

*10. Korea*

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

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

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

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Topic :

**SUB-THEME 2 : Performance Audit Report  
and Its Utilization by the Executive and the  
Legislature**

**Country Paper By : SAI - Republic of Korea**

## 1. Overview : Performance Audit Activities of the BAI

### 1.1 Performance Audit Concepts

The Board of Audit and Inspection(BAI), the supreme audit institution of Korea, has not yet publicized a definition of performance audit.

The term "performance audit" , which is a different concept from the traditional "compliance audit" or "financial audit" , has been used by the BAI to describe one of the audit techniques which evaluates the economy, efficiency and effectiveness (the so called 3E's) of programs, projects or activities in the public sector.

Elements of the performance audit technique have been used in a number of audits because, for many years, the BAI has audited government agencies and operations from the viewpoint of the 3E's as well as from the viewpoint of compliance.

Although the BAI, like other SAI's of Asian countries, has used the term "performance audit" since the early 1980's, it has yet to define performance audit. In recent years, the BAI has adopted the notion of performance audit as an external control technique for analyzing and evaluating the allocation and management of the modern welfare nation.

## 1.2 Priorities in Selecting Performance Audit Issues

The BAI takes the following criteria into consideration in selecting performance audit issues.

- Programs and projects which
  - need a large amount of funds
  - are new and large-scale
  - require multi-year budgets
  - have not been implemented properly
  - have been considered not to be economic or efficient
  
- Important government activities which
  - affect the interest of many people
  - may cause public discontent and complaints
  
- The possibility of working out recommendations for legal, administrative or institutional improvements
  
- The level of internal control

## 1.3 Performance Audit Procedure

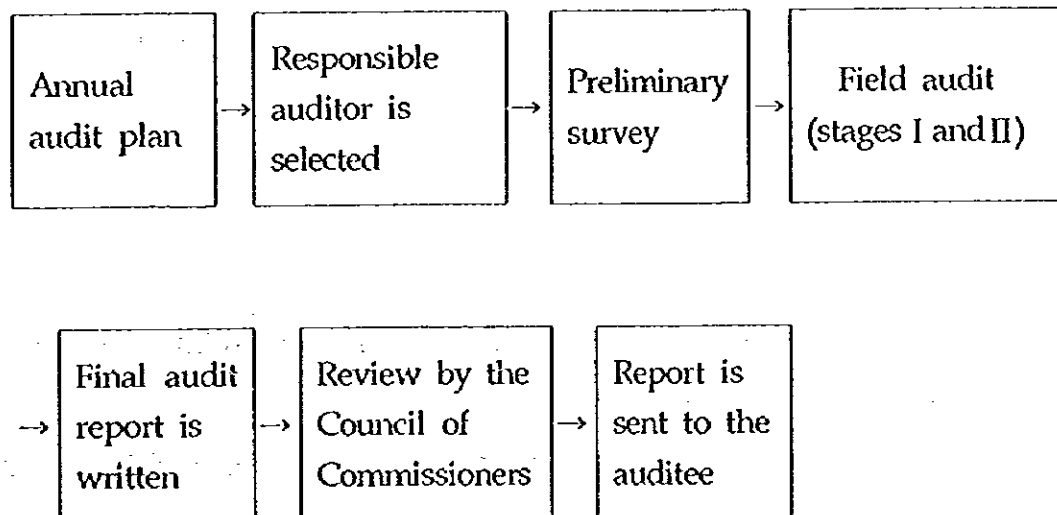
After the annual audit plan is established in the early months of the year, a responsible auditor is appointed for every audit issue. From that time the responsible auditor starts to collect and

analyze information and data on that issue and makes an audit plan taking into consideration the audit focus, improvement directions, etc.

In most cases, a preliminary survey is conducted on the issue for one week or so to get fully prepared for the focus of the issue. Then, the field audit is usually conducted in two or three stages to more systematically analyze and evaluate the issue.

The responsible auditor makes his/her recommendations after consulting with the pertinent officials of the auditee as well as experts or academics in the field. The final audit report, including recommendations, is sent to the auditee after it is discussed and approved by the Council of Commissioners.

<Performance Audit Procedure>



#### 1.4 Performance Audits Conducted in 1995

The BAI conducted 51 performance audits in important issue areas covering the promotion of the quality of life, the prevention of defective construction, the reinforcement of safety management, the establishment of a sound accounting system, and the strengthening of the nation's international competitiveness.

A total of 26,127 person-days was employed in conducting the performance audits. The titles of the major performance audits conducted, grouped by subject area, are as follows :

- o Promotion of the Quality of Life
  - Management of car parking in metropolitan areas
  - Construction and management of garbage incineration facilities
  - Management of water supply facilities
  - Production and distribution of poor quality or adulterated medicine.
  - Implementation of employment and welfare programs for the handicapped
  
- o Prevention of Defective Construction and Reinforcement of Safety Management
  - Management of the qualifications system for architects and their practices

- Implementation of the government-led housing construction program for the low- and middle-income brackets
- Construction and management of power transmission and distribution facilities
- Implementation of subway construction plans
- Construction and management of steel bridges

o Reinforcement of Safety Management

- Safety management of urban gas supplies
- Safety management of pleasure boats and ferryboats
- Safety management of explosives and other hazardous materials
- Safety management of public facilities

o Establishment of a Sound Accounting System

- Tax assessment on imported goods
- Payment of value-added taxes on goods supplied to public organizations
- Budget formulation and execution of government subsidies
- Management of the pension fund for public officials
- Management of national and public properties

o Support for the Enhancement of the Nation's International Competitiveness

- Small and medium-sized business promotion programs
- Quasi-tax burdens of small and medium-sized enterprises

- Regulations covering the construction, expansion and management of factories
- Waste recycling programs

## 2. BAI's Views on the Issues Raised by the Principal Paper

### 2.1 Performance Audit Approach

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?

Of the three performance audit approaches listed in the principal paper — the systemic approach, the effectiveness attributes approach and performance measurement by auditors — the systemic approach is the method most often used at the BAI. In this method, an auditor's main task is comparing the actual results of a project or a program with the criteria or planning parameters that were set by the decision maker in order to find deviations from the criteria.



The BAI auditors occasionally establish their own performance with the help of professors, researchers, and other experts in the field. The effectiveness attributes approach, which was developed by the Canadian Comprehensive Auditing Foundation(CCAF), has not yet been used by the BAI. BAI auditors also use a survey questionnaire to gather the opinions and consensus of such interested parties as policy makers, administrators, business persons, etc.

## 2.2 Performance Audit Report

### 2.2.1 Performance Audit Scope

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?

There are no legal limitation on BAI's selection of performance audit issues or on the conducting of the audits; however, in case of other branches of government such as the

Legislature, the Judiciary and the Constitutional Court, the BAI is empowered only to conduct financial audits. In this context, a performance audit on the non-financial issues of these organizations is not legally allowed.

As long as the BAI has the legal right to audit or inspect an organization, there are no limits to the audit scope. However, the BAI usually confines its audit/inspection to the works of most recent two years of an organization or a project in order to avoid overlapping with past audits as well as to reduce the audit resources needed. Therefore, performance audits usually have a scope of examination of the work of about two years.

### 2.2.2 Degree of Audit Assurance

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.]

It is very important how well the findings in a performance audit report represent the whole audited area. The BAI's report usually indicates the frequency or rate of the defective or problematic areas among all possible areas. Problematic areas

are usually expressed in percentage of all. This may help readers of the report gauge the magnitude of problems.

However, if the auditor is unable to calculate the percentage of problematic areas, he/she might report only the number of problems. In this event, there is a possibility that readers of the report might be misled. The BAI always tries not to release any report which might cause the reader to draw a wrong conclusion.

### 2.2.3 Significance

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.

The BAI has not yet established any decision criteria for what should be reported and how it should be done. There is no scale for estimating the significance of the audit results. The auditor usually considers cases in which many people are involved or impacted to be most important. Other factors which are considered when determining significance include the amount of money that can be saved, civil complaints and ethical conduct standards issues.

## 2.3 Utilization of the Performance Audit Report

### 2.3.1 Utilization of the Report by the Executive

#### 2.3.1.1 Efforts for Specialization and Auditor Competence

**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?

The BAI has taken great pains to make its recommendations reasonable and sensible, in order to gain the support, rather than the criticism, of the project managers. This is done in three ways. First, specialists often participate in the performance audit team. Second, during the audit period, the audit team tries to consult as many researchers and professors as possible. Third, the audit team asks the project managers for their opinions on the findings. Through this opinion gathering process, the audit team draws the managers' attention to the findings and helps them to understand the ongoing problems, so that the managers can usually take the advantage of setting up an improvement schedule on their own.

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 have been successful?

In order to enhance audit capabilities, the BAI has employed 130 staff members possessing special qualifications : 19 CPAs, 5 lawyers, 7 tax accountants, 2 real estate evaluators, 84 business management counsellors, 2 architects, 11 technical experts. There are also 10 auditors with Ph.D. degrees in business administration, accounting, and architecture.

Because there are too many professional areas for the BAI to employ specialists for all of them, the BAI, instead, collects as many opinions as possible at all levels during the entire audit process.

#### 2.3.1.2 Recommendations

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?

The BAI makes three types of decisions as the result of its audit and inspection.

First, if a project or program obviously needs improvement in one direction and if the auditee agrees to take action in that direction, the BAI asks the auditee to take that improving action.

Second, if a project needs improvement in some way, but the BAI can not confidently suggest what is needed in concrete terms, the BAI would make two or three alternative recommendations.

Third, if the BAI recognizes problems in a project, it can alert the auditee to them, leaving the choice of improvement actions to the auditee's discretion.

There is a follow-up procedure for all three types of the decisions, but the follow-up is more strictly applied in the adverse order of decisions described above.

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?

Because the BAI's recommendations are fully discussed with the project managers before they are sent to the auditee, most recommendations are accepted by the auditee without any serious side effects.

### 2.3.1.3. Feedback

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.

The implementation by the auditee of actions which have been requested by the BAI is required by law. In accordance with Article 3② of the Board of Audit and Inspection Act, the auditee must take necessary actions and notify the BAI of the actions taken after it receives BAI's decisions.

When the same mistake or problem is repeatedly found in the auditee, the reason is usually not a single institutional defect but the result of complex interactions of many factors such as social environment, administrative situation, involved people, etc.

## 2.3.2 Utilization of the Report by the Legislature

### 2.3.2.1 Accountability

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?

The BAI has the right to ask the appointing authorities, or other authorized officer or body to take disciplinary actions against officials for their responsibility, but this is rarely done. If the BAI finds some personal negligence or illegal action by an official as the result of a performance audit, it could ask the head of the organization to take disciplinary action against the official regardless of his rank. In most cases, however, the BAI does not ask for disciplinary actions as the result of a performance audit because the purpose of the performance audit is usually to improve the economy, efficiency, and effectiveness of a program, project or activities. It can be said, therefore, that there are no established guidelines for reporting on accountability or disciplinary decision criteria.

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?

In all cases in which responsible persons have been identified, the BAI has asked for appropriate disciplinary actions against



them. In cases in which there are too many officials involved in the work at issue and the BAI is unable to hold a specific person or persons responsible, the BAI does not proceed to take steps to ask for disciplinary actions.

### 2.3.2.1 Political Partisanship

Issue No. 12:

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

Because the BAI has been established as an independent constitutional organization, even a legislator, as an individual, can not request the BAI to conduct an audit on a specific program or project.

However, in July of this year, the BAI started to accept requests for auditing from the National Assembly or provincial or local councils, or reputable public organizations. They can ask the BAI to audit a specific issue, and the BAI may decide to audit that issue in response to the request. This newly-implemented practice is similar to the ombudsman's activity of solving civil complaints for the public at large.

Issue No. 13:

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

Legislators often cite part of the BAI report, but in most cases their purpose is not to criticize the officials concerned but to ensure quick remedial actions against the findings.

### 3. Concluding Remarks

The necessity of the performance audit has been emphasized in the BAI for many years. It can be said that the format for performance audit reports has been recently established, though not fully, taking into account such things as size, contents, means of recommendations, etc. However, there are still many things which remain undone. There is no exclusive organizational unit for performance audit, and the supply of audit resources for some specialized fields are still not enough. It will require more efforts and time to fully implement the performance audit technique at the BAI.

*11. Nepal*

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

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

Prepared by:  
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Nepal



Babar Mahal,  
Kathmandu,  
NEPAL.

Nov. 26, 1996

Ref 233.

Mr. Shinji Yazaki,  
Secretary General, ASOSAI,  
President, Board of Audit  
3-2-1 Kasumigaseki, Chiyoda-ku,  
Tokyo 100, Japan.

Dear Mr. Yazaki,

I am pleased to forward you below mentioned country papers prepared by my office for the ASOSAI assembly to be held in Indonesia in 1997. I would be glad to furnish any further information required in this context.

For your kind information, I would like to inform you that these country papers have been despatched to Mr. J.B. Sumarlin, Chairman, Supreme Audit Board, Republic of Indonesia and respective Principal Writers.

With Best regards,

Country Papers

1. Performance Audit Report and its Utilisation by the Executive and the Legislature.
2. Performance Auditing Concepts, Mandates, Methodologies and Practices, Reporting and Other Issues/Problems.
3. Audit of Social Services.

Yours Sincerely,

(Bimal Raj Basnyat)  
Auditor General



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

***COUNTRY PAPER  
FOR***

**THE ASOSAI ASSEMBLY 1997 AT INDONESIA**

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



## **Performance Auditing Report and Its Utilization by the Executive and the Legislature**

### **1. Introduction**

Performance auditing is an emerging discipline. It emerged mainly in response to the increasing need for information by the legislators and other stakeholders on the actual results of public spending, efficiency and economy in managing resources. Constant effort of Supreme Audit Institution (SAI) to make its report more meaningful and informative to users i.e., public and parliamentarians has supported the process of evolution of performance auditing. Being an emerging discipline, it has to evolve considering work culture, state of economy and the political environment. Performance auditing is conceived to assess the method, procedure and system of application of following basic premises of public resource management.

- (a) Public business should be conducted in a way that makes the best possible use of resources. This is often expressed in terms of the "3Es" or economy, efficiency and effectiveness.
- (b) People who conduct public business should be accountable for the prudent and effective management of resources.

The concept of Performance Auditing was introduced in Nepal for two decades ago. It was made mandatory by the third amendment of the Constitution of Nepal in 1981. Present constitution (promulgated in the year 1990) also made the audit of economy, efficiency and effectiveness mandatory.

### **2. Objective of the paper**

The paper shall discuss the practice of utilizing performance audit report in Nepal by the executive and the legislature.

### **3. Performance Audit Report**

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

The quality of audit report depends to a large extent on the selection of appropriate approach. As there are different approaches for performance auditing, selection of a particular approach depends on the nature of audit topic. The major issues considered in determining audit approach are: (a)

environment in which organization is operating; (b) organization structure, (c) nature of activities, (d) management system, (e) operational results, (f) policy of measuring effectiveness of policies and programs etc. Topics for Performance Auditing are selected considering following factors.

- Potential impact of audit
- Experience and skill of available auditor
- Auditability
- Public concern over a particular issue within the mandate of SAI.

Nature of audit topic and applicable approach are as follows.

(a) **Policy or systems issue** - It is basically concerned with a particular public policy and system of operation. It may be less significant from the viewpoint of budgetary allocation, but very much significant from the viewpoint of impact on national economy, social front and trend setting. The main objective behind selection of such topic is to evaluate the success in policy implementation to ensure credibility of public organization. It also helps identify weaknesses and anomalies in the application of rules, regulations, organizational structure, delegation of authority etc. Systematic approach is applied for the audit of such issue.

(b) **Multi- sectoral issue** - There are a large number of programs/projects whose overall success lies in the efficient co-ordination between various implementing agencies. There is a greater need to clearly define responsibility and accountability relationships for the smooth execution of such program. Integrated rural development programs are such multi- sectoral issues. The objective behind selecting such issue area is to determine whether :

- roles and responsibilities of various executing agencies are clearly defined and their channel of linkage established appropriately;
- accountability relationships of executing agencies are clearly spelled out in related project documents;
- there is an efficient system of coordination between executing agencies to facilitate smooth execution and evaluates performance.

Audit of multi-sectoral issues applies both systematic and performance measurement approach.

(c) **Specific Project Issue** - Audit objective, scope and criteria are determined considering nature of organization/ project. However,



general considerations are whether project is effective in achieving predetermined objectives and managing resources (financial, physical and human) economically and efficiently.

Auditors generally explain their overall assessment in the form of a preliminary report. It is further revised and reviewed after receiving comments and response from audit entity.

Most of the Performance audits in Nepal are carried out by applying both systematic and performance measurement approach. Auditor focuses on the study of systems and controls of the auditee and lays down audit criteria in the light of generally accepted management practices and the planning parameters. Auditor compares criteria with actual performance and report upon any deviations from the criteria. Performance audit report usually consists matters and issues on the exceptions from the agreed criteria. There are also instances where auditors have reported positive achievements.

### 3.2 Measuring Performance

Identification of performance indicator is very essential in performance auditing. Auditor focuses primarily on measurement of performance, examines causes and consequences if performance is not found satisfactory. Auditors have to determine the criterion for effectiveness. Most organization's management does not have appropriate documentation measuring performance. In such a situation, SAI determines indicators in consultation with audit entity to measure inputs and outputs of the organization. However, special attention is paid to avoid impairment on audit independence.

In Nepal, there are a number of constraints in measuring performance. Most of the audit entities have no clearly and precisely defined indicators. Lack of clarity in specifying organizational mission and well-structured performance reporting system has added constraint.

### 3.3 Performance Audit Scope

The content of the performance audit report depends largely on the objective and scope of the audit assignment. The performance audit could be focused on a project, a program or on government wide activities. Audit scope could be determined by considering legislation, nature of activities, their relative importance and other pertinent issues. It could cover several entities of the same organization or one large segment of an organization. Sometimes the scope of audit is limited by certain conditions laid down by some legislation of the government. Auditor normally determines audit

objectives, scope and criteria after consultation with audit entity and survey of available documents. Although not mandatory, stating audit scope is considered essential to enhance credibility of report and set the limit of audit function and audit coverage. Therefore, a brief statement on audit scope is normally included in the audit report.

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

Assuring readers about the reliability and relevance of performance audit report is one of the main responsibilities of auditor. Such assurance should be based on fairly defined procedures as prescribed by audit standards and other guidelines. Therefore, developing audit opinion language is essential to assure the facts obtained during examination.

It is necessary to define the standard format for expressing the level of assurance. However, stating the extent of examination and the rigor with which audit has been carried out are appropriate ways of providing assurance.

Performance Audit Guidelines published by the OAG/N focuses on the necessity to specify audit objective and criteria for comparison and analysis. Therefore, audit report clearly states the degree of assurance to users. In order to provide assurance auditor states scope, objective and methodology used for examination and developing his findings that helps to appraise the level of assurance.

### **3.5 Materiality**

Auditor has the responsibility to determine materiality of audit findings. Financial auditing has developed specific methodologies to determine materiality. Performance auditing has no specific methodology. Therefore, it is up to the auditor himself to exercise his professional judgment and decide about the significance threshold. The major issues considered in determining such threshold are: (a) money value and resources committed; (b) risk of occurrence of undesirable event; (c) potential for savings; (d) environmental impact; (e) risk of poor management; (f) accountability relationships and significance; (g) quality of controls; (h) effect on ethics and integrity; and (i) compliance with specific legislative requirements.

The major factors to determine materiality depends on the findings and their relations with audit objectives. There is always a danger of misrepresentation of auditor's report because readers normally prefer to use findings as per their understanding and interests. Auditors should

report only significant matters and try to maintain objectivity and impartiality. There is no established practice and standard opinion language to express assurance. However, clear description of objectives, scope and criteria helps to ensure objectivity and detailed planning to promote impartiality. Auditor's responsibility is to provide reliable and relevant information based on facts and figures. Therefore, it is important for the auditors to be careful about the manner they report their findings. Clear understanding of materiality of audit findings and its consistent application helps enhancing quality of report.

Audit report consists criteria against which performance of the program/activities is assessed. Standard language is used to elaborate the criteria and auditor states the source of data and other evidence to support audit opinion, conclusions and recommendations.

#### **4. Utilization of the Performance Audit Report by the Executive**

Audit office reports its findings in two stages.

1. Preliminary audit report is made available to concerned entity for their comments and submission of evidence that clears audit observations within specified period.
2. Final report is submitted after scrutinizing such comments and evidence, if received.

The Auditor General (AG) is required to submit Annual Report of his work to His Majesty the King. The report is later tabled to the Parliament and further forwarded to the Public Accounts Committee (PAC) of the House of Representative for detailed deliberations.

The AG at any time may submit a report to His Majesty if he deems necessary to take immediate action against and loss or damage already happened or impending upon the fixed and current assets.

The utilization of performance audit report by executive depends mainly on following important factors.

- (a) Executive concern towards management improvement, and
- (b) Auditor's ability to highlight the findings in objective and balanced way.

Many administrators and managers are not aware of the concept and introduction of performance auditing. They believe that they themselves are the most appropriate people to judge performance of their programs/activities. Therefore, SAI has to face the challenge of justifying the essence of performance auditing by developing it as a useful mechanism in securing optimum utilization of resources.

The OAG/N is in view that the value of performance auditing can be enhanced if it can be made a going concern to executives. Therefore, direct and indirect measures are being initiated to promote dialogue and awareness. There is growing emphasis that performance auditor should be able to convince executives regarding the benefits of such audit and demonstrate greater efficiency to secure trust and positive change.

There are some indirect measures to raise awareness regarding performance auditing. In recent years, training programs organized for administrators and managers include this subject as an essential tool to improve performance.

#### 4.1 Audit Recommendations

Most of the performance audit reports contain recommendations for the improvement in performance. Recommendation is considered as an essential component of Performance Audit Report, although it is normally argued that whether recommending measures for improvement be made mandatory. In Nepal, audit report contains recommendations but it does not propose completely new ideas of doing things rather indicate measures for improved performance. Let us cite an example:

##### *Audit of One Window System*

*Differences were observed between the provisions contained in the Industrial Policy and Industrial Enterprises Act regarding the roles and responsibilities of the One-Window Committee. The committee is not able to provide stipulated services to perspective investors due to differences in policy document and enabling legislation. Hence, it is essential to resolve the differences to enhance efficiency of the committee.*

*This remark is further substantiated by indicating differences in a tabular form.*

Following problems are encountered in offering recommendations.

- Increases risk to auditors - In most of the cases, auditors may be making recommendations in an area of which they do not have

detailed technical knowledge. The users of the performance audit report may not accept audit recommendations thinking that auditors are not "competent" people. It may create risk to auditors. Therefore, the auditors need to exercise care in making recommendations.

- **Difficulty in determining the level of examination to enable auditor to offer recommendations** - Are the auditors' recommendations practical? 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 satisfied and poses the auditors with explicit question as to what they would have done in given circumstances. In such case, the auditor may be charged of being theoretical and unrealistic. If he answers the question in detail, he runs the risk of entering into an area of which he may not have detailed knowledge.
- **Chance of losing credibility** -- It is possible that recommendation may not be able to provide desired result even after their sincere application by the management. More often auditors make recommendations and the management accepts them. Subsequently, the auditor may come across a situation where they have to audit the execution of their own recommendations. Some recommendations in the audit report may create problems to objectivity for the auditors. Some sort of conflicts of interest may also occur in such situations.

In Nepal, attempts are being made to solve these problems. First of all, auditor does not make recommendation to establish a very new method and procedure. It indicates the areas that need attention to improve performance. Auditors carry out in depth planning to satisfy himself about the outcome of examination. There is no such example where auditor's ability has been questioned due to failure in implementing recommended measures. Recommendations are thoroughly discussed with audit entity before incorporating them in the audit reports to avoid risks of failure. In addition, auditor also cites key words of agreement or disagreement and incorporate auditee's remarks to make recommendation more acceptable. This approach reduces the chance of controversy regarding recommendation(s).

There are several examples where executives have accepted auditor's recommendations with the expectation of positive outcome. Recently, performance auditing of an autonomous body dedicated to agricultural research was completed. Audit report contained recommendations on four prominent issues i.e., (a) Organization Structure, (b) Human Resource Management, (c) Utilization of Physical Resources of the Research Council,

and (d) Dissemination of Research Findings. Recommendations were thoroughly discussed with different level of technical and managerial personnel. Their prominent opinions were also incorporated in the preliminary Audit Report. The entity was highly encouraged with the recommendations contained in the Audit Report. Both SAI and audit entity expect that government will pay adequate attention to implement those recommendations.

The OAG/N is very careful in offering recommendations. It offers recommendations mainly for following two purposes:

- (a) initiate curative measures - mainly focused on a particular issue or micro level recommendation, and
- (b) general or policy recommendation - mainly focused on system improvement or policy consideration.

Recommendations are offered in as much as detail. Audit recommendations are appreciated by executive. Response from executive specifies how the commitment to execute recommendations depending upon their nature and content.

#### 5. Utilization of the Performance Audit Report by the Legislature

The Performance Audit Guidelines published by the OAG/N specifies that auditor should examine whether accountability relationships between concerned agencies are properly observed and performance reporting system properly designed and applied accordingly. Therefore, most of the performance audit reports cover the issue of accountability. It becomes more complex when applied in the government environment. *Accountability refers the obligation to render account for the responsibility conferred.*

Audit Report mentions the administrative hierarchy where specific decisions were made. It helps to hold officials accountable for their decisions. Utilization of the performance Audit Report by the legislature, ultimately, involves questions of accountability. Elected representatives hold the public managers accountable for their decisions. Several issues do not permit its application in a straight forward manner. Following issues need to be clearly addressed in acts and regulations to strengthen accountability process.

Who is accountable ?

To whom public officials including elected executives are accountable ?

What makes them accountable ?

By what means accountability are judged ?

Various legislations are in place which addresses these issues. There are still certain unresolved issues despite serious considerations to spelled out accountability issues.

Ministers accountable to the legislature both as decision maker and for the performance of their subordinates. The position of decision maker is normally stated if any irregularity is observed. As SAI itself does not initiate any action against defaulter, no question arises regarding problem of taking action. There is no limitation to SAI in highlighting any wrong or malafide decision. Ministers are also asked by the Public Accounts Committee to answer the question regarding irregularity if such case(s) contained in audit report.

There are several problems in examining and reporting upon accountability issues.

First, high turnover of government staff has made that often the person who is actually responsible for taking decision was transferred and another person has taken over the position. Because of the position he holds, incumbent is required to defend the decisions taken by his predecessor but personally, he may not be convinced of those decisions. Such a situation dilutes the entire process of accountability.

Second, the decision making process in government is very complex. In some cases, a number of people collectively make a decision. It becomes difficult to determine who is actually responsible.

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. create difficulty in holding accountable to a particular official. Inadequacy of resources made available to a project might disrupt completion in time. Similarly, inflation takes place in the economy due to a host of domestic and external factors. In such situation it becomes very difficult, if not possible, to make any official accountable for any cost and/or time over-run.

Fourth, as there exists the problem of efficient and effective system of reward and punishment in government, people often question the need of holding manager accountable for their decisions and performance.

## 6. The Role of the Public Accounts Committee (PAC)

This is one of the seven select committees of the House of Representatives. Its main function is to hold detailed deliberations on the Auditor General's Report and matters related to public accounts. The Regulation relating to the House of Representatives specifies committee's scope as follows:

- examine appropriation and other accounts and observations contained in the AG's Report; and
- examine and evaluate public accounts related to public properties and their management.

The PAC submits its report annually in the House prior to the submission of budget estimate.

The PAC invites the Chief Accounting Officers i.e., Secretaries of the Ministries, Departmental Heads and other concerned officials of the Government as well as Chief Executive Officers, General Managers etc. of the corporate bodies at its meetings. The Auditor General and senior officials of the OAG are invited in almost every meeting of the PAC.

As PAC holds discussions on the audit report, cases of irregularity and other observations are judged on the basis of merit, rather than political partisanship.

In recent years, the PAC has been very much instrumental in enhancing public accountability. The committee has initiated investigations over the issues that could cause waste and/or mismanagement of national resources. This initiation has encouraged the Auditor General to improve the quality and content of information contained in his report.

There is no practice of requesting individually by any legislator on a particular issue and with a specific angle. Neither PAC itself places any such request.

There is hardly any case where audit report has been used only to serve partisan interest.

It is strongly believed that the value of audit is enhanced with the proper response on its report by main user i.e., Parliament, PAC and they can be effective with the help of meaningful, relevant and informative audit report. Therefore, opportunities are made available to work together to achieve common objective i.e. promoting public accountability and curbing



misuse and mismanagement of resources. Appropriate relation between SAI and Parliament benefits both of them and eventually contributes in enhancing quality of management of public resources, accountability and effectiveness of public programs/organizations.

## 7. Concluding Remarks

Introduction of the concept of performance auditing is an important innovation in making the role of government auditing more meaningful. Its report provides a mechanism for the management to have an independent and objective assessment of their performance with suggestions for improvement. Performance audit report that indicates opportunities for improvements is the end result of the efforts of the performance auditors. It comes at the end of the audit assignment but its seeds are sown at the planning stage. Despite realizing the valuable contribution of performance auditing there are still a number of issues which impairs its development. Therefore, there is a great need to enhance the quality of performance audit report that encourages stakeholders to seriously consider the ways which contributes its advancement.

## Answers to the Issues raised on Theme Paper

### Issue No.

### Answer

1. Most of the Performance audits in Nepal are carried out by applying both systematic and performance measurement approach. Auditors focus on the examination and evaluation of the adequacy of internal control study systems of the auditee and lays down an audit criteria in the light of Generally Accepted Management Practices including the planning and implementation parameters. Auditor compares goals and objectives (generally part of criteria) with actual performance and report upon any deviations to the criteria. Performance audit report usually consists matters and issues on the exceptions from the agreed criteria. There are also instances where auditors have reported positive achievements.
2. Although not mandatory, stating audit scope is considered essential to enhance credibility of report and set the limit of audit function and audit coverage. Therefore, a brief statement on audit scope is normally stated in the audit report.
3. Performance Audit Guidelines published by the OAG/N focuses on the need to specify audit objective and criteria for comparison and analysis. Therefore, audit report clearly states the degree of assurance to users. The language used to provide assurance is not specific. Auditor states scope, objective and methodology used for examination and developing his findings that helps to appraise the level of assurance.
4. Audit report consists criteria against which performance level and result was assessed. There are standard set of language patterns to elaborate criteria. However, auditor states the sources of data/information used in course of assessment.
5. The OAG/N is in view that the value of performance auditing can be enhanced if it can be made a going concern to executive. Therefore, direct and indirect measures are being initiated to promote dialogue and awareness. There is growing emphasis that performance auditor should be able to convince executives regarding the benefits of performance audit and demonstrate greater efficiency in audit to secure trust and positive changes.
6. There are some indirect measures to raise awareness regarding performance auditing. In recent years, training programs organized to

administrators and managers have included this subject as an essential tool to improve performance.

7. In Nepal, attempts are being made to solve these problems. First of all, auditor does not make recommendation to establish completely new methods and procedures. It would indicate the areas that need attention to improve performance. Auditors carry out in depth planning to satisfy himself about the outcome of examination. There is no such example where auditor's ability has been questioned due to failure in implementing recommended measures. Recommendations are thoroughly discussed with audit entity before incorporating them into audit reports to avoid risks of failure. In addition, auditor also cites key words of agreement or disagreement highlights auditee's remarks to make on recommendation clear. This approach reduces the chance of controversy regarding recommendation(s).
8. There are several examples where executives have accepted auditor's recommendations with the expectation of positive outcome. Recently, performance auditing of an autonomous body dedicated for agricultural research was completed. Audit report contained recommendations on four prominent issues i.e., (a) organization structure, (b) human resource management, (c) utilization of physical resources of the research council, and (d) dissemination of the research findings. Recommendations were thoroughly discussed with different level of technical and managerial personnel. Their prominent opinions were also incorporated in the preliminary audit report. The entity was highly encouraged with the recommendations contained in the audit report. Both SAI and audit entity expect that government will pay adequate attention to implement those recommendations.
9. The OAG/N has been very careful in offering recommendations. It offers recommendations mainly for following two purposes:
  - (a) initiate curative measures - mainly focused on a particular issue or micro level recommendation, and
  - (b) general or policy recommendation - mainly focused on systems improvement or policy consideration.

Recommendations are offered in as much as detail. Audit recommendations are appreciated by executive. Response from executive specifies how recommendations will be utilized depending upon their nature and content.

10. The Performance Audit Guidelines published by the OAG/N specifies that auditor should examine whether accountability relationships between concerned agencies are properly observed and performance reporting system properly designed and applied accordingly.
11. Audit report mentions the administrative hierarchy where specific decisions were made.
12. There is no practice of requesting individually by any legislator on a particular issue and with a specific angle. The PAC itself also does not place any such request.
13. There is hardly any case where audit report has been used only to serve for partisan interest.

*12. New Zealand*

**Country Paper  
on  
Sub-theme 2**

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

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

**THE ASOSAI ASSEMBLY 1997**  
**INDONESIA**

**SUB THEME II**

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

**COUNTRY PAPER: PREPARED BY NEW ZEALAND**  
**NOVEMBER 1996**



## INTRODUCTION

The principal paper prepared by the SAI of Pakistan specifically asks for a response on 13 issues and the layout of this paper follows that format. The term "Audit Office" used in this paper refers to the New Zealand Audit Office.

### 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. If so, what are its main features and how it does it affect your audit report?*

#### Response

Of the three performance audit approaches listed (systemic, effectiveness attributes and performance measurement) the Audit Office essentially carries out a systemic approach.

Attached an appendix is an abridged version of the audit planning section from the Audit Office manual which provides more information on the approach, and the development and use of criteria/expectations.

The Audit Office has not used the CCAF effectiveness attributes.

The Audit Office is involved in the audit of performance measures. Public sector organisations in New Zealand are required to include performance measures in their annual reports. This information must be audited by the Audit Office.

### ISSUE NO. 2

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

## Response

- a. The overall scope of the audit will depend on the degree of risk that arises from the auditee not performing its functions well, and the benefit that could be achieved by an audit that resulted in improving performance.

Once the risk/benefit analysis has been carried out, the specific scope (ie the actual topics to be audited) can then be determined. Accordingly, the scope will vary from audit to audit.

- b. Yes. In each report some detail is provided on the scope and particular mention is made on why the scope may have been limited to certain areas.
- c. It is not obligatory to do so but, if the scope is not described the reader of the report will have difficulty understanding what has been audited and the extent of the assurance that can be taken from that audit.
- d. No. The scope of an audit is subject to only one statutory limitation - the audit cannot assess the merits of a particular policy. Any other limitations are self-imposed according to our assessment of the appropriate scope of an audit.

## 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.]*

## Response

The degree of assurance provided is a function of the scope and the audit method, and the results of the comparison between the expectations and findings, as reflected to some degree in the conclusions and recommendations.

In reports on a topic covering many auditees we make comparisons, and provide various supplementary information to indicate the extent of our work and coverage of our conclusions.

For example, a follow-up audit was carried out on the long-term planning by the local authorities that provide a range of services including the supply of water to towns and cities. The report included a finding that *twelve authorities had made little or no progress in long-term planning*. The supplementary information included in the report was that *every authority – and there were 87 of them – had been visited*.



#### ISSUE NO. 4

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

#### Response

The Audit office will only establish audit criteria for those aspects of an entity's activities which are critical determinants for its performance. When the final report is written an assessment is made to determine which are the significant findings and conclusions. The degree of detail reported will depend on who will read the report. For example, Parliament will only want to be concerned with very significant matters whereas a report that goes to the auditee would cover the issue in much more detail. However, in all cases where something is reported, the criteria will be stated so that the reader will know the basis against which performance has been assessed.

#### 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?*

#### Response

Executive departments are subject to other forms of review in addition to audit by the Audit Office. First, there may be internal audit functions within departments which report to the Chief Executive. Second, central agencies (like Treasury) are continuously reviewing aspects of departmental activities and reporting to Ministers.

The Audit Office has actively encouraged the development of effective internal audit functions within government organisations. Such functions are now common in larger government agencies.

#### 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 have these efforts been successful?*

#### Response

Our auditors include people qualified in professional disciplines other than accounting and auditing. Where the topic is very specialised, expert advisers are employed to assist the audit team. We regard having the necessary competence as an essential pre-requisite to undertake any audit. We would not risk the credibility of the Audit Office, or its reports, by undertaking an audit unless we had the necessary competence.

## ISSUE NO. 7

*In your SAI:*

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

### Response

- a. We have no standards for making recommendations. In principle, we would normally recommend that the problem be addressed/remedied but not specify a particular solution. Choosing the best solution is for the auditee's management.
- b. The need for, or the nature of, a recommendation is determined by the nature of the report conclusions. The conclusions are formed by comparing expectations and findings. Therefore a recommendation may be broad or detailed depending on the nature of the conclusion.
- c. In the past we carried out no systematic follow-up of recommendations. Current practice is that, for every audit, consideration must be given on the need for a follow-up audit.

A few follow-up audits have been carried out, either as part of the annual attest audit, or as a new separate audit. Normally the follow-up audits check to see if the recommendations in the original audit were acted upon.

Our recommendations may also be followed-up by parliamentary select committees.

## 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?*

### Response

Because we agree the content of our reports, with the auditee, they generally accept the recommendations made. Whether they are implemented will often be determined by the importance attached to the matter relative to other priorities of the organisation.

We also find that, because the auditee sees the preliminary findings some period of time before the report is actually published, recommendations are acted upon before the publication date. The fact that corrective action has been taken would be mentioned in the final report.

#### 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?*

#### Response

No. Auditees are under no compulsion to follow our recommendations.

However, many auditees are subject to annual parliamentary scrutiny about their performance. This is an opportunity for select committees to ask if recommendations are being followed and, if not, why not. We would typically advise the committees to pursue such avenues of enquiry.

#### 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?*

#### Response

No. The focus will be determined by the nature and scope of the audit, and the reasons why the audit was selected to be undertaken.

#### 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?*

#### Response

Performance audits are not aimed at finding irregularities of the kind for which action can be taken against a particular person. If such an irregularity was discovered during a performance audit the person responsible would not be identified without "due process" having been observed.

## ISSUE NO. 12

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

### Response

Members of Parliament are free to suggest particular organisations to be audited, or to point out specific aspects of performance that they consider should be looked into. However, we have the final say about whether or not an audit should be undertaken, and what aspects of performance will be examined.

## ISSUE NO. 13

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

### Response

The results of all audits are published and are freely available for parliamentarians to use as they wish. Members of opposition parties may well use a report as the basis on which to ask the Minister a series of questions about the entity's performance, or to press for an inquiry by a parliamentary committee.

## THE AUDIT PLAN

The plan should establish more detailed objectives for the audit than those included in the original audit proposal.

In planning the audit approach (that is, the objectives and methodology), the team may find it useful to consider one or more of the following elements as a framework:

- ◆ The effectiveness of the operations or functions of the auditee.
- ◆ The adequacy of procedures and systems used by the auditee.
- ◆ The quality of the performance measures used by the auditee for the activities being audited.

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

- ◆ Obtain from the financial auditor an assessment of the control environment for the auditee.
- ◆ Plan for appropriate testing of internal controls.

### Criteria and expectations

Audit criteria compared to actual findings generate conclusions. They are reasonable standards against which to assess existing conditions. Criteria translate into a series of "expectations" which form the basis of the conduct of the audit.

### Development of Criteria

The audit team reviews relevant performance measures adopted by the auditee but the team cannot automatically adopt standards the auditee may have devised.

The team develops criteria specific to the entity, programme or function during the planning stage. The criteria should give clear guidance for the audit and assist in development of specific methods to test them.

### Characteristics of Criteria

Effective and useful criteria possess two key characteristics:

- ◆ They test meaningful measures of auditee performance.
- ◆ They make possible a reasonably consistent judgement, estimate or measurement. Useful criteria increase the probability that different auditors will reach similar conclusions in similar circumstances.

## **Sources of Criteria**

Sources of criteria can include:

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

The team may consult the relevant financial auditor to ensure that criteria are appropriate and may consult with relevant specialists if the team needs expert assistance.

*13. Pakistan*

**Country 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**

**SIXTH  
ASOSAI INTERNATIONAL SEMINAR  
INDONESIA - 1997**

Sub-Theme 2:

**COUNTRY PAPER: PAKISTAN**

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

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



# **SIXTH ASOSAI** **INTERNATIONAL SEMINAR**

## **Sub-Theme 2: COUNTRY PAPER: PAKISTAN**

### **THE SAI's PERFORMANCE AUDIT REPORT AND ITS UTILIZATION BY LEGISLATURE AND THE EXECUTIVE**

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#### **INTRODUCTION**

History of audit is as old as that of business and the state. Growth in the size and nature of both the business and government has mainly contributed to the development of audit to its present stage. However, growth and development of audit, in general, and that of government audit, in particular, has been relatively stagnant because for the most part of its history auditors have been contented with the examination of financial transactions. Nevertheless, a worldwide shift, over the past few decades, in the emphasis of governments from their traditional role of maintenance of law and order, administration of justice and security of national borders to the more pressing issues of socio-economic development coupled with an urge for improvement in the quality of public administration and good governance forced government auditors to think of a new type of audit which could bring all areas of managerial performance to its fold. Resultantly, in recent decades, we have seen the emergence of such audits as value for money audit, comprehensive audit, efficiency audit, performance audit etc. One common factor among these audits is that all of these are performance oriented. Lima Conference (1977) of the International Organization of Supreme Audit Institutions (INTOSAI) described this in a rather comprehensive manner:

*'There is another type of audit which is oriented towards performance, effectiveness, economy and efficiency of public administration. This audit includes not only specific aspects of management but comprehensive management activities including organization and administrative systems.'*

With the usefulness of performance audit becoming more apparent, SAIs across continents started to undertake performance audits. Department of the Auditor General of Pakistan started performance audit in 1981. The Department, with Dutch technical assistance, developed a performance audit methodology, designed an intensive training program (ITP) in performance auditing to train the officers, and produced a comprehensive set of guidelines for carrying out performance audit in various sectors.

## PERFORMANCE AUDIT REPORT

Performance audit report is the end result of a taxing auditorial effort which involves planning, execution and reporting. Planning not only takes place at the organizational level but the auditors have to plan for each performance audit in the form of a Preliminary Survey Report (PSR) stipulating the audit objective/s and scope as also the issues of potential significance and audit criteria to be used during the audit assignment. At this stage the audit team also makes an estimate of the time and financial resources required to complete the assignment should they consider the audit feasible and desirable.

As regards the scope of audit, because of resource constraints, the SAI of Pakistan generally undertakes performance audit of selected development projects and programs. In some cases the organizations as such or some of their functions and activities have also been subjected to such audits. Scope of audit is also influenced by audit objectives generally intended to comment upon achievement of project objectives, procurement of resources, utilization of equipment, user satisfaction, contract management, human resource management etc. However, when it comes to auditing the whole organization, the period to be covered by audit is also determined.

### ISSUE NO. 1

#### AUDIT APPROACH

As regards performance audit approach, the SAI of Pakistan follows a combination of Systematic and Performance Measurement approaches whereby performance of the management/entity is largely measured against pre-determined and mutually agreed upon audit criteria besides looking at organizational outputs/performance with reference to the resources (inputs) used by it in the process.

As a consequence of the above audit approach, performance audit reports of the SAI of Pakistan not only reflect upon departures by the auditees from audit criteria which is based on Generally Accepted Management Practices (GAMP), Generally Accepted Accounting Principles (GAAP), professional norms, auditee's own performance standards etc. but also on management performance with respect to economy, efficiency and effectiveness.

### ISSUE NO. 2

#### AUDIT SCOPE

The main factors which guide the SAI of Pakistan in determining the scope of audit are the availability of financial resources and qualified personnel and audit objectives. The scope of audit is generally set out in the PSR but is sometimes also stated in the performance audit report. It is, however, not obligatory to do so. The scope of performance audit is decided by the audit management and no other authority or agency can limit the scope except the audit management itself.

With no limitations on the scope of audit and with performance audit reports generally covering all facets of development projects from their inception to completion and to the

latest financial year prior to the year of audit, the reader, after going through the performance audit report, can formulate his opinion about the degree of audit assurance he/she can place on the findings of audit. There is, however, no mechanism in the SAI of Pakistan to determine the degree of audit assurance for performance audit nor is it stated in audit reports. As a matter of fact, whereas in the case of financial audit it is possible to talk of audit assurance because of the homogeneous nature of numbers (financial data), it is not possible to do so in the case of performance audit because of the heterogeneous nature of a variety of performance indicators for a multitude of operational areas.

### ISSUE NO. 3

### AUDIT ASSURANCE

SAI of Pakistan does not have any mechanism of communicating the degree of audit assurance in performance audit reports. Since, however, the reports are generally comprehensive enough to cover most areas of project performance, the readers can formulate their own view of the degree of assurance to be placed thereon.

While the SAI of Pakistan has no limitations on what to audit or what not to audit with respect to performance audit, it is generally understood that performance audit assignments require large financial resources and extra-ordinary effort on the part of auditors because of the all encompassing nature of this audit. For this reason performance audit assignments are selected on the basis of a host of factors including significance in terms of money value and impact on the economy; potential risk of fraud, error, misuse, under-utilization etc; media visibility; public expectations and compliance with legislation. Subsequently, because of the significant character of projects and material nature of audit resources involved an effort is made to report only substantial findings and sensitive issues.

### ISSUE NO. 4

### SIGNIFICANCE

In the SAI of Pakistan there is no practice of specifying significance criteria in the audit report. Performance audit assignments are, however, selected based on such parameters as significance, risk, media visibility, public expectations and compliance with applicable legislation, rules and regulations. The basis for selection of performance audit assignments are mentioned in the Preliminary Survey Report.

### UTILIZATION OF PERFORMANCE AUDIT REPORTS BY EXECUTIVE

Primary users of performance audit reports are the managements. In the beginning, they showed a lot of reluctance to this new type of audit on the pretext of 'too much audit' and questioned the credentials of auditors to undertake audit of technical areas. The SAI of Pakistan has, however, made a lot of efforts to convince the auditees of the usefulness of the new discipline by inviting senior executive managers to national seminars, regional conferences and workshops on performance audit. To enhance credibility of auditorial work the SAI of Pakistan, in some cases, engaged experts from Railway, Education, Irrigation, Water Management, Agricultural Research, Construction and Livestock sectors to assist the

auditors. Furthermore, to enhance the capability of performance auditors to investigate technical areas sectoral courses, workshops etc. are held at Performance Audit Wing of the Department of the Auditor General where professionals from various fields are invited as guest speakers to share their knowledge and experience with the field auditors. While more work needs to be done in this area performance audit has gained acceptability over time.

As regards utilization of performance audit reports, for taking action on these reports, the executive agencies do not have to wait until reports of the Auditor General are placed before the National Assembly and discussed by the Public Accounts Committee. This is so because the auditees are, generally, actively involved in audits and findings of audit are discussed at various tiers of management as they are developed during the course of audit as also at the end of audit assignment with top management. Furthermore, after a performance audit report has been scrutinized and finalized in the respective field audit office (i.e. office of the Director General of Audit), a copy of the report is sent to auditee management for their reaction and comments. The report may also be discussed at this stage if so desired by the auditee management. In most cases, however, auditee managements only react to these reports if certain findings in the report are not agreed to by them. In other cases, where audit findings are not disputed, auditee managements may like to take corrective action and implement recommendations of audit for improvement of the situation. Thus by the time a performance audit report is discussed by the PAC, the auditee management may already have taken action on findings and recommendations of audit.

#### **ISSUE NO. 5      EFFORTS TO MAKE P.A. A GOING CONCERN**

To convince the auditee managements of the usefulness of performance audit, the SAI of Pakistan has organized, periodically, national seminars, regional conferences and workshops on various themes of performance audit. Because of these efforts, performance audit has gained acceptability with executive agencies over time.

#### **ISSUE NO. 6      REINFORCEMENT OF AUDITORS' COMPETENCE**

To reinforce competence of auditors for undertaking audit of technical areas sectoral courses, workshops etc. are held wherein professionals from relevant disciplines share their wisdom with the field auditors. The SAI of Pakistan has also, in some cases, engaged consultants to work with the auditors for probing into technical areas in Railway, Education, Irrigation, Water Management, Agricultural Research, Livestock and Construction sectors.

Experience has shown that auditees generally make use of audit recommendations, which are not specific but only point towards the direction of improvement, for improving the planning process, affecting economy in the acquisition of resources, increasing managerial efficiency, ensuring achievement of projected benefits, improving service delivery, installing or improving internal control mechanisms, guarding against time and cost overrun, increasing project/program effectiveness etc. The auditees, in some cases, also do not agree

with the findings and recommendations of audit. However, implementation of audit recommendations finally depends upon decision of the Public Accounts Committee (PAC).

#### ISSUE NO. 7 STANDARDS FOR RECOMMENDATIONS

Performance audit reports of the Department of the Auditor General of Pakistan carry general recommendations which point towards the direction of improvement with reference to the problems identified during the course of audit. In cases where Public Accounts Committee directs the concerned managements for implementation of audit recommendations, it is the responsibility of respective field audit office to monitor the follow up action and keep the PAC informed about it.

#### ISSUE NO. 8 EXECUTIVE'S REACTION ON RECOMMENDATIONS

Executive agencies are generally favourably poised towards audit recommendations because of their general nature and tend to take corrective action even before the performance audit reports are discussed by PAC. In certain cases executive have contested audit recommendations.

For example, in the case of performance audit of Pakistan's Hajj Directorate at Jeddah, Saudi Arabia, audit recommended that: 1) Hiring of accommodation (in Mecca and Madina) should be optional for Hajjis (pilgrims) applying for Hajj under 'Regular Scheme'; 2) Budgetary allocation for purchase of medicines be adequately enhanced to procure required quantity of medicines for Hajjis during their stay in Saudi Arabia; 3) Supply of medicines needs to be confined to those required for common diseases prevalent in Saudi Arabia during Hajj season in consultation with doctors posted in permanent dispensaries at Mecca and Madina; 4) The Ministry of Religious Affairs should review the size of establishment of Directorate General, Hajj, Jeddah to economize expenditure; 5) The Ministry should examine feasibility of making direct purchase of Saudi Riyals instead of first converting the Rupee in to US Dollars and then in to Saudi Riyals; and 6) The Ministry should examine the possibility of inviting international tenders to effect economical air travel by the pilgrims.

All recommendations of audit were agreed to by the Government and the first four have been implemented with far reaching impact on welfare of Hajjis and economy in Hajj expenses while the last two recommendations have yet to be implemented in full.

Although performance audit may be undertaken at planning and/or execution stage, yet audit is generally an *ex post facto* activity. Because of the *ex post facto* nature of audit perhaps much can't be done when things have gone wrong. In such a situation what the managements can do at best is rectification of some problems and/or improvement of systems, and that too, at an additional cost to the tax-payers. However, the manner in which executive branch of government can benefit the most from these reports is utilization of

findings and recommendations of audit for future planning and implementation of similar or related projects, programs, functions and activities in various sectors of the economy.

Our experience of performance audit in Pakistan has shown that almost every project is completed with a substantial time and cost overrun and objectives are not fully achieved as stated in project documents which, in most cases, adversely affects project/program effectiveness. Further examination of the factors causing time and cost overrun, hindering the achievement of objectives and affecting project/program effectiveness has revealed that managements usually exaggerate benefits and understate cost and time to win quick approval of concerned authorities. Another factor which contributes to time and cost overrun is the delayed release of funds. The former situation suggests that there is something wrong with project appraisal process in the planning agencies while the later one clearly throws blame on the Ministry of Finance.

With almost every project/program running in to difficulties of the same type, we can perhaps avoid recurrence of problems of the same nature through an institutional framework for sharing the findings and recommendations of performance audit by the auditing, planning, financing and executive agencies. Tokyo Declaration recognized the need for this linkage by stating that:

*'...Nonetheless, the SAIs must co-operate with the planners and administrators as well as continue to assist and advise them to promote change and reforms which enhance this accountability.'*

For the time being there is no institutional mechanism for interaction between these agencies except that representatives of these agencies are present at the time of discussion of performance audit reports by PAC. A rather institutional and meaningful rapport among these agencies would obviously make the planning agencies rather strict in their appraisals and enable them to clear a reduced number of projects for approval. The high-ups in the Ministry of Finance could learn through this linkage that financial approval of a smaller number of projects/programs which could be adequately funded for timely completion is better than approving a large number of projects that remain financially under-fed for long periods of time. The relationship would also be beneficial for the SAI who would have a smaller population of auditable entities where from it could select the more significant ones for performance audit. This linkage would also place greater demands on the executive departments with regard to better project formulation, clear statement of objectives, use of accurate cost and benefit data and rational projection of benefits.

#### ISSUE NO. 9

#### INSTITUTIONAL ARRANGEMENTS

There is no institutional arrangement in Pakistan which could ensure that the executive departments make use of audit recommendations while planning future projects.

## UTILIZATION OF PERFORMANCE AUDIT REPORTS BY LEGISLATURE

Legislature is the other main user of performance audit reports of the Auditor General besides the auditee managements. The legislature largely makes use of these reports from the *accountability* standpoint. To enable the PAC to carry out accountability of the executive managers, the performance audit reports point out deficiencies in managerial performance and glaring cases of misuse of funds and/or authority, mismanagement, pilferage, fraud etc. besides fixing responsibility on government officials for such lapses where possible. This is, however, not done as a general rule nor are there any specific guidelines for focusing the report on accountability of any particular group.

After the report of the Auditor General of Pakistan has been placed before the National Assembly (or, as the case may be, a Provincial Assembly), this is passed on to the Public Accounts Committee of the house for scrutiny and submission of a report thereon. At the time of scrutiny of the report the Auditor General is present with his team of officers including the performance auditors who have conducted the audit while the auditee management is present along with the Principal Accounting Officer who happens to be the Secretary to the Government of Pakistan (or, as the case may be, Secretary to the Provincial Government) in-charge of concerned department. Representatives of the Ministries of Finance and Planning and Development are also present during the meetings of PAC.

Scrutiny of a performance audit report starts with a presentation of the report by the performance auditor. Chairman of the PAC then calls upon the Principal Accounting Officer to render an explanation with reference to the findings of audit. At this point, the Principal Accounting Officer may like to agree with the findings of audit and inform the PAC about the corrective action, if any, that may have been taken. The management may also contest findings of audit before the PAC. However, during the discussion that follows the presentation of a performance audit report, the management is required to answer all points raised by audit and by the members and Chairman of the PAC and satisfy the Committee. If the Committee is not satisfied with the explanation of the management it may order an inquiry in to a case or issue a 'directive' for taking a specific action in a particular matter on or without the recommendations of Auditor General.

Generally, the type of directions that are given by the Public Accounts Committee for acts of negligence, uneconomical use of resources, inefficiency, wasteful expenditure, mismanagement, lax supervision, under-utilization, non-achievement of objectives, pilferage, fraud or misuse of authority include initiation of disciplinary action against government officials and recovery of certain sums of money from government officials or government contractors overpaid to the later from the exchequer in violation of rules. The Committee also issues instructions for streamlining the systems and simplification of procedures for improved project/program performance, better service delivery and an overall improvement in the quality of public administration. Once the PAC has issued a directive for taking any particular action against any official or government contractor, the required action is taken under provisions of the relevant rules.

In this regard following extracts of a news item from a leading daily newspaper 'The Nation' dated 2 February, 1993 regarding the proceedings of PAC are also very relevant:

*'The Auditor General presented performance audit reports on six development projects executed by WAPDA. While appreciating the efforts by auditor in this regard, the Committee advised WAPDA authorities to accord due importance to performance audit reports because these could go a long way in ensuring optimum utilization of resources in the best national interest...'*

To ensure compliance of these 'directives' somebody has to monitor the follow-up action. This responsibility is presently vested with concerned Directorates General of Audit of the Department of the Auditor General of Pakistan. However, because of resource constraints the Department is not able to fulfill this obligation in an effective manner. As a result, directives of PAC remain un-implemented for years together. This segment of the accountability process, therefore, needs to be strengthened and improved.

#### **ISSUE NO. 10 GUIDELINES FOR FOCUSING ON ACCOUNTABILITY**

The SAI of Pakistan has not issued any guidelines for focusing on the accountability of any particular group. However, performance audit reports of the SAI tend to fix responsibility on those executive officials who may have indulged in misuse of funds and/or authority, frauds, mismanagement, pilferage etc. or may have been found grossly negligent in project/program management.

#### **ISSUE NO. 11 ACTION AGAINST OFFICIALS**

If the Public Accounts Committee directs to take some action against an official on whom audit may have fixed responsibility for some irregularity, the system does not create any hinderance for taking the action. However, because of the requirements of the Government Servants (Efficiency and Discipline) Rules, 1973 which provide each accused officer reasonable opportunity of self-defence it may, at times, be difficult to prove specific charges against an official.

To ensure proper accountability of public departments and government officials, Public Accounts Committee sometimes directs the Auditor General to undertake performance audit of certain organizations, their specific functions and activities or development projects/programs undertaken by them and submit performance audit reports for its examination. In recent years the PAC has required the Auditor General, on many occasions, to undertake performance audit of the autonomous bodies/corporations under the Ministry of Science and Technology, Management Services Division, Survey of Pakistan, Hajj Foundation (Islamabad), Embassies/ High Commissions of Pakistan in Kuwait, India, United Kingdom, Consulate General of Pakistan in New York, Pakistan's Hajj Directorate in Jeddah, Saudi Arabia etc. The reports submitted by the Auditor General are also generally objectively examined by the PAC collectively.



In this regard following excerpt from the Report of the PAC on Finance Division (1981-82 to 1984-85) is very relevant:

*'The Auditor General shall conduct performance audit/evaluation of as many projects and organisations as possible within the available resources.'*

#### **ISSUE NO. 12      REQUESTS FROM LEGISLATORS FOR AUDIT**

Public Accounts Committee of the legislature usually issues directives to the Auditor General of Pakistan for undertaking performance audit of various entities or their specific functions and activities but no such requests are received by the SAI from individual legislators.

#### **ISSUE NO. 13      USE OF AUDIT REPORTS FOR PARTISAN INTERESTS**

The legislators have never been experienced to be using performance audit reports of the Auditor General of Pakistan for their partisan interests.

It is also satisfying to note that the federal PACs constituted in recent years have shown greater interest in the performance audit reports of the Auditor General and have been more inclined to take a macro view of the financial and administrative systems rather than being contended with the discussion of individual cases of irregular expenditure. In this regard following observations of the PAC contained in para 1.11 of its report on Finance Division (1981-82 to 1984-85) are highly encouraging:

*'The Committee felt that it had been constituted with only one object in view i.e. to determine if the resources placed at the disposal of the Executive had actually been utilized for the purposes and programmes approved by the legislature, in an efficient, economic, systematic and effective manner and the results achieved were in consonance with the money spent. Thus individual instances or irregular expenditure involving petty amounts of money were not as important as the overall performance of the executive agencies...'*

Things have, however, not been very promising for Audit in provincial legislatures where performance audit reports, to start with, were termed as stories without the financial sting. This has been so because the legislators have traditionally enjoyed discussing financial irregularities committed by government officials and government contractors and ordering of recoveries and disciplinary action against them. However, with cases of gross inefficiency, mismanagement, ineffectiveness, waste and under-utilization of public projects/assets, poor service delivery, misuse of public funds and/or authority etc. regularly coming to their notice through performance audit reports, provincial legislators have started to take interest in performance audit reports.

## CONCLUSION

From the above discussion it should be clear that performance audit reports are a useful tool of management and accountability but only if these reports are seriously taken by the management and the legislature. One way of taking these reports seriously is their appropriate and timely discussion between auditors and the management and among the auditors, management and the legislature at the proper legislative forum i.e Public Accounts Committee. Performance audit work can also become more rewarding for everybody if there is a proper liaison between the auditing, planning, financing and executive agencies. It should also be understood that these reports will prove more effective and will be able to create better impact if the issues selected for performance audit are current and significant and if audit coverage is adequate, audit is given greater independence, and provision of human and financial resources to audit is adequate.

***14. Saudi Arabia***

**Country Paper  
on  
Sub-theme 2**

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

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

6th ASOSAI INTERNATIONAL SEMINAR 1997

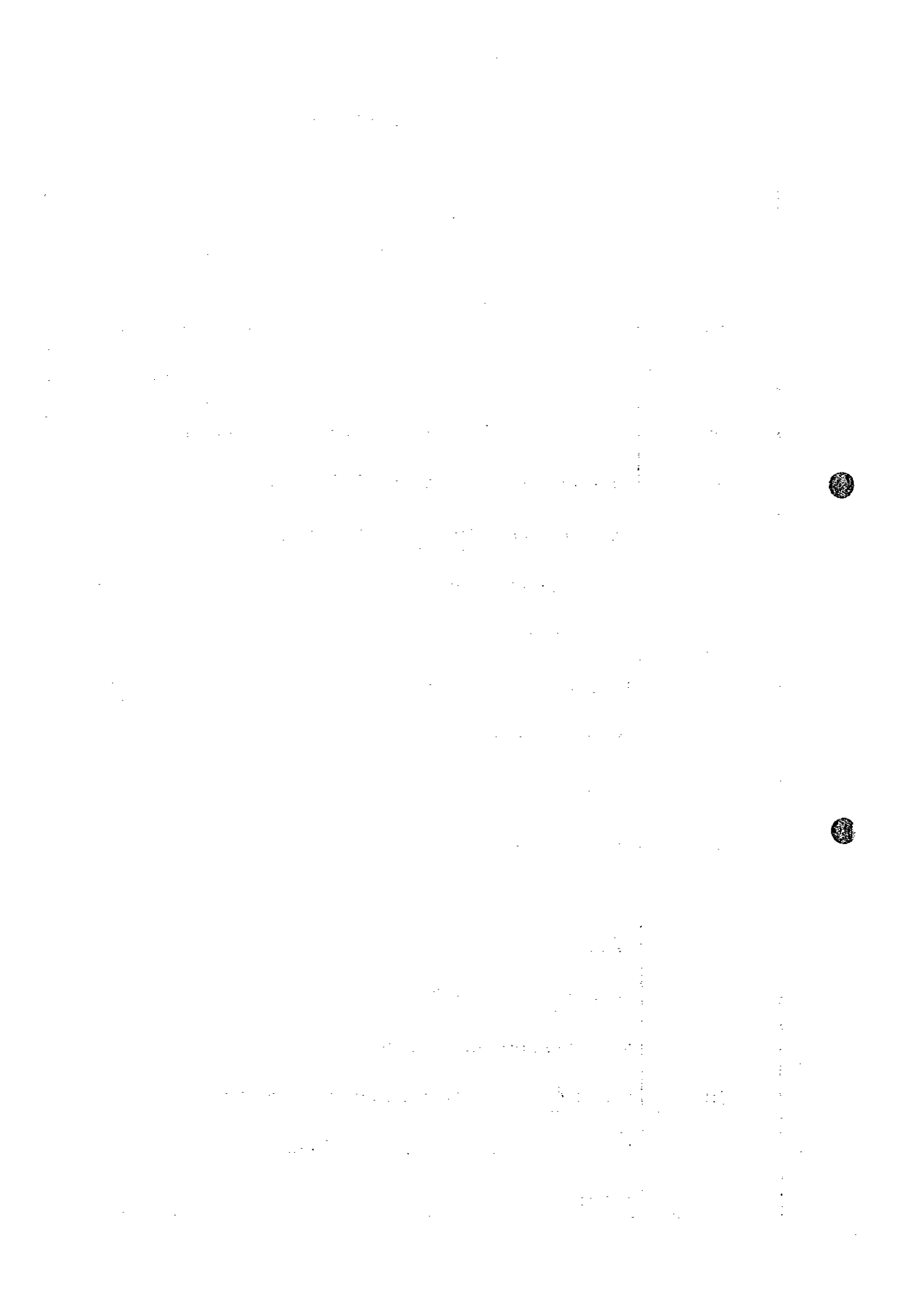
Topic :

Sub-theme II : Performance Audit Report and its  
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Legislature

A Country Paper By : General Auditing Bureau  
Kingdom of Saudi Arabia

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## Introduction

Undoubtedly, reports are of great importance to both the legislative and executive authorities as they help in the process of decision taking. However, this importance depends mainly on the time at which these reports are submitted. On the other hand, there might not be enough available data concerning some of the activities and services offered by the state through government entities and concerning whether the objectives the state has planned for these entities are achieved. As a result, there has been a change in the nature and scope of the audits carried out by Supreme Audit Institutions "SAIs". In addition, there has been a need for providing the legislative authority with data about performance level at which these activities are managed and about the extent to which the sought objectives are achieved. The availability of this kind of data on the part of the Legislature contributes much to making timely and right decisions.

In preparing this paper, we have focused on the methods and techniques used in the Kingdom of Saudi Arabia and on the basis of views drawn from the practical experience in the field of performance audit. We have mainly dealt with the following points:

1. The Legislature - Executive - SAI relationship in terms of audit report deliberations, and its legal background;
2. How the legislative branch presently uses SAI performance audit report in its deliberations on public administrative activity results;
3. How SAI can support the legislative branch deliberations;
4. How the legislative branch can rectify / improve executive branch activities through deliberations on SAI performance audit reports;
5. How the executive branch presently uses audit report to improve public administration;
6. How SAI can maximize effects of performance audit report use by the executive branch to improve their activities.

## **1. The Legislature - Executive - SAI Relationship In Terms of Audit Report Deliberations, and its Legal Background:**

Under the above headline, we are going to deal with two points:

- The Relationship between SAI and the Legislature;
- The Relationship between SAI and the Executive.

### **1.1: The Relationship between SAI and Legislature:**

In the Articles of Association of the General Auditing Bureau "GAB", we find the following articles that reflect the relationship between GAB and the Legislature:

#### **- Article (20)**

"It is a requirement that the President of GAB shall submit an Annual Report for each fiscal year within a period not to exceed in any event, the last day of the ninth month of the following fiscal year. In the event that the said 'last day' coincides with a public holiday, the Report should then be submitted on the following day, to contain the following:-

- (1) A general evaluation of the State's Financial Management for the year subject of the report.
- (2) An evaluation of the Financial Management at GAB's respective auditees for the year subject of the report.
- (3) A statement of the Final Accounts for the subject year. In the event the Ministry of Finance and National Economy has been unable to submit the final accounts in ample time before the date of submission of the annual report, it is then a mandatory requirement that the report should refer to the reasons for the delay of the Final Accounts together with GAB's opinion on this and its relevant proposal pertaining to the removal of the said reasons.
- (4) A brief account to describe the assignments accomplished by GAB during the subject year".

#### **- Article (21)**

"The Annual Report referred to in the preceding article shall be submitted to His Majesty the King. The Cabinet and the Ministry of Finance and National Economy shall be provided with a copy each".



**- Article (22)**

"Without violation of the provisions contained in Article (20), the President of GAB may choose to submit additional reports of a general or special nature or relating to a particular case or issue".

The above articles show that GAB has to prepare an annual report and submit it to His Majesty The Custodian of The Two Holy Mosques with a copy for each of the Cabinet and Ministry of Finance and National Economy. Moreover, GAB may submit separate performance audit reports as necessity demands according to the importance and sensitivity of the report itself. In cases of important reports that deal with topics with dangerous effects, particularly those related to health and environment, GAB submits immediate reports so as to keep the principle of timely reporting.

**1.2: The Relationship between SAI and The Executive:**

The following articles show the relationship between GAB and the executive agencies concerning audit report deliberations:

**- Article (11):**

"GAB shall report its comments to the concerned auditee demanding the implementation of the necessary actions. The auditee shall be required to feedback reporting the actions taken at the latest a month from the date GAB reported its comments".

**- Article (12):**

"Unless it has been established that a particular and a named person is withheld responsible, it is assumed that the Director of Finance or whoever deputizes for him shall be withheld responsible for the irregularities cited below:-

- (1) Any violation or infringement of the provisions contained in Article (11).
- (2) Any failure or delays to forward the required data and periodical reports to GAB within the pre-determined time limit".

**- Article (13):**

"In the event a dispute arises between an auditee and GAB and should the auditee chooses to continue to resist or decline to accept GAB's ultimate audit opinion, it

shall then be required to refer the disputable issue to the Prime Minister for arbitration".

At the end of each audit, there is always a final meeting between the auditors and officials of the audited entity in which they discuss the findings of the audit report. Through the discussion of the findings many positive points are achieved. One of these points is that officials of the audited entity are informed of the report findings and they have the opportunity to state their points of view concerning the causes of these findings. They also have the opportunity to discuss audit recommendations and the best way to carry them out. This procedure paves the way for the audited entity to accept the report findings and recommendations when they are formally sent to it by GAB. In this way, the contradicting points of view between the two sides are minimized as possible.

The Comprehensive Auditing Standards GAB issued relating to the report on efficiency and effectiveness auditing require the inclusion of the auditee's officials views on the audit results and findings. The auditor should give due regard to the following points when obtaining the officials' opinions on the results, findings and recommendations contained in his report:

- a. Obtain the opinion of the officials concerned at the appropriate administrative level. It is also preferable to obtain the opinion of the official in charge of the operation or the project subject to audit.
- b. Assess, wherever possible, the opinion or position of the officials in charge, particularly when they criticize the auditor's methodology.
- c. Try to obtain, in a written form, the opinion of management officials when it is possible.
- d. Discuss the contents of the report with the officials at the appropriate management level, and learn their position and opinion of the audit results.

It is also stated in the Comprehensive Auditing Standards that the auditor should include in his report all the audit proposals and recommendations, even in cases when the auditee promises or starts to implement these proposals and recommendations.

The process of reporting the audit results and recommendations to the auditee, the auditee's reply including their points of view on the results, their causes and the corrective actions they are going to take to realize the sought objectives is considered to be a prudent written discussion on the part of both GAB and the audited entity. As far as GAB is concerned, the performance audit report is primarily prepared by auditors, then reviewed by supervisors, department directors or advisors. The review process includes reviewing both the contents and the form of the report. On the part of the auditee, the performance audit report is also reviewed by the concerned persons so as to prepare their points of view on the audit report results and recommendations.

## **2. How The Legislative Branch Presently Uses SAI Performance Audit Report in its Deliberations on Public Administrative Activity Results:**

One of the responsibilities the legislative branch carries out is the approval of the state budget with its different allocations for the activities executed by the various government entities so as to achieve the stated objectives for these entities. Due to the fact that financial audit reports do not provide detailed data concerning the objectives sought to be realized by the state, performance audit reports proved to be very important as they provide the legislature with this most needed data. The availability of this kind of information or data contributes to establishing accountability and to defining the causes that hinder realizing the planned objectives. Although performance audit reports carried out by SAIs do not cover all the programs and activities for which the state has allocated huge funds, selecting samples of these programs and activities might provide the legislative branch with an adequate idea concerning how these programs are managed.

In the Kingdom of Saudi Arabia, GAB prepares an annual report that includes both financial and performance audit comments. This report is to be submitted to His Majesty the Custodian of the Two Holy Mosques. A copy of the same report is sent to the Cabinet (Experts Branch) and another copy to the Ministry of Finance and National Economy so as to discuss the report with GAB's representatives to prepare

recommendations to be submitted to His Majesty the Custodian of the Two Holy Mosques to take decisions concerning such recommendations. It is a normal practice that Royal Orders are issued and Cabinet decisions are taken to rectify the shortcomings pointed out in the report. Moreover, the reports issued by GAB represent a basis on which the legislative authority depends in the process of approving the final accounts of the different entities.

### **3. How SAI Can Support The Legislative Branch Deliberations:**

The word deliberations here may cover both written and verbal deliberations:

#### **3.1: Written Deliberations:**

The process of preparing reports does not only involve stating data but it also involves analyzing, explaining and pointing out cause and effect relationship among these data. Reports issued by SAIs should reflect the above features and should be prepared according to defined standards concerning the form and contents of these reports. As far as GAB is concerned, it issued the following standards pertaining to reporting:

- "I. The professional opinion or report should meet the following form standards:
  - A. The person or firm responsible for the opinion or report should be identified properly by preparing the opinion or report on the auditing firm's letterhead.
  - B. The opinion or report must include a narrative of the result of the auditor's work.
  - C. The opinion or report should be signed indicating the individual or the firm responsible for its contents.
  - D. The opinion or report should be dated."
- "II. The opinion or report should meet the following content standards:
  - A. Common content standards for all levels of comprehensive auditing:  
In preparing his opinion or report, the auditor should abide by the following content standards:
    1. Explain the significance of any restrictions imposed on the auditor.

2. Specify the subject covered by the opinion or report.
  3. Issue the opinion or report to the appropriate parties on a timely basis.
  4. Give an opinion on compliance with or deviation from the applicable provision that governs the auditee.
  5. Give an opinion on the study and evaluation of the system of internal control.
  6. Report must be objective, concise, clear, complete and readily understandable with due consideration to the competence of the user.
- B. Unique content standards for efficiency and effectiveness auditing

**"Performance audit" :**

In writing his professional report on the auditee's efficiency and effectiveness, an auditor should abide by the following content standards:

1. Include in the auditing results the views of the auditee's responsible officials.
2. Concentrate on constructive guidance and write the report in a balanced perspective, including the strengthes and weaknesses of the audited entity.
3. Include suggestions and recommendations in the report."

In order for performance audit reports to be balanced, they should include the four factors of each finding, namely the present condition observed by the auditor, the criteria applied, the effect of the present condition on the auditee and the cause of the present condition. Furthermore, they should be supported by the sufficient evidence of each finding and the related recommendations so as to satisfy any needs from either the Legislative or Executive branch.

**3.2: Verbal Deliberations:**

Deliberations are a very effective factor in convincing executive organs to adopt the recommendations included in the audit report. There should also be regular meetings between representatives of the legislative organ and the SAI in order to define the kind of information or data needed by the legislative organ

concerning entities subject to SAI's audit. In spite of the fact that SAI's reports should be clear and precise in stating the audit findings and recommendations, there might be some statements that are not clear enough or ambiguous. That is why there should be meetings between representatives of the SAI and report users to clarify these statements. SAIs should be able to reinforce their opinion sufficiently supported by audit evidence drawn from work papers. During these meetings, auditor should observe the following:

- \* Encouraging the exchange of points of view concerning the audit report findings and recommendations.
- \* When presenting the recommendations, auditors should use visual aids ( diagrams, charts, figures, slides or other reports ) to support their points of view and clarify the ambiguous points particularly when there is no documentary evidence.
- \* Pointing out the objectives achieved as a result of implementing recommendations of previous audit reports.

In a joint study carried out by the General Accounting Office of USA and the Office of the Auditor General of Canada in 1986, parliament members of the two countries showed a great interest in data concerning government performance in almost all fields. The study showed that performance data scope included in annual reports is very limited which does not satisfy the members need for more detailed data. Therefore, it was suggested that annual reports should include references to data sources or persons that could be contacted to get further information.

#### **4. How The Legislative Branch Can Rectify / Improve Executive Branch Activities Through Deliberations on SAI Performance**

##### **Audit Reports:**

Through studying and discussing the SAI's report, the legislative branch aims at improving executive organs' activities via the following:

- \* Rectifying the shortcomings by adopting the recommendations included in the audit report and encouraging the auditee officials to carry them out.

- \* Updating systems and rules by introducing the necessary amendments. This is due to the fact that there might be some findings included in the audit report that can be rectified only by amending some rules or systems. That is why in this case the audit report recommends the introduction of some amendments to the rules.

The type of data concerning performance included in annual reports needs always to be improved in order to provide a better background of information about performance measurements for the stated objectives of the various ministries and government entities. This would be of a great help for legislative organs to get comprehensive data about the performance of the different government activities. These data should be in a clear form in order to be easily absorbed. There should also be regular meetings between SAI's representatives and representatives of the legislative branch to discuss their special needs. Thus, the SAI could devote some of its audit effort to provide the legislative branch with an independent opinion on the performance level of specified government activities. Having timely audit reports, the legislative can take the right decision at the right time.

#### **5. How The Executive Branch Presently Uses Audit Report to Improve Public Administration:**

According to GAB's experience in the field of performance audit, we believe that informing the auditee officials of the audit findings and recommendations and discussing these things with them are effective factors in making them accept the findings and recommendations. In this way, they feel that they participated in forming audit findings and recommendations. This encourages them to implement audit recommendations. Undoubtedly, the style of the report is also important in making the auditee accept the audit report. That is why the Comprehensive Auditing Standards issued by GAB state the following: "Concentrate on constructive guidance, and write the report in a balanced perspective specifying the strengths and weaknesses of the audited entity". This encourages transferring the quality and efficiency of performance from one unit to another. This of course does not mean using unnecessary flattering phrases, but to be fair and objective in presenting

strengths and weaknesses. All this aims at benefiting from the audit report in the process of rectifying the shortcomings within the audited entity.

Executive organs can also benefit from audit reports in supporting their demands for allocations or for introducing specific amendments to rules or systems.

## **6. How SAI Can Maximize Effects of Performance Audit Report Use by Executive Branch to Improve their Activities:**

SAIs can maximize effects of performance audit reports by observing the following:

- Performance audit reports should be prepared in accordance with specific standards like the Comprehensive Auditing Standards issued by GAB which include both form and content standards, or like those issued by GAO.
- Before issuing their audit reports, SAIs should be sure that each finding is supported by the sufficient evidence.
- Performance audit reports should be objective, balanced, precise and constructive.
- Reports should be presented at the right time so as to help in taking timely decisions to rectify the shortcomings.
- Notifying the auditees that performance audit reports are issued to help them taking right decisions and not to detect errors.
- Discussing report results and findings with the auditee officials should be given the due consideration. Auditors should be well trained on conducting these discussions and should use different aids to clarify the findings, their causes and effects and the recommendations to overcome the causes of these findings.
- Auditors should be aware of the fact that their performance audit reports aim mainly at helping auditees in improving their activities and not at detecting errors.

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