

11. New Zealand

**Country Paper
on
Sub-theme 1**

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

**Prepared by:
The Audit Office,
New Zealand**

THE ASOSAI ASSEMBLY 1997
INDONESIA

SUB-THEME I
PERFORMANCE AUDITING CONCEPTS, MANDATES,
METHODOLOGIES AND PRACTICES, REPORTING AND OTHER
ISSUES/PROBLEMS

COUNTRY PAPER: PREPARED BY NEW ZEALAND
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INTRODUCTION

The headings used in this paper are those used by Australia in its principal country paper. The term "Audit Office" used in this paper refers to the New Zealand Audit Office.

CONCEPTS

Performance Auditing is Relatively New in New Zealand

Under section 25(3) of the Public Finance Act of 1977, Parliament gave express authority for the Audit Office to review the application of public resources to ascertain whether this had been done efficiently and effectively in a manner that was consistent with the applicable policies of the audited entity.

The early audits looked at the financial and control aspects in the audited entity. The first performance audit in terms of the INTOSAI concepts did not take place until the mid 1980's.

Objectives of performance auditing

Performance auditing, in the form of special audits and studies of aspects of public sector operations, is undertaken principally for the purpose of enabling Parliament to be assured that its authority to carry out those operations has been exercised by the entities concerned in accordance with Parliament's intentions. The work is not undertaken with the express objective of seeking out wrongdoing or of providing benefit to the particular entities. These may, however, be the secondary consequences from the conduct of a performance audit.

Performance auditing and financial auditing compared

The accountability arrangements for the New Zealand public sector require the inclusion of both the financial and non-financial performance information in the annual statements prepared by nearly all public sector organisations. That information must be audited. The Audit Office therefore carries out both attest audits on an auditee's performance measures as well as performance audits that result in direct reports.

PERFORMANCE AUDIT MANDATES

Legislative Basis in New Zealand

The nature of the Audit Office's legislative status and mandate is derived from the fact that its role is to assist Parliament in the function of scrutinising executive government performance.

The Audit Office's range of interests necessarily reflects the matters in which Parliament itself has an interest, and on which Parliament can be reasonably expect assurance from its auditor. These interests include finding out if public sector organisations have obtained and applied public resources in an effective, efficient and economical manner.

In New Zealand, as in Australia, the mandate stops short of allowing an assessment of the appropriateness of policy objectives. A performance audit could, look at the steps leading to a policy decision, make an assessment of whether the policy objectives have been met, and consider what have been the results of the implementing the policy.

The Audit Office has complete discretion in the selection of topics for performance audits: the limitation is in the entities that can be subject to a performance audit. Included are government departments and local authorities. Excluded from coverage are State-owned companies and corporations.

Powers to Inspect Records

The Audit Office has wide powers under sections 26-28 of the Public Finance Act 1977. In particular, section 28 empowers the Audit Office to require a person:

- ♦ To attend and give evidence at an inquiry into any subject-matter.
- ♦ To produce any documents that the Audit Office considers likely to contain any information relating to the subject-matter.

Parliamentary Privilege

Parliamentary privilege does not automatically extend to every report the Audit Office might wish to release. Reports which are "ordered to be printed" by the House of Representatives as parliamentary papers are covered by parliamentary privilege and any performance audit report so sent to Parliament that is dealt with in this manner will be covered by privilege.

METHODOLOGIES AND PRACTICE

Audit Planning and Topic Selection

The Audit Office uses a three-year rolling strategic audit planning process in which it identifies major risk factors and employs probability estimation techniques to help determine the work programme. Attached as an appendix are more details on the process. The topics selected for the work programme come in the main from this strategic audit planning process.

Stages of a Performance Audit

The stages used in the Audit Office are:

- ◆ A proposal on the topic is prepared, which will include details of the likely scope of the audit. Relevant sections of the proposal are forwarded to, and discussed with, the entity when protocols are established with them.
- ◆ A preliminary study is undertaken. This may involve speaking to people at several levels of the entity's management and carrying out some fieldwork. An audit plan is then developed which is also discussed with the entity.
- ◆ Fieldwork is undertaken and a "summary of findings" report is prepared.
- ◆ A full draft report is prepared and discussed with the entity.
- ◆ A final report is written and presented to Parliament.

Managing the Audit Programme

Audits are managed according to normal project management systems. For example, one member of the audit team has the role of project manager and has to report on progress against milestones, spending against budget etc. This information is submitted to a project steering committee.

The Audit Plan

The audit plan builds on the audit proposal, particularly the approach and methodology, and is the working document that drives the audit.

The audit plan outlines what the audit is about, the expectations of the audit, and how the audit will be conducted. The plan has details sufficient to:

- ◆ Ensure there is no uncertainty about what the audit team will do.
- ◆ Allow the project steering committee to decide whether the proposed method of conducting the audit, its cost and its timing are acceptable.

The audit plan may require some revision during the course of the audit. Revisions that modify the original objectives of the audit, add to the budget cost, or involve substantial changes to audit standards require further approval.

Auditing Standards

Performance audits are carried out to the same professional standards (where relevant) expected of attest audits.

Audit Scope and Focus

The degree to which the audit team can place reliance on the audited entity's internal controls will affect the work it proposes to carry out. In considering this issue, the team may:

- ◆ Obtain from the Office's financial auditors their assessment of the entity's control environment.
- ◆ Plan for appropriate testing of internal controls.

In planning the audit approach (that is, the objectives and methodology), the team often considers one or more of the following:

- ◆ The effectiveness of the entity's operations or functions.
- ◆ The adequacy of the entity's procedures and systems.
- ◆ The quality of the entity's performance measures for the activities being audited.

Audit Criteria

Audit criteria are reasonable standards against which to assess existing conditions. Criteria usually translate into a series of "expectations" which form the basis of the conduct of the audit. Audit criteria compared to actual findings generate conclusions. Effective and useful criteria possess two key characteristics:

- ♦ They test meaningful measures of auditee performance.
- ♦ They make possible a reasonably consistent judgment, estimate or measurement.

Useful criteria increase the probability that different auditors will reach similar conclusions in similar circumstances.

Sources and Development of Audit Criteria

Sources of criteria can include:

- ♦ Legislation.
- ♦ Policy statements or central agency pronouncements.
- ♦ Departmental policies, manuals, and standards and measures of good performance.
- ♦ Standards of good practice developed by professions or associations.
- ♦ Statistics or practices developed within the entity or among similar entities.
- ♦ Criteria developed in studies or previously applied in similar audits.

The team develops criteria specific to the entity, programme or function during the planning stage. The criteria should give clear guidance for the audit and assist in development of specific audit plans to test them. As the audit progresses criteria are often expanded and made more specific.

The team may consult with relevant specialists on some technical criteria.

Evidence

All statements of fact in performance audit reports must have supporting evidence. The strength of argument used to support conclusions depends on the validity of the facts stated and the quality of the supporting evidence.

Auditors make a judgment on the quality of evidence gathered. Report comments having high risk need the highest standards of evidence. In making the judgment the auditor will need to determine whether the evidence is:

- ♦ Relevant.
- ♦ Reliable.
- ♦ Sufficient.
- ♦ Representative.
- ♦ Verifiable.

Document Standards

Worksheets are developed in the planning stage to guide fieldwork. They ensure the consistent, logical collection of all the information necessary for satisfying the objectives of the audit. However, worksheets do not replace auditor judgment.

Worksheets are used to identify:

- ♦ Relevant files to review.
- ♦ The documents which the team needs to collect.
- ♦ The data which the team needs to record.
- ♦ Formats in which data will be collated.
- ♦ Details of any reperformance, observations or testing which the team needs to carry out.
- ♦ Outlines of interview questions.
- ♦ The sampling that the team needs to do.
- ♦ Assessments which the team needs to make.

Audit Findings

A "Summary of Findings" Report covers:

- ♦ Expectations.
- ♦ Key findings.
- ♦ Preliminary Conclusions.

The report also includes comment on and reasons for any significant additions to or exclusions from the expectations or objectives of the audit plan.

The report should:

- ♦ Match results of the analysis against the audit expectations.
- ♦ Assess the importance and implications of analysis against audit expectations.
- ♦ Isolate the most important findings and arrange them to form a logical argument.

The report should enable the auditor to establish:

- ♦ Risks.
- ♦ Key messages.
- ♦ Particular topics to emphasise or de-emphasise.
- ♦ Topics to report in a formal report and those to be dealt with in another manner.
- ♦ Topics where additional work is necessary.
- ♦ Preliminary ideas of how and what messages to market to target audiences.

REPORTING

The Continuous Report-Writing Process

The Audit Office prepares a draft report that is shown to the entity and then prepares a final report. The final report can take various forms including :

- ♦ A full report tabled in Parliament.
- ♦ A full report to the entity, and summary report to Parliament.
- ♦ A management letter.
- ♦ A published special-purpose report.

The particular reporting form will be determined by the objectives established for the audit and therefore will vary from audit to audit.

OTHER ISSUES/PROBLEMS

Entity Relationships

The Audit Office puts considerable energy during the audit into managing the relationship with the audited entity. This can include providing briefing sessions for management at crucial stages (like the conclusion of the audit planning stage) as well as providing regular progress reports (often informally), especially if the audit is to extend over several months.

Skills of Performance Auditors

The Audit Office must ensure its reports are always credible. An important factor is therefore making sure that the team has the necessary competence to carry out the audit. Outside experts are used where the team lacks specific knowledge or where it is more efficient for the team to tap into existing expertise than to develop the knowledge itself.

Outside experts can enhance the quality of the audit plan in terms of its appropriateness and feasibility. At the reporting stage they can provide some assurance to the team on the validity of its conclusions and the suitability of its recommendations. Care must be taken in using experts who are free of conflicts and whose input will not be considered to reflect a particular bias. Outside expert input must meet the same professional standards as that required of Audit Office personnel.

STRATEGIC AUDIT PLANNING IN THE NEW ZEALAND AUDIT OFFICE

Over the last three years, the method used for audit planning has developed significantly. Although it is still evolving, it has advanced to the point where it can reliably identify suitable matters for audit attention where:

- from a public welfare perspective, the likely outcomes of public spending will be sub-optimal; and
- well-targeted audits are likely to result in cost-beneficial improvements to those outcomes, and
- the matters subject to audit are already, or are likely to be, of immediate interest to Parliament.

The method is as follows:

- ♦ The monies approved by Parliament for public spending (the Estimates of Appropriation) are reviewed item by item. For each item an estimate is made of the extent to which the likely outcome will be sub-optimal. To restate this in technical language, an estimate is made of the *expected loss in welfare*, where the terms "expected loss" and "welfare" have their usual economic meaning. These estimates are made using the method of cumulative probability.
- ♦ Sub-optimal outcomes from different appropriations can arise from common causes. A range of such causes have been analysed and placed into broad categories known as *risk factors* by a process analogous to failure modelling. To illustrate, poor quality decisions about a social programme and inferior public services provided by that programme may both have resulted from weak *information management* (a particular risk factor). The expected loss associated with each appropriation item is attributed to and apportioned between one or more risk factors.
- ♦ From another perspective, different expenditure items often have common characteristics which may make it useful to combine them when assessing audit priorities. For example, different government grants may be administered by different agencies, each of which receive separate appropriations for the purpose. However, rather than auditing each agency's performance separately, it may be useful to look at them collectively.
- ♦ The estimates of expected loss are therefore clustered in two ways; by risk factor and by common appropriation characteristics. These are combined to produce a list of possible sources of expected loss, ranked from highest to lowest. Items in the list may be:
 - an individual appropriation item which does not have significant characteristics in common with other items, or

- a cluster of appropriation items with common characteristics; or
 - a risk factor which causes expected loss in a significant number of appropriation items which may or may not have common characteristics.
- ♦ The largest sources of expected loss are then examined in more detail. A judgement is made about whether or not an audit intervention would be likely to improve organisational performance in such a way as to reduce the expected loss. In those cases where an audit seems useful, an estimate is made of its *expected payoff*, using a standard payoff matrix. If more than one possible audit can be identified, the expected payoff is estimated for each audit. At the same time, the cost of the intervention is also estimated.
- ♦ The penultimate step is to assign a weighting to each payoff estimate which reflects the likely level of Parliamentary interest in the area subject to audit. The weighting is a multiplier with values between 1 and 2. A higher value reflects an assessment that, other things being equal, Parliament would attach a higher priority to that issue. Using multiplicative weightings in a confined range between 1 and 2 achieves the following objectives.
- Weighting never results in a reduction in expected payoff. Thus, cost-beneficial audits are never rejected simply because Parliament's interest in them seems limited.
 - Weighting increases the probability that audits will be conducted in areas to which Parliament attaches greater priority.
 - The upper bound on the weighting means that the selection of audits is not dominated by considerations of Parliamentary interest. No matter how great that interest, audits that are not cost beneficial are not pursued.
- ♦ The foregoing steps result in a list of possible audits that can be ranked in terms of the weighted payoff per dollar cost of each audit. In general, any of the first fifty audits could easily be justified on cost-benefit grounds (typically by a factor of more than ten to one). The final selection is made having regard to a range of other factors which include operational and tactical considerations.
- ♦ In the event that a particular audit cannot proceed or is delayed for reasons not foreseen during the planning process, the method provides a very large pool of possible alternatives with which to replace it.

The Office has also developed computer software which greatly assists this planning process. The software presents the user, on cue, with a variety of useful information about appropriation items and the financial circumstances and performance of government agencies. It performs the necessary calculations for risk and payoff estimation and automatically generates ranked lists of expected loss and weighted expected payoff.

12. Pakistan

Country Paper
on
Sub-theme 1

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

Prepared by:
Office of the Auditor General,
Pakistan

**SIXTH
ASOSAI INTERNATIONAL SEMINAR
INDONESIA - 1997**

Sub-Theme 1:

COUNTRY PAPER:

PAKISTAN

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

**Department of the
AUDITOR GENERAL OF PAKISTAN
ISLAMABAD**

SIXTH ASOSAI **INTERNATIONAL SEMINAR**

Sub-Theme 1: COUNTRY PAPER: PAKISTAN

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

1. INTRODUCTION

This paper shall attempt to describe and explain the 'Performance auditing concepts, mandates, methodologies and practices, reporting and other issues/problems'; evolved, practised and experienced in context of Pakistan on the lines suggested in the principal paper of Sub-Theme 1 produced by Supreme Audit Institution of Australia. For the purpose, this paper has been divided into five segments:

- i) *Performance Auditing Concepts;*
- ii) *Performance Audit Mandates;*
- iii) *Methodologies and Practices;*
- iv) *Reporting and*
- v) *Other Issues/Problems*

The material contained in this paper is based on literature, guidelines and research papers on performance auditing produced by the Supreme Audit Institution of Pakistan (SAI) plus experiences gained in implementation of performance audit in Pakistan.

SAI of Pakistan has complete faith in performance auditing as a tool to improve management practices in public administration by focussing on economical, efficient, effective and honest use of public funds and positive role it can play to ensure good and effective governance in Pakistan. Of late, ethical viewpoint in public expenditures is being touched upon.

2. PERFORMANCE AUDITING CONCEPTS

2.1 Evolution of the Concept

Traditionally, the general scope of the Auditor General's audit included regularity, compliance and propriety in public expenditure. A significant event in the development of history of audit in Pakistan took place in 1977. The Government decided that SAI of Pakistan would evaluate, on a continuing basis, the performance of public sector commercial enterprises. It was hoped that such assessment, analysis and evaluation would not only ensure greater accountability but would also help in the formulation of sound policies to improve the performance of the increasingly important sector. For the purpose, Performance Evaluation Cell was set-up in the Auditor General's office in 1978. SAI of Pakistan at that time was not adequately equipped to undertake this new assignment straight away. Under the Dutch Technical Assistance Programme, the Berenschot Moret-Bosboom (BMB) experts developed the methodology for carrying out performance evaluation of public sector commercial enterprises. Evaluation reports produced by the Performance Evaluation Cell were appreciated by the Public Accounts Committee (PAC), a select committee of the legislature besides wide recognition by the international agencies like the World Bank, the donor-agencies and internationally renowned financial experts. These were the days when the concepts of performance auditing, especially the framework of economy, efficiency and effectiveness were still evolving.

Experience gained in performance evaluation of public sector commercial enterprises was an encouraging factor that made head-way in adoption of performance audit as a function of Pakistan Audit Department on voluntary initiative. It is interesting to note that unlike performance evaluation, no government direction was given to Supreme Audit Institution of Pakistan for taking up performance audit. SAI proceeded by its own decision in 1981 perhaps due to awareness about new audit techniques in most of the SAIs gained through mutual interaction after becoming member of International Organization of Supreme Audit Institution (INTOSAI) and Asian Organization of Supreme Audit Institution (ASOSAI) in 1980.

Initially, the SAI started with performance auditing (by the name of Project Audit) of projects undertaken by the government departments. It was soon realized that nature of government activities varied from department to department and the projects in various sectors had their own critical areas. This necessitated development of a suitable methodology for different kinds of projects. Again, SAI of Pakistan approached the Government of Netherlands who financed the appointment of M/s BMB as Consultants for Methodology Development and training in Performance Audit. From SAI side, Performance Audit Wing (PAW) was set up as a counter-part organization to M/s BMB to develop methodology, train auditors and help assure quality of audit in field. The team of Consultants, in collaboration with PAW, developed a series of guidelines in two streams viz., general and sectoral. The general guidelines consisted of broad instructions on planning, executing and reporting performance audits. The sectoral guidelines related to Construction, Education, Water Irrigation, Health, Road Transport, Agriculture, Power, Water and Sanitation, Railways and Telecommunications. These guidelines give a

general over-view of the sector and important indicators in non-technical language. Later on, these guidelines were revised and up-dated in the light of practical experience gained in implementation of performance audit. Some new sectoral guidelines added thereto relate to Forestry Sector, Environmental Audit Framework Rural Electrification Projects, Oil and Gas Industry Projects, Rural Development and Rural Credit Schemes. (For more details see Appendix-I).

Here it is worthwhile to mention distinction between performance evaluation and performance audit. This is purely a local innovation in Pakistan. The term performance evaluation applies to performance evaluation of public sector commercial enterprises while performance audit is concerned with performance of development projects, programmes or activities undertaken by the government departments. In literature on performance auditing, these terms are used interchangeably. To a person who is not familiar with the evolution of these terms in SAI of Pakistan, this distinction is quite confusing.

2.2 Defining Performance Auditing

Performance auditing has been defined in numerous ways in different countries depending upon the background of development of auditing in the context of economic development in each of them. There is a terminology jungle that expresses the expanded scope of government auditing. Thus there is no universally accepted definition of performance audit though the basic premises of all existing definitions are more or less the same. For example, Canadian Comprehensive Auditing Foundation, General Accounting Office (GAO) USA, and Australian National Audit Office have defined the term in various ways.

In Pakistan, SAI defined performance audit in its Performance Audit Guidelines as:

"an independent appraisal of an audit entity to determine the extent to which resources were managed with due regard to economy, efficiency and effectiveness and in conformity with applicable regulations, rules and procedures".

As obvious from the above definition, the hard core of Performance auditing is the framework of economy, efficiency and effectiveness. In this definition:

- o Economy refers to acquisition of resources at the lowest cost keeping in view the objectives of the organization. This is input oriented.*
- o Efficiency means optimum utilization of resources keeping in view the objectives of the organization. It implies maximizing output from given resources or minimizing input for given outputs. This is process oriented.*
- o Effectiveness refers to the achievement of objectives. It involves assessment of outcomes of programmes and projects which are usually external to the*

organization. This is result oriented.

2.3 Performance Auditing is relatively new

Traditionally, the SAI of Pakistan was concerned with financial auditing encompassing regularity, compliance and propriety in public expenditure to ensure financial control and accuracy of accounts. SAI of Pakistan started performance auditing in 1981. The concept, being dynamic and flexible in character, has wide canvass depending on skills and imagination of performance auditor. Being a new concept, it has a moral, spiritual, ethical and religious appeal in context of traditional religious environment in Pakistan.

2.4 Objectives of Performance Auditing

SAI of Pakistan in its Performance Audit Guidelines, has adopted the objectives of performance auditing as defined in the twelfth Congress of INTOSAI held in 1986:

- (a) *provision of a basis for the improvement of public sector management;*
- (b) *improvement in the quality of information on the results of public sector management that is available to policy makers, legislators and the general community;*
- (c) *encouragement of public sector management to introduce process for reporting on performance; and*
- (d) *provision for more adequate accountability.*

SAI of Pakistan, through its performance audit reports endeavours to improve:

- (a) *internal controls and systems;*
- (b) *all aspects of management; and*
- (c) *programme results.*

Besides improving management practices in public sector and sharpening the accountability process, the objective of performance auditing, in its ultimate analysis, is to determine if economy, efficiency and effectiveness have been attained in the expenditure of public funds.

The objectives of performance auditing in context of Pakistan can be better appreciated in case of development projects with quantifiable targets. It is to highlight the promises made in the initial conception of the projects and indicate the short comings in their achievements. It also identifies factors responsible for project failures which enables the Public Accounts Committee (PAC) to debate and issue appropriate instructions to avoid these bottlenecks in future planning.

2.5 Performance Auditing and Financial Statement Auditing Compared

Auditors of SAI of Pakistan were traditionally concerned with financial auditing which was primarily concerned with examination and reporting upon accuracy of accounts, compliance with rules and regulations, legality and propriety of public expenditure. Performance auditing embraces an expanded concept of audit and focusses on the economy, efficiency and effectiveness of government activities. The audit mandate enables the SAI of Pakistan to adopt any method or mode which helps in analyzing, testing and checking the accuracy of data.

3. PERFORMANCE AUDIT MANDATES

3.1 Audit Mandate

Supreme Audit Institution of Pakistan derives its mandate from the following sources:

- (a) *Constitution of Islamic Republic of Pakistan 1973;*
- (b) *Economic Reforms Order 1972;*
- (c) *Charters/Ordinances/Acts of Parliament establishing various authorities and public sector corporations; and*
- (d) *Pakistan (Audit and Accounts) Order 1973.*

Article 168 to Article 171 of the Constitution of the Islamic Republic of Pakistan stipulates the terms and conditions of appointment, functions and power of the Auditor General. The Auditor General is appointed by the President and he cannot be removed except in the manner described in Article 209 which makes it obligatory on the Government to refer his case to Supreme Judicial Council. This Council is an independent body headed by judicial officers. This article of the constitution gives independence to the Supreme Audit Institution.

The Economic Reforms Order 1972 gave the SAI the power to audit the accounts of the public sector enterprises and in post 1972 era performance evaluation of these units was introduced through an executive order.

The Audit and Accounts Order 1973 determines the extent of the authority placed on the Supreme Audit Institution to audit the accounts of Federal and provincial governments, authorities established under Act of Parliament or the orders of the President.

With the adoption of modern auditing techniques and methodology in the field of audit such as performance auditing, EDP audit, Certification audit or any other kind of audit by the SAI, doubts were expressed by some of the auditee organizations about these new concepts of audit as to whether these fell legally within the meaning of audit. On this issue, the Ministry of Law, Justice and Parliamentary Affairs clarified in June 1995 that Pakistan (Audit and Accounts)

Order 1973 does not prescribe any particular mode of audit. Any mode or method which satisfies the requirements of Section 11 of the Pakistan (Audit and Accounts) Order 1973 could be adopted. Explaining the meaning of term 'Audit' it confirmed that the new techniques and methods, namely, performance audit and certification audit etc., do not offend against any provision of the Pakistan (Audit and Accounts) Order 1973. As such, the Auditor General of Pakistan has legal mandate to undertake any kind of audit as he deems necessary.

The reports of the Auditor General relating to the accounts of the Federation are submitted to the President, who causes them to be laid before the National Assembly and the reports relating to the accounts of a province are submitted to the Governor of the Province who causes them to be laid before the Provincial Assembly. These reports are discussed in the meetings of the respective Public Accounts Committee (PAC), a select committee of the Legislature. By virtue of this mechanism, the Auditor General occupies a central place in the process of public accountability.

3.2 Review of Government Policy

Generally, all the SAIs refrain from commenting upon government policy. In Pakistan, the SAI, too, does not carry out audit of policies. But, in case of performance auditing, government policy at times has been reviewed and commented up and recommendation made to review it. For example, while carrying out performance audit of Directorate of Haj, Jeddah it was recommended that 'Hiring of accommodation (in Mecca and Madina) should be optional for Hajjis (pilgrims) applying for Haj under Regular Scheme'. This year 1996, the government has changed its policy and the aforementioned recommendation is implemented in full. Though audit of policies is a risky area yet one should move cautiously. However, the auditors of SAI examine in depth the implementation of policy and its consequences.

3.3 Power to Inspect Records

SAI of Pakistan has powers to inspect records of the agencies that are being audited. Sometimes, there are problems in getting the needed information but this can be attributed to inadequate management information system in the auditee organization. With the speedy computerization of accounts, this type of problem will soon be eliminated.

3.4 Parliamentary Privilege

In Pakistan, the Parliament is the main client of the department of the Auditor General of Pakistan. SAI carry out audit for the National Assembly at the federal level and provincial assembly at the provincial level. The reports are laid before the National Assembly/Provincial Assembly as the case may be. Parliamentary privilege provides the SAI to report independently

and at the same time imposes obligations to produce quality audit reports.

The PAC/Executive does not interfere in the planning process and SAI is fully independent to undertake audit of any kind of activity.

4. METHODOLOGIES AND PRACTICES

4.1 Development of Computerized Performance Audit Management Information System

SAI of Pakistan, in collaboration with M/s BMB Consultants, has developed a comprehensive Computerized performance Audit Management Information System to regulate and monitor the performance audit production process in Pakistan. This system is of a comprehensive nature focussing on all issues. The overall structure of the monitoring data base consists of three major dimensions:

- (a) *P.A.P. Planning and Implementation;*
- (b) *Human Resources Development and Training; and*
- (c) *Quality Control.*

The dimensions above are sub-divided into major components as follows:

o P.A.P. Planning and Implementation:

- *Strategic Planning*
- *Annual Planning*
- *P.A.P. Implementation*

o Human Resource Development and Training:

- *P.A. Human Resource Development*
- *Training Program*

o Quality Control:

- *Performance Auditor Level*
- *Quality Control at Supervisory level*
- *Human Resource Development and Training*

The information flows between the M.I.S and the three levels within the Pakistan Audit Department. These levels are:

- o Field Audit Office*
- o Performance Audit Wing (PAW) and*
- o The Office of the Auditor General (A&G)*

This system is a part of the internal systems and control of the Department of the Auditor General. Moreover, it keeps track of the quality, quantity and progress of the performance audit reports, the training needs and efficiency of the officers in the field and the performance of individual field audit offices.

4.2 Audit Planning (The Rolling Plan)

Performance Audit of a project/programme is often undertaken only once. The field audit offices, however, prepare a three year rolling plan for performance audit to enable a mix blend of coverage of various sectors of economy. Each year, the first year of a rolling plan becomes a plan for the current year and another year is added to maintain the cycle of three years. The plans for the first year of the rolling are prepared in detail.

Each Director General of Audit is responsible for preparing annual audit plans for his entire jurisdiction. These plans are approved by the Auditor General and copies of performance audit plans are also endorsed to the Performance Audit Wing. Directors General of Audit set objectives for performance audit and match resources. In each of the field audit office a performance audit cell has been established to plan and organise performance audit work. *Information base for planning* includes:

- *The perspective audit plan of the Auditor General;*
- *Current five year Development Plan;*
- *Annual Development Plans (ADP);*
- *Annual Budgets;*
- *Cuttings from the national press;*
- *Directives from the PAC, the Executive Heads etc.;*
- *Masters files on each audit entity.*

Sometimes financial audit and performance audit of an entity are taken up simultaneously. In such cases, financial audit report is appended with the performance audit report and discussed as a comprehensive audit report.

4.3 Audit Topic Selection

Performance Audit Management Information System has simplified the selection of audit project by using standard selection criteria. Planning and Implementation dimension has identified a total of 19 selection criteria from which a field office can choose. The criteria are grouped in clusters and include:

- o Large capital outlays;*
- o National or socio-economic significance;*
- o High level of public expectations;*
- o Media visibility, views of opinion leaders, expert opinions or concerns of special interest groups;*
- o Potential risk of fraud or misuse, and under utilization of resources;*
- o Special nature of the activity, functions, operations, project, or organization itself;*
- o Official directives (including PAC directives);*
- o Deployment of large number of human resources and*
- o The project has run into difficulties.*

4.4 Stages of a Performance Audit

The performance audit process in Pakistan consists of following phases:

- o Planning;*
- o Executing;*
- o Reporting and*
- o Follow-up of implementation of recommendations/directives by the PAC.*

At planning stage, audit objectives, scope, criteria, methodology, issues of potential significance, timing and resources required are determined.

At execution stage, review and analysis of accounts, internal controls, other data and record with a view to arrive at audit opinion and conclusions duly supported by evidence appropriate in quality, sufficient and relevant is carried out.

At reporting stage, result of audit are communicated to appropriate authorities after discussing draft report with the management and incorporating its comments/views in the final draft of the report.

At follow-up stage, implementation of the agreed recommendations and directives of the PAC is monitored.

An overview of the planning, execution and reporting phases of the performance audit process is depicted in Appendix I, II and III.

4.5 Audit Criteria

Generally, the audit criteria in performance auditing has been divided into two groups:

- (a) General criteria*
- (b) Specific criteria*

General criteria are derived from common sense or general rationality. For example, a general review of an organization may suggest re-distribution of work and simplification of procedures. In most cases, general criteria are derived from generally accepted management practices i.e. bulk purchases are more economical than piecemeal purchases. Professional norms are also included in this type of criteria.

Specific criteria are derived from the objectives laid down for a particular project or programme. For example, in case of Malaria Eradication Programme, targets for eradication of disease over a certain period was laid down. During performance audit of this programme, these objectives/targets were adopted as criteria for the project. Like-wise targets laid down in Mass Literacy Programme can be adopted as criteria in performance auditing. Specific criteria are closely related to the particular operations in a specific area i.e. capacity utilization of plant and equipment, input-output ratio, regular and period maintenance of locomotives etc. Thus, operational standards also form part of the specific criteria.

4.6 Sources of Audit Criteria

In performance auditing, audit criteria are determined afresh in every performance audit exercise and discussed with the auditee. This eliminates the apprehensions of the management and makes the audit exercise more objective, unbiased and fair. At the same time it gives credibility to the findings of the performance auditor.

In Pakistan, performance audit of development projects have been mostly undertaken, the audit criteria have been derived from the following sources:

- o Basic Planning Documents (PC-1 proforma);*
- o Government Policies and directions;*
- o Applicable laws, rules and regulations;*
- o Generally accepted management practices (GAMP);*
- o Generally accepted accounting principles (GAAP);*
- o General accepted auditing standards (GAAS);*
- o Standards set by international professional bodies and similar audit agencies;*
- o Performance standards set by the management itself;*
- o Literature on the subject-matter;*
- o Past performance of the audit entity and*
- o Interviews with the professionals and experts.*

In actual practice, sometimes performance audit criteria against which actual performance is judged are generally not very specific and accurately measurable. At the same time indicators of actual performance are also not comprehensive or representative enough.

4.7 Audit Approach

SAI of Pakistan usually follows two approaches in performance auditing:

- (a) *Process oriented approach*
- (b) *Results oriented approach*

Process oriented approach focusses on the systems, procedures and internal controls of an organization and examines its processes and operations. This approach is adopted in areas where quantification of objectives and measurement of final outputs are difficult such as in health, education and social welfare programmes. In results oriented approach the review commences with the measurement of results and its comparison with the pre-established criteria. In case of significant variations, analyses are carried out of causes and their effects.

4.8 Evidence

In performance auditing, audit findings are based on evidence which is valid, relevant and competent. Performance auditor uses financial as well as operational data to find out:

- o resources obtained with due regard to economy;*
- o human and physical resources were utilized efficiently and*
- o objectives of programme are achieved.*

Categories of evidence considered in performance auditing are:

- o Physical: site visits, verification of assets etc.*
- o Testimonial: oral or written statements from users*
- o Documentary: files, reports, manuals, instructions budgets etc.*
- o Analytical: analysis of data and information*

Sources of evidence generally include interviews, questionnaires, audit programmes, use of expert studies, use of consultants, graphics, market research reports, departmental manuals etc. Performance auditing is primarily looking people at work. Therefore, observation as a tool of evidence is very important.

Nature of evidence involves materiality, degree of assurance and quality of evidence. SAI of Pakistan ensures that audit findings are based on reliable evidence. Any error that comes to notice at the time of discussion of audit results with the management is rectified at this stage.

4.9 Documentation Standards/Working Papers

Performance auditors, while carrying out performance audit, adequately document the audit evidence in working papers.

The working papers are arranged in a logical and methodical way to facilitate easy reference and retrieval of information. They are serially numbered and a list of contents prepared for easy reference. Nature of documents that are usually included in organized working papers are categorized into broad segments depending upon nature of organization such as:

- o Information about audit entity*
- o Audit planning*
- o Work done during audit and*
- o Management responses and draft reports.*

The above categories are not exhaustive. They will vary according to nature and operations of the project, programme or activity.

4.10 Audit Findings

SAI of Pakistan has developed concept of the five C's for reporting audit observations that are proposed to be included in the performance audit report, particularly those relating to economy, efficiency and compliance with rules and regulations. The steps involved in five C's are:

- o Criteria:* *These are 'standards'; the desired state'; 'what should be'.*
- o Condition:* *It is what the auditor finds as a result of his review.*
- o Causes:* *This means analyzing causes that were responsible for the unsatisfactory condition and to what extent these were beyond the control of management.*
- o Consequences:* *In the reporting context, this means consequences of a 'finding'.*
- o Correction:* *It is a logical outcome of the line of inquiry followed in a meaningful audit. The auditor's analysis identify areas for improvement and suggest corrective actions.*

Recommendations are developed after discussing audit results with the management of the audit entity. In the final draft, comments and views of the management are incorporated to give a balance opinion in the performance audit report. The ultimate purpose of the audit results are to assist the management in improving its operations.

5. REPORTING

This is the final phase in the audit process. Reporting is a continuous process as there is a continuous dialogue and discussion with various levels of management during the audit. This ensures:

- o facts are verified and undisputed;*
- o management explanations are taken into account before arriving at conclusions;*
- o the results of audit do not come as a surprise to the management; and*
- o an opportunity is afforded to the management to take corrective action even before the audit is concluded.*

SAI of Pakistan ensures that draft of the audit report is discussed with top management. In case of significant differences in perceptions and logic between the management and the auditor, the management's viewpoint is objectively and briefly reflected in the report, along with the auditor's reasoning why it is not acceptable.

In Pakistan, the report is then reviewed by the Director General Audit. After approval by the Auditor General these reports are submitted to the President/Governor as the case may be, who causes them to be laid before the legislature. A copy of the report is also sent to the management of the auditee.

6. OTHER ISSUES / PROBLEMS

6.1 Client Relationships

Generally, SAI of Pakistan has been able to cultivate a good working relationship with the auditee organizations. At times, problems have been experienced in a few cases, but these were resolved amicably at a later stage.

SAI's relationship with the clients have been further strengthened through:

- (i) Circulation of 'Performit', a professional magazine devoted to the advancement of financial and performance audit in public sector and other related disciplines, to top management of all Ministries/Divisions, corporate authorities, and executive departments of provincial and federal governments. The material contained in the magazine familiarizes the clients with the latest auditing and analytical techniques used in performance auditing.*
- (ii) Participation of the nominees of the clients in Intensive Training Programme (ITP)*

in Performance Auditing organized by the Performance Audit Wing. The middle level management in the client's organization are familiarized with performance auditing techniques which help them to improve management operations.

- (iii) *Participation of the top management of the client's organization in the national and international seminars/workshop in performance auditing foster cordial relationship that facilitates audit work.*

6.2 Skills of Performance Auditors

Performance auditing has no limits/boundaries. It has wide canvass depending upon imagination and knowledge of the auditor. Performance auditor, therefore, should possess specialized skills and research aptitude to carry out performance auditing. He must have basic knowledge of economics, statistics, mathematics, finance, and management sciences besides cost accounting and financial auditing. SAI of Pakistan has tackled this issue through imparting intensive training to its officers in performance auditing besides short courses in financial management. At times, consultants were engaged to work with performance auditors in carrying out performance auditing in research, agricultural, transport and railway projects.

Other problems/issues relating to implementation of performance auditing in Pakistan can be grouped as under:

- o Lack of motivation among Performance Auditors;*
- o Limited coverage of development projects due to inadequate human resource qualified for the job;*
- o Lack of knowledge in Technical Areas;*
- o Inadequacy of planning in field audit offices;*
- o Improper utilization of trained manpower;*
- o Quality Control in Performance Audit;*
- o Political Instability;*
- o Inaccessibility of Audit to Media;*
- o Lack of Coordination between Audit Planning and Finance;*
- o Non-existence of Performance Budgeting; and*
- o Lack of a Centralized Information data base.*

7. CONCLUSION

SAI has boldly faced challenges in implementing Performance Audit in Pakistan. Despite initial problems, performance auditing has great achievements at its credit over the last few years. The scope of performance audit is no longer confined to development projects only. Field Audit Offices are now undertaking performance audit of programmes, activities and specialized

functions of government departments and research organizations.

To promote and increase coverage of performance audit in Pakistan, SAI of Pakistan needs on the job training facilities in other SAIs to adequately equip its auditors with specialized skills and modern techniques in audit and evaluation.

Appendix-I

PERFORMANCE AUDIT GUIDELINES

Book	Title
1.	Introduction to Performance Audit
2.	Undertaking Performance Audit
2.1	Report Writing
3.	Project Audit Guidelines
4.	Programme Audit Guidelines
4.1	Programme Audit - A Case Study

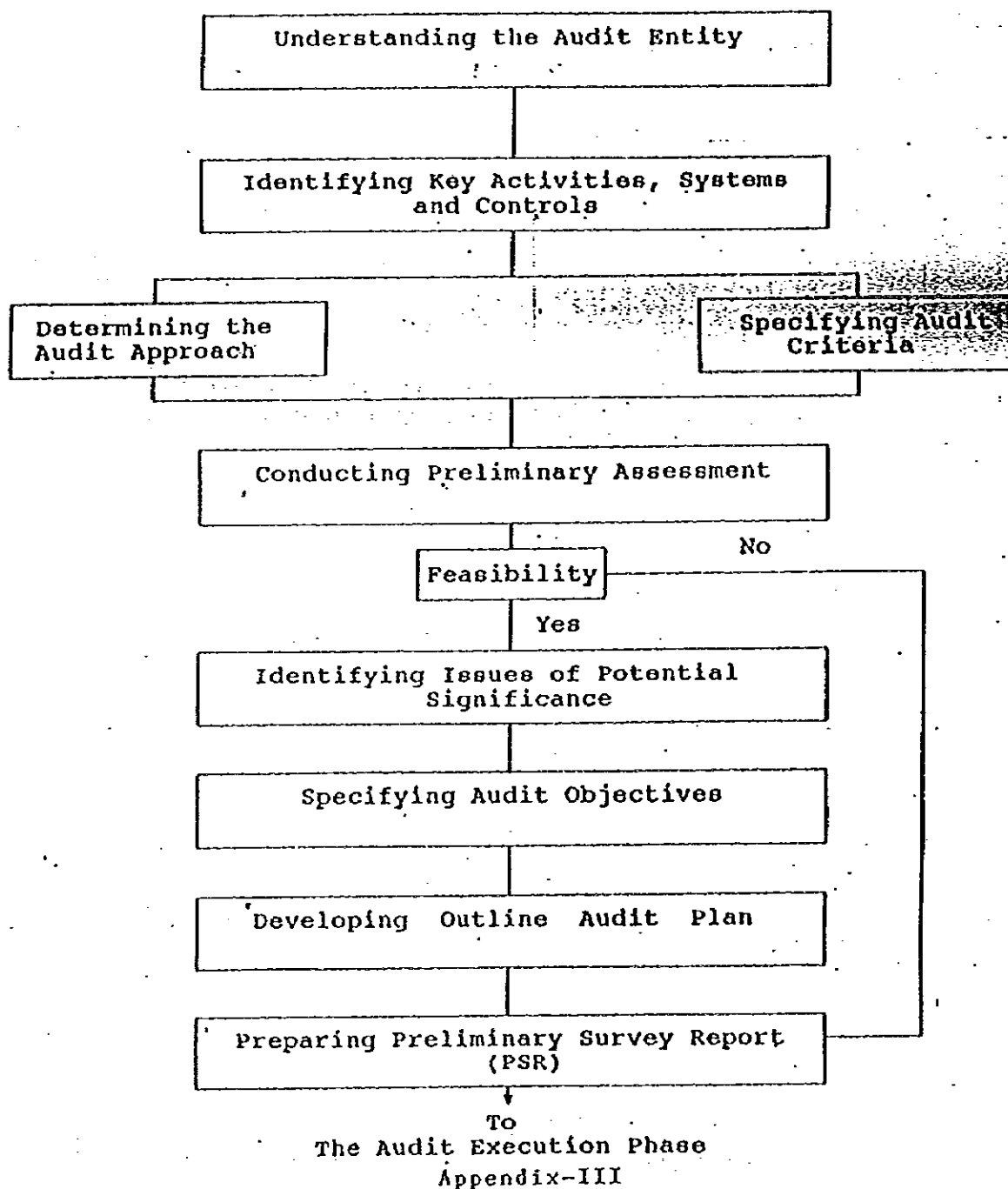
PROJECT PERFORMANCE AUDIT GUIDELINES

Volume	Title
I	Measuring Performance
II	Evaluation of Project Benefit and Cost Outcomes
III	Construction
IV	Education Sector
V	Irrigation Sector
V.1	Concise Guide
VI	Health Sector
VII	Road Transport Sector
VIII	Agriculture Sector
VIII.1	Agricultural Research Projects
VIII.2	Animal Husbandry Projects
IX	Power Sector
X	Railway Sector
XI	Water Supply and Sanitation Sector
XII	Telecommunication Sector
XIII	Forestry Sector
XIV	Environmental Audit Framework
XIV.1	Rural Electrification Projects
XIV.2	Oil and Gas Industry Projects
XV	Rural Development
XV.1	Rural Credit Schemes
XVI	Gender and Development

OTHER PUBLICATIONS

1. Financial Analysis for Managers and Auditors
2. Data Analysis in Performance Auditing

AN OVERVIEW OF THE AUDIT PLANNING PHASE



AN OVERVIEW OF THE AUDIT EXECUTION PHASE

From
The Audit Planning Phase

Appendix-II



Audit
Programme

Data Collection

Review key systems and controls, and
issues of potential significance

Data Analysis

Determining cause and effects

Conclusions

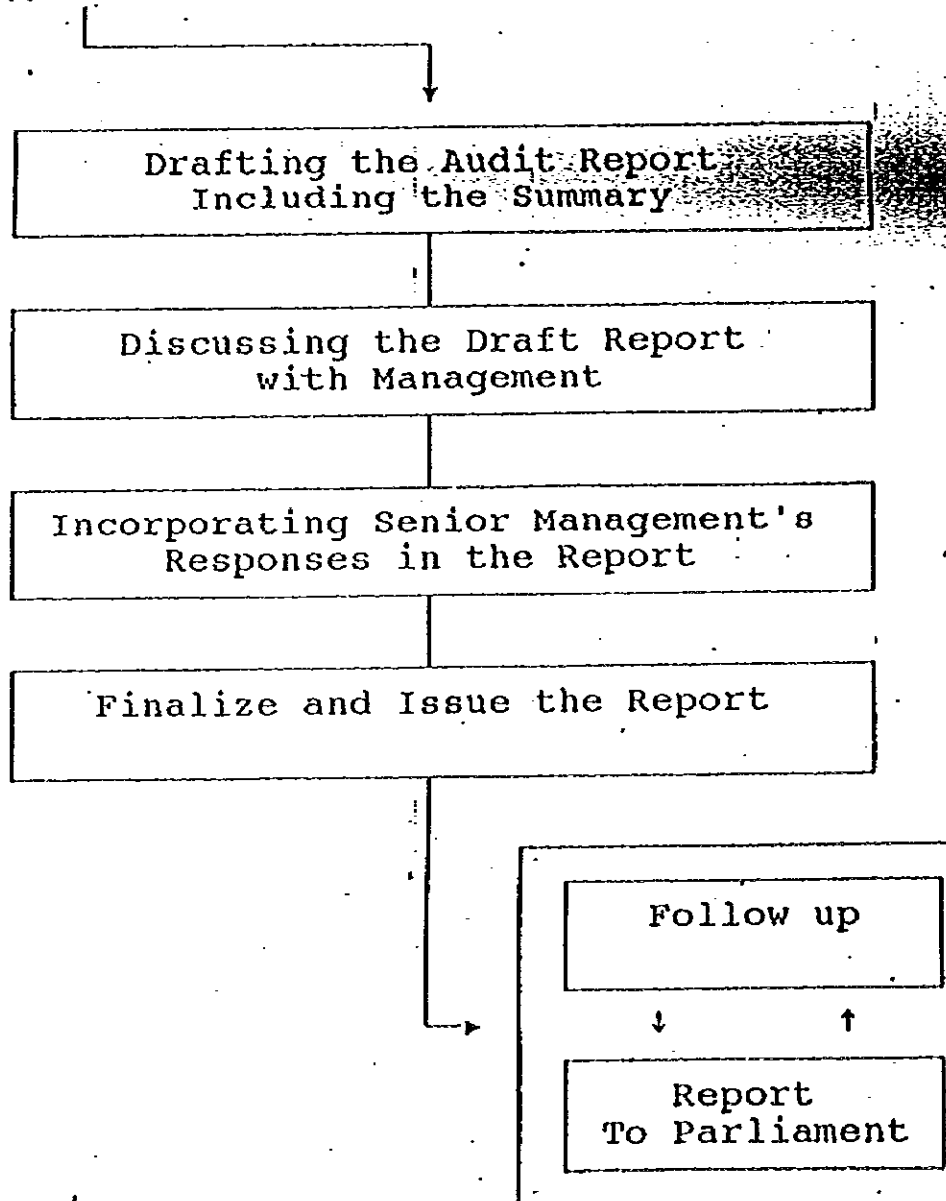
Findings, conclusions, recommendations

To

The Audit Reporting Phase
Appendix-IV

AN OVERVIEW OF THE AUDIT REPORTING PHASE

From
The Audit Execution Phase
Appendix-III



13. Philippines

**Country Paper
on
Sub-theme 1**

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

**Prepared by:
The Commission on Audit,
Philippines**

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

PHILIPPINES

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PHILIPPINE COUNTRY PAPER ON
PERFORMANCE AUDITING CONCEPTS, MANDATES,
METHODOLOGIES AND PRACTICES,
REPORTING AND OTHER ISSUES/PROBLEMS
(PRINCIPAL PAPER SUBTHEME I)

I. INTRODUCTION

The pace of current economic and social development work of government particularly in the Philippines has greatly accelerated compared to the martial law period. Within this context of growth and the country's limited resources, the need for responsive, facilitative, efficient and effective government operations has therefore become increasingly critical. Relatively, increased attention is given to relating accountability in the government to development.

As programs become both extensive and intensive, a situation that could strain the financial resources of government, it becomes imperative that an independent arm, one not involved in the planning or implementation of programs, provide an objective evaluation of program results and the efficiency with which results have been attained. This can only be effectively discharged and performed by the Supreme Audit Institution (SAI). The SAI should be able to pinpoint programs which are unproductive and inefficiently conducted and programs the costs of which far outweigh the benefits.

For the SAI to be an effective body, it must therefore provide assistance to the government in determining areas where economy, efficiency, and effectiveness in the use of resources can be improved. In this regard, the SAI must examine to what extent government agencies contribute to the welfare of the citizenry and whether or not the people are getting value from the government for the tax money they spend.

It is but fitting to say that the role of SAI should be geared towards a more meaningful participation in attaining the goal of its country. For the Philippines, it is the attainment of the goal of Philippines 2000. This vision of an advanced economy requires an enlargement of audit perspective to bring about a new dimension in the conduct of auditorial functions. Heretofore, there is a need for a larger type of audit, which requires not only the traditional financial and compliance audit but also the evaluation of the economy, efficiency, and effectiveness of government operations.

II. MANDATE.

The Commission on Audit (COA), as the Supreme Audit Institution of the Philippines created pursuant to the Constitution, has the power, authority, and duty to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charters and on a post-audit basis. Further, it is required to submit to the President and the Congress within the time fixed by law, an annual report covering the financial condition and operation of the Government, its subdivisions, agencies, and instrumentalities, including government-owned or controlled corporations, and non-governmental entities subject to its audit, and recommend measures necessary to improve their effectiveness and efficiency.

To effectively discharge these constitutional functions, COA sought the legislation of its major purposes and functions. Thus, on June 11, 1978, the Government Auditing Code of the Philippines stating the COA's primary objectives and codifying government auditing laws and rules was signed into law. This Code includes, among others, the development and implementation of a enlarged type of COA audit called comprehensive audit. As contemplated under COA Resolution No. 83-56 dated August 16, 1983, comprehensive audit, encompasses:

1. A critical examination of financial transactions, accounts and reports, ascertaining compliance with laws, rules, regulations and budgetary requirements as well as adherence to prescribed policies and procedures (financial audits),
2. A review of managerial efficiency marked with elimination of waste and efficient use of public funds and resources (economy and efficiency audits); and
3. An ascertainment of effectiveness by determining whether desired results have been achieved and program have accomplished their purposes and objectives (effectiveness audits).

With this statement of policy, the COA formally adopted the 3 E's audit (economy, efficiency and effectiveness), or what was then called performance audit. Today, this same type of audit is more popularly known as value for money (VFM) audit.

III. VALUE FOR MONEY AUDIT INFLUENCES

The conduct of performance/VFM audit in the Philippine government can be traced to some basic influences as follows:

A. The 1950's -----

On July 28, 1954, the Budget Commission, as directed by then President Ramon Magsaysay, engaged the services of a private consultancy firm, Booz, Allen and Hamilton, to assist in the modernization of budgeting, accounting and auditing practices of the Philippine Government. The program of work contained 18 projects, the 8th of which pertained to "Revised Statutes to Permit Adoption of Modern Accounting and Auditing Practices," for which the active involvement of the COA (then called the General Auditing Office) was solicited.

The recommendations of the consultants included the extension of the scope of audit review to include:

1. "the determination that specified goals are being achieved,"
2. the assessment of the efficiency of operations,
3. audit of all functions of the government - "revenue producing as well as revenue spending" activities,
4. the determination that the over-all functions of the agency are in accordance with the intent of law.

This audit which required a different expertise from the transactions-based COA audit, also required a parallel training of COA auditors. According to the Booz, Allen & Hamilton report, a training program was developed which included the following subjects:

1. Survey of agency operations and development of an audit program.
2. Conduct of an audit engagement including the preparation of audit working papers.
3. Preparation of audit reports
4. Supervision
5. Auditor relationships.

This report states that "small classes of about 25 persons each were established...largely of the decision type, (meeting).. for two hours over a five-week period,

.... (with Six successive classes ... graduat(ing) a total of 120 people..." up to June 1956.

Additional training was given to those actively engaged in carrying on the program audit work, consisting largely of verbal and written guidance designed to aid in the programming and execution of this work, with special attention to the training of audit team leaders.

The conduct of performance audit which was in itself not yet fully developed, was however, implemented by COA only to a certain extent upon assumption of office of Chairman Francisco Tantuico, Jr. in 1976. It was done by the Performance Audit Division of the Program Audit Office which was later renamed Performance Audit Office (PAO) under Chairman Tantuico, Jr. Over the years, however, the skills for this type of audit did not spread to other offices which substantially retained the transactions-based compliance audit function on a pre-audit basis. As Chairman Tantuico said, the Booz, Allen and Hamilton report was not really implemented.

B. The 1980s

Seeing the need to modernize COA audit, COA Chairman Francisco S. Tantuico, sought to reform COA audit to enhance performance audit. He exposed the audit staff to the concepts, methodologies and practices of the value for money audit (then called performance audit or economy, efficiency and effectiveness audit) through the following:

1. Study Grants/Scholarships on Performance Audit

Study grants availed of by selected COA personnel who trained with the audit organizations of countries where linkages have been established such as Canada, the United States, Great Britain and Australia.

The grantees were in turn required to re-echo their learnings to COA audit personnel through the Commission's training arm, the State Accounting and Auditing Center (SAAC), which is now known as the State Accounting and Auditing Development Office (SAADO).

2. Foreign Consultants/Seminars

To complement these on-the-job learnings, foreign consultants sponsored by the United Nations Development Programme and the Canadian Comprehensive Audit Foundation, among others, were invited as lecturers in

various seminars on economy, efficiency and effectiveness audit.

3. Design of Training Manuals

Based on the lectures and the materials provided, the then SAAC also initiated the design of training and audit manuals on the 3 Es audit, the updating of the library facilities, and the continuous improvement of its training package on comprehensive auditing to ensure that the auditors are kept abreast of the latest techniques and tools on auditing.

4. Designation of Lead Office

The Performance Audit Office (PAO), one of the Offices of the Commission (now the Special Audit Office [SAO]), because of its experience with program audit, was designated as the lead implementing office for comprehensive auditing. The PAO was in-charge of special audits, including program audits, although the program audit skills which were learned in the early '50's based on the U.S. consultants' work (Booz, Allen and Hamilton) were not widely disseminated.

Secondments or temporary reassignments to the PAO of audit staff from other offices were resorted to, to hasten the on-the-job learnings of the auditors.

Mrs. Lucita Andres, the first grantee to return from a one-month on-the-job training in Canada for Comprehensive Audit (under the Canadian Comprehensive Audit Foundation) was assigned to head the PAO, and re-echoed her Canadian experience through a set of Comprehensive Audit Guidelines. She also spearheaded the conduct of comprehensive audit in 13 government departments.

In 1986 however, comprehensive audit was not yet in full bloom. There was a dearth of materials on the development of audit criteria and a need for technical expertise in the technical aspects of evaluation. The manuals developed concentrated on the steps but did not provide Philippine-based exercises which would enable the auditors to relate their actual field experience with the concepts. Perhaps because of the urgency with which performance audit was implemented, the case studies used in training were from the U.S.

There were however, already a host of foreign-and Philippine-trained auditors who already conducted comprehensive audit. Training was conducted among national, local and corporate auditors. Most of the auditors however, did not yet feel very

confident in the conduct of comprehensive audit because they needed expertise on setting new standards. Consequently, audit report inclusions of performance audit findings were, on a COA-wide basis, not yet thorough.

The EDSA Revolution in 1986 withdrew the implementation of comprehensive auditing. Because of the graft and corruption which went undetected/unpunished/tolerated during the Marcos regime, the new COA leadership sought to make COA more effective in weeding out corruption in government. COA audit was redirected to the transactions-based compliance auditing with special emphasis on fraud detection and submission of cases for prosecution. The Performance Audit Division under the Performance Audit Office was renamed Fraud Audit Division and the office was renamed Special Audit Office.

C. 1986-1994

While economy, efficiency and effectiveness audits were shelved in favor of financial and compliance and fraud audit, new government programs, projects and activities which came into existence could not be audited comprehensively. The focus of audit resources on these types of audit saw a growth in the number and importance of agencies, programs and projects which were outside COA audit and expertise. There was a dearth of materials available for use as standards and technical expertise/assistance in evaluating these new types of government activity. In-house expertise was sadly lacking.

Chairman Eufemio Domingo, seeing a problem with COA's then short and fragmented courses, directed a redesign of training courses to ensure their integration and provision of needed skills as follows:

1. Design of Philippine-based Practise Set for Performance Audit

In determining the courses needed to equip COA auditors with the skills they need to comply with the Constitutional requirements on COA, SAADO designed a multi-level program of training. After the basic financial audit and transactions (compliance) audit which form the baseline audit skills, Performance Audit was included as a type of audit to be learned at a higher level.

A committee was created in 1993 to develop a Philippine-based practise set which was to become an integrated exercise simulating an actual performance audit. The SAADO utilized as members of the committee auditors trained in comprehensive audit under the

leadership of Mrs. Andres.

An actual performance audit report was used as the model, and the auditor the main case writer. The use of an actual audit was considered necessary to show COA auditors how to apply the performance audit concepts in a Philippine setting, using Philippine government laws, rules and regulations within the context of the Filipino culture. The approach used was simulation, enabling the reader to go through the different stages of an actual performance audit (survey, execution and reporting) and to arrive at a conclusion at the end of each phase. This conclusion is evaluated afterwards to enable the participant to know if s/he is in the right direction. Participants were also allowed to question the case as it was written to enable the case writers to improve on its understandability and completeness.

The practise set culminates in the presentation of audit findings in an audit report which enables participants to put down their observations in an actual report form.

D. 1994 - Present

The entrance of the administration of Chairman Celso D. Gangan in 1994 brought the following innovations:

1. Completion of Performance Audit Practise Set and its Use in Training of Trainors

In 1994, the performance audit practise set which was started in 1993 was finalized after many revisions. In September 1994, the practise set was used to train trainors. The Philippine case study was subjected to class analysis and the trainors authorized to train auditors to conduct performance audit.

2. Benchmarking in Canada

Also in September 1994, with a grant from the Canadian International Development Agency (CIDA), COA sent a mission to benchmark on the Canadian audit practices. Headed by COA Chairman Gangan, the delegation included Commissioner Rogelio B. Espiritu and the SAADO Director. During the trip, Chairman Gangan identified performance audit or Value for Money (VFM) audit as it is called in Canada, as one of the key factors in the economic progress of Canada, because the government auditors were able to provide

advise on how the tax money was spent. Over the years, Canada has become one of the countries which are most advanced in the implementation of performance audit.

3. Inclusion of Value for Money in the COA Vision

In the December 1994 Strategic Planning Conference of COA for 1995, the Commission framed and adopted its Vision and Mission. In its Vision statement, COA asserted its commitment to "verify whether all revenues are collected and duly accounted for, the use of resources is lawful, the statements produced by public administrators are true and reliable, and by giving its people the assurance that they get the value for their money" (underscoring supplied).

4. Prioritization of Value for Money Audit in 1995 and 1996

To fulfill the vision crafted in December 1994, with the full support of the Chairman, COA officials identified the implementation of VFM audit as a major audit priority for 1995 and 1996.

5. Seminars Conducted by Canadian Experts, Redesign of Philippine Training Materials, Conduct of New Training Courses for Trainors, Intensive Re-echoes and On-the-Job Trainings

Through the CIDA grant, Canadian experts came to COA in January, March and August 1995 to share their expertise in the conduct of VFM audit and the benefits derived from it.

With the use of Canadian materials, SAADO further refined and completed its performance audit training materials and practise sets and trained trainors once again. With the Chairman's full support, a funding of P 1 million was provided each regional office to re-echo the trainers' courses.

COA trained more than 5,700 auditors in 1995 and 1996, with 3,851 auditors with on-the-job training. A total of 2,725 VFM audits were conducted, with Directors of audit offices determining audit focus in conferences with auditors. With a sustained audit focus, 1995 audit reports now include VFM audit findings.

In 1997, Canadian experts will come to COA to help auditors develop methods for formulating audit criteria particularly in areas where a database for comparison of results or costs is not readily available. To this end, the SAADO director has obtained the approval of CIDA to fund the trip, and

has provided the experts questions on the basic difficulties of conducting VFM in the Philippines (particularly in audit criteria development) to help them make their lectures more meaningful and relevant and to enable COA auditors to gain more skills in their areas of difficulty.

6. Fellowships on VFM Audit

In 1995 and 1996, Chairman Gangan sent 2 COA scholars to the United Kingdom and 3 scholars to Canada. Two of the fellows to Canada stayed there for 3 months on practical posting, while one trained with the Canadian Comprehensive Audit Foundation [CCAF] for one year thereby learning the state-of-the-art in the same institution where Mrs. Andres trained 13 years ago.

Another fellow left for Canada this year for a 9-month posting with the CCAF. Four of the returning scholars have already re-echoed their learnings through training and reports specifically detailing new approaches and techniques learned, including the identification of VFM audit focus through risk assessment (a more systematic method of focusing which is an improvement over the old methodology learned) and the development of audit criteria. The scholar who arrived after one-year posting is now developing his re-echo materials.

Today, the Commission realizes that it should continually adjust and add to the skills mix of its audit staff through on-the-job trainings which transfer the lessons of experience and good practice and also through workshops and seminars conducted by experts and practitioners. It is through these approaches that the auditors' awareness to more important audit areas are widened.

IV. V F M CONCEPTS

VFM Audit, as a concept, is universal; its assumptions are true for all auditing systems. However, concepts are sometimes difficult to apply in practice. The audit environment of Supreme Audit Institutions are sufficiently unique and different from each other that the adoption of uniform practices for VFM Audit becomes impractical.

It is this audit reality that forces every audit institution to devise its own strategies in making VFM Audit achieve the goals it aims for. In the Philippines, the Commission on Audit

shares this experience. Since by law, we have to undertake VFM Audit, we are continuously exploring the possibility of making audit procedures relevant to the Philippine setting.

DEFINITION OF THE VFM -

Value for Money Audit (VFM) is defined as an independent assessment of the extent to which an organization operates efficiently and effectively with due regard to economy. It encompasses the three elements of value for money - economy, efficiency and effectiveness.

In practice, the boundaries between economy, efficiency and effectiveness are seldom clearcut. VFM examinations may therefore pursue these different aspects as a joint exercise, particularly when considering the closely linked aspects of economy and efficiency.

Effectiveness examinations often have distinctive characteristics and require special care. Frequently they are solely associated with matters of policy; and they may pose particular problems in measuring performance or achievement.

The Three Elements of VFM

Economy, efficiency and effectiveness are the very basic foundations towards the attainment of a sound managerial control/performance.

The concepts of economy, efficiency and effectiveness in COA are as follows:

*ECONOMY - Doing things "CHEAP"/spending "LESS"

- This is the concept of minimizing the cost of resources used for an activity having regard to the appropriate quality. It implies the use of the least amount of available inputs or resources. It is input oriented.

*EFFICIENCY - Doing things "RIGHT"/Spending "WELL"

- this is the relationship between the output, in terms of goods, services or other results, and the resources used to produce them. It is the accomplishment of assigned goals, production targets or other specific programme objectives in a systematic manner which contribute to minimizing operating costs without detracting from the level,

quality and timing of the services to be provided by the public entity, project or enterprise. It is process oriented.

***EFFECTIVENESS - Doing the "RIGHT THINGS"/Spending "WISELY"**

- It is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of the activity. It is result oriented.

Objectives of VFM

Generally, the objectives of VFM audit are as follows:

- 1) to provide independent information, advice and assurance about the 3Es in major fields of revenue, expenditures, and management of resources; and
- 2) to identify appropriate ways of improving financial control and VFM and to encourage and assist audited bodies to take action where improvements are shown to be necessary and cost effective.

All VFM can be measured by reference to the following:

- 1) Objectives - what an organization is trying to achieve
- 2) Inputs - the financial human and physical resources an organization uses or consumes
- 3) Activities - the process by which an organization converts its resources into outputs
- 4) Outputs - the product of activities in terms of goods, services or other results (Planned/Intended versus Actual)
- 5) Impact - the ultimate effect of outputs not only in the direct achievement of objectives but also in the wider effect on other aims.

V. METHODOLOGIES

A. THE PLANNING PHASE

Value for money auditing or performance auditing, like any audit endeavor is relatively complex and cannot be done without careful planning. The success of any audit engagement is dependent on the audit plans. When the auditor plans, he actually does the audit program. It is at this stage that the team determines the audit scope, the audit objective, the audit procedures including the time allocation, and resources to be utilized in the audit activities.

Steps in the Planning Process

1. Understanding the agency and program being audited

In order to gain sufficient information to plan and program the entire audit, it is necessary to conduct an audit survey. Since this is the first step, it is relatively fast process of getting information about the agency and its program without the detailed verification.

The kind of information needed to be obtained vary depending on the type, purpose and scope of the audit to be made. Primarily, the information should include the following:

- o documents relative to the creation of the agency
- o the agency goal and purpose
- o the programs and activities the organization administers
- o operating methods
- o management reports
- o the organization structure
- o financial data
- sources of funds (past years and present)
- amount of budget (past years and present)
- actual expenditures (past years and present)

The above information may be obtained through the following:

- o discussion with top management officials
- o interview with people directly involved in the program
- o annual reports and other materials published by the auditee

- o policy/procedure manuals
- o permanent working paper of past audits
- o past/present budget

2. Determining Audit Objectives

Audit objectives define the audit's purpose and what the audit is expected to achieve. It determines the direction of the audit. Through the objective, the auditor can determine the audit procedures to be undertaken and the needed evidence to support the audit conclusion.

The audit objective is contained in the audit program. It is the question that the audit tries to answer. A program usually includes list of objectives which is used as a guide to the auditor in carrying out the audit engagement.

In an economy audit, the auditor shall determine whether or not the audited agency is giving due consideration to conserving its

resources. The ideal economical operations is characterized by inputs or resources obtained in appropriate quality and quantity at the lowest cost.

In an efficiency audit, the auditor shall determine whether:

- o increased results could be accomplished from the same costs
- o the same results could be accomplished for less costs
- o the rate of increase of results would be greater than that for the costs
- o the rate of decrease of costs would be greater than that for the results

In an effectiveness audit, the auditor shall:

- o assess the adequacy of management's system for measuring effectiveness
- o determine whether a program satisfactorily achieves a desired level of program results
- o identify causes that inhibit satisfactory performance

The audit objectives contain three elements, namely:

The Criteria - the "what should be". This is the yardstick against which the agency performance is assessed.

The Action or Lack of Action of Management - this is the "what is" or the "what happened" in the agency.

The Effect - This is the result of the management action or lack of action - this is generally expressed in amount.

3. Identifying Potential Audit Issues

After gathering the basic information, the auditor conducts tests to determine whether systems of controls over programs, projects, activities or operations are adequate. From this stage, possible management control weaknesses may be identified as potential audit issues.

In the process, the auditor can identify possible management weaknesses which need detailed examination. This includes a condition existing in the agency or program observed by auditors where it appears that cost can be reduced or program results can be improved. Focus may be directed at areas where it appears that time, money and other resources can be saved, if the audit is concerned with economy and efficiency. On the other hand, if it is directed towards program results, the survey effort is more on the identification of program goals, and the process used to monitor the program results, and assessing the reliability of data as to whether the results satisfy the program goal.

In selecting the potential audit issues, the team should determine what could go wrong in a certain area or program. While the team may identify number of potential soft areas, there is a need to prioritize the audit issues. This is done through risk assessment. In here, the auditor is concerned with assessing the risk or the likelihood that problems could occur. The following factors should be considered in rating the priority of a VPM Audit:

- o Financial Risk

- financial materiality/magnitude

o Public Risk

- legislative and public interest
- accountability concerns
- complaints of public/employee
- social, economic, environment impact

o Systems Risk

- complexity of program
- nature of operations
- risk of fraud or abuse
- maturity of program - new or established
- quality of management systems and procedures

o Audit Coverage

- last time audited
- results of administrative action taken on previous audit

In evaluating the above factors, the auditor can determine what activities should be audited first as compared to the other activities that are sufficiently low risk that audit of the same can be deferred.

4. Specifying Audit Criteria

Criteria are reasonable and attainable standards of performance and control that can be used by the auditor in distinguishing the acceptable practice. Criteria should exist as part of auditee's operations. The auditor shall use audit criteria to measure the degree to which the auditee's actual performance compares to agreed upon standards of performance.

The sources of criteria may be derived from:

- o enabling legislation/regulations
- o common sense
- o professional pronouncement
- o existing rules and regulations
- o generally accepted management control principles for efficient or economical operations
- o acceptable management control standards for Program on Systems Effectiveness

Audit Criteria for Economy and Efficiency Audit

The appropriate standards criteria for evaluating economy and efficiency may not be readily available can be determined after the examination of the existing data during the survey and the execution phases of audit criteria are obtained from internal and external sources. Internal sources are those management policies and guidelines, operating manual, work and financial plans, budgets, etc. External sources, on the hand, are the rules and regulations, executive and legislative decrees.

The use of these standards may not be applicable in all situations but it is up to the auditor to use his professional judgement.

Audit Criteria for Effectiveness Audit

As an initial step in the effectiveness audit process, the following has to be addressed:

- o objective setting and measurement
- o determination of the existence of an effectiveness measurement system in the agency and the evaluation thereof as to appropriations, reasonableness and use;
- o assessing the agency/program effectiveness

In the effectiveness audit process, criteria should be established on the following issues:

A. Objective Setting and Measurement

Auditor should compare and analyze the objectives of the agency vis-a-vis the accomplishment of the objectives. These objectives must be:

- o clear and specific
- o congruent with legislative intent

- o consistent with the agency program and activities
- o relevant to current need and demands
- o documented and communicated to the staff to serve as guide

B. Determination of the existence of an Effectiveness Measurement Systems in the agency and the evaluation thereof as to appropriateness, reasonableness and use.

In evaluating the performance of an agency, the criteria of the following items must be evaluated:

o Performance Indicators -

These are the quantifiable expression of program objective which should be valid and sufficient.

o Performance Standards -

These are desired level of performance that should be congruent with legislative intent. The standards should be reasonable and attainable.

o Performance Data Source -

These are the common data sources like the file records, person having direct knowledge to the program. These sources must be accurate, consistent, fair and impartial.

o Data Collection -

This refers to the processes and techniques used by the agency in collecting data. The criteria are evaluated on the basis of the data itself, how it was obtained and the appropriateness of data gathered.

C. Assessing the Agency/Program Effectiveness

- o compare actual achievement with target
- o determining the impact and effects, both intended and unintended

5. Planning Memorandum

The summary of the results of the planning processes is contained in a planning memorandum. The purpose of the planning memorandum is to bring together and document all decisions made during the planning process. This will serve as the communication vehicle that will ensure the audit team members that they are all on the same wave length.

The memorandum should include:

- o background information/description of entity selected for audit
- o justification for selection
- o audit objectives and scope
- o potential audit issues
- o staff involved and time budget
- o audit criteria

B. THE EXECUTION PHASE

The second phase of the audit process involves the implementation of audit program. The main activities are:

- o carrying out of the audit procedures contained in the audit program
- o evaluation of the evidence
- o finalizing the audit working papers
- o determining causes and effects
- o developing audit findings and recommendations

1. Carrying Out The Audit Procedures

The procedures to be followed are contained in the audit program. The audit program spells out the procedures, how to carry them out, when to do so and who will do the tasks. The status or the progress of the audit may also be seen in the updated audit program. The contents of the program are:

- o scope of audit
- o audit objectives
- o staff assignment
- o working paper reference
- o audit procedures
- o time budget

In the course of audit and in case where deficiencies noted were not uncovered in the survey phase, adjustment must be made from the original program. Additional or new objective may be added to cover the audit area intended to be covered.

2. Evaluating the Evidence

Audit evidence as defined in the State Audit Manual is the specific information obtained during the course of an auditor's examination through observations, inspection, interview, examination of relevant records, and other information gathering techniques.

After the procedures to attain one objective are carried out, the auditor may now be in a position to make a conclusion on the particular area covered by that objective. The data gathered form part of the evidence and it is up to the auditor to determine whether these evidences are adequate to support his conclusion.

As provided by Section 55 of PD 1445, the fourth examination and evaluation standard of which requires that the auditor shall obtain sufficient competent evidential matter to afford himself a reasonable basis for his opinions, judgements, conclusions and recommendations.

Audit evidences may be obtained from the following sources:

Within the audited agency -

- o agency documents
- o interview with agency officials/other personnel
- o answers to prepared questionnaires
- o reports of internal auditor
- o internal studies

Outside the audited agency -

- o report of external auditors/previous AAR and other COA reports
- o interview with third parties
- o external studies
- o media

3. Finalizing the Audit Working Papers

As evidences are gathered, they are compiled to form part of potential working paper. They may consist of original/xeroxed copies of documents, schedules, analysis, photographs, graphic materials, etc. They may differ widely in form and content depending upon the preference of the auditor and the type of audit conducted.

Audit working paper should bear the following qualities:

- o completeness
- o accuracy
- o clarity
- o neatness
- o relevance

Audit working paper should generally provide the following:

- o documentation of the extent of audit testing and other procedures followed by the auditor
- o support for audit observations, conclusions, recommendations and financial statements
- o evidence of supervisory review of work performed by the staff, and
- o background and reference data for subsequent audit

4. Determining Causes and Effects

As the audit progresses, the auditor develops tentative findings which are formed up after the evaluation of evidences and finalization of the audit working papers. Also the condition is compared to the criteria. Where the condition is found to be a deviation from the criteria, the auditor determines the causes and effects of such deviation.

The "cause" identifies the reasons for the deviation. The "effect" is the result of the deviation. The cause may be a poor internal control, poor accounting control, etc. The effect may be actual revenue losses, failure to achieve an objective, loss of property, etc.

Findings should be subjected to cause and effect analysis to ensure that findings are significant. Likewise, in the analysis, the auditor will be ensured that the proposed audit

recommendation will get and remove the underlying problem, and not just the manifestation of the problem. It is necessary for the auditor to determine whether the problem is internally or externally generated. There is no point recommending something that is beyond the capability of the auditee to implement.

C. DEVELOPING AUDIT FINDINGS AND RECOMMENDATIONS

After the auditor has determined the causes and effects, he is in a position to develop the audit finding. Meaningful audit findings must contain the following qualities:

- o a statement of condition - a fact or an actual occurrence or an existing state of affair
- o statement of criteria - the standard against which the above condition is compared
- o statement of effect - the result, usually adverse of the discovered condition
- o statement of causes - reason for the condition

Audit findings must be significant enough to warrant communicating to others. Likewise, it must be developed fairly and objectively and must be based on sufficient and appropriate evidence to support the related conclusion and recommendation.

A good audit recommendation, on the other hand, must have the following qualities:

- o it is practical
- o it eliminates the cause/s of the condition/s
- o it will prevent the recurrence of the condition
- o it is clearly worded and specifies what action should be taken and who should do it
- o it is in accordance with laws and regulations

Reporting Issues and Problems for VFM Audits

A VFM audit report is the final product of a VFM audit. An audit is only as good as the report it produces. As such, the auditor must ensure that the methods or procedures he performs support the audit report in terms of evidence, conclusions and causes.

A preliminary review of selected VFM audit reports showed that some COA auditors have developed and formulated their findings and recommendations in a VFM context. They were able to adequately discuss the condition(s), cause(s), criteria and effect(s) which are vital information for any audit observation. Likewise, the scope, the objective of the evaluation, the procedures employed and limitation were presented for the information of the reader.

The same preliminary review also disclosed several problems experienced by COA auditors in reporting their conclusions/observations, to wit:

1. Some VFM audit reports did not mention the areas audited, the objectives of the evaluation and the procedures/methodologies performed. Consequently, readers were unable to discern the significance of a pertinent audit area selected by the auditor and his objective for examining the same. Moreover, readers might not fully appreciate the observation due to the auditor's inability to specify the procedures he performed and the records/documents verified and analyzed.
2. Some audit observations failed to indicate the criteria adopted by the auditor in arriving at a conclusion. This holds true particularly for findings involving excessiveness, e.g. excessive procurement. While the auditor concluded that the quantities purchased were excessive, yet he neglected to provide the appropriate quantity to be procured, an information critical to the readers' understanding of the observation (excessiveness)). Furthermore, there was no computation that would illustrate how the excessive quantity was arrived at. Finally, the auditor's inability to indicate the frequency by which the excessive procurements occurred lessened the impact of the finding.
3. Some observations/findings appeared to assess the whole program as ineffective although the auditor examined only one of the program's several components. Such generalization would undoubtedly antagonize the auditee and mislead any reader of the report.

The above illustrations show that there is a need to improve the reporting aspect of VFM auditing. This can be addressed through a continuous interaction among auditors and workshops to further enhance the skill.

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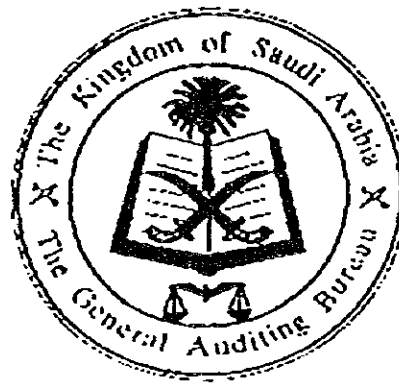
14. Saudi Arabia

Country Paper on Sub-theme 1

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

**Prepared by:
General Auditing Bureau,
Saudi Arabia**

Kingdom of Saudi Arabia



A Country Paper

on

PERFORMANCE AUDIT

The Concepts, Mandates, Methodologies, Practices,
Preparation of Reports & Problems

For Discussion in the 6th:

International Seminar of The ASOSAI

1997

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INTRODUCTORY:

The executive organs and various institutions in the Kingdom of Saudi Arabia seek to fulfill the supreme objectives of the Kingdom's development plan. Towards this end, the presence of global follow-up to ascertain fine implementation constitutes an indispensable requirement. In such a context, performance auditing offers a typically essential follow-up tool. No doubt effective control over management ranks high among the proximate factors, capable to provide assurances that the implementation of the development plan has been set forth in the proper track and that the global control organs can timely arrest any decline or oversight restoring the situation to its appropriate pattern.

In the Kingdom of Saudi Arabia (K.S.A), General Auditing Bureau (GAB) is the authorized agency responsible for conducting post audits. Given its independent character, GAB directly reports to the Custodian of the Two Holy Mosques, the King. Functionally, GAB's mandate is not limited to financial audit only, but crosses such boundaries to provide assertions that the state's fixed and current assets are optimumly deployed and that public monies have been functionally utilized for the realization of its goals, in line with the directives in force. As such, GAB is authorized to execute performance audit tasks among its auditees.

Obviously, the nature of performance audit differs from the financial audit. The former is characterized by its extensive and comprehensive nature demanding a special category of experiences and qualifications which might not be a requirement for financial audit.

To create the required cadre, GAB had ploughed stupendous effort to train and enhance the skills of its human resource in order to improve their aptitudes in the field of performance audit, using modern technology and offering GAB's staff in-Kingdom and on-the-job training opportunities let alone the training courses overseas.

In brief, this country paper expounds some concepts on Performance Audit, GAB's mandatory authority to execute performance audit assignments, describes the practical methodology being applied to execute performance audit assignments, speaks about report writing, the problems and the recommendations.

Sub-theme: (1)

The Concept of Performance Audit

In the past, the principal concern of audit used to concentrate on ascertaining that the financial statements truly represent the financial position of the organization in addition to conducting compliance audit. The auditor used to satisfy himself by ensuring that the authorized expenditure has been executed properly or merely reports detected errors. It rarely happened that the auditor would go to propose ways or means to evade the recurrence of such errors or, to the extremity of that, propose alternative ways to implement work procedures.

However, the auditor of today requires much more beyond the traditional financial information. The auditor needs to know and acquaint himself with the reasons leading to errors and the methods and procedures to be adopted to avoid their recurrence.

Auditing no longer confines itself to ascertaining and verifying financial statements, but includes a further requirement meant to identify the objectives and ascertaining that work procedures are sufficiently effective and economical and capable to achieve the objectives already identified.

For this reason the auditor has to elaborate the auditing and examination procedures while evaluating the government expenditure. This elaboration should be capable to provide logical responses to the following queries:

- Why did a specific error or anomaly happen?
- What are the methods to rectify this error or eliminate the possibility of its recurrence?
- Has the supreme objective of the program been realized?
- If the answer is in the affirmative:
Has the supreme objective been achieved in an economic, efficient and effective manner?
- If the answer is in the negative:
Why then has it not been achieved?
State the reasons !

The performance audit does not only spell out the error's cause but hits deeper to establish the size of the problem and the proposal for solution.

To achieve such a manifold of results is a matter that imposes on the auditor the construction of an audit evidence to contain the observation elements namely (the case, the auditing standard, the cause and effect) which are the issues of our discussion at a later stage. Based on the auditor's conclusions one would be able to identify whether there had been an anomaly and the size of such an anomaly. Most important is to know the cause leading to the said anomaly.

In the relevant literature the 'Performance Audit' has been provided under various titles such as:

- Audit of efficiency, economy and effectiveness.
- Program evaluation.
- Audit of operations.
- Management auditing.

However it might be stated in this context that performance audit could mean the auditing of efficiency, economy and effectiveness or it could be the auditing of value for money as well as it could be called the 'control over cost'.

It could however be stated that the concept of performance audit has received prestigious attention in the various resolutions of the international organizations. In the Sydney General Statement which was released pursuant to the 12th Congress of the Supreme Audit Institutions in 1986, it had been stated under item No: (1) under the heading 'Definition of Performance Audit', that the 12th Congress of the Supreme Audit Institutions, having made due consideration to the statements cited in section (4) of the Lima Declaration in 1977, wishes to adopt the following concepts:

- (1) The traditional task of Supreme Audit Institutions (SAIs) has been to conduct regularity audits, embracing all aspects of compliance with laws and regulations and of financial accountability;
- (2) In addition to regularity audit, there is another type of audit which is concerned with the evaluation of economy, efficiency and effectiveness of public sector management, and which is regarded as performance auditing.

In the Beijing Declaration pursuant to the 5th General Assembly meeting of the (ASOSAI) held in 1991, the Declaration accommodated a statement which stipulates that "Performance Audit should evaluate not only the individual programmes, projects and activities, but also the management techniques and

procedures used by the auditee organization to ensure that all programmes, projects and activities for which it is responsible are completed according to an appropriate plan, on time and within budget".

With the supreme objective borne in mind, the concept of 'Performance Audit' may conform with the concept of 'Value for Money' since it meaningfully aspires to conduct systematic detailed reviews and audits in addition to the preparation of reports on the implications of accountability relationships, the systems and controls implemented by the management of auditees while discharging their respective duties and obligations.

Added to this, the concept of 'Value for Money' may be seen from the perspective of accountability as a tool deployed by Supreme Audit Institutions to ascertain that every part of the comprehensive accountability system works integrally in a cohesive sustainable manner.

Having said that, 'Performance Audit' may be defined as follows:

"It is an evaluation of the activities of an entity to obtain assertions that the available resources at the disposal of the entity have been managed economically, efficiently and effectively and that the requirements of accountability have been reasonably met and satisfied".

As stated above, this definition contained the three elements of economy, efficiency and effectiveness which, in turn, could be defined as follows:

Economy: When auditing the 'economy', the emphasis is to investigate the ability of the auditee in deploying its human and financial resources. In other words the auditing should investigate 'how' the auditee uses its resources in order to obtain optimum results at a minimum cost.

Efficiency: Identifies the relationship between the 'inputs and outputs' i.e. the results. Operations which are described to be 'efficient' are those which achieve the 'best' results using the minimum possible 'inputs'.

Effectiveness: It directly relates to the 'extent' of achievement of objectives of the programme. The measurement of effectiveness of a programme or project varies from one programme to another.

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Sub-theme: (2)

Mandates
The General Auditing Bureau Mandate to Conduct
Performance Audit

Articles 7 & 8 of GAB's statutes issued in 1971, have determined the authority of GAB to execute Performance Audit assignments at its auditees pertaining to the state's revenues, expenditure and in totality the state's fixed and current assets. The performance Audit is also intended to provide contentment that such resources have been utilized to serve the purpose for which such monies were allocated. Furthermore the performance audit aims at reaching satisfaction that the rules and regulations have been strictly followed and that such rules and regulations are compatible with and capable to accommodate any developments that might occur in the kingdom.

It is apparently clear from the above indicated articles and all other directives and resolutions that GAB's authority is not limited to financial audit only but stretches further to include confirmation on the rational deployment and sound preservation of the state's fixed and current assets in addition to keeping abreast with the application of the rules and regulations in force and their suitability to cope with any possible developments in the Kingdom.

Regarding GAB's authority over corporations and companies in which the state contributes with a capital share or guarantees a minimum level of profit, GAB is authorized to audit the efficiency and competency of the auditee's management to ensure that the latter applies sufficient and sophisticated internal control systems and that they rationally deploy the resources made available at their disposal storing no effort to deploy such resources in an optimum manner.

To enable GAB exercise its above indicated authority, article (10) of GAB's statutes states that GAB's auditees shall be required to provide the accounting data and any other documents to enable GAB execute its auditing tasks described and contained in its statutes and to extend every possible assistance and facility to GAB's designated auditors and inspectors in line with the relevant requirements laid down in the executive regulations'.

According to this article, GAB's auditors are entitled to have easy access to any documents, records and accounting data deemed necessary in the course of completion of the auditing assignments.

From the preceding presentation, it becomes apparently clear that the General Auditing Bureau of the Kingdom of Saudi Arabia conducts its auditing assignments among its auditee organizations in accordance with its statutes.

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Sub-theme: (3)

Methodologies and Practices

Firstly: Methodology of Performance Audit

In discharging its mandate, GAB directs its auditors to execute performance audit assignments at its auditee organizations in accordance with a pre-determined and carefully studied plan in which the auditing priorities are set out according to their relative significance.

Each auditing assignment demands the preparation of an audit programme to include the general audit objective from which several sub-objectives emanate containing a description of the audit steps. Each performance audit assignment passes through the following five phases:

- The proposal stage
- Determination of the scope
- Detailed planning
- The execution and evaluation
- Preparation of report

The first three phases are normally referred to as the 'Survey Phase' while the last two phases are referred to as the 'Review Phase'.

The Survey Phase: This phase begins with the proposal stage by which a specific audit assignment is determined and the auditee organization is identified according to a pre-determined plan and on the basis of the 'relative significance' variable.

The audit work begins with the preliminary survey phase, which is a field survey, meant to identify whether or not it is necessary to proceed with the implementation of the audit proposal.

Using the field survey phase, the following tasks may be concluded:

- 1- Identification of the preliminary observations.
- 2- Collection of sufficient data necessary for the preparation of the intended audit programme.

GAB's auditors adopt the initiative to conduct a preliminary field survey with a specific objective to collect sufficient data on each activity thereafter to identify those activities which suffer from problems. The audit programme is then prepared using the data already obtained subsequent to completion of the preliminary survey phase. The said data is additionally used in planning the audit assignments.

At the survey phase the auditors are required to make field visits to the subject auditee organization.

The purpose of such visits is to enable the auditors get a feel and a general idea about the proposed activity subject to audit with the sole purpose to identify areas that importantly deserve audit immediate attention in addition to identifying areas of possible inadequacies or shortcomings. Quite often, the auditors at this stage wish to review the internal control system applied by the auditee with the objective to:

- Acquaint themselves with the departments and sections at which the control has been intensive and those where the control has been weak. It is also important that the auditors should conclude the reasons leading to this kind of situation and the consequences that ensued.
- Review the observations raised by the internal control on the auditee organization as well as the reports prepared by the internal control in follow-up and detailed review of such observations. The auditors should ensure that the recommendations made by the internal control have been implemented, otherwise reasons for negligence should be sought.

Determination of Scope of the Audit Assignment:

Having completed the preliminary survey phase, the scope of the audit assignment has to be determined. The scope of the audit assignment should be determined on selective basis. The selection criteria should take into account the degree of importance of the activity being selected for audit and the amount and nature of problems it contains. On this basis the auditors may be able to finalize their audit priorities.

Detailed Planning:

Upon completion of the preliminary survey phase and determination of the scope of the audit assignment, a report should be prepared to contain the

preliminary observations for which an audit proposal was contained in the detailed audit programme. This stage is considered one of the main objectives achieved by the auditor pursuant to completion of the field survey process.

Secondly: The Practices (Execution and Evaluation)

After determination of the supreme objective of the audit and preparation of the review programme, the move will be to the execution of the review programme. For a start, the auditors should commence collecting data, conducting an in-depth examination of records, collecting evidences to support the observations already concluded by the auditors, evaluating the said evidences and confirming the work papers.

The result should contain the following elements:

1 - The Case:

It is usually a presentation to depict the actual situation which was observed.

2 - The Auditing Standard:

The 'case' might not be judged as an 'irregularity' or contains a 'shortcoming' previous to assessing and comparing it using a yardstick in the form of an 'auditing standard' already in existence. No result can be reached without the pre-requisite of such a comparison. The current pattern of auditing comparative standards is normally composed of the rules, regulations and the prevailing auditing practices.

In the absence of auditing comparison standards at the disposal of GAB, the latter tries to obtain them from other available sources. To the extremity of that, GAB may resort to an agency abroad to obtain such standards provided that the 'activity' at both ends are identically similar.

However it is most important while choosing a 'specific auditing standard' to identify it distinctly, mentioning its source, highlighting the correlation and verifying its suitability for the comparison purposes. The auditor should apply the most updated standard suitably sufficient to serve the comparison objective taking into account the element of timing at which the 'case' occurred. The auditor should also be aware of any 'exceptions', related to the case.

3 - The Cause:

The auditor should be able to respond to the following query:
Why did this discrepancy between the 'Case' and the 'Standard' occur?
Using diverse procedures, the reason of the discrepancy may be identified. The procedure in the foremost of the list to begin with, is to address a number of explanations to the senior personnel at the auditee organization investigating the reasons for this discrepancy. The reason could be attributed to mere ignorance of the rules and regulations on the part of some personnel at the auditee organization. However, if the response of the senior personnel was reasonably acceptable it would then become easy to verify its validity, otherwise the auditor had to re-inforce the audit and collect sufficient evidences. The occurrence of a 'case' may sometimes be attributed to a manifold of reasons. The auditors are therefore required to identify the main 'causes' that have immediately led to inadequacies or shortcomings. In some occasions the auditors have to dig and probe deeper using their professional rationale to determine the main 'causes'.

4 - The Effect of the Size of the Discrepancy:

It is important to accentuate the effect of the deviations which were identified in order to convince the auditee organization of the significance of the observations. This process is normally accomplished by making an assessment of the 'cost' of such deviations or the non-materialistic effects of these deviations. To give an example, we consider a situation in which the number of medical emergency centers are not sufficient and effective, a matter which resulted in a number of deaths or physical disabilities.

The more the size of the discrepancy increases or recurs, the more the importance of this element becomes.

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Sub-theme: (4)

Reporting & Problems

Firstly: Preparation of Reports:

At the report writing stage on a Performance Audit assignment, the auditor should take into account and observe the level of comprehension of the reader of the report. In most cases the reader of such reports might not be capable enough to comprehend or develop an in-depth understanding of the programme the auditor is writing about. For this reason the auditor has to expound quite descriptively to provide a distinct understanding of his programme. To the contrary of that the financial auditing does not demand from the auditor such extensive and descriptive kind of reporting. This is attributed to the nature of financial auditing which does not require more than an analysis and a comprehensive reading of the figures.

In order to prepare a comprehensive report the auditor should adhere to the following steps:

- 1- To collect the basic data.
- 2- To spell out clearly the objective of the audit assignment.
- 3- To explain the scope of the audit task.
- 4- To contain the recommendations in the report.

No doubt the logical flow of information is a significant feature of the report. The sequence of information should be provided in the report according to its assumed importance to the reader. Most readers of this kind of reports, wish to know the results that were achieved and the auditing standards which were implemented in the comparison. Readers normally incline to examine the results with very little concern to realize the methods implemented by the auditor to reach such results. It is therefore a requirement that the auditor should contain in his report the basic information he collected. Occasionally, the auditee organization is offered the opportunity to make its comments on the content of the report prior to releasing the report formally. It consequently follows that the auditor should discuss the draft report with the key personnel of the auditee organization and receive their comments. Such a discussion should prove helpful to develop entire satisfaction that the report has come out in absolute objectivity, impartiality and editorial integrity.

Following the provisions of Article No. 284 of the Comprehensive Auditing Standards currently in use in the Kingdom, it is mandatory that the efficiency and effectiveness audit report should contain the opinion of the key personnel of the audited organization. As such it is a requirement that the auditor should take into account the following points:

(a) To obtain the opinion of the concerned key personnel at the appropriate managerial level, preferably to obtain the opinion of the personnel directly in charge of the project or activity being audited.

(b) To hold discussion with the key personnel or the appropriate managerial level on the content of the report and to note their opinion and views regarding the results of the audit.

(c) Whenever possible, the opinion of the management or key personnel should be expressed in an official letter.

(d) To provide and contain the opinion of the management particularly in situations where the key personnel or top management of the auditee organization, has adversely criticized the auditor's methodology. The auditor should in such a case, provide his evaluation on their opinion duly supplemented by his commentary.

The report normally begins with an introductory to acquaint the reader with an historical background of the auditee organization.

Usually, the introductory refers to the date of establishment of the organization, its objectives, its activities etc..... The auditor is required to prepare a summary report to make it easier for the reader to comprehend the content particularly when the report in its ultimate format appears to be lengthy. When the report is lengthy, it has to be subdivided and contained into chapters. The title of each chapter should correlate with its subject matter for example the Introductory, Historical Background, The Scope of Audit, The Recommendations and so on.

Despite the verbal promises the auditee organization might make in the course of discussion of the draft report to implement GAB's recommendations, the Performance Audit Report should categorically contain the said recommendations.

The said recommendations should be stated clearly enough and easily understood by the key personnel of the auditee organizations across the

managerial levels. The recommendations should be feasible and possible to implement.

The normal pattern of citing the recommendations assumes a point-to-point format. Each recommendation is encapsulated in a point sequence by the auditor containing the auditor's proposal asking the auditee organization to follow GAB's directives thought necessary for the promotion and improvement of work at the auditee organization.

Having presented the report for perusal by key personnel at the various managerial levels of GAB, and having incorporated the necessary amendments, if any, the report is subsequently approved in accordance with a specific mandatory authority and reported to the auditee organization. At this stage the recommendations contained in the report become demands formulated by GAB and it is mandatory to fulfill by the auditee organization.

Secondly: The Problems:

At the early stage of implementing the Performance Audit, GAB was confronted with some difficulties and predicaments. However,†GAB exerted stupendous effort to overcome such difficulties which could be summarized in the following:

- 1 - The need to increase the cadre of Performance Auditors of a highly qualified and experienced calibre.
- 2 - The absence of Performance Audit standards and indicators with some of the auditee organizations to help in the Performance Audit assignments.
- 3 - The need for ample and complementary data and information at the immediate disposal of auditors.
- 4 - Failure of some employees at auditee organizations to realize that Performance Audit objective aims at assisting their respective managements to solve their financial and managerial problems and not to fish for mistakes.

However, the aforementioned difficulties and predicaments have gradually faded away due to the Kingdom's policy aiming at developing its personnel in all fields and disciplines through training and operational exposure with the ultimate objective to improve their performance, yet GAB is eager for more and very much more.

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Sub-theme: (5)

The Recommendations

- 1 - To develop the available human resource of the Supreme Audit Institutions by providing intensive training courses on Performance Audit related products with its dual elements: the financial and the Performance Audits.
- 2 - To insist on the auditee organizations to spell out clear and well defined objectives and auditing standards and to implement these operationally with every care taken to consistently modernizing, improving and developing them.
- 3 - To make available Management Information Systems in a detailed complementary manner to provide financial and accounting data easily.
- 4 - To encourage the auditee organizations to adopt the most suitable internal control systems.
- 5 - To provide the auditee organizations with the appropriate literature on Performance Audit capable to demonstrate the significance and value of Performance Audit and meaningful enough to serve the management objectives.

M. A.

Reference

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- 2 - Lawrence B. Sawyer, The Practice of Modern Internal Auditing, Revised and enlarged 1988.
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- 5 - International Declarations on Supreme Financial Audit.
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15. Turkey

Country Paper
on
Sub-theme 1

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

Prepared by:
Turkish Court of Accounts



6th ASOSAI INTERNATIONAL SEMINAR 1997

Topic:

Sub-theme 1:
PERFORMANCE AUDITING CONCEPTS, MANDATES, METHODOLOGIES
and PRACTICES, REPORTING and OTHER ISSUES/PROBLEMS

Country Paper By: The Turkish Court of Accounts (TCA)

100



100

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Sub-theme 1:

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

1. STRUCTURE OF THE PAPER

1.1 The Turkish Court of Accounts (TCA) started its first performance audit very recently. At the moment, the audit is at the stage of awaiting senior management's decision on the preliminary study report whether to proceed to a full audit and report..

1.2 Because of this the authors of this paper felt that it was too early for the Turkish SAI to write a paper discussing performance auditing concepts, methodologies and practices. Instead they structured this paper in a fashion to convey brief information on:

- the TCA, which is a newly joined member - whose membership was approved in July 1996 at the 23rd Governing Board meeting - ,
 - how it has commenced its very first performance audit, and
 - what are the difficulties it is facing
- with a view to sharing our short experience with the SAIs in similar positions.

2. BRIEF INFORMATION ON TCA

2.1 The Turkish Court of Accounts (TCA) is the Supreme Audit Institution of Turkey. It was established in 1862. It operates under the Constitution of 1982 and under the provisions of a law specific to TCA, most recently amended in 1996. The Constitution and the TCA Law state that TCA is to audit on behalf of the Turkish Grand National Assembly (TGNA), the government accounts relating to revenue, expenditure and property.

2.2 The following government agencies are under the jurisdiction of the TCA: (i) general budget organisations, (ii) annexed budget organisations, (iii) certain extra budgetary and revolving funds (iv) special budget organisations including chiefly municipalities and local administrations.

2.3 Being a collegiate structured SAI the TCA has three main functions: judicial work, auditing, and reporting. The judicial work is carried out by specialised chambers in which members of a chamber try accounts and either acquit or hold liable those responsible for their preparation and authorisation. The auditing work is carried out by auditors. The trying of accounts is based on the reports of auditors (Internal Reports). As for the third function, reporting, the TCA produces three types of external report : (i) the general statement of conformity , by which the TCA assures Parliament that the figures and other disclosures shown in the draft final accounts law fairly present the actual results of budgetary implementation; (ii) legal writs, which are court decisions addressed to responsible officials; and (iii) reports to Parliament. The Law governing the TCA does not stipulate a general purpose report to the legislature but specifies what is to be reported. Subjects to be reported to Parliament are:

- (a) legal and regulatory provisions which jeopardise the interests of the Treasury (Article 25 of TCA Law);
 - (b) financial questions including accounting methods, practices and systems; and procedures concerning revenue accrual (Article 28, IV)
 - (c) matters of concern (Article 28, V);
 - (d) audit findings concerning the property accounts of departments and agencies funded by the general and annexed budgets (Article 87);
 - (f) whether government bodies outside these two budgets have operated within the "purpose of their foundation" during the previous year. (Article 87); and
 - (e) significant instances of failure to comply with legislation (Article 88)
- Reporting under points (a), (b), (c), and (f) above is at the discretion of the TCA; whereas reporting under points (d) and (e) is required. However, it has not recently submitted the required reports under Article 87 of the TCA Law due to an omission in the legislation. Before the 1996 amendment to the TCA Law there had been no addressee of such reports of the TCA in Parliament.

2.4 While the TCA carries out its work on behalf of the legislature, it remains independent of both the legislative and executive branches of government. Its president and Members are elected by the TGNA. The President, Court Members and Auditors have permanent tenure. The TCA, besides its institutional independence, enjoys its financial independence by preparing its own budget which it submits to the legislature without the intervention of the Ministry of Finance.

2.5 To carry out its work the TCA has a right of access to information. TCA can question responsible officials orally or in writing. At any stage the authorised audit personnel of TCA have the authority to examine records of goods, properties, activities and services of government offices and of the other institutions under TCA jurisdiction. The accounts of all entities within its jurisdiction have to be submitted to TCA. However, certain government activities are outside its jurisdiction: state-owned enterprises, the privatisation process and some extra-budgetary funds.

2.6 Till the recent amendment in 1996 the TCA had to stay within the confines of financial and compliance audit. Now, the amendment enables the TCA to carry out audits of economy, efficiency and effectiveness.

3. TCA LAUNCHES A PERFORMANCE AUDIT

3.1 Considering the performance audit as an important instrument in realising TCA's aim to promote improved public sector accountability, control and good governance by delivering high quality audit reports the TCA decided in 1995 to make necessary preparations to start this new type of audit.

3.2 The first thing we needed was 'know-how' and training. We sought the help of the National Audit Office (NAO) of the United Kingdom. This sister SAI generously extended its assistance in the framework of three collaborative projects, purpose of which was to

introduce TCA staff to Performance Audit methodologies and techniques with a view to developing rules and procedures for the TCA to use in carrying out performance audits. The first of the collaborative projects was the training of four TCA auditors at the NAO, while the second involved a training course by the NAO lecturers to our staff in our training centre at Manavgat, Antalya. The third, which is going on, involves a joint performance audit where an Audit Manager from the NAO provides advice and guidance on planning, audit methodologies and reporting during the course of audit on a visiting basis.

3.3 Having implemented the two projects we formed a performance audit team comprising seven auditors. Of seven five received their initial training at one of the courses held: (i) in Manavgat, Antalya by NAO/TCA in 1995, and (ii) courses held by the SAI of Pakistan, entitled "Intensive Training Program (ITP) in Performance Auditing" at Lahore, Pakistan in 1991, 1993, 1994 and 1995. The team began to work in March 1996 following the President's approval on launching a VFM study on "Maintenance and Betterment Activities Carried out by the General Directorate of Highways on State and Provincial Roads" (Hereafter the study will be called as Road Maintenance and Betterment Activities RMBA).

3.4 The TCA is aware that the audit planning, which is an important stage of the performance audit process, ensures that an audit of high quality is carried out and that resources allocated are used in economic, efficient and effective manner. But with this first performance audit undertaking the TCA could do very little planning because there was little entity knowledge available, and there was also a time constraint. We don't have general surveys to enable our SAI to prepare proper Strategic Performance Audit Plans.

3.5 The performance audit had to start from somewhere. In this context, it was felt that to select similar topics or areas to those that had already been examined by the NAO would be appropriate. The two SAIs agreed that a performance audit on RMBA would be suitable for both SAIs.

3.6 The team completed the preliminary study, in October 1996 and in the first week of November reported to senior management that the subject was suitable for the full investigation. It is very likely that the full investigation will commence in January 1997.

4. PROBLEMS/ DIFFICULTIES

The need for outside expertise

4.1 Under its Law the TCA recruits those who have backgrounds in disciplines of accountancy, economics or law. The philosophy behind this provision of the Law was simple; the TCA was designed as to perform compliance and financial audit only. But, now, even this short performance audit experience shows that we shall need technical assistance in our future audits of complex projects and this raises the question whether we should recruit technical people like engineers, architects, sociologists, psychologists, medical doctors and statisticians to make them performance auditors or whether we should hire them when needed, on temporary basis. On the other hand, it is a well known fact that

employing technical staff, permanent or on contract, is an issue of convincing our clients of our technical calibre and credibility. Furthermore, the knowledge and experience of each professional discipline ensures confidence, trust and credibility to our audit reports.

4.2 The authors believe that it is time for the TCA to decide whether it should import staff from outside to be trained and subsequently utilised as performance auditors or employ experts on temporary basis to meet the shortage of technical skills. If the latter is decided, no amendment will be needed to our TCA legislation, as the present legislation allows the TCA to use outside experts when it deems necessary. Otherwise an amendment will be on the agenda.

4.3 Staying with the issue, it should also be mentioned here that there is another challenge for performance auditors to know when such technical expertise is required, to find the experts and utilise them appropriately.

Auditor and auditee relationship

4.4 Close co-operation with the auditee would make it easier to obtain information and also would increase the possibility of achieving results which are satisfactory to both sides. The dialogue between these two parties goes further than a mere exchange of correspondence setting dates for visits and relaying other administrative information. It involves an exchange of views and information. The auditor discusses with the management of audited entity matters that may include objectives, methods, problematic areas identified, conclusions reached and recommendations for improvement. It is of crucial importance that the auditor give an impression that his involvement in the audit is not only to point weaknesses but also to make recommendations. Needless to say this relationship must be based on respect and trust.

4.5 The auditor does not deal solely with the accountability of an accountant, as in the case of a compliance audit, but with the results of operating decisions by the top management. A dialogue at this level and the characteristics that are inherent in the performance audit require special communicating skills and qualities such as constructiveness, adaptedness, receptiveness, and patience.

4.6 The management's perception of the performance audit and the TCA auditor's new role is not always as above. Although some of the managers of the audited entity appreciate contributions of the performance audit to their entity and also the positive and constructive role of the performance auditor, it transpires that they are not as responsive as when they are subject to the compliance audit. Once they learn the result of the audit is not going to be linked to the judicial process they tend to act in a more relaxed attitude and respond sluggishly to the requirements of the auditor.

Auditors' attitude towards working as a team

4.7 To assign accounts to individual auditors is the traditional practice in the TCA. Therefore the TCA auditor has been accustomed to working individually. For this reason the auditor who will participate in a performance audit should be ready to assume the role of a performance auditor and grasp the significance of co-operativeness and team play which is one of the distinctive features of the performance auditor. On the part of the TCA management, it should take the auditor's ability to accommodate working with others into consideration when staffing a performance audit team.

The prolonged process

4.8 When compared to the TCA's financial audit practice the performance audit takes a relatively long time. Additionally, in our case, because of being new to this type of audit, the stages leading to the preliminary study report took longer than the planned. This, of course, creates impatience for harvesting the fruits of this new type of audit in an environment where there is little familiarity of performance audit and its nature.

Should the performance audit report be reviewed by colleges?

4.9 Who will do the final review? Should the performance report be finally reviewed by the relevant colleges of the TCA (namely, by one of eight Chambers, Board of Chambers or the General Assembly of the TCA) or by the President, given the performance audit findings do not go through judicial process (i.e. not subject to trial). We think this issue merits discussion as it is of paramount importance to SAs which have jurisdictional status.

4.10 We are, now, striving to design a system suitable for our organisational structure. A provisional Quality Assurance Flow is as follows:

Quality Assurance I: The audit body

- The audit team submits the report to the President
- It is sent to the Audit Planning and Report Group (a specialised group comprised of auditors)
- Reviewed and commented on report is forwarded to the team for the second draft

Quality Assurance II: The Chamber

- The audit team submits the second draft to the President
- It is forwarded to the related Chamber
- Reviewed and opinion given report is submitted to the President
- Report is sent back to the audit team for final draft
- The audit team finalises the report and sends it to the President
- The President signs and transmits the report to Parliament

The need for methodology

4.11 As mentioned earlier the pilot performance audit is being carried out with the assistance of the National Audit Office of UK. The team makes good use of the NAO material, methodology and expertise. Concurrently, the team translates its work and experience into future TCA performance audit manual sections and how-to-booklet (guide). Inevitably, it is experiencing the difficulties of adapting a sister Institution's know-how to circumstances prevailing in Turkey.

Insufficient performance information

4.12 The auditee's insufficiencies to meet the essential needs of a performance audit are:

- Little recorded evidence to indicate how the Highways Directorate (the auditee) conveys its objectives and targets and how the performance against targets is monitored
- Lack of any form of performance indicators developed by the Highways Directorate (HD).
- Absence of effective , up - to - date , reliable and compatible management information systems. No information on overall condition of the road network to enable HD to prioritise expenditure.
- No evidence of cost benefit analyses, or other financial assessments of options, being applied to decisions on repair and maintenance contracts.

5. LOOKING AHEAD

5.1 The Turkish National Assembly has entrusted the TCA with the mandate to carry out performance audits. Its expectations is that the TCA would assist Parliament to exercise its oversight role over the executive by delivering objective and independent information, opinion and advise on whether public resources are used effectively, efficiently and economically. At the TCA, this new mandate has created an enthusiasm and excitement.

5.2 However, we are aware that the TCA will face severe difficulties on the road to this new task. To smooth the way we have already started updating our earlier Modernisation Plan, which was developed in 1995. The new Modernisation Plan includes provisions to:

- develop skills, methodologies and experience in performance audit techniques;
- practice as teams working together rather than individually and independent from each other, with adequate supervision and quality assurance;
- acquire the necessary hardware, software, and skill competence to audit computerised systems;
- establish a training unit;
- establish a methodology development unit
- establish an electronic library on the performance audit literature.

5.3 One of the TCA's strategic objectives is to apply *learning by doing* practice to its auditors to further develop their knowledge and skills in the performance audit. The TCA plans to seek assistance of external international and/or national consultants. In this

respect the TCA values SAls as the primary source for international consultantcies and welcomes any assistance.