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**ASOSAI Workshop Country Papers**  
**on**  
**Sub-theme 2**

The SAIs Performance Audit Report  
and its Utilization by  
Legislature and Executive

July 3-11, 1997  
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Board of Audit  
Japan International Cooperation Agency  
The Government of Japan

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**Principal Paper**  
**on**  
**Sub-theme 2**

**The SAIs Performance Audit Report  
and its Utilization by  
Legislature and Executive**

**Prepared by:  
Office of the Auditor General,  
Pakistan**

## 6th ASOSAI INTERNATIONAL SEMINAR 1997

Topic :

**Sub-theme II : Performance Audit Report and its  
Utilisation by the Executive and the  
Legislature**

*Principal Paper By: SAI of Pakistan*

BISMILLAH AL RAHMAN AL RAHIM

**PERFORMANCE AUDIT REPORT AND ITS UTILISATION BY  
THE EXECUTIVE AND THE LEGISLATURE**

*PRINCIPAL PAPER*

**FOR  
THE ASOSAI ASSEMBLY 1997 AT INDONESIA**

**CONTRIBUTED BY**

**SAL OF PAKISTAN**

**1. INTRODUCTION**

Performance auditing is an infant discipline. It has evolved in response to the need for greater information by the legislators and other stakeholders on the actual results of public spending and the efficiency and economy of the resources consumed in the process. Although it started in several countries almost in the same span of time but its growth and development has been sporadic and uneven. Unlike financial auditing which has now a history of several centuries and has a hard core of standards, terminology, procedures and formats, performance auditing has a local touch of the culture, state of economy and the socio-political environment. Despite all the differences of shades and opinions, at least two things are commonly accepted as valid. First, public business should be conducted in a way that makes the best possible use of resources. This is often expressed in terms of three "Es" or *economy, efficiency and effectiveness*. Second, people who conduct public business should be accountable for the prudent and effective management of resources. Of course, it presumes that the public managers or politicians, who take decisions in certain cases, will operate honestly and fairly and observe the public interest.

**2. OBJECTIVE OF THE PAPER**

The discussion in the present paper will focus in three main areas:

- Performance audit report
- Utilisation of performance audit report by the executive
- Utilisation of the performance audit report by the legislature

The paper shall discuss the main issues in the three areas identified above and pose questions for the country paper writers. The country paper writers will be expected to highlight the practice or position of their respective countries on each issue.

### 3. PERFORMANCE AUDIT REPORT

#### 3.1 Performance Audit Approach

Performance audit report is the end result of the effort of the performance auditors. It comes in the end of the audit engagement but its seeds are sown at the planning stage. The auditors have to assess before the audit starts some such things as follows:

- the environment in which they will be operating
- the type of information which is readily available
- the information which cannot be obtained
- the attitudes of the auditees
- the legal framework in which they have to operate
- expectations of the legislature and the executive from the auditors
- the complexity of the auditee operations

The auditors try to make their assessment in the form of a preliminary survey report (PSR). But what shall be the format, content and scope of the performance audit report at the end of audit is very much a result of the decisions taken at the planning stage. In this regard there are three main approaches which have got currency in different countries.

##### 3.1.1. A Systemic Approach:

This approach focuses on the study of systems and controls of the auditee and lays down an audit criteria in the light of generally accept management practices and the planning parameters of the auditee programmes and projects. The audit examination compares the criteria with the actual performance and reports deviations from the criteria. This is by far the most popular approach. If the auditors follow this approach the performance audit report usually consists of reporting on the exceptions from the agreed criteria, although there is nothing that stops the auditors from reporting on the positive achievements of the management.

##### 3.1.2. Effectiveness Attributes Approach:

This approach has been developed by the Canadian Comprehensive Auditing Foundation (CCAF). The approach tries to extend the methodology of financial auditing to comprehensive auditing. In financial auditing the auditee prepares accounts which are, in fact, representation by the auditee on the financial position of the organisation. The financial auditors verify those accounts and express their opinion. The CCAF approach does the same thing in the case of performance auditing. They have developed a set of twelve attributes known as *Effectiveness Attributes*. They are as follows:

- management direction
- relevance
- appropriateness
- achievement of intended results
- acceptance secondary impacts



- costs and productivity
- responsiveness
- financial results
- working environment
- protection of assets
- monitoring and reporting

In an audit assignment which follows this approach, the auditors require the auditee management to develop representations on all or some of these attributes. For this they may use existing information or they may have to generate new information. The auditors, then, verify these representations and express their opinion. If this audit approach is followed, the format, content, and scope of the audit report will be quite different from the one discussed above. Although there is no standard format for this type of performance audit report but the CCAF is still working to devise a standard opinion paragraph language for the performance audit report.

### *3.1.3. Performance Measurement by Auditors:*

This approach involves the auditors in the process of performance measurement itself. In situations where the management does not have appropriate documentation measuring its own performance, the auditors have to take up the task upon themselves. They start looking at the audited organisation from the point of view of an independent agency responsible for measuring the inputs and outputs of the organisation. In this case the audit report will consist of a lot of performance data which in the first two approach may remain only in the working papers.

#### **Issue No. 1:**

Which particular audit approach do you adopt in most of the cases? Do you follow more than one approach? Do you adopt an audit approach which is not covered in the three approaches discussed above. If so, what are its main features and how it affects your audit report?

### **3.2 Performance Audit Scope**

The form, size, contents, style and presentation of the performance audit report depends to a large extent on the scope of the audit assignment. The performance audit could be focused on a project, a programme or on a government-wide activity. Similarly, the scope of audit deals with the period covered and the precise objectives of the auditors. The scope could be governed by legislation or decided in consultation with the auditees. It could cover several entities of the same organisation or one large segment of an organisation. Sometimes the scope of audit is limited by certain conditions laid down by the auditee or by some legislation of the government. Generally, the performance auditors should state the scope of their examination explicitly so that their responsibility is defined and also the user does not pin unnecessary hopes on the audit report.

## Issue No. 2

What are the main factors which guide you in determining the scope of audit in your SAI? Does the performance audit report in your SAI describe the scope of audit? If so is it obligatory to do so? Who has made it obligatory? Are there any instances of performance audit reports in your SAI where the scope of audit was limited by some agency or authority?

### 3.3 Intended Degree of Audit Assurance

In financial auditing the auditors have developed standard opinion language which clarifies the level of assurance that the auditors obtained during their examination. The assurance levels thus obtained are based on fairly defined procedures. In case of performance auditing such standard procedures do not exist. Nor is there any method to quantify the degree of assurance that the auditors obtained. Despite this the need of specifying the level of audit assurance that the users of audit report should get from it is greater in performance auditing than in financial auditing. This is because once the reader of a report comes to know that an auditor has been associated with it his expectations rise. He likes to believe that the facts and conclusions stated in the report are true beyond any doubt and even faultless. The fact may not be so. This is typically known as the "association" problem. The reader "associates" the auditor with the report and because of the professional standards of the auditors, likes to place a high degree of reliance on the report.

Another problem is that the reader of the audit report can arrive at absolutely incorrect conclusion because of a wrong perception about the auditor's examination. For example, if an audit report has pointed out some "instances" of inadequate performance as a result of the fact that the auditor just stumbled across them and not as a result of any systematic search for such instances, the reader may assume that the report contains all the information that has gone wrong with the audited organisation. The fact could be the other way round. It could be that the auditor has been able to report only some of the examples. Similarly, in another case, the auditor may report some instances of bad performance and the reader might assume that the organisation is in great mess, mentally extrapolating on his own these examples. Therefore, it is important that the auditors expressly state the level of assurance that the reader should obtain from his report.

The question remains, however, as to how can the auditors do this? There is no standard format for expressing the level of assurance. But the point remains that the auditors should state in the report the extent of their examination and the rigour with which this has been carried out.

**Issue No. 3:**

In your SAI, how do the performance audit reports communicate the degree of assurance the reader should obtain from them? (You can quote the language used for the purpose of illustration.)

### 3.4 Significance

The financial auditing has a concept of *reporting materiality*, which refers to the fact that the auditors use their professional judgement in deciding what is *material* and then report it in their opinion. In the case of performance auditing no such standard practice has evolved, except that there is a consensus among the practitioners that only *significant* matters should be reported. But how do we decide what is significant? One difficulty is that the users of the performance audit report are many. For example, a performance audit report may be of interest to legislature, management, board of directors, shareholders, lenders, regulators, customers, and community. All of them may have different perceptions of significance. No audit report can cater for the interests and perceptions of all the potential readers. Therefore, it is up to the auditor himself to exercise his professional judgement and decide about the significance threshold.

One question which has received little attention relates to the distinction between *what to report* and *how to report*. The factors which usually guide auditors about what to report are:

- money value
- risk of occurrence of undesirable event
- potential for savings
- environmental impact
- socio-economic impact
- safety
- resources committed
- risk of poor management
- accountability concerns
- quality of controls
- ethics
- integrity
- inaction on previous reports and
- compliance to specific legislative directive

The factors which guide the auditor about *how to report* relate to the questions of language, context, and the level of supporting details. There is always a danger of misrepresentation of auditor's report. For example, the politicians may like to use the report out of context or the press may like to publish some *horror story* using the contents

of the report. This may not be the intention of the auditors. But they cannot, later on, shrug off all the responsibility. Therefore, it is important for the auditors to be careful about the manner they report their findings.

In brief, it is agreed that the auditors should report only significant matters. It is also agreed that the auditors should try to keep their objectivity and impartiality in reporting their results. For these reasons, it is important that the auditors specify their significance criteria in their reports.

**Issue No. 4:**

In your SAI, is there a practice to specify the significance criteria in the audit report? If so, quote some examples of the language in which this was specified.

#### **4. UTILISATION OF THE PERFORMANCE AUDIT REPORT BY THE EXECUTIVE**

##### **4.1 Management Perception and Auditor's Competence**

The utilisation of performance audit report by the executive depends on two important factors. First, what is the perception of the management about the competence of the auditors? Second, the attitude of the management toward value-for-money examinations. The auditors have developed the concept of performance auditing in response to demand for greater information from the legislature on the performance and effectiveness of the government programmes and projects. It does not necessarily mean that the executive agencies, especially different tiers of the bureaucracy also subscribe to the usefulness of this type of examination. In fact, in a large number of cases the executive agencies and the persons who manage them feel threatened by the concept of performance auditing. For one thing, they believe in their hearts of heart that they themselves are the most appropriate people to say something about performance of their programmes and departments. The "poor" auditors who always live in the world of finance and figures have no competence and legitimacy to fiddle with the "technical" work of their departments. How can auditors know the technical work of a doctor or that of an engineer and comment on it, they often argue? Partly, this argument is true also. A number of SAIs have tried to overcome this problem by associating professionals of other disciplines in the audit teams. But then the specialities are so many and the variety of skills need is so broad that the SAIs who experimented with this idea soon found out that it was not sustainable in the long run.

There is an additional difficult of communication gap between auditors and the professionals of different departments. The professional do not have a precise idea of the scope and framework of performance auditing and the auditors do not know the technical work of other professionals. This gap can be bridged only through greater opportunities

for communicating with one another. Some SAIs have held seminars where the professionals of other disciplines were invited to participate and write papers.

**Issue No. 5:**

In your SAI, what formal and informal efforts have been made to make performance auditing a going concern for the executive departments? How far these efforts have borne fruit?

**Issue No. 6:**

In your SAI, what efforts have been made to re-inforce the competence of the auditors enabling them to audit technical areas? How far these efforts been successful?

#### 4.2 Audit Recommendations

The way performance audit has evolved, almost all reports contain recommendations for the improvement of economy, efficiency and effectiveness of the auditee programmes and projects. The question arises: why, after all, should performance auditors make recommendation in the first place. The financial auditing has been in vogue for centuries now without the auditors making any recommendations. The answer lies, perhaps, in the expectations of the users of the performance audit report. They hope to see some remedial measures for improving the performance. Therefore, it seems there is no turning back now to the position where the performance audit reports do not carry any recommendations. But making recommendations itself creates several dilemmas for the auditors.

First, it increases the risk of the auditors. The auditors may be making recommendations in an area of which they do not have any detailed knowledge. The users of the performance audit report associate unreasonable expectations with the recommendations made by the auditors thinking they have been made by "competent" people. Therefore, the auditors need to exercise care in making recommendations.

This takes us to the second problem. How rigorous are the auditors' recommendations? Should they be only identifying a problem and leaving the solution to the management? Or should they make detailed recommendation for taking action. In the first case, the management is less than satisfied and encounters the auditors with explicit question as to what should they do in the given circumstances. If the auditor cannot answer this question, he gets the charge of being theoretical and unrealistic. But if he answers the question in detail, he runs the risk of entering into an area of which he may not have any detailed knowledge.

Third, the recommendations in the audit report also create problems of objectivity for the auditors. It is possible that the auditors make recommendations and the management accepts them. Subsequently, the auditors may come across a situation where they have to

audit their own recommendations. Some sort of conflict of interest might ensue in such situations.

The question of follow-up of audit recommendations is also closely related to the type and scope of the recommendations themselves. Several SAIs have procedures for following-up on their recommendations for the information of the Public Accounts Committees. How far the follow-up report goes in depth and rigour will depend whether the recommendations were in detailed or general in the first instance. It is possible, to the dismay of the auditors, if they had made detailed recommendations in the first instance, that the outcome of their recommendations was not positive. The management can, then, shift the entire blame on the auditors.

**Issue No. 7:**

In your SAI, what are the standards for making recommendations? Do you make recommendations in detail or merely identify a problem and indicate direction for action? Is there any system of follow-up on the compliance of the audit recommendations in your SAI?

**Issue No. 8:**

What has been the reaction, in general, of the executive toward recommendations made in your performance audit reports? Will you like to cite any specific example where the management accepted your recommendations with positive outcomes in the future?

**4.3 Lessons for the Future**

The real benefit of performance auditing is that the executive is able to learn lessons for the future. But experience shows that the executive departments and agencies commit same mistakes year after year. Projects fail every year for similar reasons. The reason, perhaps, is that the executive departments and agencies do not have any institutional arrangement to feed the results of audit into the future planning process. One idea is that there should be a high level forum where representatives of ministries of finance, planning, executive departments and the SAI should join hands and consider what changes will be necessary while approving future projects. Despite the plausibility of this idea there is hardly any country which has implemented it or may have made any progress toward this idea. Therefore, the practical utility of the performance audit report remains limited.

**Issue No. 9:**

Is there any institutional arrangement in your country to ensure that the executive departments make use of the recommendations of the audit while planning future projects?

## 5. UTILISATION OF THE PERFORMANCE AUDIT REPORT BY THE LEGISLATURE

### 5.1 Accountability

The utilisation of the performance audit report by the legislature, ultimately, involves questions of accountability as the elected representatives of the people will like to hold the public managers accountable for their decisions. *Accountability refers the obligation to render account for the responsibility rendered.* It has a negative connotation. It is used for holding people responsible for inadequate performance. Hardly ever, this concept has been used for rewarding people for the good work done by them.

Although accountability is a simple word but when applied in the government environment it assumes complexity. There are several things which do not permit its application in a straight forward manner. First, who is accountable? Are the Ministers accountable to the legislature? Are the Ministers accountable for the performance of their subordinates? In some countries, the Ministers resign if their department failed to deliver a service satisfactorily or if there was a serious breach of trust or if there was great loss to the public. But this does not happen every where. Ministers feel, in a large number of cases that they do not even know who has taken a decision. Why should they be held responsible? In some countries, the Ministers are held responsible where they have taken a decision. The decision making in government is very complex. Often a number of people take a decision. It becomes difficult to determine who is actually responsible.

Second, is the accountability of the Ministers clear before their own electorate? An ordinary voter has the option of voting out his representative but he does not know whether he will get a better replacement. Moreover, such an occasion arises after 3-5 years. The voters cannot remember the effectiveness of the decisions of the Minister for their whole tenure. People usually have a short memory. In this scenario the ordinary citizen operates under a great uncertainty.

Third, there are a large number of environmental, political, socio-economic factors which influence the final outcome of the decisions. It is not possible to assign responsibility for the outcome to any particular person. Most of these environmental factors are beyond the reach of the management. For example, inflation takes place in the economy due to a host of domestic and external factors. No project manager has control over this factor. Therefore, we cannot easily hold him accountable for any cost over-run until we are able to segregate the cost over-run caused by the negligence of the project manager. Such an analysis, by itself, is not simple and fool-proof.

Fourth, the turnover of government functionaries in departments is such that often the person who was actually responsible for taking certain decision had left and another person had taken over. But because of the office he holds, the present incumbent is

required to defend the decisions taken by his predecessor. (Personally, he may not be himself convinced of those decisions.) Such a situation dilutes the entire process of accountability.

Fifth, the system of reward and punishment in the government is often unclear. It is doubtful if a person can be truly identified and punished in a government set up. The system is both cumbersome and inefficient.

Sixth, it becomes difficult to enforce accountability if the person responsible for a wrong decision uses the shield of the organisation. By this we mean that government servants often take the plea that if they have done anything wrong it was for the benefit of the organisation and not for their personal gain. What are the ethical limits on such decisions? It is not clear. People can be often excused for behaving in this manner.

Seventh, in government service the interference of politicians often vitiates the process of accountability. A person who is likely to receive the blame or some punishment gets away with his actions if he is able to get hold of an influential politician who can support him. This may be a form of corruption but in a number of countries this is a way of life.

**Issue No. 10:**

Are there guidelines in your SAI for the auditors to focus the report on accountability of any particular group, such as ministers, senior civil servants, operational staff?

**Issue No. 11**

Are there any examples in your SAI where the audit report could identify the persons responsible for some irregularity yet the system did not permit any action against them? Was it due to unrealistic rule, high turnover of persons, political interference or all of these factors?

## **5.2 Political Partisanship**

Legislators sometimes are tempted to use the auditors' work for their political ends. They may request for a certain audit with a specific focus which may expose their political opponents. They may like to use the information of the audit report, sometimes out of context, to make political capital. Both these situations are not good for the professional standing of the auditors. The auditors should be able to decide for themselves the areas to be audited and the scope of their audit in the light of their professional judgement.



Issue No. 12:

Do you receive in your SAI any requests from individual legislators for auditing any particular organisation and with a specific angle?

Issue No. 13:

Do you have any experience of legislators using your performance report for their partisan interests?

## 6. CONCLUDING REMARKS

Performance audit report is a vehicle to give an assurance to various stakeholders that the accountability relationships are served adequately. Simultaneously, it provides a mechanism for the management to have an independent and objective assessment of their performance with suggestions for improvement. Despite the fact that these ideas are fairly straightforward there are still a number of issues which remain unsettled. The accountability concept is inherent in the governing process of the nation. It is also in the interaction of public officials, legislators and citizens that the role of Performance Auditing gets defined, in terms of knowing whether government funds are handled properly. One would also like to know whether organizations are achieving their purposes, and programmes and services are operating economically and efficiently. It is therefore today's accepted dictum that Audit includes both financial and performance audits. The performance audit practice is continuously evolving and ideas are being crystallised. However, there is a lot much to be learnt from one another. Information on the practice of performance auditing in different countries can help enlighten our path.

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<sup>1</sup> The present paper uses various terms for performance auditing interchangeably and ignores the fine differences in the precise connotations of these terms.

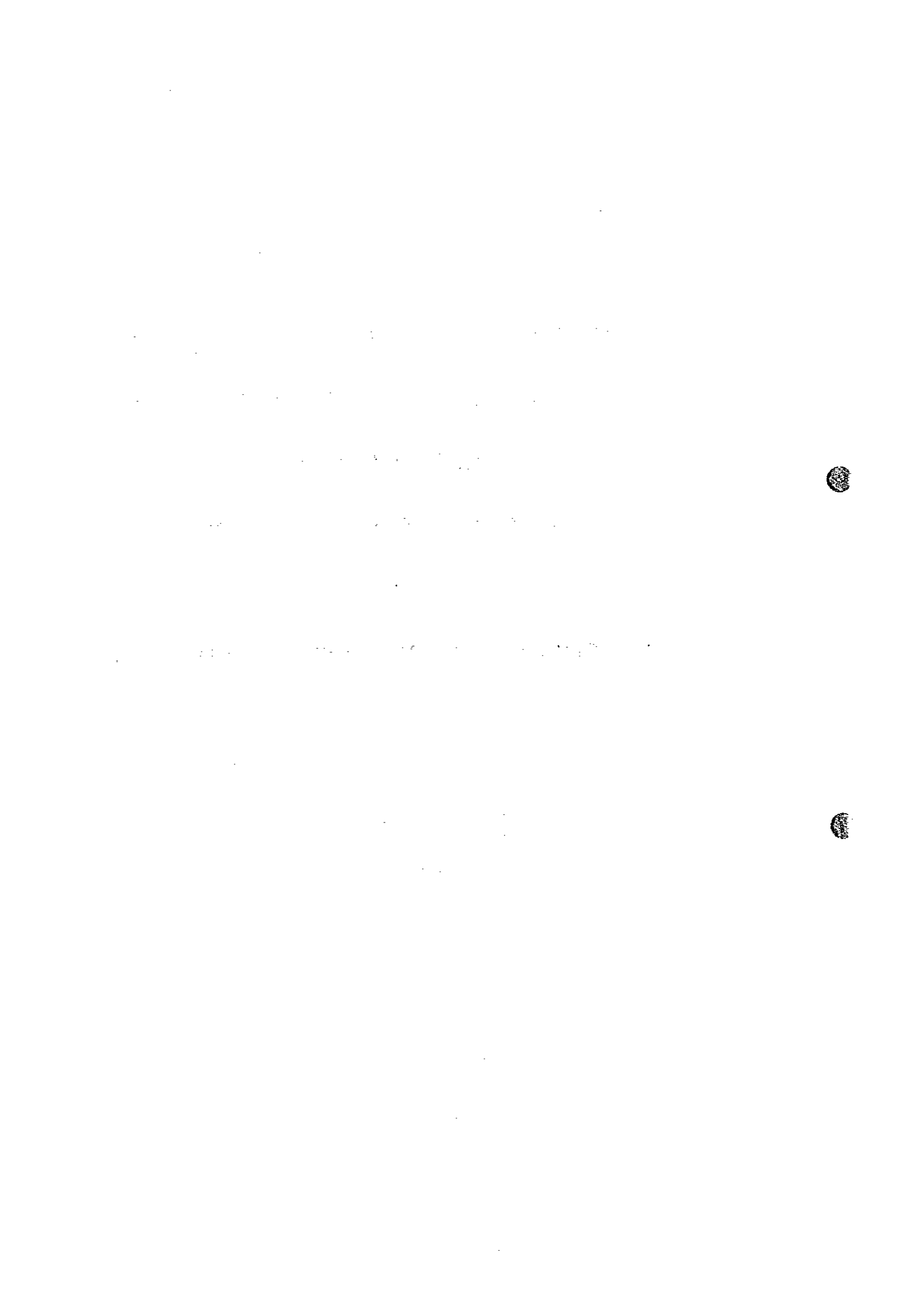
**Comparative Review Paper**  
**on**  
**Sub-theme 2**

**The SAIs Performance Audit Report  
and its Utilization by  
Legislature and Executive**

**Prepared by:**  
**Office of the Auditor General,**  
**Pakistan**

**PERFORMANCE AUDIT REPORT AND ITS  
UTILISATION BY THE EXECUTIVE AND THE  
LEGISLATURE  
SUMMARY OF COUNTRY PAPERS  
FOR  
THE ASOSAI ASSEMBLY 1997 AT INDONESIA**

**PREPARED BY  
SAI OF PAKISTAN**



BISMILLAH AL-RAHMAN AL-RAHIM

# PERFORMANCE AUDIT REPORT AND ITS UTILISATION BY THE EXECUTIVE AND THE LEGISLATURE\*

## SUMMARY OF COUNTRY PAPERS FOR THE ASOSAI ASSEMBLY 1997 AT INDONESIA

### 1. INTRODUCTION

The present paper is a bare summary of the country papers received on sub-theme 2 for the ASOSAI Assembly to be held in Indonesia in October 1997. The subject of the sub-theme is:

*The SAIs Performance Audit Report and Its Utilization by the Legislature and the Executive*

Pakistan prepared the principal paper on the sub-theme. The principal paper divided the subject into three parts as follows:

- Performance audit report
- Utilization of performance audit report by the executive
- Utilization of the performance audit report by the legislature

It discussed these subjects briefly and identified issues relating to each subject. In all, the principal paper raised thirteen issues.

The member countries of the ASOSAI received the principal paper and attempted the position of their respective countries on each issue. The format of the principal paper expected the member countries to develop their position in the same sequence as the issues raised in it. In all eleven countries responded. The list is at the end of this paper.

While attempting this paper, we have tried to group countries which had similar responses on an issue. This by itself is a formidable task. We have tried to give a brief gist of the country papers. In no way can we claim precision as every country has its own peculiar circumstances and trying to club their position under similar responses can never depict a precisely true picture. At best, it can be a rough summary, trying to identify, in the form of groups, countries which have nearly similar position on a particular issue.

### 2. GENERAL OBSERVATIONS

2.1 Not all SAIs addressed all the issues raised in the principal paper. It was because in some countries their peculiar circumstances or their legal framework made some issues redundant. While making a summary we have indicated the names of the countries which addressed a particular issue.

2.2 Saudi Arabia, Jordan, and Indonesia did not follow the format suggested by the principal paper on the subject. They gave a general description of their constitutional and legal framework, clarifying the relationship of the legislature, the executive and the SAI. These papers did not exactly discuss the issues raised in the principal paper. But in general their

papers contained information on the subject. In issue-wise summary we have incorporated their position under respective heads.

### **3. ISSUE-WISE SUMMARY**

#### **3.1 Performance Audit Approach**

The principal paper identified three approaches to performance auditing:

- **Systemic Approach:** It focuses on the systems and controls and lays down audit criteria in the light of generally accepted management practices. The audit examination compares the criteria with the actual practice.
- **Effectiveness Attributes Approach:** Developed by the CCAF, it focuses on 12 effectiveness attributes on which the management prepares representations and the auditors give an opinion on the position of the management on each effectiveness attribute.
- **Performance Measurement by Auditors:** In this approach, the auditors carry out performance measurement on a pre-agreed measurement scale.

On the basis of this discussion the principal paper raised the following issue:

#### **Issue No.1**

Which particular audit approach do you adopt in most of the cases? Do you follow more than one approach? Do you adopt an audit approach which is not covered in the three approaches discussed above. If so, what are its main features and how it affects your audit report?

A summary of the responses was as follows:

**Bangladesh, Japan, Jordan, Korea, Nepal, Pakistan:**

Combination of systemic and performance measurement approaches:

**Cyprus, India, New Zealand, Saudi Arabia:**

The systemic approach is applied.

Cyprus also uses Effectiveness Attributes Approach occasionally.

#### **3.2 Performance Audit Scope**

The principal paper raised the following issue after discussing briefly the importance of performance audit scope and its various dimensions:

#### **Issue No. 2**

What are the main factors which guide you in determining the scope of audit in your SAI? Does the performance audit report in your SAI describe the scope of audit? If so is it obligatory to do so? Who has made it obligatory? Are there any instances of performance audit reports in your SAI where the scope of audit was limited by some agency or authority?

**Bangladesh, Nepal, Pakistan:**

a) Factors influencing scope of audit:

- Financial resources
- Qualified personnel
- Audit objectives

- b) Scope of audit described in the PSR and sometimes in the audit report as well.
- c) No restriction on the scope of audit.

**Cyprus:**

- a) factors affecting the scope of audit:
  - Magnitude of activity, project or program
  - Money value
  - Impact of such activity on other programs
  - Availability of staff
  - Expected findings
  - Impact of final report on auditees, executive and legislature
- b) The scope of audit is mentioned in the audit report.

**India:**

- a) Factors affecting selection of project:
  - Money value
  - Complexity of the scheme
  - Topical interest of the legislative assembly
- b) Scope of the audit is not subject to any limitation nor obligatory to mention in the audit report. But in practice it is usually mentioned.

**Japan:**

- a) Factors affecting selection of project for audit:
  - Availability of data
  - Human and physical resources
  - Time needed for audit
- b) Scope of audit is mentioned in the audit report.

**Jordan:**

- a) Factors influencing selection of project for performance audit:
  - Visibility and sensitivity of the program under audit
  - Newness of the program or changes in its conditions
  - Expected improvement in accountability and decision-making
- b) The report discusses the subjects covered.

**Korea:**

- a) Factors affecting selection of an audit:
  - Money value
  - Newness
  - Multiyear funding
  - Improper implementation
  - Economy and efficiency
  - Interest of large numbers of people
  - Institution-building
  - Internal controls

- b) No limitation on scope of audit. But performance audit of legislature, judiciary and constitutional court not allowed.

**New Zealand:**

- a) Scope of audit is determined after carrying out the risk analysis and the benefits from the proposed audit
- b) Each report describes the scope of audit and the reasons for concentrating on particular aspects of the audit.
- c) It is obligatory to describe the scope of audit but is usually done to make the report more understandable.
- d) The only statutory limitation is on the audit of policies. Other limitations are self-imposed in each case.

**Saudi Arabia:**

The report discusses the subjects covered.

**3.3 Intended Degree of Audit Assurance**

The principal paper emphasized the need for specifying the intended degree of audit assurance which a reader of the performance audit report should get. It highlighted the fact that there was as yet no standard format for communicating the degree of assurance to the reader of the audit report. In this perspective it raised the following issue:

**Issue No. 3:**

In your SAI, how do the performance audit reports communicate the degree of assurance the reader should obtain from them? [You can quote the language used for the purpose of illustration.]

**Bangladesh, Pakistan :**

There is no mechanism to communicate the degree of assurance the reader should obtain from the audit report.

**Cyprus, India, Nepal, New Zealand:**

The degree of assurance is provided by mentioning the scope and method of audit. Sometimes it is done by comparing similar auditees.

**Japan:**

Quantifies the audit results as far as possible. While presenting the results, classifies the achievement of objectives into different levels, e.g. those projects which achieved 50% of the objects, or those which achieved 30% of the objectives, etc.

**Korea:**

The report usually indicates the frequency of the defect noted or quotes some percentage. It avoids reporting in such a manner as may mislead the reader.

**3.4 Significance Criteria**

The auditors generally agree that the auditors should report only significant matters. It is also agreed that the auditors should try to keep their objectivity and impartiality in reporting their results. For these reasons, it is important that the auditors specify their significance criteria in their reports. On the basis of this general assertion the principal paper raised the following issue:



**Issue No. 4:**

In your SAI, is there a practice to specify the significance criteria in the audit report? If so, quote some examples of the language in which this was specified.

**Bangladesh:**

The projects for audit are selected on grounds of significance. The reasons for selecting are mentioned in the audit reports.

**India, Pakistan:**

No practice of specifying the significance criteria. However, in Pakistan PSR mentions the reasons for selecting an organization or project for audit.

**Cyprus, Jordan, Nepal, New Zealand:**

The audit report mentions the audit criteria.

**Japan:**

Does not mention significance criteria, but quantifies the audit findings in terms of money value of the waste, or the possible savings, loss incurred, or expected benefits, etc.

**Korea:**

No significance criteria for reporting has been laid down. However, matters involving large sums or large number of people or ethical conduct are selected.

**3.5 Management Perception**

The principal paper argues that the full utilization of the performance audit report by the executive is possible only if the executive aware of its objectives and framework. For this purpose some sort of "marketing" effort is necessary. In the light of this main point, the principal paper raised the following issue:

**Issue No. 5:**

In your SAI, what formal and informal efforts have been made to make performance auditing a going concern for the executive departments? How far these efforts have borne fruit?

**Bangladesh, Nepal, Pakistan:**

Seminars, regional conferences, workshops.

P.A. has gained acceptability with the executive agencies.

**Cyprus:**

Meetings are held with the auditees where the purpose and scope of audit is explained. Positive character of P.A. is highlighted.

**Japan:**

- Close communication with the auditees throughout audit to ensure that audit objectives are understood by them.
- Understanding of the audited organizations by the auditors and the type of information they generate.
- Different levels of scrutiny of audit findings to ensure fairness and objectivity.

**Korea:**

- Specialists participate in performance audit.
- Auditors consult researchers and professors for best advice.
- Discussions with the project managers.

### 3.6 Auditors' Competence

One of the conditions for fruitful performance auditing is that the auditors should be fully conversant with its procedures. They should have the imagination, creativity and competence to handle different types of assignments in performance auditing. The issue raised by the principal paper was:

**Issue No. 6:**

In your SAI, what efforts have been made to reinforce the competence of the auditors enabling them to audit technical areas? How far these efforts been successful?

**Bangladesh, India:**

Theoretical training, supply of reading material and formation of audit teams with senior members as leaders.

**Japan, Korea:**

Employment of specialist staff, 19 CPAs, 5 lawyers, 7 tax accountants, 2 real estate evaluators, 84 business management counselors, 2 architects, 11 technical experts, 10 auditors with Ph. D.

Japan also trains its recruits who are fresh from the university. In-service training is also arranged for other levels.

**Pakistan:**

Training is carried out by specialists of technical fields.  
Consultants are helping the auditors in the field during audit.

**New Zealand:**

Employment of qualified auditors in the first instance.  
Engaging experts as advisers.

**Cyprus:**

Besides accountants, civil and mechanical engineers are also employed by the SAI to help the auditors.

### 3.7 Recommendations

The performance audit report can make general or specific, short or detailed recommendations. The practice differs in each country. The principal paper raised this issue to synthesize the position.

**Issue No. 7:**

In your SAI, what are the standards for making recommendations? Do you make recommendations in detail or merely identify a problem and indicate direction for action? Is there any system of follow-up on the compliance of the audit recommendations in your SAI?

**Bangladesh:**

No standards for practice. No report has been placed before the legislature so far.

**Japan, Korea:**

- Makes a specific recommendation if the improvement required is obvious.
- Suggests alternatives. Decision to be made by the auditee.
- Points out only problems; leaves the remedial action upon the auditee.

- Japan follows up its previous recommendation until action recommended is taken and case is closed.

**Pakistan:**

Make general recommendations.  
System of follow-up exists.

**Cyprus, Jordan, Nepal:**

- Indicate areas for improvement.
- Recommendations are in detail.

**New Zealand:**

- No standards. Make general recommendations.
- The style of recommendation depends on nature of the audit conclusion.
- Follow-up audits are being considered these days.

**3.8 Auditee Response to Recommendations**

The executive respond to the performance audit report recommendations in a variety of manner. It could be positive, negative, lukewarm, enthusiastic or indifferent. The principal paper raised the following issue:

**Issue No. 8:**

What has been the reaction, in general, of the executive toward recommendations made in your performance audit reports? Will you like to cite any specific example where the management accepted your recommendations with positive outcomes in the future?

**Bangladesh:**

The executive are not fully aware of the context and scope of performance audit. Some are apprehensive others favor it.

**India, Japan, Pakistan:**

Generally favorable.

In India, through free and frank discussion, the mutually agreed set of recommendations emerges. The executive takes remedial action, generally, quite promptly. The paper cites examples of 25 cases of a wide variety where the recommendations of the auditors were accepted by the executive.

In Japan, the executive implements all the recommendations, during or after the audit. In case the implementation requires a long term action, the executive does so over years.

The paper from Pakistan cited examples of six recommendation made for improving performance of the Hajj office. The government accepted those recommendations.

**Nepal:**

Generally positive. The auditors discuss the findings and recommendations with the auditee before including them in the report. Gives example of four recommendations in case of an organization engaged in agricultural research.

**Korea, New Zealand:**

The recommendations are agreed with the auditees before hand. They react positively and often implement

**Jordan, Saudi Arabia:**

Royal Orders are issued and cabinet decisions are taken on the basis of recommendations made by the SAI.

**Cyprus:**

A committee of auditee and SAI staff discusses the recommendation and strategy to implement them. The general reaction of the executive is positive.

Cites example of an audit of Driving Schools where the auditee accepted the recommendations within a week.

### 3.9 Lessons for the Future

One of the objectives of performance auditing is to learn lessons for the future. But this is possible if we have an institutional arrangement to do so. The principal paper raised this issues as follows:

**Issue No. 9:**

Is there any institutional arrangement in your country to ensure that the executive departments make use of the recommendations of the audit while planning future projects?

**Bangladesh, Cyprus, Nepal, Pakistan:**

No institutional arrangement.

In Cyprus, the Council of Ministers issued a circular in March 96 Prescribing a procedure for dealing with the SAI report. The Ministry of Finance issued a circular to get a compliance report on the decision of the Council of Ministers. A Ministerial Committee along with the Auditor general and the Attorney General will examine the replies of the Ministries to be submitted to the Council of Ministers.

**India, Korea:**

In India, the executive departments have to report back to the PAC in the form of Action Taken Notes (ATN) on the audit reports. In Korea, the law makes it compulsory for the auditees to take action on the recommendations of the SAI and inform it accordingly. Repeated problems indicate serious and deeper institutional and systemic problems.

**Japan:**

The Board of Audit holds regular meetings with the Ministry of Finance and other executive agencies, explaining to them the audit recommendations. It also takes several measures to educate its clients about the audit findings. The objective of all this is to ensure that the executive departments remain aware of the audit requirements for the future.

**New Zealand:**

The Parliamentary select committees, during the annual review of performance of the departments ask if the audit recommendations are being followed and if not why. The SAI encourages the select committees to do so.

### 3.10 Special Focus

The accountability of public servants and that of the politicians involves different sets of problems. The SAIs may consider giving a special focus to an audit assignment, depending upon the nature, scope and background of the auditee. In this regard, the issue was:

**Issue No. 10:**

Are there guidelines in your SAI for the auditors to focus the report on accountability of any particular group, such as ministers, senior civil servants, operational staff?

Bangladesh, Cyprus, India, Japan, Korea, New Zealand, Pakistan, :  
No guidelines.

Nepal:

General guidelines exist to see that the accountability relationships are served properly.

**3.11 Systemic Inertia**

Despite the best stuff in the audit report and despite the agreement by the executive to implement it, sometimes, the overall system of governance does not allow its implementation. What is the position in individual countries?

**Issue No. 11**

Are there any examples in your SAI where the audit report could identify the persons responsible for some irregularity yet the system did not permit any action against them? Was it due to unrealistic rules, high turnover of persons, political interference or all of these factors?

Cyprus:

Yes. There are examples where action could not be taken against the persons responsible due to:

- lack of adequate evidence
- influence of the persons
- faulty rules
- lengthy investigation procedure

Pakistan:

There is no systemic obstacle to take action against the person responsible for some irregularity. However, Government Servants (E & D) Rules sometime stand in the way.

Japan, New Zealand:

Performance audit are not focused on any person in the first instance. Action against a person, if necessitated by the audit, will be taken after due process of law has been observed. There is no systemic obstruction in it.

**3.12 Legislative Requests**

The legislatures in certain countries request the SAI to carry out investigation into a certain question and to report back in a non-traditional manner. The issue in this regard was:

**Issue No. 12:**

Do you receive in your SAI any requests from individual legislators for auditing any particular organization and with a specific angle?

**Cyprus, Nepal, Pakistan:**

No references from individual legislators. No formal arrangement exists for liaison with the Parliament.

**Japan:**

The Board of Audit remains conscious of the debate in the Diet and selects topical issues. But the BOJ is totally independent in the selection of topic.

**Korea:**

Only recently, the SAI has started receiving requests from the national Assembly or local councils for investigation into some specific issue or area and the SAI considers these requests.

**New Zealand:**

Individual MPs are free to suggest any particular organization or its particular aspect to be audited. The SAI has the final say in deciding about it.

### 3.13 Partisan Interests

Performance audit report, because of its independence, can also be a good stick in the hands of the interested parties. It is possible, that the report of the auditors is used by the legislature or the executive to whip a certain category of persons. The main issue in this regard was:

**Issue No. 13:**

Do you have any experience of legislators using your performance report for their partisan interests?

**Cyprus, India, Nepal, Pakistan:**

No such experience.

**Japan, Korea, New Zealand:**

Audit reports are public documents. MPs are free to use them. Opposition members do use them for asking questions from the Ministers or in Japan and Korea, for expediting remedial action.

**LOG OF THE DATES ON WHICH COUNTRY PAPERS WERE RECEIVED BY THE REVIEWER**

<b>DATE</b>	<b>COUNTRY</b>
23.10.96	Pakistan
1.12.96	Saudi Arabia
11.12.96	Bangladesh
21.12.96	New Zealand
21.12.96	Nepal
29.12.96	Jordan
9.1.97	Cyprus
30.1.97	Republic of Korea
24.2.97	India
28.2.97	Japan
19.5.97	Indonesia

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*1. Australia*

**Country Paper**  
**on**  
**Sub-theme 2**

The SAIs Performance Audit Report  
and its Utilization by  
Legislature and Executive

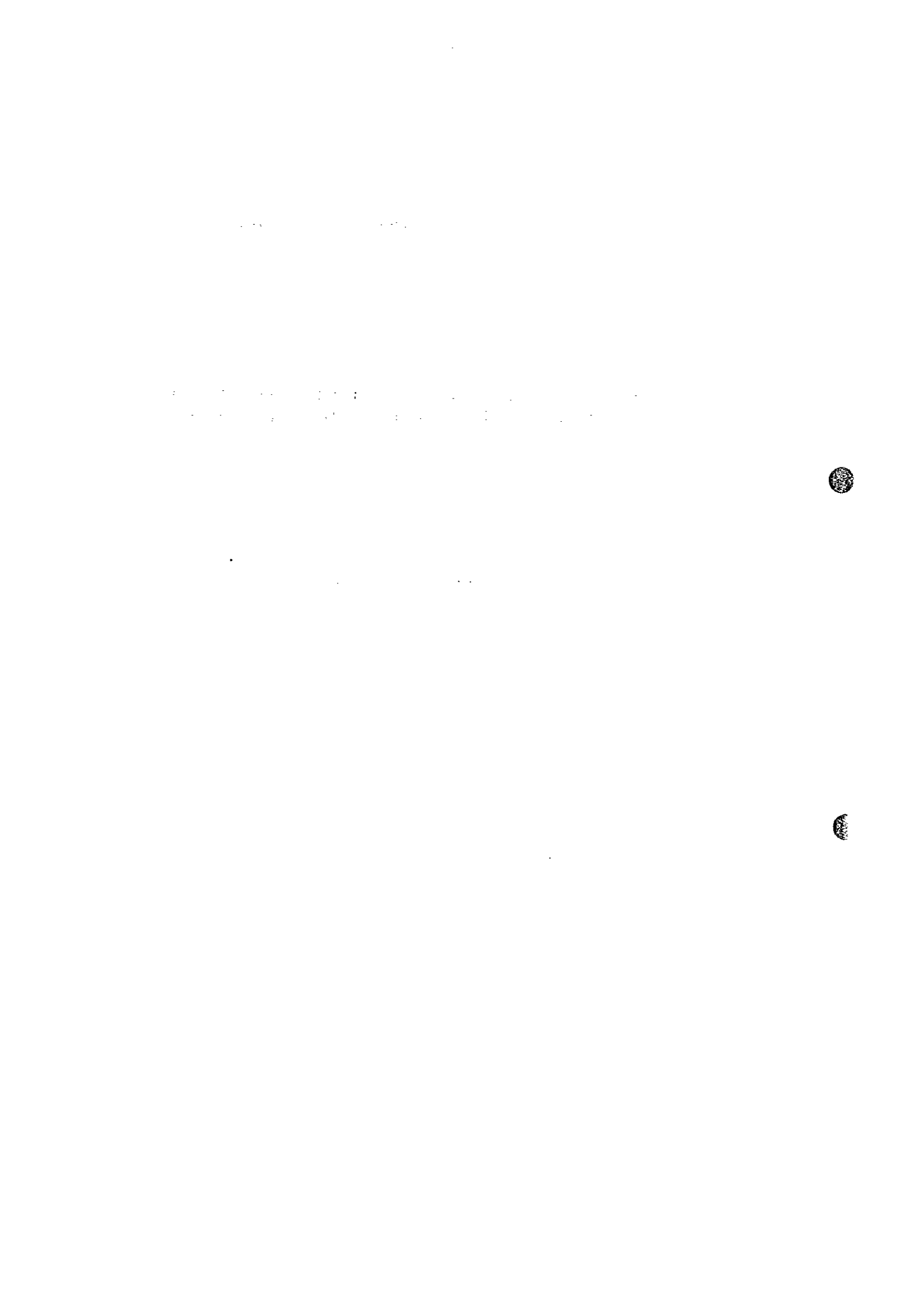
Prepared by:  
Australian National Audit Office



**6TH ASOSAI INTERNATIONAL SEMINAR 1997**

**SUB-THEME II - PERFORMANCE AUDIT REPORT AND ITS  
UTILISATION BY THE EXECUTIVE AND THE LEGISLATURE**

**PAPER BY AUSTRALIA**



# **PERFORMANCE AUDIT REPORT AND ITS UTILISATION BY THE EXECUTIVE AND THE LEGISLATURE**

**Country Paper - Australia**

## **INTRODUCTION**

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

Improvement in public administration through performance auditing is achieved both directly and indirectly. It is brought about directly by agencies reacting to audit findings during the audit, or implementing audit recommendations after the audit is completed. Indirect effects include the incentive for agencies to improve performance because of the knowledge they may be audited, and through promulgation of audit findings, including best practice findings, to a wider audience than the original auditees. The Australian National Audit Office (ANAO) is devoting increased attention to the production of better practice guides.

## **OUTLINE OF THE PAPER**

This paper firstly outlines the relationship between the ANAO and the Australian executive and legislature. It then discusses in the Australian context the three main areas that have been identified in the principal paper prepared by Pakistan. These areas are:

- performance audit reporting;
- utilisation of the performance audit report by the executive; and
- utilisation of the performance audit report by the legislature.

### **Relationship between the Australian National Audit Office and the Australian executive and legislature.**

The Australian federal system comprises three tiers of government: national (Commonwealth), state or territory, and local. The powers of the national and state governments are set out in the Australian Constitution. The Supreme Audit Institution (SAI) is the Australian National Audit Office (ANAO), headed by the Auditor-General for the Commonwealth. Each State and Territory has established its own Auditor-General and audit office.

For the purposes of this paper, the executive is taken to be all the Departments of State, statutory authorities and other organisations (referred to as agencies in this paper) at a Commonwealth level which report to, or are headed by, a Minister. All Commonwealth Ministers are also members of the legislature (the Commonwealth Parliament).

The Auditor-General for the Commonwealth has a central place in the process of public accountability. The executive is accountable to the Parliament, which relies on the Auditor-General for independent assurance as to the fulfilment of the public accountability obligations of public sector bodies.

In deciding on performance audit topics, the ANAO consults Parliament, especially our Joint Committee of Public Accounts which we treat as our audit committee pending probable confirmation in a proposed Auditor-General Act. The Auditor-General, however, retains complete discretion in the selection of performance audit topics. Government business enterprises are an exception; performance audits are conducted in these enterprises only on request by the Parliament or a responsible Minister.

Under the *Audit Act 1901* the Auditor-General and his staff in the ANAO have wide powers of access to the executive's officials, places of work, and documents, including Cabinet documents.

Audit reports are tabled in each house of the federal Parliament. Once tabled, they attract the protection of Parliamentary privilege. Reports are also distributed to agencies and other interested parties, and are available for sale to the general public. Tabling and distribution of audit reports cannot be limited by the executive, except where disclosure of information (e.g., national security information) in a report would not be in the public interest. The combination of parliamentary privilege and wide public distribution gives the audit report significant influence with the executive. This influence is increased further when parliamentary committees hold public hearings based on an audit report. Action on report recommendations is also followed up by the Department of Finance with the relevant agencies on a six monthly basis and advised to the Parliament by the Minister for Finance.

In summary, the choice of audit topic, execution of the audit, publication of the audit report and any further consideration by Parliament are independent of the executive. Nevertheless, the ANAO strives to maintain good relations with the executive in order to pursue its comprehensive mandate efficiently and effectively. Direct reports are made to Ministers on agencies' financial statement audits as well as annually to the Parliament.

## **PERFORMANCE AUDIT REPORTING**

### **Performance Audit Approach**

#### *Issue No. 1 - Which audit approach or approaches are adopted?*

The ANAO employs each of the three approaches described in the principal paper, but generally employs the systemic approach focusing on the use of criteria for performance measurement. This is in accordance with Australian Auditing Standards.

The ANAO considers identified and transparent criteria can help to:

- form a common basis for communication within the audit team and with ANAO management concerning the nature of the audit;
- form a basis for communication with the agency management. The audit team will seek management comments on proposed criteria. If criteria are agreed, this assists eventual acceptance of audit findings;
- form a basis for the data collection phase of the audit, providing a basis on which to build procedures for the collection of audit evidence; and
- provide the basis for audit findings, helping to add form and structure to observations.

The degree to which specified criteria are successful in serving these uses is often determined by their level of detail and the form they take. General and specific audit criteria are acquired or developed during the preliminary study. As the preliminary study progresses these criteria are usually expanded and made more specific. By the end of the preliminary study, the criteria will be sufficiently detailed and specific to give clear guidance for the implementation stage of the audit and in developing specific audit programs to test the criteria.

It is unrealistic to expect that activities, systems or levels of performance in economy, efficiency and administrative effectiveness areas will always fully meet the criteria. Satisfactory performance does not mean perfect performance but performance at a level that a reasonable person would expect, taking into account agency and other circumstances.

The other two approaches described in the principal paper are also used by the ANAO, where appropriate, to supplement this first approach. For example, there can be advantages in using the agencies' own statements of performance or intended performance as a basis for developing suitable criteria.

Unless the agency has the relevant data, direct measurement of performance is rarely attempted. It is an expensive process, which the ANAO could justify only where such measurement is likely to add significant value to the audit conclusions and recommendations. Nevertheless, a performance audit reviews any available performance measures or indicators as a matter of course.

### **Performance Audit Scope**

*Issue No. 2 - What are the main factors which guide you in determining the scope of audit? Does the report describe the scope and, if so, is it obligatory? Are there instances of scope being limited by some agency or authority?*

The ANAO distinguishes between two related concepts: the scope and the focus of audits.

The audit scope ensures that fieldwork is clearly bounded, and so assists in producing an audit of reasonable extent and cost. Scope will often be defined by stating what an audit will not cover. Audit focus defines those aspects within the scope which will receive most emphasis.

Audit scope and focus may address any combination of agency parameters. Some examples are:

- organisational segments;
- programs or sub-programs;
- management systems;
- services or product lines; and
- specific aspects of agency performance; e.g. equity.

Definition of scope and focus is often assisted by considering the reasons for conducting an audit. For example, if the main issues leading to choosing an audit topic relates to accountability and probity, then measuring efficiency will be of lesser consequence.

It is mandatory in Australia for all performance audit reports to describe the scope of the audit. This requirement is set out in the Australian Auditing Standards which have been adopted by the ANAO as part of the ANAO Auditing Standards. It is important that the report describes the objective and scope of the audit so that readers can understand and properly interpret the results.

One practical limitation to the scope is the availability of resources. The ANAO normally uses teams of two or three performance auditors and aims to complete a performance audit in less than one year. These two factors together lead to the need to carefully define scope and focus in order to complete an effective audit within the resources and time available.

In initial discussions with agencies on the conduct of an audit, agencies sometimes seek to reduce the scope of an audit; for example, on the grounds that an area has been recently reviewed or is subject to considerable change. The ANAO will consider such comments, but has sole discretion for setting the scope of the audit. Normally the ANAO will seek to conduct co-extensive or complimentary audits to any other review or evaluation activity to minimise overlap, duplication and cost.

### **Intended Degree of Audit Assurance**

*Issue No. 3 - How do performance audits communicate the degree of assurance the reader should obtain from them?*

The ANAO communicates the required assurance by careful articulation of the scope and strength of the findings, and by stating that the audit has been conducted according to ANAO Auditing Standards.

### *Auditing Standards*

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

INTOSAI's Auditing Standards encompass all these aspects. They are also reflected in ANAO Auditing Standards, which incorporate the new series of Australian Auditing Standards and Auditing Guidance Statements. Each performance audit report indicates that the audit was conducted in conformance with ANAO Auditing Standards.

### *Expression of Findings*

The ANAO Auditing Standards call on auditors to express in the report the reasoning which leads to recommendations. In addition, a range of expressions and qualifiers are used to express the strength of the assurance given. These range from unqualified statements (where the assurance given is high) to qualifiers such as 'According to the Department's data ...'. These are sufficient to give the appropriate degree of assurance to the reader. Where findings are based on a sample, the nature of the sample is described in the report, and the appropriate conclusion drawn with any reservations/qualifications expressly stated.

### **Significance**

*Issue No. 4 - Is there a practice to specify the significance criteria (for reporting findings) in the audit report?*

The ANAO considers that report content should reflect the interest/concerns of the SAI's intended report audience. For the ANAO this is primarily the Parliament. Therefore, the content and style of the report strongly recognises the needs of this audience; that is, they are written concisely with appropriate summaries and key points and with minimal use of jargon and technical language. The issues that are highlighted are those that are considered to have significant public interest. At the same time, the ANAO recognises that the agencies are also a key stakeholder, and the audit report should be of significant use to them, for example, in implementing various public sector reforms and related better practice.

The ANAO concurs the factors in the principal paper listed as influencing auditors about what to report. In particular, we would emphasise materiality, especially potential for savings, accountability and any inaction on previous reports. However, the ANAO does not have explicit criteria for deciding what should be reported generally or in particular cases.

Deciding which items to include in a performance audit report remains a matter of judgment of their value in improving public administration. The ANAO seeks to produce focused reports which normally do not exceed 40/50 pages. Together with our evidentiary requirements, this generally constrains the number of issues included in the report, ensuring a strong focus on key issues.

Considerably greater details are provided to agencies through issues papers prepared as part of the audit. These documents allow full details of findings to be put to the agency, even if the more minor findings are not finally published. They often relate to specific chapters of the final report to facilitate its final production.

## **UTILISATION OF THE PERFORMANCE AUDIT REPORT BY THE EXECUTIVE**

### **Management Perception and Auditor's Competence**

*Issue No. 5 - What formal and informal efforts have been made to make performance auditing a going concern for the executive departments? How far have these efforts borne fruit?*

*Issue No. 6 - What efforts have been made to re-inforce the competence of the auditors enabling them to audit technical areas? How far have these been successful?*

The ANAO considers there are three key issues in relation to these matters:

- ongoing and effective communication with the agency on specific audits;
- building overall relationships and better understanding with agencies; and
- ensuring performance auditors have relevant skills to be credible with agencies in the audit process and to produce highly functional reports.

### **Communicating with the Agency**

The ANAO seeks to maintain open, honest and productive two-way communication with agencies. Performance auditors seek a clear understanding of the goals, objective, strategies and priorities of any area subject to audit and endeavour to agree audit criteria in the early stages of the audit process.

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

The ANAO seeks an outcome both parties are at least broadly able to agree, as this is more likely to lead to improvements in performance and accountability of public sector agencies. This does not mean that the ANAO settles for a compromise solution. Instead, we seek agreement by ensuring good communication and understanding of issues and mounting a compelling argument. Often this can be achieved by a balanced



presentation of the audit indicating good levels of performance as well as those that can be improved and possible means where we have the knowledge and expertise.

The ANAO is required by 'natural justice' (procedural fairness) to seek comment from anyone whose reputation or interests might be adversely affected by a forthcoming audit report. It is usual to provide such people with only parts of the report relevant to them. They are also given adequate notice and opportunity to respond to the selected material.

### **Agency relationships**

Performance auditing, by its very nature, can often lead to at least some tension between the agency and the SAI. The ANAO manages this tension through developing a co-operative two-way relationship with agencies, built on early and extensive communication and exchanges on a professional basis between audit staff and agency management.

One significant means of communication with agencies is the ANAO's annual Audit Strategy Documents which describe proposed audit activity in each agency. These are prepared after consulting with agencies and are distributed to nominated contacts after completion. The ANAO also maintains frequent liaison with departmental heads, seeking their overall views on audit activities and specific comments on key audits. A key outcome of a sound relationship is better identification of performance audit topics which are relevant both to the agency and to the Parliament. This also assists in ensuring minimum overlap and duplication of other reviews and evaluation activity.

The ANAO also seeks feedback from agencies on whether the audit reports have been useful. This has been done by consulting agency executives and by surveys. Surveys are structured to assess agencies' views about the ANAO's work in general and to gain particular feedback on specific audits. These surveys also confirm to agencies that the ANAO seeks, considers and acts on their views and suggestions/criticisms.

### **Skills of performance auditors.**

The SAI's credibility depends mainly on the quality of its audit reports. Performance audits focus on mainly decision-making and management procedures and are by their very nature inter-disciplinary. The ANAO therefore employs performance auditors with strong analytical skills from a range of professional disciplines. They also have management skills and knowledge of policy or program subject areas. Use of such knowledge in audits has been assisted by setting up a skills register which summarises the experience and qualifications of each auditor and is available for consultation by audit managers when assembling audit teams.

Nevertheless, the ANAO does not have all required specialist knowledge, and therefore uses outside consultants for specialist tasks and in some cases specialist panels. The use of specialists can add credibility to the audit report although the SAI must take care to assure itself of the consultant's competence, aptitude and impartiality for the particular tasks involved. Over the years, the ANAO has engaged a wide range of expertise from the private sector, including medical practitioners, lawyers, taxation

specialists, construction industry consultants, statisticians and engineers, to assist in particular audits.

The ANAO sometimes looks for agency representation on performance audits not only as a source of intelligence and understanding of an agency's programs and structure but also as a means of personal development for all concerned. Most people and their agencies recognise the benefits of their being clearly part of the audit team and not the agency's representative on the audit team. For the most part this has worked effectively. Knowledge and expertise can transfer both ways with mutual benefits.

The ANAO also has a program of staff interchange with agencies. In this case, agency staff usually work on a performance audit of an agency other than their home agency. This program adds to skills and builds relationships with agencies.

The ANAO recognises that we cannot match the agencies' experience with and knowledge of the audited activity. Instead, we emphasise that the critical attribute for performance auditing is not subject knowledge but the ability to analyse independently a management system using methods such as the review of performance information and management controls.

### **Audit Recommendations**

*Issue No. 7 - What are the standards for making recommendations? Do you make recommendations in detail or merely identify a problem and indicate direction for action? Is there a system for following up compliance with audit recommendations?*

*Issue No. 8 - What has been the reaction, in general, of the executive toward recommendations made in performance audit reports?*

ANAO audit reports are addressed to Parliament, but the recommendations contained in them are predominantly for action by agencies. They do not address policy issues.

The development of recommendations for improvement in performance is an important part of performance auditing. Recommendations are developed in a positive fashion particularly where unfavourable findings are made and significant adverse effects have been identified. The ANAO also makes 'better practice' recommendations where good practice observed in one area is recommended, at least for consideration, of other areas of government administration. Although recommendations usually focus on the improvements needed rather than how they should be achieved, it is appropriate to indicate broadly what issues might be examined by management when seeking appropriate solutions. In that way the report acts more as a catalyst for appropriate action rather than providing consultancy advice.

ANAO reporting standards call for a description of the reasoning and evidence used to establish the areas of concern, an assessment of the significance of the problems and an analysis of how audit recommendations can lead to improvements.

The standards also call for recognition of management-initiated improvements and identification of factors outside management's influence or control. We also recognise management's views in the report in a summary fashion and, where appropriate, state reasons for non-acceptance of their views or for alternative options by the ANAO.

Recommendations need to be feasible and cost-effective. Potential cost savings and improvements in performance are quantified wherever possible. Where appropriate, recommendations outline necessary remedial action by the agency, together with priorities for implementation. It is, however, a function of management, not audit, to decide how to implement recommendations and to improve administration. Management has to be accountable for its decisions and actions. The ANAO focuses on a value added approach to public sector administration in our work.

The executive has a procedure for following up ANAO recommendations. Ministers are required to report to the Minister for Finance every six months on implementation of ANAO recommendations that relate to their portfolio. These reports assist the ANAO in selecting some audit reports for a formal follow-up audit, which itself results in a report tabled in the Parliament. Follow-up audits are conducted where the issues are considered important and there is a risk of non-implementation of recommendations. This is complimentary to the work of the JCPA in following up recommendations. Additionally, the Joint Committee of Public Accounts has recently implemented a change in its practice of reviewing ANAO audit reports. It now conducts follow-up hearings soon after reports are tabled. This reflects the importance they place on ensuring that agencies focus on action to implement our recommendations as well as resolving any differences of view.

The impact of audits can also be increased if they are considered by a parliamentary committee. In Australia, the Joint Committee of Public Accounts has the right to hold hearings on any audit report. Normally, it selects a sample of audit reports of particular interest to it. Some other parliamentary committees established to oversight particular areas of Government also hold hearings on audit reports of interest. These hearings, to which both agencies and auditors are invited, can act as further incentives for the executive to implement recommendations of the audit.

In general, the executive has been supportive of recommendations made in audit reports. In 1995-96, 92% of significant recommendations were accepted by auditees and the estimated annual potential benefit from performance audits was \$98m. Major potential savings in 1995-96 were proposed by audits of a diesel fuel rebate scheme and the resourcing of Department of Social Security's regional offices.

## Lessons for the Future

*Issue No. 9 - Is there any institutional arrangement to ensure that the executive departments make use of the recommendations of the audit while planning future projects?*

No, but the ANAO makes considerable efforts to try to get lessons learned from its audits into the wider arena of the public sector. Copies of performance audit reports are distributed to all departments and to interest groups and relevant bodies mentioned in the report. The ANAO has also created and marketed a series of 'Better Practice Guides' which condense the lessons learned from audits. These guides address topics such as asset management, outsourcing, internal audit and grant management. They are widely distributed and are sometimes formally launched to an audience of public and private sector officers.

In addition, senior executives of the ANAO are commonly invited to address conferences attended by senior public servants at which the main messages of audits can be further promulgated.

Follow-up audits and audit related services aimed at providing assistance in implementing better practice, sometimes as part of the audit, other times as a service which is charged for.

## UTILISATION OF THE PERFORMANCE AUDIT REPORT BY THE LEGISLATURE

### Accountability

*Issue No. 10 - Are there guidelines for the auditors to focus the report on accountability of any particular group, such as ministers, senior civil servants or operational staff?*

*Issue No. 11 - Are there any examples where the audit report could identify the persons responsible for some irregularity yet the system did not permit any action against them?*

In brief, the answer is no to both questions. The ANAO focuses on improvements on a system basis, and eschews where possible any implications of personal blame. If findings indicate suspected fraud, then the police are informed.

It is accepted that the social and economic environment can be such that a program can fail despite sound administration. It may be that the objectives are not appropriate or have ceased to be as relevant. Auditors attempt to identify and account for these environmental impacts when auditing programs.

Nevertheless, the ANAO accepts that if an audit report criticises the administration of a program, the executives in charge of that program will be required to account and to indicate appropriate and timely action to address the lack of performance. Where an audit criticism may be taken personally, it is incumbent on the ANAO under 'natural justice' to give the affected person a right to respond to the criticism. This is in addition to the opportunity given to the organisation to comment as a whole on the audit report.

The principal paper indicates that an incumbent of a position would defend the decisions of a predecessor. The ANAO's experience is that the replacement of one executive by another more often provide an opportunity or indeed incentive for the new person to accept audit recommendations directed towards genuine improvement.

### **Political Partisanship**

*Issue No. 12 - Do you receive any requests from individual legislators for auditing any particular organisation and with a specific angle?*

The ANAO has on occasion received requests from individual members of Parliament for specific audit activity, usually in the form of requests to follow-up on accusations of specific wrongdoings or apparent waste of public money. The approach the ANAO takes to such requests is to include them as part of the overall strategic planning information. When the information provided by the individual legislator, together with other factors, justifies an audit, the ANAO will plan to conduct the audit. The focus of the audit would tend to be an overall review of performance rather than a limited investigation of the particular accusation. The Auditor-General has sole discretion to select audit topics.

There have been occasions when the Senate (the upper house of Parliament) or the government has requested an audit. These requests have been infrequent but when received are generally accommodated within our audit program.

The overall level of legislative requests for audit has not been high and is not seen by the ANAO as a problem. The independence of the audit function from direction by the legislature or the executive has recently been reaffirmed by our Joint Committee of Public Accounts, which has recommended that a revised Auditor-General Bill should include the following:

The Auditor-General shall have complete discretion in the discharge of the audit functions set down in this Act, subject only to any duties imposed by statute. In particular, the Auditor-General is not subject to direction in relation to:

- (a) whether or not an audit is to be conducted;
- (b) the priority to be accorded to any particular matter; and
- (c) the manner in which an audit is to be conducted.

and

The staff of the Australian National Audit Office (ANAO):

(a) have a duty to assist the Auditor-General in the performance of the Auditor-General's functions; and

(b) may be directed only by the Auditor-General in the performance of audit duties.

*Issue No. 13 - Do you have any experience of legislators using your performance reports for their partisan interests?*

From time to time politicians use audit reports for their own purposes. The ANAO sees this as inevitable and part of the normal processes of a democracy. The key issue as auditors is to ensure that the audit report is totally balanced and fair and that any criticisms (or praise) contained within it can be justified by sound audit evidence. Careful presentation may ameliorate the more sensational style of media reporting. The ANAO focuses on producing balanced reports that add value by identifying good or best practice and indicating improvements that can be made from experiences elsewhere.

#### CONCLUDING REMARKS

The ANAO's main client is the Parliament but the ANAO's main daily contact is with executive agencies and executives, which have the major responsibility for implementing audit recommendations. Therein lies the difficulty in framing an effective audit report. The ANAO addresses this by maintaining open and effective relations with agencies throughout an audit and giving early advice of findings and proposed recommendations. Oral and written briefings are provided to the auditees on the progress of the audit.

The final audit report, however, is written for the principal client, Parliament. It is limited in length and expressed in language as free as possible from jargon and complex terms. The final recommendations are also intended to act as a sound guide to assist the auditee to improve public administration.

The publication of the final report and its consideration by the Parliament can act as an incentive for the executive to improve administration. In particular, the holding of hearings on the audit report by parliamentary committees can add further impact to the audit report.

ANAO  
December 1996

***2. Bangladesh***  
**Country Paper**  
**on**  
**Sub-theme 2**

The SAIs Performance Audit Report  
and its Utilization by  
Legislature and Executive

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

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6TH ASOSAI INTERNATIONAL SEMINAR 1997

COUNTRY PAPER : SUB - THEME - II

THE SAI'S PERFORMANCE AUDIT REPORT  
AND ITS UTILIZATION BY THE EXECUTIVE  
AND THE LEGISLATURE

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PREPARED BY : SAI, BANGLADESH

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# Country Paper on Sub Theme-II "The SAI'S Performance Audit Report and its utilization by the Executive and the legislature" for the 6th

## ASOSAI INTERNATIONAL SEMINAR 1997.

### Introduction :

Despite there is an increasing demand for the introduction of performance audit in view of the phenomenal change in the pattern of governmental activities which resulted in significant rise in the volume of public expenditure, Government audit in Bangladesh basically remains confined to financial audit. Although in the financial audit the auditors evaluate performance to some extent while analysing the balance sheet, profit and loss accounts and making comments on the utilization of installed capacity and achievement of targets, financial results etc., of the state owned enterprises, the need for evolving a full blown system for the operation of performance audit still remains. Today the legislators, the executives and the informed public are in no way less interested to know about the effectiveness of implementation and the achievements of intended outcomes of the various socio-economic and welfare programmes undertaken by Government at the cost of the poor tax payers money and costly borrowed funds. Against this background, the SAI of Bangladesh launched performance auditing programme a year back in addition to annual financial audit. It is indeed a humble beginning. In an attempt to move towards performance auditing some state owned enterprises and some Government projects/programmes have been brought under the coverage of performance audit. Performance auditing in Bangladesh is, therefore, passing through a formative phase. With this fact in view, we have brought to focus the practice and position of our country on the issues raised in the Principal paper.

### PERFORMANCE AUDIT REPORT

#### a) The support for performance auditing :

Two important aspects need to be assessed before undertaking the performance audit viz 1) The Audit Mandate and 2) The Audit Environment. They include, *inter-alia* :

- 1) **The Audit mandate**
  - a. Legislative support or legal mandate.
  - b. Need for performance auditing in view of accountability.
- 2) **The Audit Environment**
  - a. The political and legislative environment
  - b. The attitudes of the audited bodies.
  - c. Access to information.
  - d. Operational independence of the SAI.
  - e. Funding
  - f. The skills of audit staffs.

**Legal  
Mandate**

1) a. The C&AG of Bangladesh derives authority for exercising functions from the constitution of the People's Republic of Bangladesh [Article 128 (1)] and the C&AG'S [Additional Functions] Act, 1974. As per clause 11 of the C&AG'S [ Additional Functions ] Act, 1974 he may make rules and give directions in respect of all matters pertaining to audit of any accounts he is required to audit. But there is no explicit legal mandate in respect of carrying out performance auditing.

**Need in View of  
Accountability**

The need for performance auditing was felt long ago in order to evaluate the effectiveness of management of public resources. It is important to note that the Public Accounts Committee of the 5th National Assembly in its second report in the year 1993, advanced a recommendation emphasising the need for introducing "Comprehensive Audit" through gradual process.

**Political  
Environment  
and the  
attitudes of the  
auditee**

2) a. We cannot say that our socio-economic and political environment is an ideal one and the audited bodies are very much responsive to audit. Even then it is encouraging to note that the situation has much improved and is continuing to improve because of the sustained democratic practice since 1991.

**Access**

For the purpose of exercising his function the C&AG has access to all records, documents or the government property in the possession of any person in the service of the Republic and the C&AG is not subject to the direction or control of any other person or authority as per constitution.

**Independence**

Although the office of the C&AG is an attached department of the Ministry of Finance it does in no way hamper the operational independence of C&AG'S function. Funds need for the operation of audit by the C&AG are provided through the annual budget as charged expenditure i. e, the expenditure is charged upon the consolidated fund which is discussed in the House but is not put to vote.

**Funding**

**Skills of Auditors**

Although auditors and audit officers come from varied disciplines e.g. Economics, Statistics, Social Science, Engineering, Medical Science, Business Administration, Cost and Management Accounting etc. The officers of managerial posts are recruited directly through open competitive examination conducted by the Public Service Commission and there are ongoing training programmes both within the country and outside to update their skills and knowledge.

**Issue No. -1**

**b) Audit Approach Adopted :**

In most of the cases we adopt the 'Systemic Approach' as it helps compare the actual results with given objectives and helps find out the deviations [unfavourable] from intended objectives. That is we see whether the end results are consistent with the planned objectives/declared goals. It is to be mentioned that in most cases positive achievements are not taken into cognizance.

**Sometimes we follow more than one approach**

- 1) Systemic Approach
- 2) Effectiveness Attributes Approach (partly)
- 3) Performance measurement by Auditors.

In fact our audit approach is a mixture of the aforesaid three approaches as we are new in this type of auditing.

**c) Performance Audit Scope :**

Issue No. -2

The size of the entity, its activities, financial significance, relative importance to the national economy and its potentiality determine the scope of audit in our SAI. Sometimes performance auditing is done in project implementation phase also.

We specifically describe the scope of audit in our Performance audit report and it is obligatory to define the scope of audit. It is to be noted that there are no such audit reports in our SAI where the scope of audit reports are limited by some agency or authority.

**(d) Intended Degree of Audit Assurance :**

Issue No. -3

Assurance refers to the degree of confidence and it relates auditors, audit reports (quality), users of audit reports. Quality of audit reports itself ensures auditor's confidence and reader's views about the auditors. In our SAI the auditors concentrate on key issues and try to specifically state the extent of their examination taking into consideration the significant matters and viewing the scope of audit. They take care of gathering data correctly and sufficiently by field work so that the evidence provides reasonable assurance to support the objectives and scope of the audit so as to arrive at expected conclusions. Before finalising audit reports auditors discuss their findings in detail with the auditees and make them convinced that the recommendations made are valid and data collected are accurate.

**(e) Significance :**

Issue No. -4

In performance auditing it is expected that only the significant matters are to be focused in consideration of varied factors. The choice of significant matters is left with the auditor's perceptions, views and professional judgment. However, in our SAI there is a practice to specify the significance criteria-- the two instances of which are relevance and cost effectiveness. Issues to be audited are selected considering :

- 1) Their importance in the national context.
- 2) The social or economic impacts of the audited entity, programme or project.

To exemplify the above, excerpts from performance audit reports on "Development of 18 Districts Hospitals Project" and "System Loss Reduction Scheme" reflecting the reasons for selecting the issues and specifying the criteria are presented below :

### **Selecting the issue :**

#### **Development of 18 Districts Hospitals project :**

- 1) The overall importance of the project was one of the main reasons for selecting it for performance audit. Because the project had a significant role in achieving the target " Health for all by the year 2000."
- 2) It also fulfilled the conditions of a completed project.

### **System Loss Reduction Scheme :**

- 1) The social and economic impacts of the project was one of the main reasons for selecting it for performance audit. Because a huge amount of loss is incurred every year as system loss.
- 2) It is an on going project and the evaluation of effectiveness of implementation is important.

### **Specifying the criteria (Relevance)**

#### **Development of 18 Districts Hospitals projects :**

While scrutinizing the appointments to different posts to achieve the project objectives it was observed that all appointments to the posts of class III/IV employees were completed, whereas 18 Senior Consultants, 1 Junior Consultant, 1 Anesthetist could not be appointed during the project implementation period as no applications were received against such posts. Audit, therefore, suggested that the professional experience/educational qualification for such posts should have been relaxed.

#### **System Loss Reduction Scheme : (Relevance)**

While scrutinizing the demand for Substituting the defective meters by installing new ones it was observed that a survey report was completed in the year 1993-94 with a suggestion that 68.715 defective

meters be substituted and the demand for new meters be placed immediately but the concerned authority did not take care of the matter even after completion of the financial year 1994-95 for which the Power Development Board had to incur a heavy loss. Audit, therefore, suggested that defective meters should have been supplied as per demand to avoid the loss.

## UTILIZATION OF THE PERFORMANCE AUDIT REPORT BY THE EXECUTIVE

### Management perception and Auditor's competence :

Administration and Audit are complementary to each other and mutually reinforcing. If the auditors are capable enough to raise valid observations and make valuable recommendations by taking into consideration the reality of the situation and objectivity of the use of resources physical, financial and human etc. then the attitude of the management about the competence of the auditor will definitely change. On the other hand, changing of attitude of the management towards changing pattern of audit is essential pre-requisite for making performance auditing a success.

However, it is heartening to note that in the recent years increasing number of young officers with multidisciplinary background including Medical Science, Engineering, Cost and Management Accounting, Business Administration have joined the B.C.S Audit and Accounts cadre. Moreover, most of the auditors who are newly appointed come from varied academic disciplines with Master's degree. We do not associate professionals of other disciplines in the audit teams.

Issue No. -5

Performance auditing is a recent induction to our audit approach and we have actively undertaken it a year back. Since then we have arranged briefings, training sessions and workshop to train our officers and staff. It is worth mentioning that the B.C.S Audit & Accounts Cadre Association arranged a seminar on 'Public Accountability and Statutory Audit in Bangladesh' with the active participation of C&AG's officers wherein the participants stressed the need for introducing performance audit. The Honourable former Minister and State Minister for Finance, Chairman of the Public Accounts Committee, Members of the Parliament, Journalists and the Secretaries to the government were present and took part in the deliberations.

A team of senior officials led by the then Cabinet Secretary after visiting the U.K. in 1994 made the following observation in their report 'The present emphasis on value for money (VFM) audit, performance or efficiency audit makes it imperative on the part of the offices of C&AG to develop its capacity to perform such functions. The stress now is not merely on examination of financial propriety in expenditure of public funds, but more on the result in the context of predetermined goals.'

In every audit directorate a reasonable number of enterprises/project or programme are being undertaken for performance audit for making the same a going concern and the response to this sort of audit is encouraging.

It has been mentioned earlier that performance audit is still passing through a formative phase. That is why our reporting quality is yet to attain the expected standard as it ought to be because of lack of desired qualifications and skills of auditors, inadequate training facilities and resource constraints.

However, by now, a number of training programmes has been arranged to update the skills and knowledge of the auditors and the audit officers. The methodologies pursued in this regard are as follows :

**Theoretical training :**

- 1) In 'Audit and Accounts Training Academy'
- 2) In the Professional Institutions.

**Supply of reading materials :**

Guidelines are issued for auditing different enterprises, Projects and programmes etc. and reading materials on performance auditing are supplied to the officers of the managerial posts.

**Formation of audit teams :**

Performance Audit teams are formed by the audit officers whereas senior level officers are made team leaders with knowledge on the projects/enterprise to be audited.

These efforts have been proved successful to a great extent.

## Audit Recommendations :

Performance audit reports are expected to be constructive wherein both the weaknesses and strengths will be identified and remedial action will be suggested. Although suggesting remedial action for improvement of enterprise/project/programme's performance very often runs at risk because of lack of adequate knowledge of the auditors about the audited entity, Yet audit recommendations and their follow up are of utmost importance.

Issue No. -7

In our SAI, there are no clear set standards for making recommendations we have introduced this type of audit very recently. Sometimes we make recommendation in details, sometimes we merely identify problems and in rare cases we indicate direction for action.

It may be mentioned that no performance audit report has yet been placed in the Parliament. Only one report of performance type had been placed and discussed in the Parliament. However, a number of performance audit reports prepared so far are in the final stage of approval.

Issue No. -8

We have experienced that executives are not always afraid of performance auditing as personal matters are not questioned in this process of auditing. The loopholes of the audited entity are shown in audit with possible solutions to overcome the shortcomings and as such they allow the executives chances for rectification. However, some executives react about performance auditing out of ignorance and say that the lapses are not the result of their own fault. This sort of reaction will diminish gradually when the executives will understand the purpose of performance auditing.

Issue No. -9

The real benefit of performance auditing remains unattainable not only because of lack of institutional arrangements but also because of lack of care and socio-economic system. However, we have no institutional arrangement to ensure that the executive departments make use of the recommendations of the audit while planning future projects.



## UTILIZATION OF THE PERFORMANCE AUDIT REPORT BY THE LEGISLATURE

### Accountability :

The utilization of the performance audit report by the legislature depend, among other things, on the quality of the audit reports themselves. The legislators of our country use the audit reports as effective tools for ensuring accountability and transparency in public administrations.

**Issue No. -10** However, there are no guidelines in our SAI for the auditors to focus report on accountability of any particular group, such as ministers, senior civil servants, operation staff.

**Issue No. -11** In scrutinizing the cause of loss incurred (Net, cumulative) every year in a state owned Public Enterprise we observed that the very contract was defective for which the enterprise turned into a losing concern from profitable one. We identified the persons signing the contract and those who had given approval of the contract. This happened due to ignorance.

### Political Partisanship

**Issue No. -12** This may happen in all countries specially in the developing countries and the undemocratic societies where there is lack of awareness and wide spread immorality.

**Issue No. -13** However, we have not yet received any request from any individual legislator for auditing any particular organisation. It is our belief and hope that our legislators will not use performance report for their partisan interests as they did not use financial audit report for that purpose.

### Conclusion :

The quality of performance audit report itself ensures its utilization both by the legislature and the executive. But, the will of the legislature with regard to enforcement of public financial accountability can help prepare qualitative performance audit report by the auditors.

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***3. Brunei Darussalam***

**Country Paper  
on  
Sub-theme 2**

**The SAIs Performance Audit Report  
and its Utilization by  
Legislature and Executive**

**Prepared by:  
Auditor General's Office,  
Brunei Darussalam**

THE 7TH ASSEMBLY AND  
6TH SEMINAR OF ASOSAI  
AT INDONESIA

SUB-THEME II

"THE SAI'S PERFORMANCE AUDIT  
REPORT AND ITS UTILISATION  
BY LEGISLATURE AND EXECUTIVE"

PREPARED BY:  
AUDIT DEPARTMENT OF BRUNEI DARUSSALAM



# THE SAI'S PERFORMANCE AUDIT REPORT AND

## ITS UTILISATION BY LEGISLATURE AND EXECUTIVE

### 1. INTRODUCTION

Performance auditing is a relatively new form of auditing in Brunei Darussalam when compared with the traditional financial and compliance auditing. It was formally implemented in October 1994. Prior to this, the main focus of the Auditor General's Office was on financial and compliance auditing. Instances of waste and extravagance had been included in the compliance and financial audit reports, but there was no systematic approach and proper methodology used for audit examinations that included not only the economic consideration but also aspects of efficiency and effectiveness. So in the middle of 1994 the Auditor General sought assistance from a SAI of a neighbouring country to conduct classroom lectures as well as on-the-job training on performance auditing for the auditors. Since then, a number of government projects and programmes had been selected by the Auditor General for performance audits to be carried out.

Together with the traditional financial and compliance audits, performance audit play an essential role in the accountability framework within the system of government. It provides assurance that money in the public sector are expended properly and effectively in attaining programmes' objectives.

## 2. PERFORMANCE AUDIT REPORT

### 2.1 Performance Audit Approach

The decision regarding the format, content and scope of a performance audit report is based on the audit approach taken by the auditors at the beginning of the audit. There are three main audit approaches currently practised in different countries. The three main audit approaches are (i) a systematic approach, (ii) an effectiveness attributes approach and (iii) auditors' measurement approach. In Brunei Darussalam the audit approach practised so far is the auditors' measurement approach. This approach involves the auditors in the process of performance measurement itself. It is

adopted in situations where the auditee's management does not have appropriate documentation measuring its own performance and the auditors have to take up the task upon themselves. The audit approach involves the collection of a lot of performance data of the auditee and analysing them into meaningful information regarding the inputs and the outputs of the organisation. The audit report prepared under this approach will consist of a lot of performance data and their interpretations.

## 2.2 Performance Audit Scope

In Brunei Darussalam's SAI, the usual reporting practice for performance audit is on "exception reporting" which focuses on the deficiencies observed with regard to the programs, functions or activities included in the scope of the audit. The scope statement of this reporting method would clearly identify the areas audited and the criteria used in the examination, but need not describe the full extent of the work done by the auditor. Exception reporting

says that some deficiencies exist in the auditee's operations, but it does not mean that all significant deficiencies will have been detected. The reported deficiencies relate only to the areas identified in the audit scope statement and the criteria used for the examination. Therefore our performance audit report is a deficiency - based exception report which provides only the assurance that there are problems in the areas that were audited, and that the audit has been conducted in accordance with the appropriate standards.

2.3 Intended Degree Of Audit Assurance

Our performance audit reports do communicate the degree of audit assurance to the readers by clearly defining our audit objectives, the audit areas and period covered, the size of population selected in our samplings and the audit criteria used to evaluate the auditee's performance, so that readers of the reports have some idea about the level of assurance that the auditors obtained during their examination.



2.4 Significance Criteria In The Audit Report

In preparing performance audit report, it is the usual practice of the SAI in Brunei Darussalam to report only significant matters based on the following criteria:-

1. potential for savings
2. materiality value of the projects or programmes being audited
3. compliance to specific legislative directives
4. risk of occurrence of undesirable event
5. safety and interest of the public
6. performance quality
7. environmental impact
8. socio-economic impact

Notwithstanding the above criteria, the auditors need to be objective and be impartial in reporting the results of their findings so that the contents of their reports will not be misquoted or used out of context.

3. UTILISATION OF THE PERFORMANCE AUDIT REPORT BY THE EXECUTIVE

3.1 Management Perception And Auditor's Competence

The reception by the management of the auditees toward performance auditing had so far been mixed. Some departments had initially been very enthusiastic and responsive to this type of audit examination. They felt that it was a good channel for them to showcase their functions and accomplishments but when audit findings indicated their managements' short comings and deficiencies, they became defensive and countered that the auditors did not understand the 'technical' nature of their works and there are other 'non-accounting' factors which the auditors did not take into account when evaluation was made on their performances.

Beside this, performance auditing is a relatively new concept in Brunei Darussalam and many government departments and agencies are still not aware of the

audit objectives, approaches and methodology. Consequently, many departments do not maintain sufficient records about their management performance and the auditors have a formidable task establishing them. The lack of trained auditors and the demand to perform other types of auditing works, also contribute to the situation where there is so far no formal or informal effort made to make performance auditing a going concern for the executive departments and agencies. Performance auditing in Brunei Darussalam's SAI at the moment, is still conducted on selective public projects and programmes.

To increase the number of trained auditors to carry out performance auditing, no effort is spared by the Auditor General's Office to send the appropriate auditors for special training especially on practical attachment with other SAIs in this region. This is also to reinforce the competence of the auditors to enable them to audit technical areas. However, such training usually involve a period of at least three

months or longer and due to the length of the training period and the difficulty of releasing auditors for such a long period of time, only a few auditors were able to undergo such training.

3.2 Audit Recommendations

In Brunei Darussalam's SAI, the auditors usually make recommendations after identifying the problems in their audit findings. The standards for making recommendations are as follows:-

- i) Audit recommendations should address the underlying cause(s) that allowed the situation to arise.
- ii) Recommendations should flow logically from the evidence and conclusions.
- iii) Auditors should state specifically what actions are to be taken and by whom. There should be no ambiguity that recommendations are being made.

- iv) Recommendations are directed to those who have authority and responsibility to act.
- v) Recommendations should be stated clearly, positively and constructively.
- vi) Recommendations should call for corrective actions consistent with audit findings and conclusions; do not go further than warranted by discrepancies reported.
- vii) Recommendations should correct significant deficiencies; demonstrate that action will improve operations, safeguard assets, reduce costs, or bring situation into compliance with laws and regulations.
- viii) Identify and weigh costs and risks against potential benefits; make clear that recommendations are made with knowledge of offsetting costs.

ix) In making recommendations, auditors should consider the auditee department's constraints of implementation, such as priority of other projects and financial constraints.

In Brunei Darussalam's SAI, the follow-up on the compliance of audit recommendations are made by the auditors after a reply has been given by the auditee or during the next inspection of the auditee's department if no reply has been received. However, due to the increasing number of government projects and programmes being audited, the lapse of time between issuing audit recommendations and the next audit inspection is getting longer, so if the auditee's management fails to implement the current audit recommendations, the same deficiencies will again crop up in future audit examinations.

However, in general, reaction of the auditees toward audit recommendations made in the performance audit reports has been positive. While

there were cases where audit recommendations have been accepted but never implemented, there were also cases where audit recommendations have been accepted with positive outcomes in the future. For example, one problem area mentioned by our SAI auditor in a recent performance audit report on Brunei Darussalam Municipal Department was the slow or non-payment of outstanding annual property assessment tax by the owners of the properties located in the municipal area. One of the auditor's recommendations to resolve this problem was to persuade the Chairman of the Municipal Board to seek the assistance of the Commissioner of the Land Office to disallow the transfer of ownership of a property or land title until the outstanding property assessment tax had been settled. The Chairman of the Municipal Board accepted the auditor's recommendation and had written to the Commissioner of the Land Office about this matter and subsequent follow-up of the compliance of the audit recommendation had indicated that this recommendation had been carried out by the Commissioner of the Land Office. Such positive outcome is but one of the examples where the management of the auditee had accepted and implemented audit recommendation to resolve an outstanding issue.

4. UTILISATION OF THE PERFORMANCE AUDIT REPORT BY THE LEGISLATURE

His Majesty the Sultan and Yang Di-Pertuan, also as the Prime Minister, is the supreme executive authority of Brunei Darussalam. His powers and duties are enshrined in the Brunei Darussalam Constitution and matters relating to the management and control of finance are set out in the Constitution (Financial Procedure) Order.

In Brunei Darussalam's SAI, there are no specific guideline for the auditors to focus the report on accountability of any particular group. Nevertheless, the report is normally addressed to the head of the executive department in charge of the project or programme being reviewed by the auditor, and copies of the report are also being sent to the ministry to which the executive department come under, the Treasury, the Ministry of Finance and the Prime Minister's Office. Furthermore, significant audit findings, recommendations, accomplishments and any significant unresolved issues will be compiled into



the Auditor General's annual report which is submitted to His Majesty the Sultan and Yang Di-Pertuan as required by law. It is not customary in Brunei Darussalam for the audit report to specifically identify the persons responsible for certain irregularity so that action could be taken against them, rather it is the practice here to adopt a non-confrontational approach and avoid fault-finding with the auditee's management. The purpose is to maintain a good auditor-auditee relationship. So normally audit findings, conclusions and recommendations are discussed in a meeting attended by the auditors, auditee and other relevant parties concerned, and decisions are then made whether to accept audit recommendations and implement them or to find other alternative solutions to overcome the deficiencies mentioned in the audit report. There were instances when a senior official from the Prime Minister's Office also attended the meeting to oversee the proceedings and to learn about the progress in the follow-up of audit recommendations.

5. CONCLUSION

Performance auditing is a new form of auditing in Brunei Darussalam and so far only a small number of departments and projects had been subjected to such audit examination. Consequently, there is still a large number of government departments and agencies unaware of audit objectives, audit approaches and audit methodology. Beside this, the lack of performance indicator in many executive departments mean that the auditors themselves have to establish them in order to measure how far actual performances have met the goals set out by the annual performance plans of the executive departments. This is a difficult task for the auditors in Brunei Darussalam's SAI as their exposure to such task is still rather limited and further training for the auditors and increased dialogue with the managers of the executive departments are urgently needed to make performance auditing an on-going concern in the public sector here.

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