instructional material. Sometimes checkings are organized with participation of organs conserved, such as Ministry of Internal Affairs, Ministry of Finance, Tax Inspection and others.

Main source of checkings is an official information of Ministry of Finance and taxation organs, letters and request applications of citizens and Mass Media.

Work of control organs is coordinated by special Committee headed by the Prime-Minister of the Kyrghyz Republic. Reports of the heads of audit organs are regularly heard at the sessions of the Committee.

Oskombaev Damir

February 5, 1997

Bishkek

# **Accounts Chamber of the Kyrgyz Republic**

205 Chui prosp., The house of the Government, suite#222, Bishkek, Kyrgyzstan tel. +7(3312) 22-24-00, fax +7 (3312) 21-88-24

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## **Kyrgyz Republic**

### **Performance Auditing: Concepts, Mandates, Methodologies and Practices, Reporting and Problems.**

#### **Concepts and Mandates.**

Performance Audits include following up on implementation of the national plan as well as evaluation of the economy, efficiency, and effectiveness of audited entities.

The Law on the Accounts Chamber of the Kyrgyz Republic was adopted by the Parliament of the Kyrgyz Republic in October 1996. The Law provides clear guidelines on principles of auditing, defined Supreme audit institution as Accounts Chamber, regulates the Members' (Auditors) rights and obligations; Auditors are prohibited from being Members of Parliament or from having another job or source of income. The Law on the Accounts Chamber provides that the Accounts Chamber exercise control over the revenue and expenditures of the State budget, as well as the use of the off-budget funds, state property and credit and foreign currency resources by the executive departments, and the national bank. It reviews and controls the activities of the administrative bodies, the work of custom organs, and examines state financial and economic activities.

The Accounts Chamber consists of the Chairman and twelve auditors. The Chairman is appointed by the President for a five-year term. Auditors are appointed in the following procedure: one to third part of the Auditors is appointed by the President, one to third part of them is appointed by the Legislative Assembly of the Kyrgyz Parliament, one to third part of the Auditors is appointed

by the Assembly of People's Representatives of Parliament.

The Accounts Chamber presents yearly inference to the Parliament on the Prime Minister's report about the results of national economy functioning.

The Accounts Chamber derives its mandate for audit from the Constitution and Law on Accounts Chamber, 1996. Auditors have rights to access any information they need, request explanations, copy documents. The Accounts Chamber on its floor has a right to levy fines in accordance with the Administrative Code.

#### **Methodologies and Practices.**

Audit procedures and methodologies include the following: (i) audit planning, (ii) formulating audit programmes, (iii) conducting audits, (iv) formulating audit conclusions, (v) discussing audit reports on the floor, (vi) post audit activities: sending official prescription to the audited agency in order to improve the situation.

*Audit planning.* The Accounts Chamber at its floor establishes semiannual guidelines and outlines major points for audits. These guidelines take current financial and socio-economic issues into consideration and identify the main points for audits. Based on the audit guidelines Chairman of the Accounts Chamber has a right to issue an order to send auditors to audited agencies' offices (field audits).

*Formulating audit programmes.* The auditor being sent to the field audit is in charge of a preparation audit programme. She or he decides how to compile the programme based on the size of the audited's budget, scope of an audit, nature of the task to be done, legislative proceedings.

*Conducting audits.* Usually auditors conduct audits at the field audit basis. Auditors have a right to seek expert opinions from external authorities.

*Formulating audit conclusions.* On completion of an audit, auditors analyze and study the

audit outcomes. Auditors discuss the findings with Senior officials of the audited agencies' office sign the results of an audit and submit to the Accounts Chamber floor for further discussion.

*Discussion audit reports on the floor* Accounts Chamber discuss the findings on the floor and adopt a resolution where it decides whether to send the findings to the President or to the Government to institute proceedings against officials who are guilty of violating the requirements of law or causing material damage to the state. The Chamber also adopts a prescription for the audited's agency to improve the situation. The Accounts Chamber may also suggest to other concerned entities what steps should be undertaken in order to build healthy development of the national economy of Kyrgyzstan.

*Post audit activities: sending official prescription to the audited agency in order to improve the situation.* Accounts Chamber has a right to control how its prescription has been implemented and what steps (measures) were undertaken by the audited entity in order to eliminate the shortcomings. In case if the Chamber decides that the measures were not enough it may conduct additional audit at the same entity.

**Reporting.** The Accounts Chamber prepares its annual Audit Report on its activities, which is forwarded to the President and to Parliament each year. The Accounts Chamber verifies the Government's final accounts reports to the Parliamentary session right after the Report of the Prime Minister on the national financial and economic situation.

<b>Problems.</b>	Lack of the staff
	Lack of financial and human resources
	Insufficient independence
	Division of functions between control boards of the Republic

*10. Nepal*

**Country Paper  
on  
Sub-theme 1**

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

Prepared by:  
Office of the Auditor General,  
Nepal

**PERFORMANCE AUDITING CONCEPTS, MANDATES,  
METHODOLOGIES AND PRACTICES, REPORTING  
AND OTHER ISSUES/PROBLEMS**

**(SUB-THEME - 1)**

**COUNTRY PAPER  
FOR**

**THE ASOSAI ASSEMBLY 1997 AT INDONESIA**

**CONTRIBUTED BY  
OFFICE OF THE AUDITOR GENERAL  
BABAR MAHAL, KATHAMDU  
NEPAL**





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

### **1. Background**

Performance auditing is in evolutionary stage in Nepal. It emerged mainly in response to the increasing need for information on the actual results of public spending, efficiency and economy in managing resources. Constant search for opportunity by Supreme Audit Institutions (SAIs) to make its report more meaningful and informative to users i.e., public and parliamentarians has supported the process of evolution of performance auditing. It is conceived basically to determine whether:

- the businesses of audit entities were conducted in a way that ensures the best possible use of resources or considering "3Es" or economy, efficiency and effectiveness;
- officials who conduct public business have met their accountability obligations;
- reporting on performance is credible and adequate.

The concept of Performance Auditing was introduced in Nepal for two decades ago. It was made mandatory by the third amendment of the Constitution of Nepal in 1980. Present constitution (promulgated in the year 1990) also made the audit of economy, efficiency and effectiveness mandatory.

### **2. Definition of Performance Auditing**

Performance auditing is defined in different ways. The performance Auditing Guidelines published by the office of the Auditor General Nepal defines it as:

*'An objective and professional examination of financial and operational activities carried out to determine whether resources have been used in an economical, efficient manner and objectives of programs and policies achieved and accountability relationships of the concerned officials and organisations reasonably served. Its objective is to identify opportunities for the economical, efficient and effective utilisation of available resources, provide information to*

***decision-making to oversee or initiate corrective action and offer recommendations for improvement in existing situation.'***

Performance auditing encompasses three distinguishable but inherent element of public financial management.

- Financial and compliance auditing
- Public accountability
- Value for money (economy, efficiency and effectiveness).

### **3. Objectives and scope of Performance Auditing**

A performance audit have 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.

- To provide objective assessment of the extent to which audit entity is currently pursuing economy, efficiency and effectiveness.
- To identify major deficiencies in management and control practices.
- To encourage improvement in the system of performance reporting.
- To provide information and propose recommendations that can lead to better internal control and public accountability.

It encompasses many aspects of performance i.e.,

- a. financial planning, budgeting, accounting and reporting;
- b. planning, development, appraisal and utilisation of resources;
- c. planning, acquisition and utilisation of property, equipment, plant, inventory and other assets;
- d. development, production and use of information to carry out organisational activities in a more economical, efficient and effective manner.

Financial auditing is subject to fairly specific requirements and expectations whereas, performance audit is wide ranging in nature and is more open to judgement and interpretation. It brings attention to goals, objectives and results which take their form in the outputs or effects of a program. Introduction of performance auditing is not substitute to traditional (financial and compliance) auditing. They should go hand in hand. Many useful information

may be obtained during financial auditing for performance auditing. As performance measurement require financial data for comparison and evaluation, it can be obtained with the help of financial auditing. Therefore, OAG/N has adopted the policy of carrying out financial and performance auditing by the same audit team.

#### 4. **Mandate**

The Constitution of the Kingdom of Nepal ensures independence and objectivity of the Auditor General. He is appointed by His Majesty the King on the recommendation of the Constitutional Council chaired by the Prime Minister. Other members of the Council are Chief Justice, Speaker of the House of Representatives, Chairman of the National Assembly and Leader of the Major opposition party in Parliament. The Constitution also determines the qualification required for the Auditor General. The AG is appointed for a term of six years and be eligible for reappointment till he is under sixty five years of age. The employees of the OAG have a separate regulation relating to their conditions of service. The Regulation regarding the Employees of the Office of the Auditor General constitutes a separate cadre of service to auditors. The number of employees can not be reduced by government without written consent of the Auditor General. Besides, the budget for the OAG is allocated directly from Consolidated Fund without voting in Parliament.

The Constitution of the Kingdom of Nepal 1990 and Audit Act of 1991 are the major mandates of the Auditor General. The Constitution states that "The Accounts of the Supreme Court, the Parliament, the Raj Parishad, the Commission for the Investigation of Abuse of Authority, the Office of the Auditor General, the Public Service Commission, the Election Commission, other offices of the Constitutional Bodies, the Royal Nepal Army and the Nepal Police, and all other government offices and courts shall be audited by the Auditor General in the manner as determined by law, with due consideration to the regularity, economy, efficiency, effectiveness and the propriety thereof." Besides, the Auditor General audits the accounts of public enterprises fully owned and/or controlled by His Majesty's Government and numerous autonomous bodies as specified by separate statutes.

The books of accounts of the organisations audited by the AG are to be maintained in the accounting formats prescribed by him. He exercises full independence in determining the method and process of audit. He can determine the extent of audit i.e., either in detail

or sporadically or in samples, and present the facts obtained therefrom, make critical comments thereon and submit its reports.

The Audit Act elaborates the matters to be audited considering regularity, economy, efficiency, effectiveness and propriety. It has enabled auditors to look into various aspects of financial and administrative arrangements and provide meaningful and informative report to people and their representatives.

## **5. Approaches and Methodologies**

The Auditor General has a central place in the process of public accountability. Government is accountable to the Parliament and relies on the Auditor General for independent assurance as to the fulfilment of accountability obligations. Auditor General has to develop and identify appropriate approach and methodology depending upon the nature of audit entity, topic and audit objective to provide adequate assurance to executive's accountability and report highlights on pertinent issues.

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.

Audit approach normally indicates that how audit will be carried out to achieve predetermined objective. Approach needs to be determined considering nature of audit entity and objective. There may be mix of more than one approach depending upon nature of audit entity. However, common audit approaches are:

1. system approach
2. performance measurement approach.

Systems approach is applied normally in ease of policy issues. If certain policy has to be examined, auditor need to look into the systems by which he can assure himself that appropriate systems are in place and operating properly.

Performance measurement approach is applied mainly in evaluating effectiveness. Criteria for measurement or performance indicator should be identified to apply this approach. This

approach is expected to evaluate the reliability and adequacy of objectives achieved.

Methodology is basic to the success of a function. Deciding about methodology assumes critical role in audit process. The common methodologies and steps or phases of performance audit as practised in Nepal are as follows.

<u>Stages</u>	<u>Major Activities</u>
1. Planning	a. Selection of topic b. Preliminary survey c. Defining audit objective, scope and criteria d. Preparation of Audit Planning Memorandum (APM)
2. Examination	a. Programming audit work b. Assignment of task or responsibilities c. Examination of records including assessment of adequacy of internal control system d. Collection, classification and documentation of evidence e. Concluding audit f. Developing audit findings
3. Reporting	a. Preliminary report b. Review of comments and response on preliminary report c. Final report
4. Follow-up	a. Follow-up of audit observations b. Follow-up of actions taken on the recommendations of the Public Accounts Committee

**5.1 Planning** - Performance audits are conducted in accordance with auditing standards consistent with the professional standards required for private auditors. 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. Government Auditing

Standards published by the OAG/N in July 1996 also endorses the view and considers ways to strengthen planning process.

OAG/N has recently introduced the concept of strategic planning. Although it is in initial stage, strategic planning is considered as the macro plan of the entity to enhance overall efficiency and effectiveness of SAI. It guides entity level planning by specifying critical issue areas. The major objectives of strategic planning are to:

- provide a firm basis for the SAI management to give a strategic direction for future audit coverage and a basis to assess the performance of audit operations;
- 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 audit strategies followed by the OAG/N;
- help management and staff at all levels to understand entity risks and audit selection; and
- provide a basis for the assessment of accountability.

The value of performance audit report depends to a great extent on selection of audit topics. They are normally selected on two grounds:

Firstly, to focus on those issues 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.

Following factors are considered in selecting topics:

- probability of completing audit in time and associated challenges;
- capability of audit personnel to undertake a particular audit;
- potential impact of audit report;
- availability of required information on various aspects of performance; and
- operating environment of potential topic.

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

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

Once particular activity or topic is selected for 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 to identify fundamental issues, define audit objectives, develop the scope of the audit, estimate potential impacts, develop audit criteria and prepare a preliminary study report. The output of the preliminary study is normally a report which recommends either terminating or continuing the audit.

Determining the scope of the audit addresses the balance of issues of economy, efficiency, effectiveness in policy/program implementation and legislative compliance. The audit scope ensure that field work is clearly bounded and assists in producing an audit of adequate coverage and cost. Scope is normally defined by stating what an audit intends to cover. Audit scope normally address any combination of parameters. Some examples are:

- organisational segments;
- programs, sub-programs and their components;
- services or product lines; and
- specific aspects of entity performance, for example - equity, access, delivery of service.

Criteria plays important role in ensuring quality of performance audit. It 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, programs, or activities can be assessed. Criteria reflect a normative (that is, desirable) control model for the subject matter under review. Meeting or exceeding the criteria might indicate 'better practice', while failing to meet criteria would indicate that improvements need to be made. Criteria

- form a common basis for communication within the audit team and with the SAI's senior management concerning the nature of the audit;
- form a basis for communication with the entity management;



- solicit entity management understanding 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;
- provide a basis on which to build procedures for the collection of audit evidence;
- provide the basis to develop audit finding; and
- help decide about form and structure to observations.

Success in determining appropriate criteria is crucial for performance auditing. In Nepal, auditor faces challenges due to absence of clear performance indicator. Therefore, audit has to develop understanding with audit entity in determining criteria. The common factors considered in this process are as follows.

- 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;
- organisations carrying out similar activities or having similar program clients both local and overseas;
- professional organisations and standard-setting bodies;
- subject matter and general management literature.

The 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 should also be tested against following factors like clarity, compatibility with the objective and nature of audit entity, comparability and relevance.

Audit Planning Memorandum (APM) is prepared at the end of this phase to guide audit. It normally contains information including;

- background information on audit topic (auditor's understanding on audit entity),
- audit objectives and scope,
- criteria and performance indicators,

- audit methods,
- probable nature, source and availability of information,
- resources required,
- work schedule,
- reporting requirements and timing.

**5.2 Examination** - This phase involves the collection and documentation of relevant and reliable evidence in accordance with a detailed audit test program. It includes observing, interviewing, documenting, testing, checking, analysing and begins with developing the audit programs. An effective audit program helps in obtaining persuasive evidence to support findings in a economic, efficient and effective manner. 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 that 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.

The primary responsibility of performance auditor is to demonstrate the quality of evidence and opinions, conclusions, analysis and supporting recommendation, in the interests of presenting a credible report for consideration by the entity management and Parliament. Audit evidence should be sufficient to support audit findings, conclusions and recommendations. 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. Therefore, performance auditors must give careful thought to the nature and amount of evidence they collect. 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.

The examination phase 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 findings are discussed.

Auditors must adequately document the audit works including the basis and extent of planning, audit methods and procedures, research design, the work performed and the audit results and findings. Complete 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 characteristics which all working papers should exhibit are:

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

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.

Once the comments from the entity at the exist 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. 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.

**5.3 Reporting** - 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. 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 promote 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 entitles 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. Audit findings are to be presented in a logical fashion. In developing audit findings auditor systematically explains following matters:

- audit criteria (what should be);
- audit evidence (what is);
- audit findings (compare what is to what should be);
- assess the effects of the findings;

- determine the causes of the findings;
- 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 of different 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 are generally 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 i.e., (a) the assessment of the significance of the findings, and (b) 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 monetary or quantitative 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.

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. 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 its established practice 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 such people only relevant parts of the report and they should be provided with adequate notice and opportunity to respond to the material.

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.

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.

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.

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. They 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.

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.

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.

**5.4 Follow-up** - It is an integral part of performance auditing. One of its objectives is to add to the impact of our reports. It may serve two purposes i.e.,

- (a) 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
- (b) 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.

Follow-up activity should be directed to encourage the implementation of recommendations, rather than finding examples of lack of action.

## **6. Problems**

We are facing critical problems in enhancing performance auditing. They may be classified as internal and external.

- a. **Internal** - Supreme audit institutions have several such internal problems that have adversely affected the development of performance auditing. As an performance auditor, one could really feel that the most critical internal challenges have arisen due to lack of adequate number of qualified manpower, logistic support, well established methodology, encouragement to staff,

organized and integrated efforts to convince audit entities about the benefits of such audit in seeking their co-operation. Similarly, focus on financial and compliance issues have consumed energy of auditor on micro issues.

- b. **External** - Lack of awareness of audit entities regarding benefits of performance auditing, parliamentary attention are basic external challenges. Besides, resentment of audit entities to provide necessary performance related information have caused difficulty in securing reasonable support from audit entities.

Supreme Audit Institutions have the primary responsibility of providing accountability report highlighting physical and financial performance, compliance with regulation and system of internal control. Preparation of report and statement of performance is the responsibility of management and audit attests the reliability of management representations. Strengthened budgetary management and accounting system helps a great deal in preparing report on performance that is essential for performance auditing.

Identification of performance indicators and criteria is crucial for planning performance auditing and setting objective, determining scope and methodology. As program budgeting considers determining objective, target, major activities, performance reporting system and regular review and monitoring system as its major ingredients, its application supports a great deal to plan and program auditing.

## **7. Suggested Measures**

The role and importance of performance auditing in ensuring accountability and promoting effectiveness of public program and organisations is well recognised. Therefore, it is very essential to consider the ways and means that enhances it. Following measures are suggested for improvement.

**7.1 Consistency in policy issues** - Developing countries tend to suffer in many areas due to either instability and inconsistency in policy issues or situation of indecision. Similarly, our compulsion to survive with resource constraint or over dependence on external sources have made us vulnerable to frequent changes in direction and priority of developmental measures. It has posed challenges in program based allocation of resources i.e., complexities in applying program budgeting concept. Performance auditing concept was introduced in Nepal



for almost two decades ago. It received legal mandate since 1980. However, it could not move forward to a desired extent. The major reason for the delay in its enhancement was inconsistency in policy of the OAG. Some attempts were made in the past to advance this concept. But it could not proceed on a regular basis and with commitment to learn lessons from experience. The OAG has again demonstrated the interest to enhance performance auditing. Consistency on policy issues in translating this concept in reality will certainly contribute in making this audit

**7.2 *Development of human resources and motivation*** -

Introducing a new concept and ensuring its continuity requires development and motivation of human resources. We are encountered with the challenge of underdevelopment of human resources. Administrative capability is the major issue in sustaining the application of modern concept and technology. Most of the people are not motivated to work hard to realise the benefit of emerging concept and sharing experience with others. It is partly due to our culture and partially messy behaviour. Therefore, it is necessary to very essential to consider the ways and means that develops human resources and motivates them to enhance these concepts.

**7.3 *Promote dialogue between SAI and audit entities*** - One of the major reasons for the impediment in the promotion of the concept of performance auditing is lack of dialogue between the SAI and audit entities. Performance auditing demands varied information on different aspects of performance and management. However, some project/issue area selected for performance audit had to be abandoned due to the lack of information on performance. This situation can be improved by promoting dialogue between SAI and the audit entities and securing co-operation of related institutions.

**7.4 *Development of methodology*** - Wider application of any form of policy, program and concept needs methodology that provides information on the approaches, methods and interrelations among the stages of program implementation. The OAG/N has felt the challenge in implementing performance auditing due to lack of systematic and well structured methodology. Recent publication of the Performance Audit Guide is expected to meet the need of methodology. Similarly, program budgeting can be made popularised by developing methodologies illustrating its potential benefits, common issues and lessons learned through application of resolving measures.

## **8. Concluding Remarks**

Improvement in the public sector financial management is very essential to optimise the result from the resources employed. In this connection, enhancing application of performance auditing concept deserves special attention. It is no substitution to good management. However, it can contribute a lot in improving management for better return from resources employed and establishing a sound and sustainable system. It needs acceptance of public sector managers. As we now piloting to its execution, constant endeavour to obtain benefits from learning by doing has to be enhanced to make the system of management better.