

**Indian Audit & Accounts Department**

Structured Training Module (STM)

On

PERFORMANCE AUDIT

REGIONAL TRAINING INSTITUTE, JAIPUR

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**Foreword**

The Regional Training Institute (RTI), Jaipur was entrusted with the work of revising Structure Training Module (STM) on Performance Audit by the Office of the Comptroller & Auditor General of India (C&AG).

Thereafter, we took up preparation revising the training module on Performance Audit. The revision was made on the basis of Performance Audit Guidelines 2014.

The training module has been revised by Sh. Prabhakar Joshi, Consultant Faculty in association with Sri D.S.Shrivastava, Retd. Asstt. Audit Officer.

We welcome feedback and suggestions on the design and content of this training module.

(J.R.Rinwa)

Principal Director

Structured Training Module (STM)

On

Performance Audit

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**Regional Training Institute, Jaipur**

**Structured Training Module on Performance Audit**

**Training Objective:** Familiarisation with the concept of Performance Audit and its importance in the developmental process vis-a vis enabling the participants to

1. understand performance audit;
2. form objective assessment of working under guidelines of Performance Audit; and
3. derive audit conclusions according to Performance Audit guidelines

**Training Method:** Interactive lectures, PowerPoint Presentations and exercises

**Sessions at a glance**

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| **Day** | **Session** | **Topic** |
| **1** | **I & II** | **Fundamentals of Public Sector Ethics** |
| **III & IV** | **Introduction to Performance Audit** |

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| **Day** | **Session** | **Topic** |
| **2** | **I & II** | **Mandate and general principals of Performance Audit** |
| **III & IV** | **Strategic planning and selection of audit topics** |

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| **Day** | **Session** | **Topic** |
| **3** | **I & II** | **Planning Individual Performance Audit** |
| **III & IV** | **Implementing the Performance Audit** |

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| **Day** | **Session** | **Topic** |
| **4** | **I & II** | **Evidence gathering and Documentation** |
| **III & IV** | **Developing Audit Conclusions & Recommendations** |

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| --- | --- | --- |
| **Day** | **Session** | **Topic** |
| **5** | **I & II** | **The Reporting process** |
| **III & IV** | **Follow-up of Performance Audits** |

**Session: I & II Session at a glance**

**Session Title: Fundamentals of Public Sector Ethics**

**Learning Objectives: Acquiring the basic understandings of ethics and ethical behavior and the skills and guidelines for making ethical judgment and decisions in IA & AD**

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| --- | --- | --- |
|  | **Time Required** | **Training Method** |
| **Session Overview:**  In this session we will discuss basic understanding of ethics and ethical behavior and practice in IA & AD | 5 min | **Lecture** |
| **Key Teaching Point** |  |  |
| **Key Teaching Point 1**  The ethical principles that guide the work of Auditors who conduct audit | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2**  Equip participants with skills and guidelines for making ethical judgments and decisions in their day to day work. | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary:** conclude the key features discussed in the session | 5 min | **Lecture** |
| **Total:** |  |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: I & Instructor’s Guide**

**Session: Title Fundamentals of Public Sector Ethics**

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| **Instructor’s Guide** | **Ref** |
| **Session Overview**  **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on  Basics of ethics and ethical behaviour; Skills and guidelines for making ethical judgment and decisions; Code of Ethics in IAAD | Introductory remarks and over view of the topic |
| **Learning Objective**  Inform by the end of the session, we will acquire the basic understandings of ethics and ethical behavior and the skills and guidelines for making ethical judgment and decisions | Objective of the session |
| **Basic Concept**  Form five groups among participants  **Ask** what is their understanding of ethics and ethical behavior and practice  **Encourage** each group to discuss among its members and each participant to actively participate in the discussion  **Obtain** responses from each group and recognize them by noting on the white board  **Show** PowerPoint Slides and discuss  **Ask** what is their understanding of the ‘skills and guidelines for making ethical judgment and decisions according to the Code of Ethics in IAAD  **Encourage** each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter  Take responses from each group and recognize them by noting on the white board  **Show** PowerPoint Slides and discuss | Power point slide and participants note |
| **Distribute Participant’s Note** |  |
| **Summarise:**  **Run Down:** During the session we discussed the origin and evolution of Ethics and Code of Ethics in IA&AD.  **Thank** the participants for their active participations and bring the session to a close | Concluding remarks by the faculty |

Number of groups may vary according to no. of participants and sitting arrangement.

Participants Note

**Fundamentals of Public Sector Ethics**

1. **Ethical Pillars of Good Governance**

ETHOS- Citizen centric and inclusive, promotes public good and long-term interests of the Nation

ETHICS- Demonstrates integrity, transparency, openness and fairness

EQUITY- Treating all citizens alike, ensuring justice to all, with empathy for the weaker section

EFFICIENCY-Promoting operational excellence and value for money, managing human capital and nurturing capability

1. **Code of Ethics for IAAD**

A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors in the SAI India(SAI). The independence, powers and responsibilities of the public sector auditor place high ethical demands on the SAI and the staff he employs or engages for auditing and accounting work. The Code of Ethics incorporates the values and principles contained in the Central Civil Services Conduct Rules (CCS Conduct Rules) adapting the broad principles contained in ISSAI 30 (INTOSAI Standards for Supreme Audit Institutions, issued by The Professional Standards Committee). The Code of Ethics for SAI India thus comprises the general ethical requirements prescribed for civil servants in India as enunciated in the CCS Conduct Rules and the particular requirements of auditors, including the latter's professional obligations.

The Code of Ethics is directed at the individual auditor, the head of the SAI, executive officers and all individuals working for or on behalf of the SAI who are involved in auditing and accounting work. The SAI has the responsibility to ensure that all his personnel acquaint themselves with the values and principles contained in the Code of Ethics and that they act accordingly.

It is of fundamental importance that the SAI is looked upon with trust, confidence and credibility. The auditor promotes this by adopting and applying the ethical requirements of the concepts embodied in the key principles - Integrity, Independence and Objectivity, Confidentiality and Competence. The conduct of auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of auditors, the SAI India, and the quality and validity of their work in an unfavourable light, and may raise doubts about the reliability and competence of the SAI itself. The adoption and application of a Code of Ethics in the public sector promotes trust and confidence in the auditors and their work.

1. **Trust, Confidence and Credibility ·**

The legislative and/or executive authority, the general public and the audited entities are entitled to expect the SAl's conduct and approach to be above suspicion and reproach and worthy of respect and trust.

Auditors should conduct themselves in a manner which promotes co-operation and good relations between auditors and within the profession. The support of the profession by its members and their co- operation with one another are essential elements of professional character. The public confidence and respect which an auditor enjoys is largely the resultof the cumulative accomplishments of all auditors, past and present. It is therefore in the interest of auditors, as well as that of the general public, that the auditor deals with fellow auditors in a fair and balanced way.

The legislative and/or executive authority, the general public and the audited entities should be fully assured of the fairness and impartiality of the SAIIndia in the discharge of his constitutional mandate. It is therefore essential that there is a Code of Ethics which governs the SAI in carrying out his mandated duties and responsibilities.

In all parts of society there is a need for credibility. It is therefore essential that the reports and opinions of the SAI are considered to be thoroughly accurate and reliable.

All work performed by the SAI must stand the test of legislative and/or executive scrutiny, public judgements on propriety, and examination against the Code of Ethics.

1. **Integrity**

Integrity is the core value of a Code of Ethics. The integrity of auditors establishes trust and thus provides the basis for reliance on their judgment. Auditors have a duty to adhere to high standards of behaviour in the course of their work and in their relationships with the staff of audited entities. In order to sustain public confidence, the conduct of auditors should be above suspicion and reproach.

Integrity can be measured in terms of what is right and just. Integrity requires auditors to observe both the form and the spirit of auditing and ethical standards. Integrity also requires auditors to observe the principles of independence and objectivity, maintain irreproachable standards of professional conduct, exercise due diligence, discharge their duties responsibly, make decisions with the public interest in mind, and apply absolute honesty in carrying out their work and in handling the resources of the SAI.

1. **Independence, Objectivity and Impartiality**

The general standards for the auditor and the SAI include independence from the legislature and independence from the executive. Independence from the audited entity and other outside interest groups is indispensable for auditors. This implies that auditors should behave in a way that increases, or in no way diminishes, their independence.

Auditors should strive not only to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review.

It is essential that auditors are independent and impartial, not only in fact but also in appearance. Independence of mind and appearance is necessary to enable the auditor to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest or undue influence of others.

In all matters relating to the audit work, the independence of auditors should not be impaired by personal or external interests. Independence may be impaired, for example, by external pressure or influence on auditors; prejudices held by auditors about individuals, audited entities, projects or programmes; recent previous employment with the audited entity; or personal or financial dealings which might cause conflicts of loyalties or of interests. Auditors have an obligation to refrain from becoming involved in all matters in which they have a vested interest and to report the same to their administrative head so as to ensure appropriate course of action in accordance with the Standards/CCS Conduct Rules.

There is a need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in opinions and reports should, therefore, be based exclusively on evidence obtained and replies received from the

1. **Political neutrality –**

It is important to maintain both the actual and perceived political neutrality of the SAI India. Therefore, it is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way. This is relevant for auditors since the SAI works closely with the legislative authorities, the executive or other government entity empowered by law to consider the SAI's reports. It is therefore important for the auditors to refrain from involvement in political activities as such involvement violates the CCS Conduct Rules and is also likely to impact their ability to discharge their professional duties impartially.

It is from the Constitution that SAI India derives his mandate, and an important feature of the audit function is its reporting to the legislature. The SAI works closely with the legislature, including with committees empowered by the legislature to consider audit reports.

The SAI may give members of the Public Accounts Committee or Committee on Public Undertakings factual briefings on audit reports, but it is important that the SAI maintains his independence from political influence, in order to preserve an impartial "approach to his audit responsibilities. This implies that the SAI not be responsive, nor give the appearance of being responsive, to the wishes of particular political interests.

While the Sal must observe the laws enacted by the legislature, adequate independence requires that it not otherwise be subject to direction by the legislature in the programming, planning and conduct of audits. The SAI needs freedom to set priorities and program his work in accordance with his mandate and adopt methodologies appropriate to the audits to be undertaken.

Any imposition of resource or other restrictions by the executive, which would constrain the SAI's exercise of its mandate, would be an appropriate matter for report by the SAI to the legislature.

The legal mandate provided in the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and Regulations on Audit and Accounts, 2007 provides for full and free access for the SAI and his auditors to all premises and records relevant to audited entities and their operations and provides adequate powers to the SAI to obtain relevant information from persons or entities possessing it.

By legal provision, the executive permits access by the SAI to sensitive information, which is necessary and relevant to the discharge of the SAI's responsibilities.

In order that the SAI not only exercises his functions independently of the executive but is also seen to do so, it is important that his mandate and his independent status be properly appreciated by all stakeholders. The SAI may, as appropriate opportunities arise, undertake an educational role in that regard.

1. **Conflict of Interest**

In contrast to private sector audit, where the auditor's agreed task is specified in an engagement letter, the audited entity is not in a client relationship with the SAI. The SAI has to discharge his mandate freely and impartially, taking management views into consideration in forming audit opinions, conclusions and recommendations, but owing no responsibility to the management of the audited entity for the scope or nature of the audits undertaken.

The SAI should not participate in the management or operations of an audited entity. Audit personnel should not become members of management committees and if audit advice is to be given, it should be conveyed as audit advice or recommendation and acknowledged clearly as such.

Any SAI personnel having such affiliations with the management of an audited entity which may be conducive to a lessening of objectivity should not be assigned to audit that entity.

It is the duty of the SAI to ensure that policies and procedures have been put in place to safeguard independence, objectivity and impartiality, To this end, prior to commencement of an auditing assignment, all members of the audit party, including the supervising Group Officer, should give individual undertakings in the format enclosed in Annexure I. Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities which could influence or be perceived as influencing their independence and integrity. Similarly, all individuals working for or on behalf of the SAI who are engaged in assisting him in the discharge of his duties and responsibilities as enshrined in the Constitution of India should give an undertaking in the format enclosed in Annexure II.

Auditors should avoid such relationships with managers and staff in the audited entity and other parties which may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently.

1. **Professional Secrecy**

Auditors shall be prudent in the use and protection of information acquired in the course of their duties. They should not disclose information obtained in the auditing process to third parties, either orally or in writing except for the purposes of meeting the SAI's statutory or other identified responsibilities as part of SAIs normal procedures or in accordance with relevant laws. Auditors shall not use information in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the SAI.

Auditors should not use or disclose information obtained in the performance of their duties as a means of securing personal benefit for themselves or for others. Confidentiality of information to which they have access, should be maintained. Neither should they divulge information which would provide unfair or unreasonable advantage to other individuals or organisations, nor should they use such information as a means for harming others.

Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and the formation of an opinion or in reporting in accordance with the auditor's responsibilities. It is essential that the SAI maintain confidentiality regarding audit matters and information arising from its audit task. However, the SAI should report offences against the law to proper prosecuting authorities.

If certain privileged or confidential information prohibited from general disclosure by law is obtained in course of an audit, the auditor should maintain confidentiality of that information and ensure that the audit notes, the inspection reports or the audit reports do not become a means of compromising such privilege or confidentiality of the information.

1. **Competence**

Since the duties and responsibilities borne by the SAI are crucial to the concept of public accountability, the SAI must apply to his audits, methodologies and practices of the highest quality. It is incumbent upon the SAI to formulate appropriate procedures for the effective discharge of its responsibilities for auditing and ensuring full adherence by its personnel or external experts to its standards, planning procedures, methodologies and supervision.

. The SAI needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Persons whose skills are commensurate with the nature, scope and complexities of the audit task should carry out the audit work. The SAI may equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems.

Auditors should know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices. Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity.

1. **Due care**

Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality. Auditors should exercise due professional care in conducting and supervising the audit and in preparing related reports.

Auditors should use methods and practices of the highest possible quality in their audits. In the conduct of the audit and the issue of reports, auditors have a duty to adhere to basic postulates and generally accepted auditing standards.

If the SAI employs external experts as consultants he must exercise due care to assure him of the consultants' competence and aptitude for the particular tasks involved. This would also apply in cases where outside auditors are engaged on contract with the SAI. In addition care, must be taken to ensure that audit contracts include adequate provision for the SAI to determine the planning, the audit scope, the performing, and the reporting on the audit. Obtaining advice from an external expert does not relieve the SAI of responsibility for the opinions formed or conclusions reached on the audit task.

When the SAI uses the work of another auditor(s), it must apply adequate procedures to provide assurance that the other auditor(s) has exercised due care and complied with relevant auditing standards, and may review the work of the other auditor(s) to satisfy itself as to the quality of that work.

1. **Professional Development**

The SAI should adopt policies and procedures to recruit personnel with suitable qualifications and train them professionally. The SAI should establish, and regularly review, minimum training requirements for the appointment of auditors at each level within the organisation. It should take adequate steps to provide for continuing professional development of its personnel.

Audit of financial systems, accounting records and financial statements requires training in accounting and related disciplines as well as knowledge of applicable legislation and executive orders affecting the accountability of the audited entity. Further, the conduct of performance audits may require, in addition to the above, training in such areas as administration, management, economics and the social sciences. It would also require that the auditor possesses domain knowledge of the functions discharged by the audited entity.

Auditors have a continuous obligation to update and improve the skills required for the discharge of their professional responsibilities and the effectiveness and quality of their services. The SAI should encourage his personnel to become members of a professional body relevant to their work.

The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits. Communication to staff of the SAI by means of circulars containing guidance, and the maintenance of an up-to-date audit manual setting out the SAI's policies, standards and practices, is important in maintaining the quality of audits.

**Fundamental of Public Sector Ethics**

Exercise

Please give the answer of following Questions.

Q. 1. What is the importance of independence is Ethical behavior of the auditor.

Q. 2. Whether political neutrality is essential for the auditor.

Q. 3. Why Professional Secrecy is required for the auditor.

Q. 4. Illustrate that integrity is a core value of Ethics.

Q. 5. Why due care and concern is essential for conducting the audit.

Fundamental of Public Sector Ethics

Suggestion to exercise

Ans.1 The general standards for the auditor and the SAI include independence from the legislature and independence from the executive. Independence from the audited entity and other outside interest groups is indispensable for auditors. This implies that auditors should behave in a way that increases, or in no way diminishes, their independence. Auditors should strive not only to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review.It is essential that auditors are independent and impartial, not only in fact but also in appearance. Independence of mind and appearance is necessary to enable the auditor to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest or undue influence of others. In all matters relating to the audit work, the independence of auditors should not be impaired by personal or external interests. Independence may be impaired.

Ans.2 It is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way. This is relevant for auditors since the SAI works closely with the legislative authorities, the executive or other government entity empowered by law to consider the SAI's reports. It is therefore important for the auditors to refrain from involvement in political activities as such involvement violates the CCS Conduct Rules and is also likely to impact their ability to discharge their professional duties impartially.

Ans.3 Auditors shall be prudent in the use and protection of information acquired in the course of their duties. They should not disclose information obtained in the auditing process to third parties, either orally or in writing except for the purposes of meeting the SAI's statutory or other identified responsibilities as part of SAIs normal procedures or in accordance with relevant laws. Auditors shall not use information in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the SAI.

Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and the formation of an opinion or in reporting in accordance with the auditor's responsibilities.

The documents classified as 'confidential' or 'secret' or 'top secret' made available to SAI shall be dealt with by SAI in accordance with the standing instructions of the Government for handling and custody of such documents.

Ans.4 Integrity is the core value of a Code of Ethics. The integrity of auditors establishes trust and thus provides the basis for reliance on their judgment. Auditors have a duty to adhere to high standards of behaviour in the course of their work and in their relationships with the staff of audited entities. In order to sustain public confidence, the conduct of auditors should be above suspicion and reproach.

Integrity can be measured in terms of what is right and just. Integrity requires auditors to observe both the form and the spirit of auditing and ethical standards. Integrity also requires auditors to observe the principles of independence and objectivity, maintain irreproachable standards of professional conduct, exercise due diligence, discharge their duties responsibly, make decisions with the public interest in mind, and apply absolute honesty in carrying out their work and in handling the resources of the SAI.

Ans.5 Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality. Auditors should exercise due professional care in conducting and supervising the audit and in preparing related reports.

Auditors should use methods and practices of the highest possible quality in their audits. In the conduct of the audit and the issue of reports, auditors have a duty to adhere to basic postulates and generally accepted auditing standards.

**Session: III& IV Session at a glance**

**Session Title: Introduction to Performance Audit**

**Learning Objectives:**

Give the Introduction to Performance Audit, at the end of this session, the participants will be able to understand the new guidelines issued by the CAG of India. This institute will provide background knowledge about the performance audit and how to conduct it in field.

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|  | **Time Required** | **Training Method** |
| **Session Overview:** In this session we will discuss about the New Performance Audit Guide lines issued by the Comptroller and Auditor General of India. | 5 min | Lecture |
| **Key Teaching Point:** |  |  |
| **Key Teaching Point 1 :** Salient features of Performance Audit and the two basic questions | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2:** Objectives, elements and outcome of performance audit. General outlines of the New Performance Audit Guidelines, 2014. | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary :** Conclude the key features discussed in the session. | 5 min | Lecture |
| **Total:** | **75 min.** |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: III & IV Instructor’s Guide**

**Session Title : Introduction to Performance Audit**

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| **Instructor’s Guide** | **Ref** |
| Session Overview:  **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on The framework for the process of Performance Audit. Objectives and elements of Performance Audit. | Introductory remarks and over view of the topic |
| **Learning Objective**:  Inform by the end of the session, we will acquire the basic concepts of Performance Audit and specifications of New Performance Audit Guidelines, 2014. | Objective of the session |
| **Basic Concept:**  **Form** [[1]](#footnote-2)five groups among participants.  **Ask** what is their understanding about the Performance Audit. .  **Encourage** each group to discuss among its members and each participant to actively participate in the discussion.  **Obtain** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and discuss.  **Ask** what is their understanding of the Performance Audit and its peculiarities over other topics of audit.  **Encourage** each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter.  **Take** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and discuss the Performance Audit and salient features of New Performance Audit Guidelines, 2014. | Power point slide and participants note |
| **Distribute Participant’s Note** |  |
| **Summarise:**  **Run Down:** During the session we discussed the specific features of performance audit and new guidelines 2014.  **Thank** the participants for their active participations and bring the session to a close. | Concluding remarks by the faculty |

Participants Note

**Introduction to the new Performance Audit Guidelines, 2014**

1. **Introduction**

New Performance Audit guidelines, 2014 contain the framework for the process of performance auditing within the Indian Audit and Accounts Department (IA&AD) headed by the Comptroller and Auditor General (C&AG) of India . They provide the best practices that the officers and the staff of Department must follow in planning, implementation, reporting, observing follow-up processes and obtaining quality assurance in performance audits. They outline principles, objectives, approach, methodology, techniques and procedures for conducting performance audits.

While these guidelines are prescriptive in nature, these are not intended to supersede the professional judgement of the Accountant General1, relevant to the individual sectors of entity operations and within each sector, to the individual subjects. The Accountant General is expected to make situation or subject specific adjustments to the provisions set out in these guidelines. However, Accountants General will be expected to document the rationale of all significant departures from the guidelines and obtain authorisation from the competent authority.

1. **Performance Auditing**

Regulations on Audit and Accounts, 2007 provide the appropriate guidance for audits undertaken by the Department. The Department performs its auditing functions as per C&AG Auditing Standards, 2002 which have been adapted from ISSAIs (100-400). C&AG’s Auditing Standard 4.9 defines the scope of audit as under:

“The term ‘Audit’ includes financial audit, regularity audit and performance audit”.

The auditing standard further adds that in pursuance of the constitutional responsibility, the Department is empowered to decide the nature, scope, extent and quantum of audit to be conducted by it or on its behalf.

Performance auditing carried out by the Department is an independent, objective and reliable examination of whether government undertakings, programs, systems, activities or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.

Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by:

1.  providing new analytical insights (broader or deeper analysis or new perspectives);
2.  making existing information more accessible to various stakeholders;
   * + 1.  providing an independent and authoritative view or conclusion based on audit evidence;
3.  providing recommendations based on an analysis of audit findings.
4. Performance Audits address the issues of economy, efficiency and effectiveness.

(i) Judging economy in itself implies forming an opinion on the resources (human, financial and material) deployed. This requires assessing whether given the context, resources have been acquired, held and used economically and acquired in due time, in appropriate quantity and quality at the best price. The performance auditor needs to examine whether the means chosen represent the most or at least a reasonable economical use of public funds.

(ii) The principle of efficiency means getting the most from the available resources. Efficiency exists where the use of financial, human, physical and information resources is such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output. The main issue to be examined here is whether the resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources. It refers to the relationship between the quality and quantity of goods and services yielded and the cost of resources used to produce them, in order to achieve the results. Auditing efficiency embraces aspects such as whether:

1.  human, financial and other resources are efficiently used;
2.  public sector programmes, entities and activities are efficiently managed, regulated, organised and executed;
3.  services are delivered in a timely manner; and
4.  the objectives of public sector programmes are met cost-effectively.

(iii) Effectiveness is essentially a goal-attainment concept. It addresses the issue of whether the programme/activity has achieved its objectives. When focusing on effectiveness, it is important to distinguish between the immediate outputs or products and the ultimate impacts or outcomes. Outcomes are important to the effectiveness of programmes/activities but may be more difficult to measure and assess than the inputs and outputs. Outcomes will often be influenced by external factors and may require long-term rather than short-term assessment. In auditing effectiveness, performance audit may, for instance:

1.  assess whether the objectives of and the means provided (legal, financial, *etc.,*) for a new or ongoing public sector programme are proper, consistent, suitable or relevant to the policy;
2.  assess and establish with evidence whether the observed direct or indirect social and economic impacts of a policy are due to the policy or to other causes;
3.  identify factors inhibiting satisfactory performance or goal-fulfilment;
4.  assess whether the programme complements, duplicates, overlaps or counteracts other related programmes;
5.  assess the adequacy of the management control system for measuring, monitoring and reporting a programme’s effectiveness; and
6.  identify ways of making programmes work more effectively.
7. **Two basic questions**

Performance auditors may find answers to the following two basic questions:

1.  ***Are things being done in the right way?***
2.  ***Are the right things being done?***

The first question means, broadly speaking, whether policy decisions are being carried out properly. This question is usually associated with a assessment *vis-à-vis* norms *i.e.,* the performance auditor wants to know whether the executive has observed the rules or the requirements consistent with the programme. Up to this point, performance auditing is mainly concerned with different aspects of the economy or the efficiency of operations. The scope for analysis becomes considerably greater by posing the second question, *i.e.,* whether the right things are being done. In other words, effectiveness of the operations would be examined by asking questions whether the adopted policies have been suitably implemented. A performance auditor might, for instance, find a chosen measure ineffective and inconsistent with the policy objectives. In the effort to find answer to the second question, adequate caution should be exercised by not going beyond the audit mandate by respecting the roles assigned to executive and audit. However, the correctness of the information or inputs that were considered while framing the policy and sufficiency of the programmes and resources to fulfil the policy objectives may be assessed and reported.

1. **Objectives of Performance Audit**

The main objective of performance auditing is to constructively promote economical, effective and efficient governance. It also contributes to accountability and transparency. Performance auditing promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, but examines whether any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved. Performance auditing focuses on areas in which it can add value for citizens and which have the greatest potential for improvement. It provides constructive incentives for the responsible parties to take appropriate action. Performance auditing promotes transparency by affording parliament, taxpayers, those targeted by government policies, media and other stakeholders an insight into the management and outcomes of different government activities. It thereby contributes in a direct way to providing useful information to the citizen, while also serving as a basis for learning and improvements.

1. **Elements of Performance Audit**

Public Sector audits have certain basic elements (i) Three parties in the audit i.e. the auditor, the responsible party, intended user, (ii) the subject matter information and (iii) criteria to assess the subject matter.

**The three parties**

Public sector audit involves at least three separate parties: the auditor; the responsible party and the intended user. These are briefly described below:

**The auditor:** In public sector auditing, the role of auditor is fulfilled by the Department and by the persons delegated with the task of conducting audits. However, clear-cut demarcation of roles and responsibilities of officers and staff for various functions and processes is done through a hierarchical structure. Auditors in performance audits typically work in a team with different and complementing skills.

**The responsible party:** Responsible party would typically mean audited entity and those charged with governance. The role of responsible party may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter in some cases at different points in time. Some parties may be responsible for actions that have caused problems. Others may be able to initiate changes to address the recommendations resulting from a performance audit. Still others may be responsible for providing the auditor with information or evidence.

**Intended users:** The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users. A responsible party is also an intended user.

1. **Subject matter**

The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences). The subject matter is determined by the objective and formulated in the audit questions.

**Audit Criteria**

Audit criteria within the context of performance audit are audit specific, reasonable standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed. The auditor may sometimes be involved in developing or selecting the criteria that are relevant to the audit.

1. **Assurance and confidence in performance auditing**

As in all audits, the users of performance audit reports seek confidence about the reliability of information in the reports. The performance auditors should, therefore, in all cases provide findings based on sufficient and appropriate evidence and actively manage the risk of inappropriate reports.

The level of assurance that a performance audit report provides should be communicated in a transparent way. Whether economy, efficiency and effectiveness have been achieved may be conveyed in the performance audit report in different ways:

1.  through an overall view on aspects of economy, efficiency and effectiveness, when the
2. audit objectives, the subject matter, the evidence obtained and the findings reached
3. allow for such conclusions; or
4.  by providing specific information in the report on different points, including the audit objectives, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions.

However, the performance auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness on the level of the audited entity in the same way as the opinion on financial statements.

The decisions made in drawing up a balanced report, reaching conclusions and formulating recommendations frequently need to be elaborated in order to build user confidence. Performance auditors should specifically describe how their findings have led to a set of conclusions and, if applicable, an overall conclusion.

This means explaining the criteria developed and used and why, and stating that all relevant viewpoints have been taken into account. The principles on reporting give further guidance for this process.

1. **Outcomes of performance audits**

Performance audits provide entities and stakeholders with information and assurance about the quality of management of public resources and also assist public sector managers by identifying and promoting better management practices. Performance auditing may, therefore, lead to better accountability, improved economy and efficiency in the acquisition of resources, improved effectiveness in achieving public sector programme objectives, a higher quality in public sector service delivery and improved management planning and control. It is an important responsibility of the auditor to ensure that through each performance audit one or more of these objectives are met.

Performance auditing is a means to an end and not an end by itself. Performance audit should be aimed at adding value to the Management by way of reliable, objective and independent information, highlighting the shortcomings in programme planning, implementation, information systems affecting the outputs and outcome specifically and quality of expenditure or management generally. In addition, performance audit reports provide valuable information and independent assessment on programme management and the extent of fulfilment of the policy objectives to the stakeholders including the Parliament, the State Legislatures and the general public. Thus, good quality performance audit contributes to good governance.

The users of performance audit reports expect reliable reports. All performance audits should, thus, be planned and performed keeping in view the expected outcome. It is a good practice to evaluate the real impact of performance audit on entity policies and programmes.

1. **General outlay of Performance Auditing Guidelines**

These guidelines are presented in a sequence as the process of performance audit. The Department has to deal with a variety of subjects of performance audits and conduct audit in diverse entity environments. Besides, different structures for audit management exist in the Department for the Union Government (civil, defence, railways, communication, revenue and commercial audits) and the audit of State Governments. It may, therefore, be necessary to adjust the actual process of planning, field audits and consolidation of the performance audits in the context of the entity environment and composition of audit offices.

***Chapter 2*** of these guidelines deals with the Mandate and General Principles for Performance Audits.

***Chapter 3*** deals with thestrategic audit planning and selection of subjects.

***Chapter 4*** enumerates how to plan individual performance audits.

***Chapter 5*** discusses various elements of implementing the performance.

***Chapter 6*** deals with aspects relating to evidence and documentation.

***Chapter 7*** deals with the reporting process of draft performance audit report.

***Chapter 8*** deals withfollow-up procedures.

**Exercise – Introduction to Performance Audit**

Please give the answer of following Questions.

Q. 1. What is Performance Auditing?

Q. 2. What are the two basic questions to be considered by and Performance Auditor?

Q. 3. What are the objectives of Performance Audit?

Q. 4. Which are the three parties in Performance Audit?

Q. 5. Elucidate that Performance Auditing is a means to an end and not an end by itself. .

**Introduction to Performance Audit**

Suggestion to Exercise

Ans.1 Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by:

1.  providing new analytical insights (broader or deeper analysis or new perspectives);
2.  making existing information more accessible to various stakeholders;
3.  providing an independent and authoritative view or conclusion based on audit evidence;
4.  providing recommendations based on an analysis of audit findings.

Performance Audits address the issues of economy, efficiency and effectiveness

Ans.2 Performance auditors have to consider following two basic questions:

1.  ***Are things being done in the right way?***
2.  ***Are the right things being done?***

The first question means, broadly speaking, whether policy decisions are being carried out properly. This question is usually associated with a assessment *vis-à-vis* norms *i.e.,* the performance auditor wants to know whether the executive has observed the rules or the requirements consistent with the programme. Up to this point, performance auditing is mainly concerned with different aspects of the economy or the efficiency of operations. The scope for analysis becomes considerably greater by posing the second question, *i.e.,* whether the right things are being done. In other words, effectiveness of the operations would be examined by asking questions whether the adopted policies have been suitably implemented. A performance auditor might, for instance, find a chosen measure ineffective and inconsistent with the policy objectives.

In the effort to find answer to the second question, adequate caution should be exercised by not going beyond the audit mandate by respecting the roles assigned to executive and audit. However, the correctness of the information or inputs that were considered while framing the policy and sufficiency of the programmes and resources to fulfil the policy objectives may be assessed and reported.

Ans.3 **Objectives of Performance Audit**

The main objective of performance auditing is to constructively promote economical, effective and efficient governance. It also contributes to accountability and transparency. Performance auditing promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, but examines whether any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved. Performance auditing focuses on areas in which it can add value for citizens and which have the greatest potential for improvement. It provides constructive incentives for the responsible parties to take appropriate action.

Ans.4. **The three parties**

Public sector audit involves at least three separate parties: the auditor; the responsible party and the intended user. These are briefly described below:

**The auditor:** In public sector auditing, the role of auditor is fulfilled by the Department and by the persons delegated with the task of conducting audits. However, clear-cut demarcation of roles and responsibilities of officers and staff for various functions and processes is done through a hierarchical structure. Auditors in performance audits typically work in a team with different and complementing skills.

**The responsible party:** Responsible party would typically mean audited entity and those charged with governance. The role of responsible party may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter in some cases at different points in time. Some parties may be responsible for actions that have caused problems. Others may be able to initiate changes to address the recommendations resulting from a performance audit. Still others may be responsible for providing the auditor with information or evidence.

**Intended users:** The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users. A responsible party is also an intended user.

Ans.5: Performance auditing is a means to an end and not an end by itself. Performance audit should be aimed at adding value to the Management by way of reliable, objective and independent information, highlighting the shortcomings in programme planning, implementation, information systems affecting the outputs and outcome specifically and quality of expenditure or management generally. In addition, performance audit reports provide valuable information and independent assessment on programme management and the extent of fulfilment of the policy objectives to the stakeholders including the Parliament, the State Legislatures and the general public. Thus, good quality performance audit contributes to good governance.

The users of performance audit reports expect reliable reports. All performance audits should, thus, be planned and performed keeping in view the expected outcome. It is a good practice to evaluate the real impact of performance audit on entity policies and programmes.

**Session: I& II Session at a glance**

**Session Title: Mandate and General Principals of Performance Audit**

**Learning Objectives:**

Give the overview of New Performance Audit Guidelines, at the end of this session, the participants will be able to understand the Concept of performance audit and its advantages. This overview will provide background knowledge about the concept of new guidelines and basic requirements for smooth conducting the performance audit in the field to obtain optimum results.

|  |  |  |
| --- | --- | --- |
|  | **Time Required** | **Training Method** |
| **Session Overview: In this session we will discuss the distinguished features of New Performance Audit Guidelines 2014 issued by the CAG of India.** | 5 min | Lecture |
| **Key Teaching Point** |  |  |
| **Key Teaching Point 1: Determination of Audit objectives, Audit approach and Audit criteria for the proposed Performance Audit.** | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2: Requirement of skills, quality control and documentation in Performance Audit.**  . | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary: Conclude the key features discussed in the session.** | 5 min | Lecture |
| **Total:** | **75 min.** |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: I& II Instructor’s Guide**

**Session Title Mandate and general principals of Performance Audit**

|  |  |
| --- | --- |
| Instructor’s Guide | Ref. |
| Session Overview: **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on Mandate and General principals of Performance Audit. | Introductory remarks and over view of the topic |
| Learning Objective: **Inform** by the end of the session, we will have knowledge about : the general principals of performance audit. The participants are able to know the basic ides of audit objectives, audit approach, criteria and issues involved in the performance audit. | Objective of the session |
| Basic Concept:Form [[2]](#footnote-3)five groups among participants. **Ask What is their understanding about performance audit and whether they have any experience of conducting performance audit.**  **Encourage : each group to discuss among its members and each participant to actively participate I n the discussion. The interaction may yield a fruitful result.**  **Obtain response from each group and recognise them by noting on the white board.**  **Show** PowerPoint Slides and **discuss.**  **Ask : What is their understanding now regarding performance audit and why it is important for good governance.**  **Encourage : the participants again to interact and discuss on the new skills required for performance audit to ascertain quality control.**  **Take** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss**. | Power point slide and participants note |
| Distribute Participant’s Note |  |
| Summarise: **Run Down:** During the session we discussed about the basic requirement for smooth conduct of performance audit according to new guidelines issued by the CAG of India in 2014.  **Thank** the participants for their active participations and bring the session to a close. | Concluding remarks by the faculty |

Participants Note

**Mandate and general principals of Performance Audit**

1. **Mandate for Performance Audit**

The audit mandate of the Department is derived from the Constitution of India. Article 151 of the Constitution of India provides that the reports of the Comptroller and Auditor General of India relating to the accounts of the Union or a State government shall be submitted to the President or the Governor of the State respectively, who shall cause them to be laid before each House of Parliament/ Legislature of the State. The statutory position is established under the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service), Act 1971. The mandate of C&AG of India for performance audits is described in Sections 13, 14, 15, 16, 17, 19 and 20 read with Section 23 of this Act. Chapter 7 of the Regulations on Audit and Accounts, 2007 provides the specific guidance on this subject. Regulation 68 defines performance audit as an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively. The mandate is further strengthened by practice and convention drawn from 50 years of performance audits relating to the receipts and expenditure of the Union and State governments, government supported autonomous bodies and other public sector undertakings on a variety of subjects carried out by the Department.

1. **General Principles**

The General Principles of performance auditing give guidance on those aspects of performance auditing that are relevant throughout the audit process as implemented in the Department.

1. **Ethics and Independence**

**Auditor should comply with the relevant ethical requirements and be independent.**

The Code of Ethics adopted by Department spells out the ethical requirements on the part of the auditors while discharging their professional obligations. The Code of Ethics envisages appropriate ethical behaviour on part of the head of the Department, all members of the Department and all individuals working for or on behalf of the Department who are involved in auditing and accounting work. The Code of Ethics requirements have to be kept in mind while conducting performance audits.

1. **Audit Objective**

**Auditors should set a clearly defined audit objective that relates to the principles of economy, efficiency and effectiveness.**

The audit objective determines the approach and design of the engagement. Audit objectives could be descriptive (How are the things?), normative (are things as they ought to be?) and analytical (why are things not as they ought to be?). Normative and analytical audit objectives are more likely to add value. In all cases, the auditors need to consider what the audit pertains to, which organisations and bodies are involved and for whom the ultimate recommendations are likely to be relevant. Well defined audit objectives relate to a single entity or an identifiable group of government undertakings, systems, operations, programmes, activities or organisations.

Audit objectives can be sub-divided into more precise sub-objectives. These should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit objective.

1. **Audit approach**

**Auditors should choose a result, problem or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.**

The overall audit approach is a central element of any audit. It determines the nature of the examination to be made. It also defines the necessary knowledge, information, data, the audit procedures and analysis required. Performance auditing generally follows one of three approaches:

1.  a system-oriented approach, which examines the proper functioning of management systems, e.g. financial management systems;
2.  a result-oriented approach, which assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended;
3.  a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

Audits can be pursued from a top-down or bottom-up perspective. Top-down audits concentrate mainly on the requirements, intentions, objectives and expectations of the legislature and central government. A bottom-up perspective focuses on problems of significance to people and the community.

1. **Audit Criteria**

**Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.**

Criteria are the benchmarks used to evaluate the subject matter. Performance audit criteria are reasonable and audit specific standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed.

The criteria provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives. They also form an important element in discussions within the Department’s audit team and with Department’s Management and in communication with the audited entities.

The criteria can be qualitative or quantitative and should define what the audited entity will be assessed against. The criteria may be general or specific, focusing on what *should be* according to laws, regulations or objectives; what *is expected*, according to sound principles, scientific knowledge and best practice; or what *could be* (given better conditions).

Diverse sources can be used to identify criteria, including performance measurement frameworks. It should be transparent, which sources were used, and the criteria should be relevant and understandable for users as well as complete, reliable and objective in the context of the subject matter and audit objectives.

The criteria should be discussed with the audited entities, but it is ultimately the auditor's responsibility to select suitable criteria. While defining and communicating criteria during the planning phase may enhance their reliability and general acceptance, in audits covering complex issues it is not always possible to set criteria in advance; instead they will be defined during the audit process.

Whereas in some audit types there are unequivocal legislative criteria, this is not typically the case in performance auditing. The audit objectives, question and approach determine the relevance and the type of suitable criteria, and user confidence in the findings and conclusions of a performance audit depends largely on the criteria. Thus, it is crucial to select reliable and objective criteria.

In a problem-oriented performance audit, the starting point is a known or suspected deviation from what should or could be. The main objective is, therefore, not just to verify the problem (the deviation from the criterion and its consequences) but to identify causes. This makes it important to decide how to examine and verify causes during the design phase. Conclusions and recommendations are primarily based on the process of analysing and confirming causes, even though they are always rooted in normative criteria.

1. **Audit risk**

**Auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.**

Many topics in performance auditing are complex and politically sensitive. While simply avoiding such types of audits may reduce the risk of inaccuracy or incompleteness, it could also limit the possibility of providing important feedback for better governance and adding value by audit.

The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors. Consequently, audit will not being able to provide users of the audit report with knowledge or recommendations that would make a real contribution to better performance. Important aspects of risk may include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to complete and quality information, relying on inaccurate information (e.g. because of fraud or irregular practices), being unable to put all findings in perspective, and failing to collect or address the most relevant arguments.

Auditors should, therefore, actively manage risk. Dealing with audit risk is embedded in the whole process and methodology of performance audit. Audit planning documents should state the possible or known risks of the work envisaged and show how these risks will be handled.

1. **Communication**

**Auditors should maintain effective and proper communication with the audited entities and other parties sharing the responsibility of the subject matter throughout the audit process and define the content, process and recipients of communication for each audit.**

There are several reasons why a regular communication is of particular importance in performance audit:

1.  As performance audits are not normally conducted on a regular (e.g. annual) basis on the same audited entities, channels of communication may not already exist. While there may be contacts with the legislature and government bodies, other groups (such as academic and business communities or civil society organisations) may not have been engaged with previously.
2.  Often there are no predefined criteria (such as a financial reporting framework), and therefore an intensive exchange of views with the audited entity is necessary.
3.  An active effort is required to obtain insight into the points of view of the various stakeholders to bring out a balanced report.

Auditors should identify the responsible parties and other key stakeholders and take the initiative in establishing effective two way communication. With good communication, auditors can improve access to information sources and to data and opinions from the audited entity. Using communication channels to explain the purpose of the performance audit to stakeholders also increases the likelihood that audit recommendations will be implemented. Auditors should, therefore, seek to maintain good professional relations with all relevant stakeholders, promote a free and frank flow of information as far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding for the role and responsibilities of each stakeholder. However, care should be taken to ensure that communication with stakeholders does not compromise the independence and impartiality of the Department.

Auditors should inform audited entities of the key aspects of the audit, including the audit objective, audit questions and subject matter. Communication will usually take the form of a written engagement letter and regular communication during the audit. Auditors should maintain communication with audited entities throughout the audit process, by means of constructive interaction as different findings, arguments and perspectives are assessed.

Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the Department issues its audit report. Any disagreements should be analysed and factual errors corrected. The examination of feedback should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented.

1. **Skills**

**Collectively, the audit team should have the necessary professional competence to perform the audit. This would include in addition to the knowledge of the domain of the audited entity, sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills.**

In performance auditing, specific skills may be required, such as knowledge of evaluation techniques and social science methods, and personal abilities such as communication and writing skills, analytical capacity, creativity and receptiveness. Auditors should have a sound knowledge of government organisations, programmes and functions. This will ensure that the right areas are selected for audit and that auditors can effectively undertake reviews of government programmes and activities.

There may also be specific ways of acquiring the necessary skills. This knowledge must frequently be acquired or developed specifically for the engagement. Performance audits often involve a learning process and the development of methodology as part of the audit itself. On the job learning and training should therefore be available to auditors, who should maintain their professional skills through ongoing professional development. An open attitude to learning and an encouraging management culture are important conditions for enhancing individual auditors’ professional skills.

In specialised areas, external experts can be used to complement the knowledge of the audit team. Auditors should evaluate whether and in what areas external expertise is required, and make the necessary arrangements. The procurement of the services of the expert or using their work will be as per the general guidelines approved by the C&AG office from time to time.

1. **Professional judgment, due care and scepticism**

**Auditors should exercise professional scepticism, but also be receptive and willing to innovate.**

It is vital that auditors exercise professional scepticism and adopt a critical approach, maintaining an objective distance from the information provided. Auditors are expected to make rational assessments and discount their own personal preferences and those of others. At the same time, they should be receptive to views and arguments. This is necessary in order to avoid errors of judgement or cognitive bias. If they are not receptive, they may miss important arguments or key evidence.

As auditors work to develop new knowledge, they also need to be curious, reflective and resourceful in their efforts to collect, interpret and analyse data. A willingness to innovate is equally important. Innovation applies not only to audit process, but also to the audited processes or activities.

A high standard of professional behaviour should be maintained throughout the audit process, from topic selection and audit planning, *via* the audit proper, to reporting. It is important for auditors to work systematically, with due care and objectivity and under appropriate supervision.

1. **Quality control**

**Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced and fair reports that add value and answer the audit questions.**

A robust quality management system facilitates conducting of effective performance audits. High quality of performance audits can only be expected if a sound quality management system exists within the Department. The key elements of Audit Quality Management Framework of the Department have been embedded in these guidelines.

In the conduct of performance audits the following specific issues need to be addressed:

1.  Performance audit is a process in which the audit team gathers a large amount of audit specific information and exercises a high degree of professional judgement and discretion concerning the relevant issues. This must be taken into account in quality control. The need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams should be seen as part of quality management. This may entail applying quality control procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received from quality control. If there is a difference of opinion between supervisors and the audit team, appropriate steps should be taken to ensure that the audit team’s perspective is given sufficient consideration and that the Department’s policy is consistent.
2.  In performance auditing, even if the report is evidence based, well documented and accurate, it might still be inappropriate or insufficient if it fails to give a balanced and unbiased view, includes too few relevant viewpoints or unsatisfactorily addresses the audit questions. These considerations should therefore be an essential part of measures to safeguard quality.
3.  As audit objectives vary widely between different audit engagements, it is important to define clearly what constitutes a high quality report in the specific context of an audit engagement. General quality control measures should therefore be complemented by audit specific measures.

A motivated and skilled audit team is required for conducting high quality performance audits. Control mechanisms should therefore be complemented by support, such as on the job training and guidance for the audit team.

1. **Materiality**

**Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much added value as possible.**

Materiality can be understood as the relative importance of a matter within the context in which it is being considered. The materiality of an audit topic should have regard to the magnitude of its impact. It will depend on whether the activity is comparatively minor or whether shortcomings in the area concerned could influence other activities within the audited entity. An issue will be considered material where the topic is considered to be of particular importance and where improvements would have a significant impact. It will be less material where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or otherwise minimal.

In performance audit, materiality by monetary value may, but need not, be a primary concern. In defining materiality, the auditor should consider also what is socially or politically significant and bear in mind that this varies over time and depends on the perspective of the relevant users and responsible parties. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation, that perspective may vary from one audit to another. Assessing it requires careful judgement on the part of the auditor. Materiality concerns all aspects of performance audits, such as the selection of topics, definition of criteria, evaluation of evidence and documentation and management of the risks of producing inappropriate or low impact audit findings or reports.

1. **Documentation**

**Auditors should document the audit in accordance with the particular circumstances thereof. Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.**

As in all audits, performance auditors should keep an adequate documentary record of the preparation, procedures and findings of each audit. However, the purpose and context of documentation are somewhat specific in performance auditing.

1.  Frequently the auditor will have acquired specialised knowledge about the audit topic that is not easily reproduced in the Department. Since, the audit methodology and criteria may have been developed specifically for a single engagement, the auditor carries a special responsibility to make his reasoning transparent.
2.  In performance auditing, the report describes the framework, perspective and analytical structure that were adopted and the process that was followed to arrive at the conclusions in addition to findings and recommendations. To some extent, the report performs functions that in other types of audits are provided by general standards of audit documentation.

 Documentation should not only confirm the accuracy of facts, but also ensure that the report presents a balanced, fair and complete examination of the audited question or subject matter. Thus, for example, it might be necessary for the documentation to include reference to arguments not accepted in the report, or to describe how different viewpoints were dealt with in the report.

Maintaining adequate documentation is not only part of safeguarding quality (e.g. by helping to ensure that delegated work has been performed satisfactorily and that the audit objectives have been achieved) but also of the Department and individual auditors’ professional development, as it can shape good practice for similar audits in the future.

Exercise – **Mandate and General Principals of Performance Audit**

Q. 1. Write down the mandate for Performance Audit

Q. 2. What are the generally accepted audit approaches in Performance Audit?

Q. 3. Why auditors should develop new knowledge for performance auditing?

Q. 4. What do you understand by materiality?.

Q. 5. Why documentation is required in Performance Auditing?

**Mandate and General Principals of Performance Audit**

Suggestion to Exercise

Ans.1 . The audit mandate of the Department is derived from the Constitution of India. Article 151 of the Constitution of India provides that the reports of the Comptroller and Auditor General of India relating to the accounts of the Union or a State government shall be submitted to the President or the Governor of the State respectively, who shall cause them to be laid before each House of Parliament/ Legislature of the State. The statutory position is established under the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service), Act 1971. The mandate of C&AG of India for performance audits is described in Sections 13, 14, 15, 16, 17, 19 and 20 read with Section 23 of this Act. Chapter 7 of the Regulations on Audit and Accounts, 2007 provides the specific guidance on this subject. Regulation 68 defines performance audit as an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively. The mandate is further strengthened by practice and convention drawn from 50 years of performance audits relating to the receipts and expenditure of the Union and State governments, government supported autonomous bodies and other public sector undertakings on a variety of subjects carried out by the Department.

Ans.2 Performance auditing generally follows one of three approaches:

1.  a system-oriented approach, which examines the proper functioning of management systems, e.g. financial management systems;
2.  a result-oriented approach, which assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended;
3.  a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

Ans.3 As auditors work to develop new knowledge, they also need to be curious, reflective and resourceful in their efforts to collect, interpret and analyse data. A willingness to innovate is equally important. Innovation applies not only to audit process, but also to the audited processes or activities.

A high standard of professional behaviour should be maintained throughout the audit process, from topic selection and audit planning, *via* the audit proper, to reporting. It is important for auditors to work systematically, with due care and objectivity and under appropriate supervision.

Ans.4. Materiality can be understood as the relative importance of a matter within the context in which it is being considered. The materiality of an audit topic should have regard to the magnitude of its impact. It will depend on whether the activity is comparatively minor or whether shortcomings in the area concerned could influence other activities within the audited entity. An issue will be considered material where the topic is considered to be of particular importance and where improvements would have a significant impact. It will be less material where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or otherwise minimal.

In performance audit, materiality by monetary value may, but need not, be a primary concern. In defining materiality, the auditor should consider also what is socially or politically significant and bear in mind that this varies over time and depends on the perspective of the relevant users and responsible parties. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation, that perspective may vary from one audit to another..

Ans.5 **Documentation**

Auditors should document the audit in accordance with the particular circumstances thereof. Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings**,** conclusions and recommendations.

As in all audits, performance auditors should keep an adequate documentary record of the preparation, procedures and findings of each audit.

**Session: III& IV Session at a glance**

**Session Title: Strategic audit planning and selection of audit topics**

**Learning Objectives:**

Give the overview of the strategic audit planning and selection of audit topics. At the end of this session, the participants will be able to understand the strategic audit planning. This overview will provide background knowledge about the consideration to be kept in view while selecting the audit topics for Performance Audit. .

|  |  |  |
| --- | --- | --- |
|  | **Time Required** | **Training Method** |
| **Session Overview:**  In this session we will discuss the Strategic audit planning and selection of topics for Performance Audit. | 5 min | Lecture |
| **Key Teaching Point** |  |  |
| **Key Teaching Point 1**  Salient features of the objectives of the strategic planning and its process. | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2**  Proposed framework and highlights:  Selection of audit topics – considerations for selection of subjects. | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary: conclude the key features discussed in the sessions.** | 5 min | Lecture |
| **Total:** | **75 min.** |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: III& IV Instructor’s Guide**

**Session Title Strategic audit planning and selection of audit topics**

|  |  |
| --- | --- |
| Instructor’s Guide | Ref. |
| Session Overview: **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on  Strategic audit planning; process and selection of topics for performance audit. | Introductory remarks and over view of the topic |
| Learning Objective: **Inform** by the end of the session, we will be able to understand the strategic audit planning in general and particularly in Performance Audit through sharing our knowledge on the subject. | Objective of the session |
| Basic Concept:Form [[3]](#footnote-4)five groups among participants. **Ask** what is their understanding of the strategic audit planning in general and particularly in Performance Audit?  **Encourage** each group to discuss among its members and each participant to actively participate in the discussion.  **Obtain** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss.**  **Ask** what is their understanding retarding selection of topics for the proposed Performance Audit?  **Encourage** each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter.  **Take** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss** the highlights of strategic audit planning and selection of audit topics. | Power point slide and participants note |
| Distribute Participant’s Note |  |
| Summarise: **Run Down:** During the session we discussed the strategic audit planning and selection of audit topics..  **Thank** the participants for their active participations and bring the session to a close. | Concluding remarks by the faculty |

Participants Note

**Strategic audit planning and selection of audit topics**

1. **Strategic Audit planning**

Strategic Audit planning is the process of determining the long term goals for the Department and the best approach for attaining them. It consists of strategic goals (mission statement), strategic objectives (more specific and detailed statements) and strategic measures to attain them. Strategic plan for performance audit is a subset of the strategic audit plan of the Department. In the context of performance audits, the Department may define its long term mission statement consisting of goals to be achieved through the performance audits, statements of detailed objectives expected to be accomplished through performance audits and the subjects of performance audits to be carried out in pursuance of the strategic goals and objectives. The field audit offices are also required to prepare their audit plans with reference to the Department’s strategic audit plan. While formulating their audit plans, the fields offices should ensure that the plans are consistent with Department’s strategic audit plan and help in accomplishment of long terms objectives as enumerated in the Strategic audit plan of the department as a whole besides addressing the audit risks in their respective areas of jurisdiction.

While no uniform time frame for the planning of performance audits by the field audit offices can be determined since there could be variation in the requirement of different audit offices in charge of various types of entity audits, a reference frame of five years may be considered for performance audit planning. However, the planning drill would be reviewed every year at the time of preparation of the annual audit plans as a rollover exercise. The annual audit plan of the field audit offices would depict various stages of all performance audits under the captions of ‘brought forward’, ‘to be taken up’, ‘to be completed’ and ‘carried forward’.

1. **Objectives of strategic audit planning**

Strategic Audit Plan of the Department sets out a vision that provides an important starting point in deciding what to audit; sets out the outcomes that we are trying to achieve and in general, better managed government programs and better accountability to Parliament and the public. A well structured strategic audit planning process, based on a sound rationale, is necessary to ensure that the resources of the Department are used in the most efficient and effective manner.

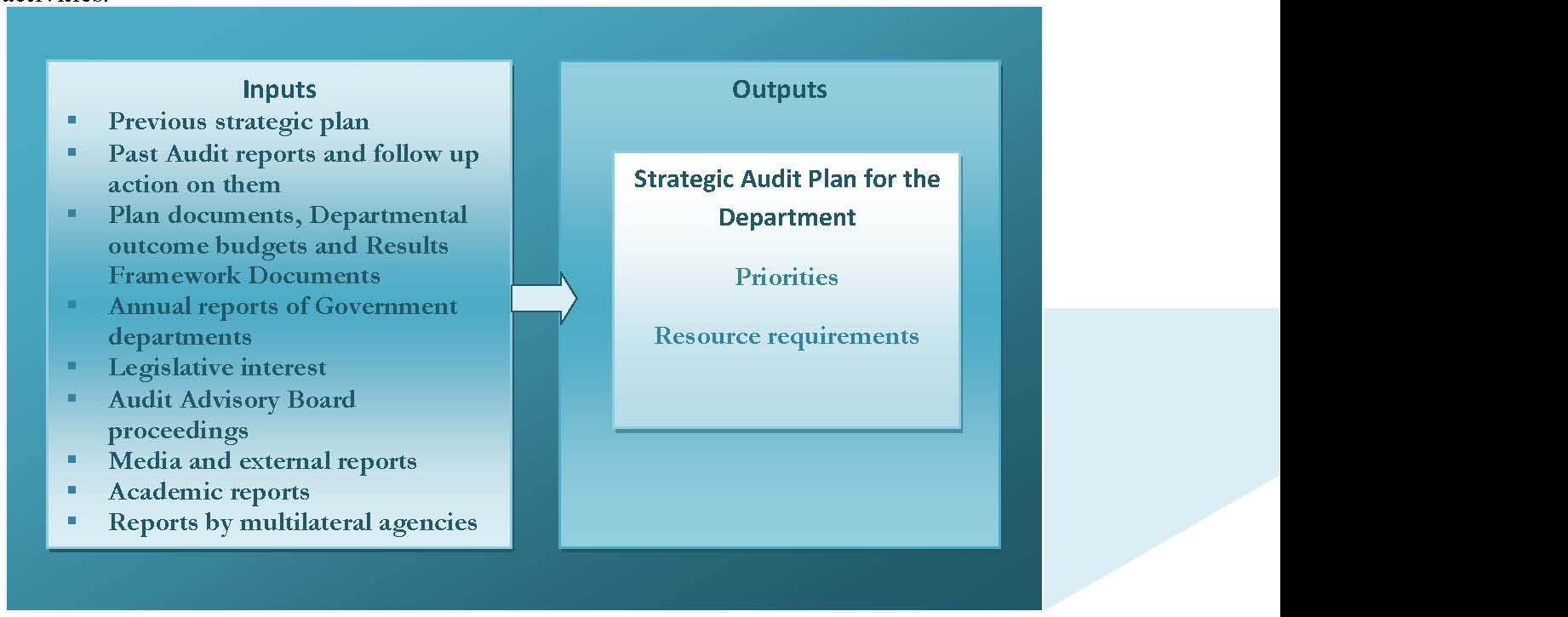
**The objectives of strategic audit planning are to:**

1.  **Provide a firm basis for the Department’s Management to give strategic direction for future audit coverage;**
2.  **Identify and select audits with the potential to improve public sector accountability and administration;**
3.  Understand entity risks and take them into account in audit selection;
4.  **Provide a basis for Department’s accountability; and**
5.  Produce a work programme that can be achieved with expected/available resources

1. **Strategic audit planning process**

Before preparing the strategic audit plan, it would be useful to develop a sound understanding of:

1.  general economic and social conditions
2.  government priorities, goals and programmes and
3.  the regulatory and accountability frameworks within which the audited entities operate

3.5 The Department’s Senior Management2 may conduct brainstorming meetings with Accountants General from time to time in respect of strategic audit and annual audit plans to select the subjects which address the Department’s concerns for high risk programmes and activities. 

1. **Annual Audit Planning Process**

Once the Strategic audit plan for the Department is in place, the process of preparing the annual audit plan is taken up by the field audit offices. Annual audit plan of the field audit office would include performance audits, compliance audits and financial audits to be taken up during the financial year. It is an exercise of balance between the audit priorities and the resource availability. One of the important components of audit plan is the selection of specific subjects for performance audits to be undertaken in the audit cycle. The audit plan component for the performance audit would typically include subjects relating to specific sectors or the states under their audit jurisdiction and also certain audits with All-India scope. Timely intimation of the All- India performance audits as approved by headquarters would enable participating field audit offices to prepare their plan appropriately. It has to be ensured that quality of performance audit does not suffer because of undertaking too many audits. The concerns of the stakeholders may be obtained and given due regard while selecting topics of performance audit at the time of preparation and finalisation annual plans of field audit offices.

**Selection of audit topics**

The selection of audits to be taken up requires serious deliberations as the potential areas for audit could be considerable and the Department’s capacity in terms of effort and time is limited. This means that choices must be made with care. It is not always necessary to conduct performance audits of the entity or the programme as a whole. Accountants General should select a mix of performance audit subjects covering either the programme or activities of the entity comprehensively and the subjects for which the scope and audit objectives are confined only to significant aspects of the programmes or activities. The selection of the components or parts of the programme may be guided by the materiality and risk profiles. This will enable the Accountant General to increase the coverage to a large number of relatively more important and contemporary issues, which may be expected to enhance the perceived and actual value addition through performance audits.

Where desirable, the subjects of performance audit may be selected cutting across various departments or entities. This will provide a platform for performance audit on a theme or thrust area over a cross section of entities, who are entrusted with the responsibility for the programme, activity, etc. Performance auditors may, quite often, find it necessary to extend the scope of audit to other agencies/departments to assess the effectiveness/impact of a programme, irrespective of the fact that their allocation of business is in different sectors (civil, railways, communications, social, economic and service sectors, etc.) or their status may be different (government department, government funded institute and government companies, etc.).

Emerging issues like environmental challenges, sustainable development and information technologies should also find a place in the performance audits of various entities. Programmes, schemes etc. Finally, the problems of significance to people and the community should also be given appropriate emphasis while selecting the subjects of audits.

1. **Some considerations for selection**

***(a)*** ***Assessing risks:*** Since all the entities and all activities of the entities cannot be audited because of resource constraints, awareness of entities or areas that put the programme or public resources at risk from the point of view of economy, efficiency and effectiveness helps focus audit attention on them. Risk profiling of audited entities, sectors and programmes help in deciding the selection of subjects. The detailed guidance on risk assessment is given in the Appendix on risk assessment.

***(b) Materiality and Significance:*** Auditors should consider materiality in all stages of the audit process and in doing so consider not only financial, but also social and political aspects of the subject matter and how to add the most value possible through the audit. Significance of a topic is its importance in the context of the organization, programme or subject. A topic will have a high significance if the project or activity it addresses is central to the functioning of the entity.

***(c)*** ***Visibility***of a subject is an assessment of the interest it generates in the general public and the legislature. While no uniform index of visibility can be prescribed, legislative debates, media reports or articles and subjects of workshops and seminars could serve as an index of visibility.

***(d)*** ***Past audits*** *by* the Department could provide an index of significance, materiality and risk of the subjects.

***(e)*** ***Estimated impact***of the performance audit is also a criterion for prioritisation. This could be the impact of improved economy, efficiency and effectiveness of the entity, project or activity which is the subject of performance audit. Impact can be assessed through an understanding of the entity’s risk profile and the areas proposed to be addressed by the topic.

***(f)*** ***Coverage***refers not only to previous audit coverage by the Department but also to other independent reviews of the activity. Such reviews may have been conducted by internal audit, external consultants or government committees or the activity could have been subject to programme evaluation. When there has been a substantial review of the activity in recent past, the activity will attract low ranking. Whereas, a higher ranking would be warranted where the audit has been requested by the legislature or by the government and the previous performance audit indicated that such a follow-up should occur; and

***(g)*** ***The stage of the programme development***should also be kept in mind when assessing management performance.

This process would provide the Accountant General with a list of subjects which may be taken up for performance audits for the period under consideration.

1. **Interaction with audited entities and other stakeholders**

The Accountant General may elicit suggestions from the Executive or those charged with governance of the audited entities for the subjects or areas which could be selected for audits. Holding of seminars, conferences and discussions with other stakeholders at the time of audit planning can also be considered as means for associating stakeholders with planning process.This will also help in understanding the concerns of the audited entities and would also supplement the risk assessment exercise being undertaken in the Department for finalisation of topics of Performance Audit. It would also give the Department a chance to appreciate the governance and regulatory issues concerning the audited entities.

1. **Periodic updating of the data and the risk profile**

The data and information gathered for strategic planning for performance audits and risk profile of the entity or programme should be updated periodically, the periodicity being determined by Accountants General depending upon the changes in the entity environment. While Accountants General may establish procedure for updating the data, it should be incumbent upon the audit officer to update the data in respect of entities at the close of each periodic audit.

– **Strategic audit planning and selection of audit topics**

Exercise

Please give the answer of following Questions.

Q. 1. What is Strategic Audit Planning?.

Q. 2. Write dowsn the objectives of Strategivc Audit Planning.

Q. 3. What are the inputs required for Strategic Audit Planning?

Q. 4. What are the consideration for selection of topics?

Q. 5. Why it is ne4cessary to interact with audited entities?

**Strategic audit planning and selection of audit topics**

**Suggestion to Exercise**

Ans.1 Strategic Audit planning is the process of determining the long term goals for the Department and the best approach for attaining them. It consists of strategic goals (mission statement), strategic objectives (more specific and detailed statements) and strategic measures to attain them. Strategic plan for performance audit is a subset of the strategic audit plan of the Department. In the context of performance audits, the Department may define its long term mission statement consisting of goals to be achieved through the performance audits, statements of detailed objectives expected to be accomplished through performance audits and the subjects of performance audits to be carried out in pursuance of the strategic goals and objectives. The field audit offices are also required to prepare their audit plans with reference to the Department’s strategic audit plan.

Strategic Audit Plan of the Department sets out a vision that provides an important starting point in deciding what to audit; sets out the outcomes that we are trying to achieve and in general, better managed government programs and better accountability to Parliament and the public. A well structured strategic audit planning process, based on a sound rationale, is necessary to ensure that the resources of the Department are used in the most efficient and effective manner.

Ans.2

**The objectives of strategic audit planning are to:**

1.  **Provide a firm basis for the Department’s Management to give strategic direction for future audit coverage;**
2.  **Identify and select audits with the potential to improve public sector accountability and administration;**
3.  Understand entity risks and take them into account in audit selection;
4.  **Provide a basis for Department’s accountability; and**
5.  Produce a work programme that can be achieved with expected/available resources

Ans.3 Inputs required for Strategic Audit Planning are:

* + Previous strategic plan
  + Past Audit reports and follow up action on them
  + Plan documents, Departmental outcome budgets and Results Framework Documents
  + Legislative interest
  + Audit Advisory Board proceedings
  + Media and external reports
  + Academic reports
  + Reports by multilateral agencies

Ans.4 Some considerations for selection of subject are:

1. Assessing risks;
2. Materiality and Significance;
3. Visibility;
4. Past Audit;
5. Estimated impact;
6. Coverage;
7. The stage of the programme development

Ans.5 Audit may elicit suggestions from the Executive or those charged with governance of the audited entities for the subjects or areas which could be selected for audits. Holding of seminars, conferences and discussions with other stakeholders at the time of audit planning can also be considered as means for associating stakeholders with planning process. This will also help in understanding the concerns of the audited entities and would also supplement the risk assessment exercise being undertaken in the Department for finalisation of topics of Performance Audit. It would also give the Department a chance to appreciate the governance and regulatory issues concerning the audited entities.

**Session: 1& II Session at a glance**

**Session Title: Planning individual Performance Audits**

**Learning Objectives:**

Given the overview of planning individual Performance Audits, at the end of this session, the participants will be able to understand the proposed actions for planning effective individual performance audit. This note will provide background knowledge about the elements to be kept in mind while planning individual performance audit.

|  |  |  |
| --- | --- | --- |
|  | **Time Required** | **Training Method** |
| **Session Overview:**  In this session we will discuss the Planning of individual performance audit. | 5 min | Lecture |
| **Key Teaching Point** |  |  |
| **Key Teaching Point 1**  Process involved in planning individual performance audit. | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2**  Determining audit criteria and deciding audit approach. | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary: conclude the key features discussed in the session.** | 5 min | Lecture |
| **Total:** | **75 min.** |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: 1& II Instructor’s Guide**

**Session Title: Planning individual Performance Audits**

|  |  |
| --- | --- |
| Instructor’s Guide | Ref. |
| Session Overview: **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on the process involved in planning Individual performance audit and deciding audit criteria and audit approach for performance audit. | Introductory remarks and over view of the topic |
| Learning Objective: **Inform** by the end of the session, we will acquire the basic knowledge about the planning of individual performance audit and importance of audit objectives and criteria through sharing our knowledge on the subject. | Objective of the session |
| Basic Concept:Form [[4]](#footnote-5)five groups among participants. **Ask** what is their understanding about the ‘planning individual performance audit’?  **Encourage** each group to discuss among its members and each participant to actively participate in the discussion.  **Obtain** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss.**  **Ask** what is their understanding of the ‘audit objectives and audit criteria’ for proposed performance audit?  **Encourage** each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter.  **Take** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss : Audit approach and Audit Design Matrix.** Transitional issue being faced about GST. | Power point slide and participants note |
| Distribute Participant’s Note |  |
| Summarise: **Run Down:** During the session we discussed 1 and 2 (below)  **Thank** the participants for their active participations and bring the session to a close. | Concluding remarks by the faculty |

Participants Note

**Planning individual Performance Audits**

1. **Performance Audit Plan**

A performance audit has to be planned in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner. A well thought out plan is indispensable in performance auditing. Before implementing the performance audit, it is important to identify the audit objectives, the scope and the methodology to achieve the objectives of a particular performance audit. This is often done in the form of a pilot study. The purpose of this study is to establish whether the conditions for carrying out a performance audit exist and, if they do exist, to produce an audit proposal. It provides background knowledge and information needed to understand the entity, program, or function. At the end of the study, it may be clearly stated whether performance audit is feasible or not. Pilot study should normally be carried out in a fairly short period. In selecting audits through this process, the Accountants General would have to use their preliminary knowledge of the subject area to form a reasonable basis for believing that the audit can be completed in accordance with the performance audit guidelines.

Planning consists of developing guidelines and assessing resources. The audit guidelines should be detailed, including information on the audited entity’s environment, audit materiality and risks, and description of the audit scope, objectives and methodology as discussed in subsequent paragraphs. Planning consists of developing a detailed approach for the expected nature, timing and extent of the audit. Adequate planning of the audit helps to ensure that appropriate attention is devoted to important areas of the audit, potential problems are identified and the work is completed expeditiously. Planning also assists in proper assignment of duties to team members and coordination of work performed by other offices within the Department and those of the experts.

Audit planning should lead to the development of a detailed audit proposal that identifies the specific audit tasks to be undertaken. An appropriate audit proposal makes it easier to ensure that the performance audit coverage is comprehensive and realistic. It is pertinent to mention that adequate time and effort should be spent on planning a performance audit. Planning documents could also indicate the expected impact of the performance audit.

1. **Drawing up plan**

4.4 The important steps in drawing up an audit proposal are the following:

1.  Defining the specific issue to be studied and the audit objectives,
2.  Developing the scope and the design of the audit,
3.  Determining the timetable and the resources.

The following chart indicates the process involved in planning an individual performance audit in practice. These steps cannot always be strictly separated and they do not necessarily take place in the same order through.



1. **Understanding the entity/programme**

Understanding the entity/programme is the starting point for planning individual performance audit. The following can be the sources for understanding the entity.

1.  ***Documents of the entity****:* documents on administration and functions of the entity, policy files, annual reports, budget and annual plan documents including the files on them, accounts, minutes of internal meetings, operating manuals/ guidelines, management information systems, information on the website, programme evaluations and internal audit reports, electronic databases and MIS reports, proactive RTI material etc.;
2.  ***Legislative documents*** *:* legislation, parliamentary questions and debates, reports of the Public Accounts Committee, the Committee on Public Undertakings, the Estimates Committee and the Department-Related Standing Committees and letters from Members of Parliament;
3.  ***Policy documents:***  documents of Planning Commission, Ministry of Finance etc.
4.  ***Academic or special research:*** independent evaluations on the entity, academic research and similar work done by other governments and other SAIs;
5.  ***Past audits:*** past financial and performance audits on the entity provide a major source of information and understanding. Follow-up requirements, perceived non compliance to recommendations and increased risk and materiality may also provide significant inputs;
6.  ***Media coverage***: both print and electronic media - their systematic documentation on regular basis in a transparent manner; and
7.  ***Special focus groups:*** Audit Advisory Committee concerns, issues emerging from national or international workshops/seminars, annual and special reports of World Bank, IMF, UN agencies, Reserve Bank of India, reports by special interest groups, NGOs, etc.
8. **Defining audit objectives**

The most important stage in the performance audit process is defining the audit objectives. These are the basic audit questions that performance auditors seek answers to. These are usually expressed in terms of questions about performance i.e., achievement of economy, efficiency and effectiveness of an entity, programme or activity under audit. The audit objectives should be defined in a concise manner, as they will impact the nature of the audit, govern its conduct and affect audit conclusions.

Setting audit objectives early in the performance audit process ensures good quality performance audits by the Department and, therefore, is one of the most important quality assurance measures. Setting audit objectives:

1.  helps preclude the perception of prejudged outcomes;
2.  fosters discipline and precision;
3.  facilitates clarity;
4.  helps focused data gathering activities;
5.  helps establish underlying logic;
6.  demonstrates consistent quality of audit; and
7.  serves as a measure of quality assurance of performance audit.

Audit objectives are the reasons for conducting audit and therefore should be clearly spelt out. The objectives should be limited in numbers, ideally three to five, to provide appropriate focus to the audit. They must be defined in a way that will allow the audit team at the end of the audit to conclude against each of the objectives. Since, the entire audit effort is directed toward answering the questions raised in the objectives, these should be, therefore, be defined as precisely as possible. Objectives should not be expressed in broad terms, as it makes them difficult to achieve. Once detailed design of the audit begins, the team should identify the full hierarchy of issues and sub-issues that need to be covered against each audit objective.

1. **Scope of audit**

The scope is the boundary of audit. Scope narrows down the audit to significant issues that relate to the audit objectives. Defining scope focuses the extent, timing and nature of the audit. Answers to the following four questions help in defining the audit scope:

**What?**

What specific questions or hypotheses are to be examined? What kind of audit approach and methods seem to be appropriate? This part of the scope has a relationship with the audit objectives, the depth to which the subject matter is going to be examined and the methodology which has to be adopted.

**Who?**

Who are the key players involved and the audited unit(s)? While determining the audit scope it is useful that the responsible parties dealing with the subject matter and their roles are recognised.

**Where?**

Which are the selected units/locations to be covered? Often the entity, programme or activities under performance audit may be broad. It may be necessary to limit the segments/locations that the audit will cover and to which the conclusions will apply. Where it is not feasible to analyse the entire population, sampling techniques have to be used. Sample size may be selected statistically, as far as it is feasible.

***Which period?***

Which is the period to be covered under audit?The time period of the operations to be audited may vary widely with reference to the type of programmes or subjects undertaken for audit. Apart from the type of the programme, this will depend upon risk parameters, audit objectives and sufficiency, competence and the reasonableness of evidence to be collected.

1. **Determining the audit criteria**

Audit criteria give direction to the assessment (helping the auditor to answer questions such as ‘on what grounds is it possible to assess actual behaviour?’, ‘what is required or expected?’ and ‘what results are to be achieved and how?’). Audit criteria are standards used to determine whether a program meets or exceeds expectations. Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of programmes and activities can be assessed. The criteria which may be general or specific and reflect everything from what should be according to laws, regulations or objectives; and what is expected, according to sound principles and best practice; to what could be (given better conditions). In audits covering complex issues it is not always possible to predefine the criteria; instead they will be defined during the audit process. The nature of the audit and the audit questions determine the relevance and the type of suitable criteria. The credibility of the findings and the conclusions of the performance audit depend largely on the criteria as such due care must be exercised while determining the audit criteria.

In examining performance information, auditors should:

1.  ascertain whether the performance measures in place are complete, relevant and justified on a cost benefit basis;
2.  consider whether the entity has sufficient and reliable procedures in place to measure and report on performance such as Key Performance Indicators (KPI) and Results Framework Document (RFD) etc.
3.  examine procedures to determine if they relate to the entity’s corporate goals; and
4.  consider whether the performance measures are incorporated into the management decision making processes, *i.e.*, are they reported and used within the agency.
5. **Sources of criteria**

It is unrealistic to expect that activities, systems or levels of performance of the audited entity will always fully meet the criteria. It is important to appreciate that satisfactory performance does not mean perfect performance but is based on what a reasonable person would expect, taking into account the circumstances in which the entity operates. Therefore, audit criteria must be sought to be obtained from the following sources:

1.  enabling and related legislation which governs the operations of the audited entity;
2.  entity operating and procedure manuals;
3.  entity policies, standards, directives and guidelines;
4.  multilateral international accords signed by India;
5.  criteria used previously in similar audits;
6.  performance standards used by the entity for the programme / activity to be audited, or previous inquiries by the legislature;
7.  criteria used by the same entity or other entities in similar activities or programmes;
8.  criteria used or developed by professional organisations and standard setting bodies;
9.  independent expert advice and know how;
10.  new or established scientific knowledge and other reliable information;
11.  criteria published by other SAIs; and
12.  general management and subject matter literature and research papers.

For establishing the basis of the audit criteria, depending on the case in point, the most authoritative sources will be official standards (such as goals laid down in laws and regulation, decisions and policies taken by the legislature or the executive branch). Specialist scientific literature professional standards and best practices also form an acceptable basis of criteria. In some cases it might be helpful to arrive at criteria through discussions with stakeholders and decision makers. Sharing sources of criteria with audited entity especially in cases where sources are other than the official regulations etc. would be a good practice.

1. **Services of expert for developing criteria**

The services of a consultant or expert of repute in the relevant field may be useful in developing the criteria, particularly on subjects, that are either new or complex. It will also contribute to acceptability and reliability of the criteria by the entity in particular and by the legislature, media and public, in general. Institutional consultancy, rather than individual consultancy, for developing criteria may enhance the acceptability of the criteria.Unless otherwise decided in particular cases, Accountants General are encouraged to share the information with the entity that the criteria are determined in consultation with the institute or expert.

1. **Characteristics of good criteria**

Suitable criteria need to be identified to enable the performance auditors to assess the activities subject to audit and to achieve the audit objectives. Since criteria are crucial to developing audit findings and, therefore, addressing the audit objectives, they should be such as to be generally acceptable. Some characteristics of suitable criteria include:

***Reliability:***reliable criteria result in consistent conclusions, when used for assessment in the same circumstances;

***Objectivity:***objective criteria are free from any bias of the auditor or management;

***Usefulness:*** useful criteria result in findings and conclusions that meet users’ information need;

***Comparability:***comparable criteria are consistent with those used in performance audits of other similar agencies or activities and with those used in previous performance audits;

***Completeness****:* completeness refers to the development of all significant criteria appropriate to assessing the performance in the given circumstances; and

1. **Deciding audit approach and methods**

Performance auditing generally follows one of three approaches in examining the performance of the audited entity (ies). The audit may take:

1.  a system-oriented approach, which examines the proper functioning of management systems, especially financial management systems;
2.  a result-oriented approach, which assesses whether the outcome objectives have been achieved as intended or whether programs or services are operating as intended;
3.  a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

No uniform audit approach can be prescribed that is applicable to all types of subjects of performance audits. Selection of approach also determine methods and means used for conducting the audit. Some of the methods which could be used in conducting performance audits include:



**(i) Analysis of procedures**

It consists of review of the systems in place for planning, conducting, checking and monitoring the activity being audited. This would involve examination of documents such as budgets, financial reports, programme guidelines, annual or other plans, procedure manuals, delegations and reporting requirements. The performance auditors should assess the appropriateness of the procedures, the quantum of resources and the accountability relationships highlighted in the programme guidelines.

**(ii) Case studies**

A case study is a descriptive, exploratory or explanatory analysis of an entity, scheme or a programme. It is a method for learning about a complex issue, based on a comprehensive understanding of the particular instance. It involves an extensive description and analysis of the particular issue within the context of the whole area under review.

**(iii) Use of existing data**

It is important for audit staff to investigate the data held by entity management and by other relevant sources. This may include the information systems used to manage entity programmes/activities and/or the data collected on individual programmes.

**(iv) Surveys**

Another method of obtaining insight into an agency’s activities, including the outputs and outcomes and their quality is by the conduct of a survey. This is a method of collecting information from members of a population to assess the incidence, distribution and interrelation of events and conditions. In social sector programmes, credible surveys on predetermined parameters can supplement the audit findings and conclusions, which add value to the performance audits. The nature of some programmes or activities selected for performance audits could be such that a focussed survey of a limited sample during the planning stage may provide more insight for setting the audit objectives and criteria.

**(v) Analysis of results**

Analysis of results from examining a number of instances of entity activity in a particular area will help decide whether entity performance in that area conforms to audit criteria and is generally satisfactory. This will also require the auditor to assess the output-input model designed in the programme and carry out actual output-input analysis to determine the efficiency of the programme. The analysis of results would also call for analysis of impact of the programme against the expected impact.

**(vi) Quantitative analysis**

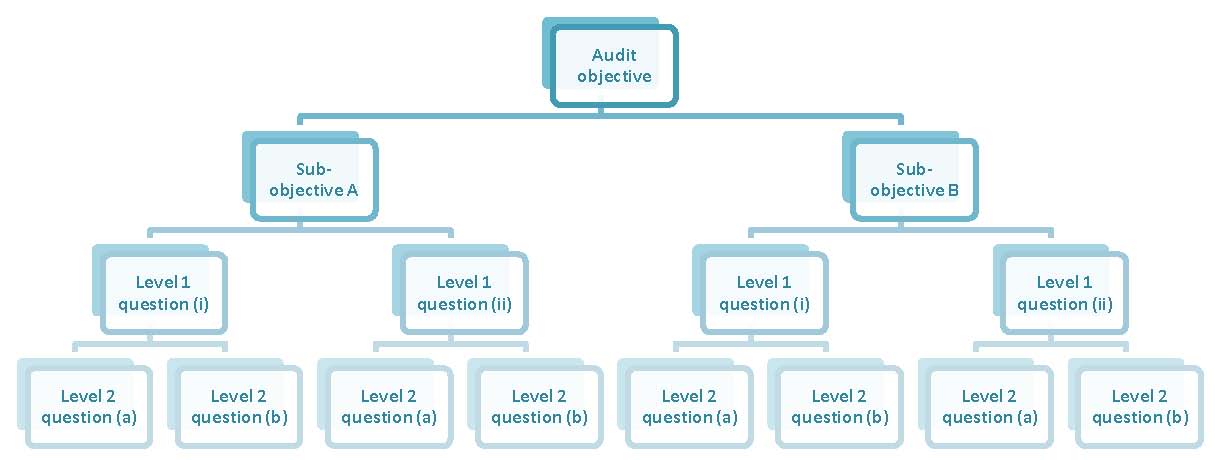
Quantitative Analysis is a way of measuring things. It involves examination of data available in any form, it could be the data relating to financials like earnings, revenue, market share or data relating to programme implementation like details of beneficiaries etc. The audited entities’ data can be analysed by auditors to illustrate or corroborate a statement. Mathematical, economical, computational and statistical analyses are some of the quantitative techniques which can be used by the auditors while analyzing complex data of the audited entity.

The selection of audit methods is an important part of planning a performance audit. The selection of audit method has to be done considering the audit approach, the objectives, the complexity of the assignment and the resources involved in implementing the audit. Audit team should consider the nature and cause of any errors identified and their possible effect on the particular audit objective and on other areas of the audit.

1. **Developing audit questions**

Following the design of audit objectives and the identification of audit criteria, the audit team should prepare a list of questions to which they would seek answers. There could be many ways to develop and frame audit questions. The performance auditors should frame a comprehensive and detailed list of questions.

Under each audit objective there can be two or more sub objectives. Under each objective/sub objective there could be a detailed hierarchy of questions, resulting in a pyramid structure. The last level audit questions should result in a yes or no answer. Breaking down of audit objectives into audit sub-objectives, level 1 questions and level 2 questions should result in at least 2 questions at each level. If not, then the validity of the question and the possibility of its incorporation with some other questions at any level should be considered.



1. **Assess audit team skills and whether outside expertise required**

Performance audit is a knowledge based mission. It is, therefore, necessary that the performance auditors possess special aptitude, skill and knowledge. The Auditing Standards of C&AG of India provide that the audit institution should develop and train the auditors to enable them to perform their tasks effectively and should prepare manuals and other written guidance notes and instructions concerning conduct of audits. The performance auditor must possess the range of skills and experience necessary for effective discharge of audit mandate. Programme for imparting training and skill development for the performance auditors to enhance and reinforce the understanding of the principles, methodology and techniques should be accorded high priority. Although, the Accountant General may use the work of an expert, he/she retains full responsibility for the conclusions in the audit report. The procurement of the services of the expert or using their work will be as per the general guidelines approved by the Department’s headquarters from time to time.

1. **Audit Design Matrix**

Having determined the audit objective, audit approach, audit criteria, data collection and evidence gathering method etc, audit teams should prepare a Audit Design Matrix. Audit Design matrix is a rigorous, structured and highly focused approach to designing a performance audit study, based around the audit objectives, associated sub-objectives and lower level detailed questions. As such, it provides a framework for fieldwork and further analysis. Having determined audit questions that require answers, the performance auditor is also expected to append to the audit design matrix, the procedure to find answers to audit questions. It also highlights the data collection and analysis method as well as the type and sources of evidence required to support audit opinion/findings with reference the defined audit objectives. The Audit Design Matrix is to be considered throughout planning, examination and reporting phases to ensure that all identified audit issues are covered. Once the examination phase is over, the audit team should suitably link Audit Design Matrix to the Audit Findings Matrix. The specimen of Audit Design Matrix is also given hereunder**:**

**Audit Design Matrix**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Audit objective/sub objective  (1) | Audit questions  (2) | Audit criteria  (3) | Evidence  (4) | Data collection and Analysis method  (5) |
|  |  |  |  |  |

The Audit Design Matrix is prepared on the basis of information and knowledge obtained in the planning phase during the course of pilot study. Audit teams are encouraged to update the Audit Design Matrix as and when it acquires more in-depth knowledge of the audit subject matter. A well-designed Audit Design Matrix leads to efficient planning and resultant effective audits thereby providing highest assurances to the audited entities and those charged with governance. It is desirable to prepare ADM for each of the audit objectives.

**Establish the timetable and resources**

The outcome of any performance audit will depend on the audit team and the activity plan.It is important to determine the timetable and the resources needed. Relevant factors include the manner in which the audit is organized and the expected completion time. Selection of appropriate audit team is the most important component in planning an audit. Considerations for selection of a particular team should be recorded in the planning documents along with the proposed timelines for various activities to be undertaken as part of the audit process. Progress against these timelines should be monitored. The Accountant General would be responsible for ensuring that performance audit is completed on time. The time required and actual time spent should be compared and variations thereof got approved from the competent authority.

The key milestones established for the audit will form the basis for assessing progress. It is strongly advisable that the team build time for translation, approval and possible delays in their own schedule in order to meet the deadlines.

**15 Intimation of audit**

Audited entities must be informed about the intention of taking up the planned performance audit with scope and extent of audit well before the commencement of Audit. The intimation should also include the constitution of audit team, the selected sub units, if already decided and the tentative time schedule. The intimation may also refer to the management’s responsibility and request their cooperation for successful completion of audit assignment. Acknowledgement of this may be requested and placed on record.

**16. Refinement or narrowing of objectives and criteria**

In view of the difficult environment in which we operate, for gathering the information needed to fulfill the audit it may be necessary to refine to refine an audit’s objectives as the audit progresses. The reasons for such changes in the objectives/criteria should be recorded and the approval of the competent authority taken. The revised objectives and the criteria should also be suitably brought into the notice of audited entity or those charged with governance.

**17. Flexibility in the audit programme**

While developing an audit programme, it will not be possible to anticipate all contingencies. In the early stages of an audit, there is a need to retain flexibility and to review the audit programme for appropriateness. It is preferable to start with a programme outlining the approach to the audit issues and revise and extend it as the audit progresses.

**Planning individual Performance Audits**

Exercise

Q1. What is Performance Audit Plan?

Q2. What is the process involved in planning an individual performance audit?

Q3. Write down the sources required for understanding the entities/ programme?

Q4. Describe the importance of criteria in Performance Audit

Q5. Why it is desirable to prepare a Audit Design Matrix?

**Planning individual Performance Audits**

Suggested Solution

Ans.1 A performance audit has to be planned in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner. A well thought out plan is indispensable in performance auditing. Before implementing the performance audit, it is important to identify the audit objectives, the scope and the methodology to achieve the objectives of a particular performance audit.

Audit planning should lead to the development of a detailed audit proposal that identifies the specific audit tasks to be undertaken. An appropriate audit proposal makes it easier to ensure that the performance audit coverage is comprehensive and realistic. It is pertinent to mention that adequate time and effort should be spent on planning a performance audit. Planning documents could also indicate the expected impact of the performance audit.

Ans.2 The following chart indicates the process involved in planning an individual performance audit in practice. These steps cannot always be strictly separated and they do not necessarily take place in the same order through.



Ans.3 The following can be the sources for understanding the entity.

1.  ***Documents of the entity****;*
2.  ***Legislative documents;***
3.  ***Policy documents;***
4.  ***Academic or special research***
5.  ***Past audits;***
6.  ***Media coverage***;
7.  ***Special focus groups***;

Ans.4 The following can be the sources for understanding the entity.

* ***Documents of the entity****:*
* ***Legislative documents*** *:*
* ***Policy documents:***
* ***Academic or special research***
* ***Past audits:***
* ***Media coverage***:
* ***Special focus groups:***

Ans.5 Audit Design matrix is a rigorous, structured and highly focused approach to designing a performance audit study, based around the audit objectives, associated sub-objectives and lower level detailed questions. As such, it provides a framework for fieldwork and further analysis. Having determined audit questions that require answers, the performance auditor is also expected to append to the audit design matrix, the procedure to find answers to audit questions. It also highlights the data collection and analysis method as well as the type and sources of evidence required to support audit opinion/findings with reference the defined audit objectives. The Audit Design Matrix is to be considered throughout planning, examination and reporting phases to ensure that all identified audit issues are covered. Once the examination phase is over, the audit team should suitably link Audit Design Matrix to the Audit Findings Matrix.

**Session: III& IV Session at a glance**

**Session Title: Implementing the Performance Audits**

**Learning Objectives:**

Given the overview of Implementing the Performance Audit at the end of this session, the participants will be able to understand how to perform performance audit.. This overview will provide background knowledge on the implementing performance audit. .

|  |  |  |
| --- | --- | --- |
|  | **Time Required** | **Training Method** |
| **Session Overview:**  In this session we will discuss the overall picture of implementing performance audit. | 5 min | Lecture |
| **Key Teaching Point** |  |  |
| **Key Teaching Point 1**  Entry conference and field audit process. | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2**  Development of findings and recommendations. . | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary conclude the key features discussed in the session.** | 5 min | Lecture |
| **Total:** | **75 min.** |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: III & IV Instructor’s Guide**

**Session Title: Implementing the Performance Audits**

|  |  |
| --- | --- |
| Instructor’s Guide | Ref. |
| Session Overview: **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on implementing the performance audit, particularly about field audit process and developing findings and recommendations. | Introductory remarks and over view of the topic |
| Learning Objective: **Inform** by the end of the session, we will discuss the field audit process for performance audit and will be able to conduct such audits on the basis of sharing our knowledge on the subject. | Objective of the session |
| Basic Concept:Form [[5]](#footnote-6)five groups among participants. **Ask** what is their understanding of the implementation of performance audit particularly entry conference and field audit process.  **Encourage** each group to discuss among its members and each participant to actively participate in the discussion.  **Obtain** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss.**  **Ask** what is their understanding on developing audit findings and recommendations to be given in performance audit report?  **Encourage** each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter.  **Take** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **audit design matrix for better performance in performance audit.** | Power point slide and participants note |
| Distribute Participant’s Note |  |
| Summarise: **Run Down:** During the session we discussed the implementation of the performance audits according to the guidelines issued by the CAG in 2014.  **Thank** the participants for their active participations and bring the session to a close. | Concluding remarks by the faculty |

Participants Note

**Implementing the Performance Audits**

1. **Entryconference**

The process of implementation of the performance audit steers through entry conference, issuance of audit engagement letter, data collection process, collecting audit evidence, developing audit findings and conclusions and developing recommendations.

Entry conference at the commencement of performance audit is to be held with Secretary of the department concerned by the Accountant General. Wherever, more than one department/agency is involved, representation from such agencies/departments should be insisted upon. The purpose of this conference is to inform the entity about the areas to be audited along with audit objectives, the audit approach and the time-frame within which the audit is expected to be carried out. Audit criteria/parameters/norms against which performance audit will be benchmarked should be also discussed. A protocol for conduct of audit is to be set up during this conference including nomination of liaison officers, production of records, arranging joint inspections, authentication of audit evidence including photographs etc, issuing of audit observations, time period for replies to be received and other logistic arrangements. This conference also gives the opportunity to discuss the concerns of the audited entity on the subject matter. The entry conference should be followed by preparing minutes of the proceedings which should be shared with the audited entity and acknowledgement requested.

1. **Issuance of engagement letter**

The Accountant General and the audit team are expected to be in communication with the entity at different levels throughout the performance audit cycle. Before initiating the audit, the Accountant General should send an engagement letter to the Secretary/Chief Executive of the entity, communicating the launch of the audit along with details of the entity units tentatively selected for audit and the timeframe for audit and request him/her to issue necessary directions to the functional officers and field units to provide documents and information to the audit team.

This will also serve as an opportunity to confirm the essence of the minutes of the entry conference. In case the entry conference could not be held for unavoidable reasons, the engagement letter would also provide a media for communicating the expectations from the entry conference.

1. **Field audit process**

The field audit process comprises the efforts made to collect, interpret and analyse data in relation to stated audit objectives and evaluating them against the pre-determined criteria. The steps involved in field audit process are discussed in succeeding paragraphs.

1. **Entry Meeting**

Besides entry conference, the audit parties should also hold entry meeting(s) with the heads of the units before commencement of the audit of selected auditable units. During these meetings, the audit party should narrate the purpose, objectives of audit, timelines and cooperation expected from the head of the selected auditable unit. The minutes of such entry meeting should be prepared and shared with the audited entity and acknowledgement requested.

1. **Data Collection & Analysis**

Data collection may be performed once, at repeated intervals or through continuous measurements as warranted. Information may be gathered on the basis of physical evidence, documents (including written statements), oral testimonies (interviews), or by other means depending on the objectives of the audit. The types of data to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance and reasonableness. A great deal of data (material produced by others specifically by the audited entity) is often used however the auditors may also produce certain data (its own source material) with the aid of questionnaires, surveys and direct observation.

Quality in data collection and documentation is vital. It is important that the auditors

seek information from different sources, since organisations, individuals in an organization, experts and interested parties have different perspectives and arguments to put forward. Data, information and knowledge are, broadly speaking, similar, linked concepts. Data is the primary facts. Data, which has been compiled, is transformed into information. Information, which is analysed and understood, will become knowledge. Data may be collected for different purposes during an audit, as part of the learning process, or in order to describe and analyse an outcome or a problem.

The audit party has to call for the records from the audited entity in the form of executive and administrative files and other information essential for accomplishment of audit objectives. Records required should be called in a timely fashion from the authority responsible to provide the same in terms of the protocols defined in the entry conference and entry meeting. Information given by the audited entity (like filling up of Annexures in Performance Audit report) may be test checked with reference to the source and documented accordingly.File examination forms the basis of performance audits. Files contain a wide range of types of evidence, such as the decisions of officials, the ‘case records’ of program beneficiaries and the records of government programs. It is important to establish the nature, location and availability of records at the outset of a performance audit so that they can be examined effectively.

Based on general experience, it is important to distinguish between the following components in the information gathering process:

1.  Records in form of documents, files etc.
2.  Questions formulated to be answered by the audit.

 Data-collection techniques needed in order to answer the questions set (study of

documentation, meetings, questionnaires, interviews etc.).

 Audit programs, i.e. the type of investigation that is needed for the data-collection

(such as sampling, case studies, secondary analysis, inquiries, ‘before- and after

analysis’, comparable evaluations, etc.).

1.  Quantitative and qualitative analysis, applied to the data collected (for deeper
2. analysis of the information collected).

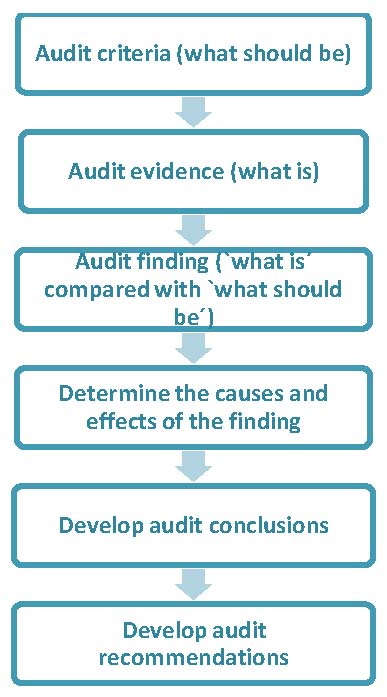
Most audits involve some type of analysis in order to understand or explain what has been observed. This could be done in the form of more detailed statistical analysis, discussions on the findings within the audit team, studies of documentation and working papers etc. The analysis might sometimes also require comparisons of findings between, for instance, subjects that work well and those that work less well; one or more subjects and an overview; and the audited area and a similar audit area in other states. The final stage in the analysis of data involves combining the results from different types of sources. Audit teams should refer to the Audit Design Matrix while carrying out data analysis and the adopting technique or tool thereof.

1. **Developing audit findings and conclusions**

Audit findings are the specific evidence gathered by the auditor to satisfy the audit objectives. Audit findings contain the following elements: *criteria* (‘what should be’), *condition* (‘what is’), and *effect* (‘what are the consequences’ – observed as well as ‘reasonable and logical future impact’), plus *cause* (‘why is there a deviation from norms or criteria’), when problems are found. However, all four elements are not always required in an audit; the element ‘criteria’ is for instance not always specifically addressed in the problem-oriented approach. Conclusions are statements deduced by the auditor from those findings after analysis of causes and effects of these findings. And finally, the recommendations are courses of action suggested by the auditor relating to the audit objectives.

1. **Audit Design Matrix**

The Audit Design Matrix should be suitably updated at each stage of audit as the same was initially prepared based on the limited knowledge acquired during the pilot study and also to be linked with the audit findings matrix. While developing the audit findings and conclusions, the reference is made not only to number of deviations but also to total number of cases test checked and the population size. The process of analyzing evidence, developing findings and producing recommendations to resolve identified areas of poor practice is summarised in the following diagram.



Audit findings are arrived at by comparing the evidence to the criteria. These are based on the analysis of information collected during the audit. Further analysis of the nature and magnitude of the issue, will lead to the development of audit conclusions. These conclusions should be based on objectives, rationality and project-specific standards and criteria. Audit conclusions should be developed and evaluated throughout the various phases of performance audit. Potential conclusions identified in the planning stage or during the pilot study should be followed up in the detailed examination phase of the audit. Further, the audit team must determine whether the deficiency is an isolated instance or represents a generic or systemic problem. Conclusions may also require the application of significant judgement and interpretation in answering the audit questions, due to the fact that audit evidence may be persuasive ("points towards the conclusion that...") rather than conclusive ("right/wrong") in nature. The need to be exact should be weighed against, what is reasonable, economical, and relevant for the purpose of involvement of Senior Management.

The audit team may identify a cause-and-effect chain and have the option of reporting the findings and conclusions at different points in the chain. In this situation, the auditor should highlight the most critical deficiencies in the chain.

Audit conclusions will confirm whether the entity’s performance, with reference to the criteria laid down, was satisfactory or not. If it was not adequate, they will point either to the systemic deficiency or to the person(s) responsible, the cause and, if determinable, effect of the problem on the subject matter of the audit.

1. **Developing recommendations**

All performance audits ought to conclude with well thought-out recommendations, which should transcend inverted versions of audit conclusions or truisms and clearly spell out possible solutions, without taking over management’s responsibilities. For developing recommendation, the underlying cause(s) of a finding should be identified, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings.

Recommendations emerge from identification of the ‘cause’ of audit findings, which ought to be addressed by the entity or those charged with governance. Recommendations should be well-founded and add value. It should be clear who and what is addressed by the recommendation, who is responsible for taking initiative and what the recommendations mean, i.e. how they will contribute to better performance. Recommendations should be practical and be addressed to the entities having responsibility and competence for their implementation.

The recommendations should be clear and be presented in a logical and rational fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report they should make it possible for the reader that they are likely to significantly improve the conduct of government operations and programs, e.g. by lowering the costs and simplifying the administration of the services, by enhancing the quality and volume of the services, or by improving the effectiveness, the impact or the benefits for the society of the services. Sometimes, the cause may be outside the control of the entity under audit, in which case the recommendation should direct attention outside the audited entity, the governance structure. In some cases it is also important to present the arguments for and against various alternative proposals. By following the underlying arguments, the reader will be better able to understand the final recommendations emerging from identification of the ‘cause’ of audit findings, which ought to be addressed by the entity.

1. **Audit Findings Matrix**

The audit teams are encouraged to prepare an Audit Findings Matrix indicating the audit findings *vis-à-vis* good practices and the potential audit recommendation along with the expected benefits in case the recommendation is implemented. It is meant to provide a link between the audit objectives, criteria, the audit observation and the recommendations emerging there from. The audit teams should link the Audit Findings Matrix with Audit Design Matrix and highlight the Para number as well as chapter number of the draft report against each of the audit objective where the observations are reported. This will help audit teams and those responsible for reviewing their work to ensure that the audit work completed aligns with the work planned.

The specimen of the Matrix is given hereunder:

**Audit Findings Matrix**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Findings** | | | | | | **Conclusions** | **Recommendations** |
| **Objective/Sub objective** | **Audit Questions** | **Criteria** | **Evidence** | **Cause** | **Effects** |  |  |

1. **Exit Meeting**

The audit team leader or the Group Officer in charge should hold an exit meeting with the officer in charge of audited unit at the close of audit to seek his observations on the audit conclusions and recommendations, if not already received in response to the audit memos. The minutes of such exit meeting should be prepared and shared with the audited entity and acknowledgement requested.

1. **Supervision**

Supervision of the implementation of the performance audit of the selected subjects will ensure that the audit is performed in accordance with the audit plan and the provisions of these guidelines. It will also ensure that the process is focused on the audit objectives and audit criteria and that the refinement of the criteria and audit programme is carried out as and when required. Concurrent supervision by group officers will fulfil this objective and make sure that their intervention is promptly applied, where necessary. The Accountant General should conduct mid-term appraisal to ensure that the work is being performed as per plan to avail the opportunity of providing timely guidance to the field audit parties.

In cases, where the performance audits are conducted by different teams, within the administrative and technical control of one or more Accountants General, one or more mid-term workshops may assist in ensuring consistency of approach and techniques. Where necessary, a workshop on the results of performance audits conducted by a large number of teams across dispersed areas and under different audit control may be held to finalise consistent audit findings and recommendations.

The quality control and supervision on the implementation of the performance audit by the Department’s Senior Management is provided through approval of the audit implementation guidelines, periodic work-in-progress reports and guidance during the mid-term workshops.

**Implementing the Performance Audits**

Exercise:

Please give the answer of following Questions.

Q. 1. What is Entry Conference?

Q. 2. Why quality in data collection is important ?

Q. 3. What do you understand by Audit findings?

Q. 4. Elucidate that Audit Conclusions are the base for good recommendations.

Q. 5. Write down salient features of good recommendations.

**Implementing the Performance Audits**

Suggestion to Exercise

Ans.1 Entry conference at the commencement of performance audit is to be held with Secretary of the department concerned by the Accountant General. Wherever, more than one department/agency is involved, representation from such agencies/departments should be insisted upon. The purpose of this conference is to inform the entity about the areas to be audited along with audit objectives, the audit approach and the time-frame within which the audit is expected to be carried out. Audit criteria/parameters/norms against which performance audit will be benchmarked should be also discussed. A protocol for conduct of audit is to be set up during this conference including nomination of liaison officers, production of records, arranging joint inspections, authentication of audit evidence including photographs etc, issuing of audit observations, time period for replies to be received and other logistic arrangements. This conference also gives the opportunity to discuss the concerns of the audited entity on the subject matter. The entry conference should be followed by preparing minutes of the proceedings which should be shared with the audited entity and acknowledgement requested.

Ans.2 Quality in data collection and documentation is vital. It is important that the auditors

seek information from different sources, since organisations, individuals in an organization, experts and interested parties have different perspectives and arguments to put forward. Data, information and knowledge are, broadly speaking, similar, linked concepts. Data is the primary facts. Data, which has been compiled, is transformed into information. Information, which is analysed and understood, will become knowledge. Data may be collected for different purposes during an audit, as part of the learning process, or in order to describe and analyse an outcome or a problem.

1. Ans.3 Audit findings are the specific evidence gathered by the auditor to satisfy the audit objectives. Audit findings contain the following elements: *criteria* (‘what should be’), *condition* (‘what is’), and *effect* (‘what are the consequences’ – observed as well as ‘reasonable and logical future impact’), plus *cause* (‘why is there a deviation from norms or criteria’), when problems are found. However, all four elements are not always required in an audit; the element ‘criteria’ is for instance not always specifically addressed in the problem-oriented approach. Conclusions are statements deduced by the auditor from those findings after analysis of causes and effects of these findings. And finally, the recommendations are courses of action suggested by the auditor relating to the audit objectives.

Audit findings are arrived at by comparing the evidence to the criteria. These are based on the analysis of information collected during the audit. Further analysis of the nature and magnitude of the issue, will lead to the development of audit conclusions.

Ans.4. These conclusions should be based on objectives, rationality and project-specific standards and criteria. Audit conclusions should be developed and evaluated throughout the various phases of performance audit. Potential conclusions identified in the planning stage or during the pilot study should be followed up in the detailed examination phase of the audit. Further, the audit team must determine whether the deficiency is an isolated instance or represents a generic or systemic problem. Conclusions may also require the application of significant judgement and interpretation in answering the audit questions, due to the fact that audit evidence may be persuasive ("points towards the conclusion that...") rather than conclusive ("right/wrong") in nature. The need to be exact should be weighed against, what is reasonable, economical, and relevant for the purpose of involvement of Senior Management.

The audit team may identify a cause-and-effect chain and have the option of reporting the findings and conclusions at different points in the chain. In this situation, the auditor should highlight the most critical deficiencies in the chain.

Audit conclusions will confirm whether the entity’s performance, with reference to the criteria laid down, was satisfactory or not. If it was not adequate, they will point either to the systemic deficiency or to the person(s) responsible, the cause and, if determinable, effect of the problem on the subject matter of the audit.

Ans.5 The recommendations should be clear and be presented in a logical and rational fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report they should make it possible for the reader that they are likely to significantly improve the conduct of government operations and programs, e.g. by lowering the costs and simplifying the administration of the services, by enhancing the quality and volume of the services, or by improving the effectiveness, the impact or the benefits for the society of the services. Sometimes, the cause may be outside the control of the entity under audit, in which case the recommendation should direct attention outside the audited entity, the governance structure. In some cases it is also important to present the arguments for and against various alternative proposals. By following the underlying arguments, the reader will be better able to understand the final recommendations emerging from identification of the ‘cause’ of audit findings, which ought to be addressed by the entity.

**Session: I & II Session at a glance**

**Session Title: Evidence gathering and documentation**

**Learning Objectives:**

Given the overview on the evidence gathering and documentation for performance audit at the end of this session, the participants will be able to understand the evidence gathering techniques and importance of documentation for performance audit.

|  |  |  |
| --- | --- | --- |
|  | **Time Required** | **Training Method** |
| **Session Overview:**  In this session we will discuss the evidence gathering techniques and documentation for performance audit. | 5 min | Lecture |
| **Key Teaching Point** |  |  |
| **Key Teaching Point 1**  Characteristic of good evidence. | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2**  Importance of documentation. | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary: conclude the key features discussed in the session.** | 5 min | Lecture |
| **Total:** | **75 min.** |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: I & II Instructor’s Guide**

**Session Title : Evidence gathering and documentation**

|  |  |
| --- | --- |
| Session | Ref. |
| Session Overview: **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on: evidence gathering, characteristics of good governance and importance of documentation. | Introductory remarks and over view of the topic |
| Learning Objective: **Inform** by the end of the session, we will acquire the basic knowledge about evidence gathering techniques, characteristics of good evidence and importance of documentation through sharing our knowledge on the subject. | Objective of the session |
| Basic Concept:Form [[6]](#footnote-7)five groups among participants. **Ask** what is their understanding evidence and evidence gathering techniques  **Encourage** each group to discuss among its members and each participant to actively participate in the discussion.  **Obtain** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss.**  **Ask** What is their understanding about documentation, working papers and audit file.  **Encourage** each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter.  **Take** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss** evidence gathering and documentation. | Power point slide and participants note |
| Distribute Participant’s Note |  |
| Summarise: **Run Down:** During the session we discussed the evidence gathering and imporftance of documentation and working papers in performance audit.  **Thank** the participants for their active participations and bring the session to a close. | Concluding remarks by the faculty |

Participants Note

**Evidence gathering and documentation**

1. Audit evidence is the information collected and used to support audit findings. It provides a factual basis for developing observations and concluding against audit objectives. As such, it is evidence which must support the contents of an audit report, including all observations leading to recommendations.
2. **C&AG of India’s auditing standards**

Standard 3(e) in chapter-III of the Auditing Standards of C&AG of India state:

‘Competent, relevant and reasonable evidence should be obtained to support the auditor’s judgment and conclusions regarding the organisation, programme, activity or function under audit.’

The auditing standards further emphasise that

(i) data collection and sampling techniques should be carefully chosen;

(ii) the auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence; and

(iii) the evidence should be competent, relevant and sufficient and as direct as possible.

The concept of competence, relevance and sufficiency of evidence, particularly in the context of performance audits, is elaborated below.

1. **Competence**

Evidence is competent when it is *valid* and *reliable* and actually represents what it purports to represent. Some factors that can help in assessment of the evidence from the point of view of reliability are:

1.  If the piece of evidence is corroborated with help of different types of evidence obtained from other sources;
2.  Documentary evidence is more reliable than oral evidence;
3.  Evidence obtained through direct observation is more reliable than indirectly obtained evidence;
4.  The reliability of entity generated information is a function of reliability of internal control system within the entity;
5.  Oral evidence, which is corroborated in writing is more reliable than oral evidence alone;
6.  Photocopies being less reliable evidence than the originals, the source of photocopies should be identified by noting the source and as far as possible, the photocopies should be certified; and
7. **Relevance**

An evidence is relevant if it bears a clear and logical relationship to audit objectives and to the criteria. The relevance of the evidence in the performance audits can be ensured by linking the evidence and the audit procedure with each of the audit objectives, sub-objectives and then to each of the criteria. Relevance is measure of *quality* of audit evidence.

1. **Sufficiency**

Sufficiency is a measure of *quantity* of audit evidence. Evidence is sufficient if the test is carried out on a reasonable representative of the population, the sample being selected objectively. In performance audit the evidence may be persuasive. Thus, evidence is sufficient or reasonable, when there is enough relevant and reliable information to persuade a reasonable person that the performance audit findings, conclusions and recommendations are warranted and are fully supported.

Considerations that determine the strength of evidence required are:

1.  If the observation is highly significant and material, it will require stronger evidence to sustain;
2.  The strength of evidence should be very high when the degree of risk associated with wrong conclusion is high;
3.  If previous experience suggests that the entity’s documents are reliable, less corroboration of the evidence may be necessary; and
4.  Evidence needs to be more convincing, if the issue is controversial or sensitive.
5. **Factors affecting the evidence**

Some factors that may affect the competence, relevance and sufficiency of the evidence are:

1.  Samples selected are not representative (*sufficiency*);
2.  Evidence collected relate to an isolated occurrence (*sufficiency*);
3.  Evidence is incomplete and does not establish a cause and effect relationship (sufficiency , relevance);
4.  Evidence is conflicting (competence);
5.  Evidence is biased (competence).
6. **Types of evidence**

Evidence can be categorised with reference to their type as physical, oral,

documentary or analytical.

1.  ***Physical evidence***is obtained through observation, photographs, charts, maps, graphs or other pictorial representations*, etc.*. It is desirable to corroborate physical evidence, particularly if it is crucial to any audit findings (linked to the audit objectives), with other types of evidences.
2.  ***Oral evidence***is the statement in response to audit inquiries or interviews. The statements made can either provide a background or a lead for further examination that may not be available through other forms of audit work or may provide corroborating evidence (*e.g.* beneficiary survey). The statements can be by the employees of the entity, beneficiaries, experts and consultants contacted to provide corroborative evidence*, etc.* It will be essential to corroborate the oral evidence, if the oral evidence is itself to be used as primary evidence rather than simply as a background or lead for further examination.

The corroboration of oral evidence could be:

* 1. ▫ by written confirmation by the person interviewed;
  2. ▫ by weight of multiple independent sources disclosing same facts;
  3. ▫ by checking the records later; or
  4. ▫ by entrusting the collection of evidence to independent organisations of repute.

In cases of surveys through independent agencies, it may not, however, be possible to obtain written confirmation from the subjects of the survey. In this background, credibility of the agency selected for survey would be critical for sustaining the competence of the evidence. It is also important to note that surveys are generally corroborative (secondary) evidence rather than being the primary evidence. In instances in which it is not possible to gather primary evidence, the decision to develop audit findings on the basis of the survey or other secondary evidence may be taken with the approval of Department’s top management.

1.  ***Documentary evidence*** in physical or electronic form is the most common form of audit evidence. These could be both internal as well as external. Some examples of internal documentary evidence are accounting and information records, copies of outgoing correspondence, plans, budgets, annual reports and internal audit reports, etc. Some examples, of the evidence from external sources are documents originating from other entities (*viz*. notes or reports of other ministries, coming correspondence, external evaluations and surveys). Internal documentary evidence originates within the entity. In most cases, the external evidence is also obtained from the records of the entity.

The reliability, relevance and sufficiency of documentary evidence should be assessed in relation to the objectives of the audit. For example, if the objective is to ensure whether contract procedures are followed by an entity, mere existence of an updated manual of contract is not a competent , relevant and sufficient evidence for audit conclusions.

1. ***Analytical evidence***stems from analysis and verification of data, which can involve computations, analysis of rates, trends and patterns, comparisons against standards and benchmarks*, etc.* The analysis and comparisons can be both numerical and non-numerical. The source of data analysed to develop an evidence should be indicated to facilitate acceptance by the entity.
2. **Sources of evidence**

The sources of evidence may vary from case to case. The following are however some illustrative sources of evidence:

1.  *Policy statements and legislations* - policy documents, operating guidelines and manuals, administrative orders, etc. along with the background papers leading to their promulgation.
2.  *Published programme performance data* - budget, accounts including VLC outputs, plan documents, performance budgets and reports, programme documents, annual reports and replies or statements placed before Parliament and legislature.
3.  *Management reports and reviews* - internal reports and reviews, minutes of meetings, management information chain and information/performance reports, *etc.*
4.  *Files of the entity on the subject* - provide strong evidence to support audit findings. It may not be possible to examine all files of the entity due to time constraint. The selection of the files for examination will be guided by the audit objectives or the purpose of the investigation. Depending upon the subject of performance audit, the audit team may examine a sample selected at random. Some of the more important files that can provide the desired evidence are:
5. ▫ Strategic and operational planning files;
6. ▫ Budget files;
7. ▫ Management control, monitoring and review files;
8. ▫ Internal audit reports, internal and external evaluations;
9. ▫ Complaints and disputes etc.
10. ▫ *Databases* - maintained by the entity are important source of audit evidence; and
11. ▫ *External sources* - independent surveys, evaluation, research*, etc.*
12.  Website of audited entities, the regulators and other related entities. It may be ensured the website from which the audit evidence is being taken is reliable and updated. The source of such information should be shared with audited entity and suitably depicted in the audit report.
13.  Department’s sources – evidence collected in previous audits and during finalisation of strategic plan could provide evidence in many cases.
14.  Auditors’ observation – could form an important source of evidence, particularly when supported and corroborated by photograph, video recording, etc. and attested by the representative of the entity. The audit team should record a detailed description of the results of observation.
15.  Physical verification/inspect*ion* is an important source of evidence*.* Accountants General may make an assessment based on the nature of the subject of performance audit and the audit objectives as to whether physical verification/inspection is required to achieve the audit objective and document the results of their assessment. Accountants General should be conscious of the relatively lower levels of acceptability of evidence when the physical inspection/verification is carried out by auditors alone. Some of the measures to transform the observed evidence into competent evidence could be joint inspection in which the result of such inspection is certified by the representative of the entity holding responsible position, out-sourcing the physical observation to an agency of repute and supplementing the observed results with photograph*,* etc.attested by the representative of the entity
16. **Documentation**

Meticulous documentation of the evidence supports the audit conclusions and confirms that the audit was carried out in accordance with relevant standards. C&AG of India’s Auditing Standards (paragraph 8, chapter III) state:

“Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor’s significant findings and conclusions.”

The Standards further add:

“Adequate documentation is important for several reasons. It will:

1.  confirm and support the auditors’ opinion and report;
2.  increase the efficiency and effectiveness of audit;
3.  serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
4.  serve as evidence of the auditor’s compliance with Auditing Standards;
5.  facilitate planning and supervision and
6.  provide evidence of work done for future reference.”

Good documentation of evidence helps ensure that:

1.  an adequate and defensible basis exists for the audit’s observations, conclusions and recommendations;
2.  an effective link exists between successive audits; and
3.  appropriate basis exists for quality control in carrying out an audit and for subsequent third-party reviews.
4. **Working papers**

All relevant documents and information collected and generated during a performance audit constitute the working papers. They include the documents recording the audit planning including the audit objectives, determination of criteria including the process of their determination, field audit and evidence gathering procedures, evidence analysis, the nature, timing and the extent of audit procedures performed and the process of arriving at the results of the audit tests i.e., audit findings and conclusions. Ideally the working papers should consist of three sections – each linked to the other: planning; execution and reporting.

Working papers also serve as a connecting link between the fieldwork and the audit report. These should, therefore, be complete and appropriately detailed to provide a clear trail of the audit. The confidentiality of the working papers should be maintained and they should be retained for a period sufficient to meet the professional, legislative and legal requirements.

Some of the broad characteristics which working papers should have are set out below:

1.  Completeness and accuracy: Provide support to audit conclusions and recommendations.
2.  Clarity and conciseness: Anyone using these papers should be able to understand the entire audit process without need for any supplementary examination.
3.  Ease of preparation: While the audit teams will be called upon to collect large volumes of working papers, to the extent they can use the entity prepared documents and reports, pre-printed standard audit stationery and automatically generated standard working paper formats, the time and effort may be optimised.
4.  Legibility and neatness: Applies particularly to photocopies.
5.  Relevance: Working papers should be restricted to matters, which are important, pertinent and useful for the purpose.
6.  Ease of review: The working papers should contain cross-references to the audit memoranda, discussion papers, audit observation, field audit report and performance audit report, as the case may be, to enable Accountants General and the supervisory authority to link the working papers to audit conclusions and recommendations.
7.  Organisation and ease of reference: The working papers may contain an omnibus, easy to follow, index with proper narration for all volumes in an audit summary file and an index for each of the working paper files.
8.  Complete audit trail of analysis: The working papers should be so organised so that even an uninitiated person can follow the trail of how the subject was selected, how evidence was gathered, what was the evidence collected and how audit conclusions were formulated. This should include evidence for the positive findings as well.
10. **Audit file**

Documentation in a performance audit requires maintenance of audit file along with set of working papers.Audit file refers to one or more folders or other storage media, in physical or electronic form, containing the records that describe the audit documentation for a specific engagement.

Normally, the audit file should include the audit strategy, scope and methodology, the sample selection, nature, timing and extent of procedures performed, results of such procedures and the evidence obtained. It should also mention significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions. Audit file should also include discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed and when and with whom the discussions took place. Besides, a reference about as to why a particular audit team was chosen for a performance audit may be made clear in planning documents.

Audit file should be properly indexed, referenced with and supplemented by the set of working papers. The auditor should summarise the audit documentation in an audit file and complete the administrative process of finishing the audit file on a timely basis. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature. In case of multiple audit files, a master index of the files may be maintained in addition to the index of each audit file**.** The responsibly of ensuring documentation of evidence in support of all facts, figures and comments included in the audit report rest with the field audit offices conducting the audit.

**Evidence gathering and documentation**Exercise:

Please give the answer of following Questions.

Q. 1. What are the characteristics of good evidence I n regard to competence?

Q. 2. What are the factors effecting evidence?

Q. 3. What are the sources of evidence?.

Q. 4. Write down the importance of documentation.

Q. 5. Write down broad characteristics of working papers.

**Evidence gathering and documentation**

suggestion to Exercise

Ans.1 Characteristics of a Good Evidence in regard to Competence are:

Evidence is competent when it is *valid* and *reliable* and actually represents what it purports to represent. Some factors that can help in assessment of the evidence from the point of view of reliability are:

1.  If the piece of evidence is corroborated with help of different types of evidence obtained from other sources;
2.  Documentary evidence is more reliable than oral evidence;
3.  Evidence obtained through direct observation is more reliable than indirectly obtained evidence;
4.  The reliability of entity generated information is a function of reliability of internal control system within the entity;
5.  Oral evidence, which is corroborated in writing is more reliable than oral evidence alone;

 Photocopies being less reliable evidence than the originals, the source of photocopies should be identified by noting the source and as far as possible, the photocopies should be certified;

Ans.2 Some factors that may affect the competence, relevance and sufficiency of the evidence are:

1.  Samples selected are not representative (*sufficiency*);
2.  Evidence collected relate to an isolated occurrence (*sufficiency*);
3.  Evidence is incomplete and does not establish a cause and effect relationship (sufficiency , relevance);
4.  Evidence is conflicting (competence);
5.  Evidence is biased (competence).

Ans.3 The sources of evidence may vary from case to case. The following are however some illustrative sources of evidence:

1.  *Policy statements and legislations;*
2.  *Published programme performance data;*
3.  *Management reports and reviews;*
4.  *Files of the entity on the subject;*
5.  Website of audited entities
6.  Department’s sources;
7.  Auditors’ observation;
8.  Physical verification/inspect*ion*

Ans.4. Adequate documentation is important for several reasons. It will:

1.  confirm and support the auditors’ opinion and report;
2.  increase the efficiency and effectiveness of audit;
3.  serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
4.  serve as evidence of the auditor’s compliance with Auditing Standards;
5.  facilitate planning and supervision and
6.  provide evidence of work done for future reference.”

Ans.5 Some of the broad characteristics which working papers should have are set out below:

1.  Completeness and accuracy;
2.  Clarity and conciseness;
3.  Ease of preparation
4.  Legibility and neatness;
5.  Relevance;.
6.  Ease of review;
7.  Organisation and ease of reference; .

 Complete audit trail of analysis:

**Session: III& IV Session at a glance**

**Session Title: Developing Audit conclusion and Recommendations**

**Learning Objectives:**

Given the overview of developing audit conclusions and recommendations at the end of this session, the participants will be able to understand the procedure for developing audit conclusion from the findings and developing recommendations on the basis of conclusions. . This overview will provide background knowledge about the conclusions and recommendations.

|  |  |  |
| --- | --- | --- |
|  | **Time Required** | **Training Method** |
| **Session Overview:**  In this session we will discuss the development of audit conclusions and recommendations in the performance audit. | 5 min | Lecture |
| **Key Teaching Point** |  |  |
| **Key Teaching Point 1**  Audit conclusion – conclusions from audit findings and linking conclusions to audit objectives. | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2**  Audit recommendations – salient features of good recommendations and its response by the auditee unit. . | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary: Conclude the key features discussed I n the session.** | 5 min | Lecture |
| **Total:** | **75 min.** |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: III & IV Instructor’s Guide**

**Session Title: Developing Audit conclusion and Recommendations**

|  |  |
| --- | --- |
| Instructor’s Guide | Ref. |
| Session Overview: **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on Developing Audit conclusions and Audit recommendations, their characteristics and acceptance by the auditee unit. | Introductory remarks and over view of the topic |
| Learning Objective: **Inform** by the end of the session, we will acquire the basic knowledge about haow to develop audit conclusion and give our recommendations in the Performance Audit Report. through sharing our knowledge on the subject. | Objective of the session |
| Basic Concept:Form [[7]](#footnote-8)five groups among participants. **Ask** what is their understanding about evaluation of evidence against audit criteria for audit conclusion?  **Encourage** each group to discuss among its members and each participant to actively participate in the discussion.  **Obtain** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss the linkage of audit conclusions to audit objectives .**  **Ask** what is their understanding about the proposed recommendations, its salient features and response of the auditee unit o n out audit recommendations?  **Encourage** each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter.  **Take** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss** the features of effective recommendations.. | Power point slide and participants note |
| Distribute Participant’s Note |  |
| Summarise: **Run Down:** During the session we discussed the development of audit conclusion and audit recommendations for the Performance Audit Report.  **Thank** the participants for their active participations and bring the session to a close. | Concluding remarks by the faculty |

Participants Note

**Developing Audit conclusion & recommendations**

**Developing audit findings and conclusions**

1. **Audit Findings**

Audit findings are identified by relating audit observations to audit criteria and are based on an analysis of information collected during the audit. Potential findings identified or preliminary should be in the planning study stage itself followed up in the detailed examination stage to test their validity.

The audit team gathers evidence in order to support a description of an activity or program under review and make an assessment of the actual performance of an activity or process against the audit criteria. Where the audit or finds that the performance does not meet the criteria, further investigation is carried out to gain an assurance that any resulting observations and conclusions are significant, fair, well -founded and that the ensuing recommendations result value should ordinarily in improving performance, for money or accountability.

**2. Audit Conclusions**

Audit conclusions should clearly and logically flow from an analysis of the evidence collected during the performance audit. These should be supported by facts and figures as maybe appropriate to make them manifest in the eyes of an objective reader. Audit conclusions in performance audit should not be based on stray examples or isolated cases of irregularities or deviations or on a random assortment of various financial or regularity audit findings. They must represent an assessment of either the whole or the defined part of the program/entity/system being appraised.

The first step in developing audit conclusions is to objectively evaluate the evidence against the criteria so as to be able to develop observations and conclusions assessing the impact or potential impact of the deficiency on anticipated results. Whenever possible, the effect of the problem should be quantified to illustrate the "so what" in the audit report. Audit conclusions should also attempt to bring out who is affected by the issue (for example, other units in the organization, agencies, and determine central third parties) auditee management's of the issue. lf the management is aware awareness of the issue and corrective action is under way, the issue may have less significance for reporting purposes.

The comparison of evidence against and further investigative into the nature and significance of the issue will result in the development of observations. Audit observations confirm satisfactory performance or disclose the level, nature and significance of deviations from criteria, who is responsible and the cause and effect of the problem. In reaching the conclusion auditors may need to look at the collection of inter-related facts and evidence assessing them against the corresponding criteria as well as individually. The audit conclusions should be clear and concise leaving no scope for ambiguity. They should not be based on assumptions or interpretations which are or may be disputed. There should be a clear distinction between facts which should be indisputable and interpretations which may be subject to different views. lt goes without saying that audits should have necessary and sufficient assessments to support conclusions made against each audit objective.

1. **Linking Audit Conclusions to Audit Objectives**

As in the above illustration, the audit conclusions must also relate to the overall audit objectives. The auditor should assess the significance of the observations in relation to the audit objectives. The auditor will have to use his judgment in forming a fair and sustainable conclusion taking into account both the significant deviations from satisfactory performance as well as improvements effected by the entity management and positive developments which may exist.

1. **. Audit recommendations**

Recommendations are the logical conclusions of the performance audit process and relate to the causes of the audit findings. Recommendations should indicate broadly what issues might be examined by the entity management when seeking solutions and should focus on the more significant issues requiring attention. They should be practical, add value and address the objectives of the performance audit; i.e. effectiveness, governance or accountability as appropriate. Recommendation may be defined as the actions suggested by the auditor that will address the cause of the findings. The follow up of a performance audit and in fact the impact of the performance audit is built around the recommendations and the impact of the performance audit is measured on the basis of implementation of the recommendations.

1. **Why recommendations**

The point of carrying out a performance audit is to arrive at conclusions and recommendations which can constitute relevant inputs for executive decision-making or legislative policy formulation. While conclusions summarize the key findings of the audit exercise and are logical inferences or logically deducted from the evidence collected indicating areas where there is scope for improvement in the economy, efficiency and/or effectiveness with which the entity uses its resources, recommendations suggest how such improvements might be effected. All performance audits ought to conclude with well thought out recommendations. The importance of recommendations lie in the fact that it is these recommendations which are the end product of the performance audit and it is they which if implemented should add value to governance by improving program implementation or the efficiency or effectiveness of the audited entity which is the fundamental objective of performance audits.

1. **Developing audit recommendations**

Recommendations emerge from identification of the cause of the audit finding which ought to be addressed by the entity. Once an audit finding has been identified, two complementary forms of assessment take place; an assessment of the significance of the finding and the determination of the causes of under-performance. The effect of a finding may be quantifiable in many cases. For example, the cost of expensive processes, expensive inputs or unproductive facilities can usually be estimated. Additionally, the effect of inefficient processes, for example idle resources or poor management may become apparent in terms of time delays or wasted physical and other resources. Qualitative effects as evidenced by lack of control, poor decisions or lack of concern for service may also be significant. The identified effect should demonstrate the need for corrective action.

The auditor should identify the underlying cause of a finding as this forms the basis for the recommendation. The cause is that which if changed would prevent similar findings. The cause may be outside the control of the agency under audit in which case the recommendation may direct attention outside the agency. However, it may happen that though the cause is ostensibly under the control of an outside agency, yet there were steps which could or should have been taken by the entity management which would have mitigated the deficiency. Primarily the recommendation should be aimed to be addressed by the auditee management and therefore in all events it would be appropriate to address the recommendation for taking such a step to the audited entity.

1. **Characteristics of good Recommendations.**
2. **Logical**

The recommendations regarding performance audits have to be argued in a logical manner. The recommendations broadly what issues might be examined by management when seeking solutions and should focus on the more significant issues requiring attention. The less significant issues should be referred to entity management for action.

1. **Practical**

Recommendations require careful review to ensure that they are practical and add value. The auditor should that the recommendation addresses the objectives of the audit; i.e. economy, efficiency, effectiveness or accountability as appropriate. A good test for the auditor is to consider how the recommendation would be followed up; how the implementation of the recommendation could be tested; and what specific actions the agency can undertake to implement the recommendation.

1. **Address issues of Significance**

Recommendations generally relate to strategic issues and address areas where there are significant risks to the entity or to the efficient and effective implementation of the scheme or program if the efficiencies remain uncorrected. The recommendations may relate to those aspects or areas where the potential for significant improvement in operations and performance is demonstrated by the audit findings. The most serious deficiencies, not each audit finding, are to be addressed. lt is possible to make recommendations which are generic in nature covering the deficiencies listed in more than one audit finding. Further, where corrective action is underway, it is good practice to point out that such actions are underway. They should be limited to the most significant audit findings and conclusions.

1. **Allow for Follow up**

Recommendations must be susceptible to follow up. Recommendations that lend themselves to follow-up are fully supported by and flow from the associated observations and conclusions; they are aimed at correcting the Underlying causes of the deficiency and they are addressed to the organization with the responsibility to act on them.

1. **Features of effective recommendations**

Recommendations are logical developments of the conclusions drawn from the audit evidence that are likely to lead to demonstrable improvements in performance. Effective recommendations lead to improved impacts. The essential features of effective recommendations may be listed as follows.

1. **Convincing**

The recommendations should be supported by the audit findings and should flow logically from them. The link between the audit finding and the recommendation could be established through language like “To help reduce the number of cost overruns in programmes, the Ministry should......"While making recommendations, we must invariably recognize or take explicit cognizance of actions which have since been completed or are underway.

1. **Clear**

Recommendations should be clear. There should be no doubt that a recommendation is being made. Vague language hinting at a recommendation should be avoided. Recommendations have to convey the main messages of the report. They cannot do this effectively if they are not clearly and unambiguously expressed.

Clear recommendations are succinct, straightforward and contain enough detail to make sense on their own; they are broadly-stated (stating what needs to be done while leaving the specifics of how to the entity officials); and they are positive in tone and content.

1. **Address the underlying causes**

There will generally be a number of underlying causes which are likely to affect the difference between the criteria and the condition. The recommendation must take cognizance of this fact and seek to address the problem at source. Combining quantified conclusions with causal analysis can help to formulate concrete and specific recommendations. These can result in alternative outputs which increase the impact of the study.

**(iv) Link to Evidence**

The purpose of a performance audit is to arrive at conclusions based on indisputable evidence which provide an authoritative view on the topic under consideration and to make recommendations which will demonstrably improve the way the audited body works. Recommendations should be related to evidence. They should be logical developments of the study's conclusions. The recommendations are only credible to the extent that they are supported by the evidence and the analysis presented in the report. We may refer to anything the entity has done or is planning to correct the problem. We may show a link to the findings through language like "To help reduce the number of cost overruns in programmes, the Ministry should ………..”. We should avoid vague or soft language such as "consideration should be given to .............”. Sometimes the entity will act immediately to address a problem mentioned to them during the course of the fieldwork. In that event, we should refer to their actions in the performance audit report.

1. **Be meaningful**

To add value, performance audits must have a high information content. There is little point in carrying out a study whose conclusions merely restate known findings while on the other hand a study which unequivocally establishes facts which had been generally suspected but not proved makes an important contribution.

1. **Be specific**

Recommendations should be specific. They should refer to :

* What needs to be done - refer to causes;
* Why does it need to be done - refer to effects;
* Where does it need to be done;
* When does it need to be done;
* How is it to be done; and
* Who is to do it.

A recommendation like "The department of Health should work more closely with hospitals to improve the quality of management information" is too vague. A more acceptable phrasing could be "The department of Health should ensure that all hospitals validate their in-patient and out patient lists every six months."Such a recommendation can easily be followed up as it indicates specific action which is expected to be taken and it can be ascertained without any ambiguity whether these specific actions have been taken or not. Another example of a specific recommendation could be “The Commissioner of Income Tax should begin collecting information needed to assess whether its compliance efforts are effective. That information should include………”

1. **Be useful**

While clarity, directness and interest are important aspects of good recommendations, there is a fourth criterion, viz. usefulness. To be useful, recommendations have to set out courses of action which will lead to financial savings or improved outcomes (or both).

1. **Be feasible and practicable**

The recommendations should take into account all constraints whichmay weigh upon the executive in the given circumstances. These constraints maybe financial, administrative, legal, practical or arising out of government or departmental policy. The costs of recommended actions must be considered. There is no point in making a recommendation whose costs outweigh its benefits. Not all recommendations lend themselves to costing in an obvious manner and it will not always be appropriate to do so. However, if a recommendation is to be credible, it must be clear that its feasibility has been considered. The recommendations should be cost effective and acknowledge or evaluate off-setting costs. The only exception could be where the recommendation relates to compliance with mandatory rules, regulations or the law. While making recommendations, the auditor also needs to consider alternative solutions. lf there is a single clear solution acceptable from all angles, recommend it. lf, as is more likely, there are a number of possible solutions, they could be listed along with their pros and cons. In studies which aim to identify and recommend best practices in a particular area or across several departments or agencies, it is especially important that the recommendations are soundly based in the evidence. Given that most outcomes are influenced both by factors outside the control of the audited body and by the body's own activities, it is important for the study to identify causes of measured. Sound recommendations cannot be based solely on the observation that adopting a particular practice appears to improve performance. It must be possible to put forward a convincing argument that it really was this activity and not other factors which led to improved performance in the cases studied.

1. **Entity responses to recommendations**

To enable the auditors to develop action-oriented and practical recommendations and to provide entity officials with the time required to prepare a response and develop an action plan, the audit team should seek management's views as early as possible and normally at the end of the examination phase. There should be consultation with entity representatives as to the risks they are facing and managing. Entity officials should be briefed on the recommendations. Entity responses should be actively encouraged and faithfully incorporated in the performance audit report indicating whether there is:

* Agreement with the recommendation and a commitment to undertake action;
* Agreement with the recommendation and an explanation as to why action cannot be taken at this time; or
* Disagreement with a brief explanation.

The performance auditor may point to the direction in which positive changes can be made. However, detailed plans and implementation of changes are the responsibility of the management. Entities should be encouraged to include a timetable and specific steps to describe how the recommendation will be addressed.

When more than one entity has been the subject of the audit, one joint response, or multiple responses with each entity being clearly identified are acceptable. In general, government-wide recommendations are to be avoided. A lead or nodal department or agency is to be identified for addressing the recommendations to. Such recommendations can then be responded to by the lead organization on behalf of the government.

The auditees entities should be encouraged to send short and clear responses which relate specifically to a specific audit conclusion and recommendation. The responses must be received within a time frame which may be stipulated by the SAl. Sufficient time must however be afforded to the entity to consider and respond to the issues raised in the performance audit report.

To expedite a response from the entity, an exit conference should invariably be held with senior representatives of the audited entity as well as the administrative department concerned where the audit conclusions and more importantly the audit recommendations are presented and the entity response solicited. Such a conference could be held after sending the draft performance audit report to them so as to enable them to come prepared with their reactions. The very act of holding such a meeting will inevitably elicit some response from the entity and the administrative which could be minuted or formally recorded in a ‘Record of Discussions’ which should be issued to each of the participating offices/departments. These minutes or Record of Discussions should specifically record the response of the department to the proposed audit recommendations. These minutes along with any further written responses which the audited entity or administrative department may like to submit subsequently should be acknowledged, taken into account and reflected while finalizing the performance audit report.

1. **. Presentation of recommendations**

In performance audits the main findings would be included as the highlights followed by a summary of the main recommendations. Individual, detailed or specific recommendations should be developed in the body of the report.

Recommendations may be presented either in the order in which the audit objectives have been listed or in order of their significance. This may be decided by the performance auditor taking into account the nature of the topic and the significance or importance of the audit recommendations.

If there have been previous studies or hearings of the Public Accounts Committee on similar topics, it is useful to summarize the recommendations of these in the report and to link them to the investigation in hand.

1. **Checklist for effective conclusions and recommendations**

In sum, conclusions need to be

* **Clear** and succinctly expressed;
* **Evidence based** i.e. supported by the evidence and the analysis presented in the report: and
* **Meaningful** i.e. say something that would not have been established if the study had not been done.

In addition, recommendations need to be

* **Useful** i.e. lead to improved outcomes or financial savings or both. Three main messages which are most likely to lead to fulfillment of these requirements are:
* Spend time getting the study **design right** and think about conclusions and recommendations when you are designing the study;
* **Quantify** conclusions and consider costs and benefits whenever possible; and
* **Evaluate** your recommendations i.e. are they feasible? Will they lead to demonstratable savings or improvements?

**Developing Audit conclusion and Recommendations**

Exercise

Please give the answer of following Questions.

Q. 1. Why recommendations are given I n Performance Audit?

Q. 2. Give the characteristics of good rfecommendation.

Q. 3. Write down the features of effective recommendations.

Q. 4. Why the entity’s dresponse towards proposed recommendation is required?

Q. 5. How the recommendation in performance audit is pursued in Audit Report?

**Developing Audit conclusion and Recommendations**

Suggestion to Exercise

Ans.1 The point of carrying out a performance audit is to arrive at conclusions and recommendations which can constitute relevant inputs for executive decision-making or legislative policy formulation. While conclusions summarize the key findings of the audit exercise and are logical inferences or logically deducted from the evidence collected indicating areas where there is scope for improvement in the economy, efficiency and/or effectiveness with which the entity uses its resources, recommendations suggest how such improvements might be effected. All performance audits ought to conclude with well thought out recommendations. The importance of recommendations lie in the fact that it is these recommendations which are the end product of the performance audit and it is they which if implemented should add value to governance by improving program implementation or the efficiency or effectiveness of the audited entity which is the fundamental objective of performance audits.

Ans.2 **Characteristics of good Recommendations are:**

**(i) Logical**

The recommendations regarding performance audits have to be argued in a logical manner. The recommendations broadly what issues might be examined by management when seeking solutions and should focus on the more significant issues requiring attention. The less significant issues should be referred to entity management for action.

**(ii) Practical**

Recommendations require careful review to ensure that they are practical and add value. The auditor should that the recommendation addresses the objectives of the audit; i.e. economy, efficiency, effectiveness or accountability as appropriate.

**(iii) Address issues of Significance**

Recommendations generally relate to strategic issues and address areas where there are significant risks to the entity or to the efficient and effective implementation of the scheme or program if the efficiencies remain uncorrected.

1. **Allow for Follow up**

Recommendations must be susceptible to follow up. Recommendations that lend themselves to follow-up are fully supported by and flow from the associated observations and conclusions; they are aimed at correcting the Underlying causes of the deficiency and they are addressed to the organization with the responsibility to act on them.

Ans.3 **Features of effective recommendations**

Recommendations are logical developments of the conclusions drawn from the audit evidence that are likely to lead to demonstrable improvements in performance. Effective recommendations lead to improved impacts. The essential features of effective recommendations may be listed as follows.

1. Convincing

(ii) Clear

1. Address the underlying causes

(iv) Link to Evidence

1. Be meaningful
2. Be specific
3. Be useful
4. Be feasible and practicable

Ans.4. **Entity responses to recommendations is required**

to enable the auditors to develop action-oriented and practical recommendations and to provide entity officials with the time required to prepare a response and develop an action plan, the audit team should seek management's views as early as possible and normally at the end of the examination phase. There should be consultation with entity representatives as to the risks they are facing and managing. Entity officials should be briefed on the recommendations. Entity responses should be actively encouraged and faithfully incorporated in the performance audit report indicating whether there is:

* Agreement with the recommendation and a commitment to undertake action;
* Agreement with the recommendation and an explanation as to why action cannot be taken at this time; or
* Disagreement with a brief explanation.

The performance auditor may point to the direction in which positive changes can be made. However, detailed plans and implementation of changes are the responsibility of the management. Entities should be encouraged to include a timetable and specific steps to describe how the recommendation will be addressed.

Ans.5. In performance audits the main findings would be included as the highlights followed by a summary of the main recommendations. Individual, detailed or specific recommendations should be developed in the body of the report.

Recommendations may be presented either in the order in which the audit objectives have been listed or in order of their significance. This may be decided by the performance auditor taking into account the nature of the topic and the significance or importance of the audit recommendations.

If there have been previous studies or hearings of the Public Accounts Committee on similar topics, it is useful to summarize the recommendations of these in the report and to link them to the investigation in hand.

**Session: I& II Session at a glance**

**Session Title: The Reporting Process**

**Learning Objectives:**

Given the overview of Concept of the Reporting process for Performance Audit, at the end of this session, the participants will be able to understand the process of reporting for performance audit. . This overview will provide background knowledge about the salient features and process of reporting.

|  |  |  |
| --- | --- | --- |
|  | **Time Required** | **Training Method** |
| **Session Overview:**  In this session we will discuss the reporting process for performance audit | 5 min | Lecture |
| **Key Teaching Point** |  |  |
| **Key Teaching Point 1**  Draft performance audit report – its contents and response of the entity. . | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2**  Draft final report – characteristics of good report and audit implementation cycle. | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary: conclude the key features discussed in the session.** | 5 min | Lecture |
| **Total:** | **75 min.** |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: I& II Instructor’s Guide**

**Session Title: The Reporting Process**

|  |  |
| --- | --- |
| Instructor’s Guide | Ref. |
| Session Overview: **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on the reporting process or the performance audit characters of good report and audit implementation cycle. | Introductory remarks and over view of the topic |
| Learning Objective: **Inform** by the end of the session, we will acquire the basic knowledge about reporting process for performance audit, through sharing our knowledge on the subject. | Objective of the session |
| Basic Concept:Form [[8]](#footnote-9)five groups among participants. **Ask** what is their understanding about the audit report in general and performance audit report in particular?  **Encourage** each group to discuss among its members and each participant to actively participate in the discussion.  **Obtain** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss the draft audit report and response of the auditee unit.**  **Ask** what is their understanding regarding characteristics of a good report and audit implementation cycle?.  **Encourage** each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter.  **Take** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss** the structure of report and its readibility. | Power point slide and participants note |
| Distribute Participant’s Note |  |
| Summarise: **Run Down:** During the session we discussed the reporting process, characteristics of a good report and how to enhance its presentation.  **Thank** the participants for their active participations and bring the session to a close. | Concluding remarks by the faculty |

Participants Note

**The Reporting Process**

**1. Reporting Standards**

Every performance audit is to culminate in a report containing the audit findings and recommendations. Para 1.1 and 1.6 under Chapter IV of C &AG’s Auditing Standards stipulate inter alia the following on reporting:

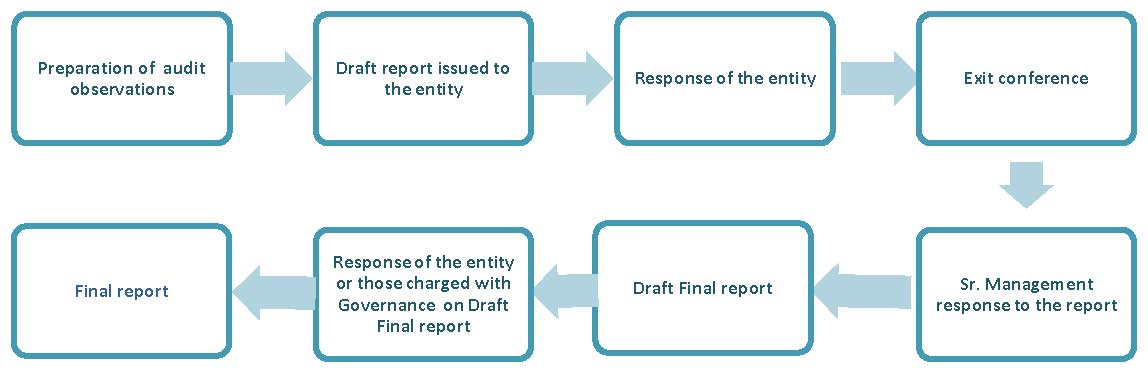
‘On the completion of each audit assignment, the Auditor should prepare a written report setting out the audit observations and conclusions in an appropriate form; its content should be easy to understand, free from ambiguity and supported by sufficient, competent and relevant audit evidence and be independent, objective, fair, complete, accurate, constructive and concise’.

‘With regard to performance or value for money audits, the report should include a description of the scope and coverage of audit, objective of audit, area of audit, main findings in respect of the efficiency, economy and effectiveness (including impact) aspects of the area (subject matter) which was audited and recommendations suggesting the improvements that are needed’.

The auditing standards further states that in contrast to compliance audit, which is subject to fairly specific requirements and expectations, performance audit is wide ranging in nature and is more open to judgement and interpretation; coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period; and it does not normally relate to particular financial or other statements. As a consequence, performance audit reports are varied and contain more discussion and reasoned argument.

1. **The Reporting Process**

The reporting process is illustrated in the following diagram:



1. **Audit observations**

An Audit Observation is defined as an area of potential control weakness, policy violation, financial misstatement, inefficiency in programme implementation and achievement of programme objectives, or other problematic issue identified during the audit. These reflect the specific evidence gathered by the auditor to satisfy the audit objectives, in order to be able to answer the audit questions and verify the stated hypothesis, etc. These serve to confirm the facts with the entity and help in development of audit findings and recommendation by exploring significant early findings and recommendations with the entity and obtaining its preliminary response. They assist the performance auditor to detect at an early stage possible mistakes in understanding the subject, possible weaknesses in audit findings and the supporting evidence or the logic rather than wait till the entity points these out on receipt of the draft report.

It is a good practice to develop audit observation in a modular fashion, containing the audit findings, conclusions and recommendations (where applicable) along with details of evidence, their sources and analysis, so that the portion containing audit findings, conclusions and recommendations can be used directly in the draft performance audit report. The audit teams should be encouraged to use Audit Design Matrix as well as Audit Finding Matrix for cross reference to ensure that nothing is left out and they have completed the work inconsonance with the Matrices *ibid.*

**4 Draft audit report**

The draft audit report is to be prepared upon conclusion of the field audit of the controlling unit of the entity and all field units selected for audit. The purpose of preparation of the draft report is to seek formal response of the entity-in-chief (Secretary of the ministry/department). A reference to the auditing standards followed for conduct of audit should suitably be made in the draft report

It is important that the draft report describes the objectives and scope of the audit to enable the reader understand the purpose of the audit. Any limitation imposed on the scope of the audit, the reasons thereof and efforts made to resolve it should be indicated in the draft report.

Accountants General may forward the draft performance audit report to the government with a demi-official forwarding letter to the Secretary with a copy to the Financial Adviser to the ministry, which should contain the following:

1.  subject of the performance audit and reference to previous dialogues;
2.  gist of major audit findings and recommendations along with the risks and materiality of the issues;
3.  time limit for formal response;
4.  invitation to a formal discussion and presentation of the audit findings and conclusions; and the expected value additions to the programme management, if the recommendations are implemented.

**5.Response of the entity**

It is important that the entity is persuaded to provide written response to the draft audit report. This may be achieved through correspondence, personal meetings and presentation of the draft audit report. Since the audit report is presented to the Parliament/state legislature, it is crucial that the response of the entity has the approval of the Secretary of the ministry/department. The attempt should be to get the audited entity to respond directly to each audit finding and recommendation so that these can be published in final audit report.

1. **Exit conference**

The performance audit should be concluded with an exit conference with the Chief executive of the audited entity e.g. Secretary/ Pr. Secretary to the Government concerned as the case may be. Wherever, more than one department/agency is involved, representation from such agencies/departments should be insisted upon. The draft Audit report including the responses of the audited entity must be issued before the holding of the exit conference. The Accountant General or the Group officer should lead the exit conference. All audit findings, conclusions and recommendations are to be discussed and as far as possible direct responses of the audited entity are to be solicited and recorded. It is also a platform to arrive at an agreement with audited entity about audit conclusions and recommendations. It will also allow the audit team to clarify any point of doubt that the entity may like to raise. The minutes of exit conference should be recorded and endorsed to the entity with a request to acknowledge the minutes within two weeks stating that in case of non receipt of acknowledgement with in stipulated period, it will be presumed that audited entity concurs with the minutes. In case, head of the audited entity does not respond to audit’s request for holding exit conference, Accountant General should try to convince the head of the entity to hold the conference. In case, the exit conference could not be held even after pursuance, this fact should be recorded in the report.

1. **Third party consultations**

While third parties may not generally be the audited entities, their activities affect the program and service delivery, and audit reports often include commentary about their responsibilities and performance. Auditors should not communicate to third parties, neither in writing nor orally any information they obtain in the course of audit work, except where doing so is necessary to discharge the statutory or otherwise prescribed responsibilities. In case any information is required from third parties, audited entity would requisition the same from the third party and provide to Audit. Further, where role of identified third parties is considered very significant to the audit conclusions and recommendations, the audited entities may be encouraged to bring out the concerns of those parties in their replies to audit.

1. **Observations of the headquarters on draft report**

The supervision and review by the headquarters of the audit report prepared by field audit offices with particular reference to the audit findings and conclusions, recommendations, evidence, drafting, etc is a measure of quality control. The observations and suggestions for improvements by headquarters, which has not been involved on day-to-day basis with the conduct of the audit, provide assurance on the logical development of findings and conclusions, quality and validity of supporting evidence and objective approach. Review by the Department’s Senior Management ensures that appropriate procedures have been followed by Accountants General in implementation of the audit. The modifications brought out in the report due to this process should be documented by highlighting the reasons thereof.

1. **Draft Final report**

After incorporating the replies of audited entity and modifications suggested by headquarters, the draft final report should be prepared. The audited entity should be again given the opportunity to comment on the audit findings, conclusions and recommendations. As such, Draft final report, after the approval of the Senior Management, including the responses of the audited entity/minutes of exit conference should be issued to the head of the audited entity or persons charged with governance as a numbered and confidential copy requesting responses to the audit conclusions and recommendations within a period of two weeks. The response of the audited entity to the conclusions and the recommendations received on the draft final report should be included in the final report.

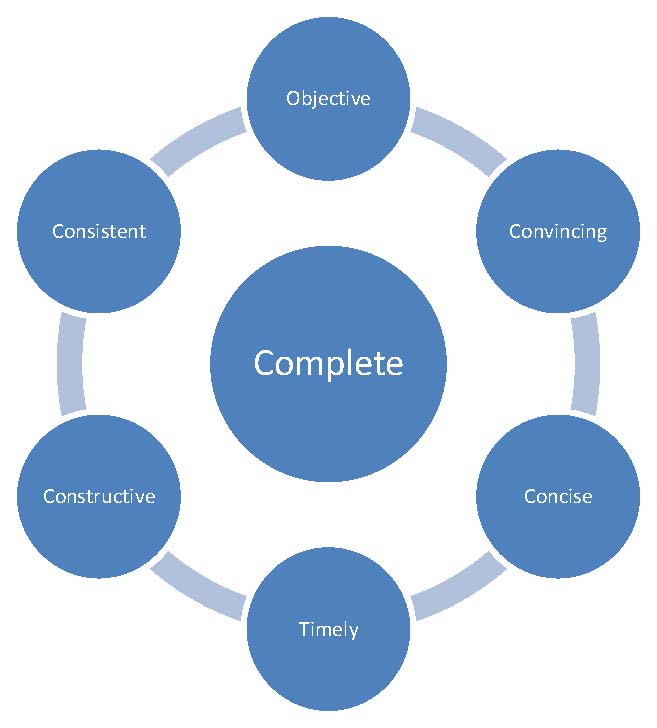
1. **Final report**

On approval of the report by Department’s Senior Management, the Accountant General may send the bond copy of the report with appropriate annotations for the approval of the report by Comptroller and Auditor General, after which the report stands cleared for printing of the prescribed number of copies, signature copies for signature of the Comptroller and Auditor General in ink and others with his facsimile signature.

The printed signature copies of the report are to be forwarded to the headquarters for signature of Comptroller and Auditor General. The signed copies of the report should be forwarded to the government for placing it on the table of the Parliament/state legislatures. Simultaneously, intimation on forwarding of the report along with a signed copy of the report is to be sent to the Secretary to the President/Governor in respect of the reports relating to the Union and State governments respectively. The remaining copies of the printed reports are forwarded to the Parliament/Secretariat on their request, generally on the day the report is presented.

1. **Characteristics of a good report**

The following points need to be emphasised in regard to performance audit reports:



1.  The audit report should be complete i.e. all pertinent information required to satisfy the audit objective, including the information relating to the scope, criteria, evidence, conclusions and recommendations should be available in the report;
2.  The objectivity of audit report is ensured through fair conclusions and balanced content and tone. A report is balanced if it does not focus on criticism alone but contains fair assessment or evaluation, which would mean that good performance should also be reported;
3.  The audit report is convincing if the results of audit are presented persuasively and the conclusions and recommendations follow logically from the facts presented;
4.  The report should be easy to read and understand; it should be concise, no longer than necessary to convey the audit opinion and conclusions;
5.  Consistency of the report is secured by ensuring that it does not contain contradictory findings or conclusions in similar contexts or the conclusions on the same segment in different sections or parts of the report are not incompatible;
6.  The report is constructive if it manifests a remedial approach rather than a critical approach and includes appropriate recommendations;
7.  The report adds value to the entity, if it is timely.
9. **Structure of the report**

The performance audit report should preferably be presented as per the following structure:

1.  Title: the subject of the performance audit;
2.  Executive summary: It provides the précis of the main report. The summary should not be very long and should contain only essential information. The major audit findings should be placed in the same sequence as the audit objectives and sub-objectives along with recommendations in brief;
3.  Introduction: It consists of a brief description of the subject of study, information on programme, activity, or institution, its objectives, inputs, implementation structure, expected outputs and outcome, etc. The introduction should be brief, yet sufficient to enable the reader understand the context of the programme;
4.  Audit objectives: They are the pivots of the performance audit, which set out the reason for undertaking the audit. The entire exercise of performance audit is built around the audit objectives. These should, therefore, be stated in simple and clear terms. It is useful to set out the audit objectives and sub-objectives within each audit objective in the form of complete statement/question;
5.  Scope of audit: It is defined in terms of the period of the programme covered in audit and segments of the programme audited should be set out precisely;
6.  Audit methodology: It describes methods used for data collection/evidence gathering and testing may be stated in brief. This adds to the acceptability of the audit findings and forms a statement for transparency of the audit procedure;
7.  Audit criteria: to arrive at the audit findings and conclusions with reference to each audit objective and sub-objective which should be stated with appropriate explanations;
8.  Audit findings and conclusions made during an audit with reference to each objective should be stated;
9.  Recommendations: They should be presented along with the conclusions wherever applicable in a box or highlighted print;
10.  Acknowledgement: it may be useful to indicate or acknowledge in brief the co-operation, acceptance of the criteria/findings and recommendations by the entity. In case the co-operation or response was not forthcoming at any stage it may be indicated if it has resulted in any limitation along with its implication and the special efforts made by the Accountant General to seek cooperation or response;
11.  Glossary of terms: It is helpful to the reader if explanations are provided in a glossary or easy-to-find footnotes. Glossary should be comprehensive, explaining all technical and uncommon terms used in the report.
12. **Enhancing the presentation and readability of the reports**

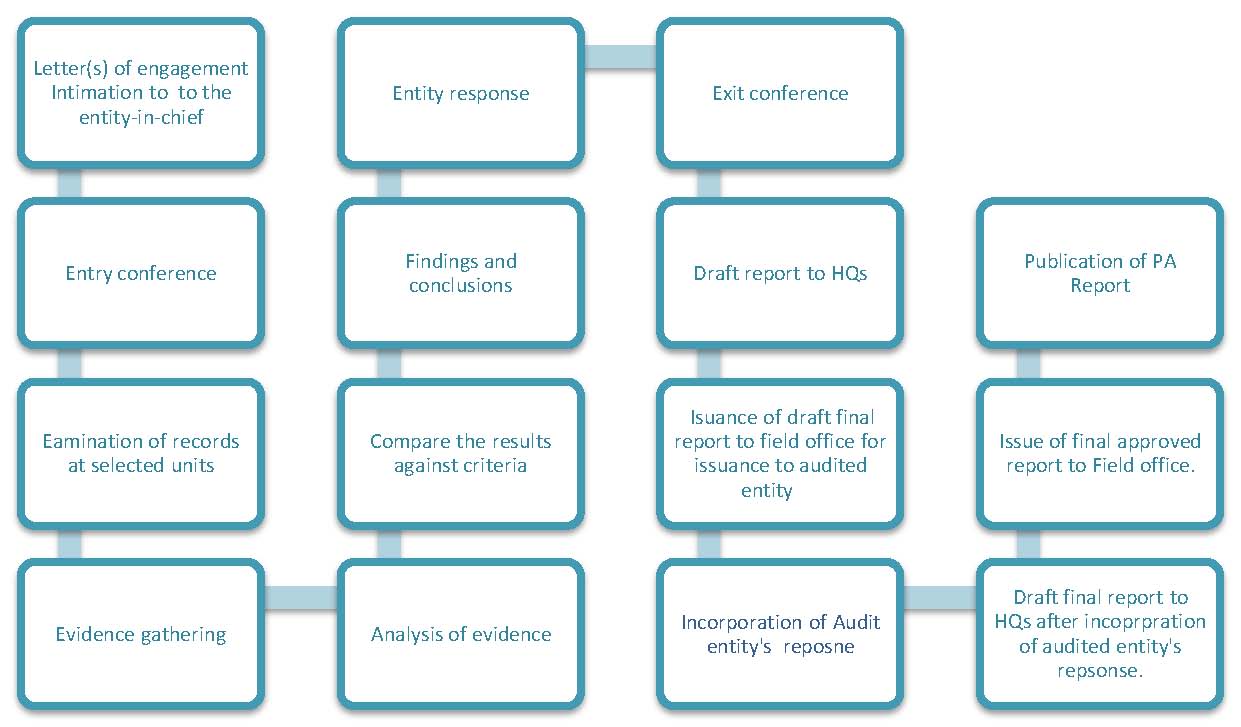
Readers tend to focus on contents page, headings and subheadings, the executive summary, conclusions and recommendations and distinctive figures such as tables, charts, diagrams, maps, text boxes and photographs. These are to be used to full effect to draw the reader to the most important messages that the Department wants them to receive.

Significant audit conclusions can be highlighted in box form. The audit findings should be illustrated with the use of graphs and charts and improve the visibility of the analysis and findings. Photographs can also be used to corroborate findings. Facts, findings and conclusions may be reported in different paragraphs to clearly distinguish them.

Titles for chapters and sections in the reports should be assertive rather than descriptive as this allows the reader to steer through the report better. The audit team needs to consider what data and information will help the reader understand the evidence or arguments. While designing a table, graph or chart, the explicit point that needs to be highlighted will lead to displays that are specific and meaningful. Titles and labels should be clear and concise. All data graphics and other illustrations should be self-explanatory, so that readers should not have to refer to the main text to understand them. Tables and other graphics containing data sourced from outside (including the audited entity) should have an acknowledgement of the source of such data.

1. **Audit implementation cycle**

The following diagram depicts the Audit implementation cycle of a performance audit:



**Timelines of Performance Audit**

In order to ensure the timely completion of the performance audits and also that the topics may not lose their importance, all the performance Audits should ideally be completed within a period of ten months. The audit implementation cycle i.e from the date of entry conference to the finalisation of the audit report by the headquarters should be completed preferably within this period. However, some additional time may be required for the complex All India performance audits or performance audits undertaken with the help of outside experts.

The Reporting Process

Exercise

Please give the answer of following Questions.

Q. 1. Illustrate the Reporting process in a diagram.

Q. 2. What is the importance of Draft Audit Report?

Q. 3. Why the performance audit should conclude with an exit conference?

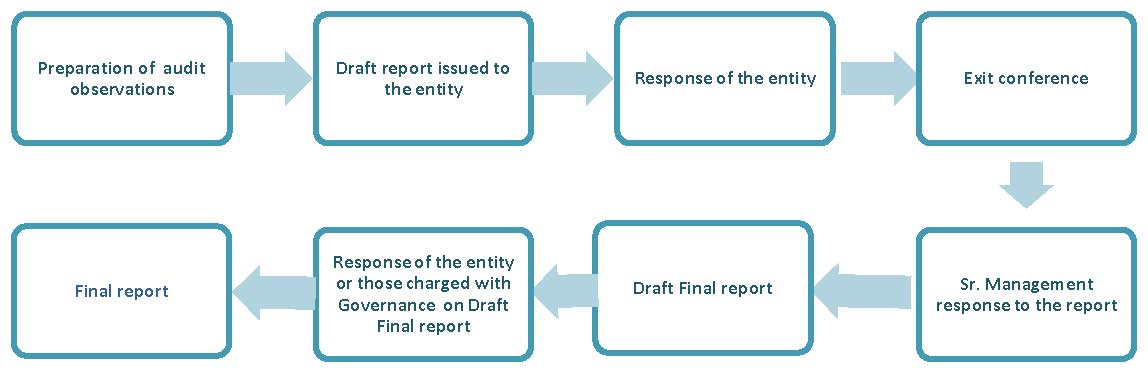
Q. 4. Write down the characteristics of a god Performance Audit Report.

Q. 5. Why should the presentation and readability be enhanced? ?

The Reporting Process

Suggestion to Exercise

Ans.1 The reporting process is illustrated in the following diagram:



Ans.2 . It is important that the draft report describes the objectives and scope of the audit to enable the reader understand the purpose of the audit. Any limitation imposed on the scope of the audit, the reasons thereof and efforts made to resolve it should be indicated in the draft report.

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1.  subject of the performance audit and reference to previous dialogues;
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3.  time limit for formal response;
4.  invitation to a formal discussion and presentation of the audit findings and conclusions; and the expected value additions to the programme management, if the recommendations are implemented.

Ans.3 The performance audit should be concluded with an exit conference with the Chief executive of the audited entity e.g. Secretary/ Pr. Secretary to the Government concerned as the case may be. Wherever, more than one department/agency is involved, representation from such agencies/departments should be insisted upon. The draft Audit report including the responses of the audited entity must be issued before the holding of the exit conference. The Accountant General or the Group officer should lead the exit conference. All audit findings, conclusions and recommendations are to be discussed and as far as possible direct responses of the audited entity are to be solicited and recorded. It is also a platform to arrive at an agreement with audited entity about audit conclusions and recommendations. It will also allow the audit team to clarify any point of doubt that the entity may like to raise. The minutes of exit conference should be recorded and endorsed to the entity with a request to acknowledge the minutes within two weeks stating that in case of non receipt of acknowledgement with in stipulated period, it will be presumed that audited entity concurs with the minutes. In case, head of the audited entity does not respond to audit’s request for holding exit conference, Accountant General should try to convince the head of the entity to hold the conference. In case, the exit conference could not be held even after pursuance, this fact should be recorded in the report.

1. Ans.4 The audit report should be complete i.e. all pertinent information required to satisfy the audit objective, including the information relating to the scope, criteria, evidence, conclusions and recommendations should be available in the report;
2.  The objectivity of audit report is ensured through fair conclusions and balanced content and tone. A report is balanced if it does not focus on criticism alone but contains fair assessment or evaluation, which would mean that good performance should also be reported;
3.  The audit report is convincing if the results of audit are presented persuasively and the conclusions and recommendations follow logically from the facts presented;
4.  The report should be easy to read and understand; it should be concise, no longer than necessary to convey the audit opinion and conclusions;
5.  Consistency of the report is secured by ensuring that it does not contain contradictory findings or conclusions in similar contexts or the conclusions on the same segment in different sections or parts of the report are not incompatible;
6.  The report is constructive if it manifests a remedial approach rather than a critical approach and includes appropriate recommendations;
7.  The report adds value to the entity, if it is timely.

Ans.5. Readers tend to focus on contents page, headings and subheadings, the executive summary, conclusions and recommendations and distinctive figures such as tables, charts, diagrams, maps, text boxes and photographs. These are to be used to full effect to draw the reader to the most important messages that the Department wants them to receive.

Significant audit conclusions can be highlighted in box form. The audit findings should be illustrated with the use of graphs and charts and improve the visibility of the analysis and findings. Photographs can also be used to corroborate findings. Facts, findings and conclusions may be reported in different paragraphs to clearly distinguish them.

Titles for chapters and sections in the reports should be assertive rather than descriptive as this allows the reader to steer through the report better.

**Session: III& IV Session at a glance**

**Session Title: Follow-up of Performance Audit**

**Learning Objectives:**

Give the overview of Concept of the follow up of Performance Audit, at the end of this session, the participants will be able to understand the importance of follow-up audit of performance audit. This overview will provide background knowledge about the objectives of follow-up programme.

|  |  |  |
| --- | --- | --- |
|  | **Time Required** | **Training Method** |
| **Session Overview:**  In this session we will discuss the of Concept of follow-up of performance audit. | 5 min | Lecture |
| **Key Teaching Point** |  |  |
| **Key Teaching Point 1**  Origin of Concept of objectives of follow-up programme | 25 min | Lecture, Group Discussion and PowerPoint slide show |
| **Key Teaching Point 2**  Effective assessment and continuous improvement through follow-up audit. | 40 min | Lecture, Group Discussion and PowerPoint slide show |
| **Summary: Conclude the key features of the discussion in the session.** | 5 min | Lecture |
| **Total:** | **75 min.** |  |

**Materials Required:**

* PowerPoint Slides
* Projector
* White Board Marker Pen
* Participants’ Note

**Session: III& IV Instructor’s Guide**

**Session Title: Follow-up of Performance Audit**

|  |  |
| --- | --- |
| Instructor’s Guide | Ref. |
| Session Overview: **Welcome** participants to the session and remind them that their active interaction is important for the success of each session.  **Tell** the participants that in this session we will discuss on follow-up process of the performance audit. | Introductory remarks and over view of the topic |
| Learning Objective: **Inform** by the end of the session, we will acquire the knowledge of follow-up of performance audit through sharing our knowledge on the subject. | Objective of the session |
| Basic Concept:Form [[9]](#footnote-10)five groups among participants. **Ask** what is their understanding of the Concept follow-up of performance audit and its advantage and role in implementation of the recommendations?  **Encourage** each group to discuss among its members and each participant to actively participate in the discussion.  **Obtain** responses from each group and recognize them by noting on the white board.  **Show** PowerPoint Slides and **discuss the objectives of follow-up audit**  **Ask** what is their understanding about the evaluation of the effectiveness of the performance audit and continuous improvement through follow-up audit..  **Encourage** each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter.  **Take** responses from each group and recognize them by noting on the white board.  **Show** Power Point Slides and **discuss** implementation of recommendation and annual follow-up programme. | Power point slide and participants note |
| Distribute Participant’s Note |  |
| Summarise: **Run Down:** During the session we discussed the follow-up process of performance audit and evaluation of effectiveness of performance audit.  **Thank** the participants for their active participations and bring the session to a close. | Concluding remarks by the faculty |

Participants Note

**Follow-up of Performance Audit**

**1. Introduction**

Performance audit reports are essentially a means to improving public sector performance and accountability. This can be achieved through implementation of the recommendations contained in the performance audits. Consistent and systematic follow-up process in the Department may contribute significantly to the effectiveness of performance audit in improving the programme management.

Follow-up refers to the situation where the auditor examines the corrective actions the audited entity, or another responsible party, has taken on the basis of the results of previous performance audits. It is an independent activity that increases the value added by the audit process by strengthening the impact of the audit and by improving future audit work. It also encourages the user of the reports and the audited entities to take the reports seriously and provides a useful learning basis and performance indicator for the auditors. A follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problem and remedied the underlying conditions after sufficient time has been allowed for this process. When conducting a follow-up of audit reports, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow up and adopt an unbiased and independent approach.

1. **Objective of the follow-up programme**

The follow-up of performance audit reports is aimed at the following objectives:

1.  *Assisting the legislature:* follow-up reports may provide valuable information to the committees of Parliament/state legislature for their examination of the Reports;
2.  *Achieving improvements in performance of the public sector program:* the prime reason for following up audit reports is to increase the probability that recommendations will be implemented and help in improving the performance of the audited entity;
3.  *Evaluating the Department’s performance:* follow-up programme and outputs may be a good measure for assessing and evaluating Department’s performance and improvements in programme management, etc. anticipated at the time of planning the audit; and
4.  *Providing an input* to the strategic planning of performance audit by the
5. Department.

1. **Assisting the Legislature**

The follow-up procedures in the context of performance audit should be established keeping the following features in mind:

1.  The performance audits which are selected by the Committees of the Parliament/State Legislatures for detailed examination and oral evidence should be pursued in the context of the decisions of the respective Committees, if any recommendations have been issued. Good quality of performance audit being assured with the help of the quality assurance measures adopted by the Department, it would be expected that the recommendations of the Committees of the Parliament/State legislature would not only support but also strengthen the recommendations by audit. However, even in cases selected by the Committees where the examination and issue of recommendations by the committees of the Parliament/ State Legislature have not taken place, Accountants General may continue to pursue the follow-up on recommendations as in the cases where the subject is not selected for detailed examination;
2.  In cases of the performance audits that are not selected for detailed examination, Accountants General will carry out follow-up procedures to examine the extent of the implementation of the recommendations, particularly those which had been accepted by the entity. As regards, recommendations not accepted by the audited entity, Accountants General may persist with further discussions and persuasion to either accept or implement the recommendation or transfer recommendations to the audited entities for further action.

While the orders of the government, generally issued on the recommendation of the legislative committees, in the context of follow-up Action Taken Notes by the entities may vary from state to state, the model applicable to the Union Government, issued at the instance of the Public Accounts Committee may be kept in view.

As per the extant procedure, applicable in case of the reports on the Union Government, the ministries and departments are to forward the ‘Action Taken Note’ (ATN) against all matters included in the report of the Comptroller and Auditor General to the Parliamentary Committees within the prescribed time. The ATN is vetted by Accountants General for correctness of facts and figures, adequacy of the remedial measures and explanations for underperformance before they are submitted to the Committees of the Parliament. The ministries and departments submit the ATNs after attending to the comments of Accountants General. In exceptional cases, they may include the vetting comments of Audit along with a response to the comments before submission of the ATNs to the Committee.

In vetting the ATNs, the substantive action on the recommendations, rather than the form, is the focal point. While no uniform model can be suggested for securing the implementation of the recommendations and the procedure outlined above may be one of the models, the ultimate objective should be to ensure prompt and effective implementation of the recommendations.

1. **Effectiveness assessment**

Accountants General may also carry out an evaluation of the effectiveness of the performance audits annually. The internal evaluation may consist of:

1.  the expected outcome of each performance audit anticipated at the time of planning *vis-à-vis* actual outcome; and
2.  the reasons for significant variation between the expected value addition and the actual. The variations may be attributed to under assessment or over assessment, deficient entity response and deficient quality of performance audit. The evaluation will include the remedial measures also.

The follow up or evaluation of Performance audits can be performed by:

1.  carrying out a desk review, which involves more detailed review of the implementation of the recommendations, including meeting, discussions and presentations, but does not necessarily comprise extensive field work;
2.  detailed follow-up review consisting of comprehensive field work in relation to the action taken by the entity on Audit’s recommendations with the objective of preparing a report to the legislature; and
3. **Continuous Improvement**

Continuous improvementis also one of the important outcomes of follow-up procedures. This can be achieved by the following:

1.  **Quality assurance review programme**

An annual plan of the activities to be performed by the ‘Quality Review Group’ may be drawn up, which may have the approval of the Department’s Senior Management. Only a sample of completed audit engagements should be selected for review by the group. Once the audits are selected, the quality review team may review the audit documentation and meet some of the staff members who worked on those engagements.

1.  **Peer Review**

A peer review is performed by an independent team which may be internal or external to the Department to evaluate whether an organization’s internal quality control system is suitably designed and operating effectively to provide the entity with reasonable assurance that established policies, procedures and applicable government auditing standards were being followed. The peer review involves testing the entire quality control system and not work in process. The Inspection and Peer Review Wing of Department is responsible for carrying out internal peer reviews. Besides, external peer reviews can also be arranged to seek assurance of robustness of the processes.

1.  **Dissemination of Lessons Learnt**

Regular meetings, workshops and seminars should be organized to deliberate on audit experiences, methodologies adopted, and any changes needed in them in the light of experiences gained so that appropriate steps are initiated for improvement.

1. **Inventory of recommendations**

The starting point for follow-up procedures could be a comprehensive inventory of recommendations maintained in appropriate data base by all Accountants General. The inventory, maintained performance audit wise should consist of all recommendations, with appropriate grading under ‘vital or critical’, ‘significant’ and ‘important’. The database should also contain other relevant information *viz*. the year of audit report, status of acceptance *viz.* accepted, partially accepted, not accepted and not replied, nominal implementation reported by the entity and the time of such reporting, risk associated with non-implementation or poor implementation, besides follow-up reviews. This inventory should be maintained as a permanent database, which may assist in performance audit planning in future.

Where the committee of legislature has examined a performance audit report, the inventory may contain the final recommendations made by the committee.

1. **Annual follow-up programme**

Auditors should follow-up on previous audit findings and recommendations when appropriate. The follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of the corrective actions taken where relevant.

Follow up results may be reported individually, or as a consolidated report. Consolidated follow-up reports may include an analysis of different audits, possibly including common trends and themes across a number of reporting areas. Follow-up can contribute to a better understanding of the value added through performance auditing in a given time period or subject matter area.

**Follow-up of Performance Audit**

Exercise

Please give the answer of following Questions.

Q. 1. What are the objectives of the follow-up of Performance Audit?

Q. 2. How the effectiveness of Performance Audit can be evaluated?.

Q. 3. Why continuous improvement is required in Performance Audit?

Q. 4. Elucidate that inventory of recommendations is essential for a good follow-up procedure.

Q. 5. How the public sector performance can be improved through implementing good recommendations given in Performance Audit Report and its follow-u0?

Follow-up of Performance Audit

Suggestion to Exercise

Ans.1 The follow-up of performance audit reports is aimed at the following objectives:

1.  *Assisting the legislature:* follow-up reports may provide valuable information to the committees of Parliament/state legislature for their examination of the Reports;
2.  *Achieving improvements in performance of the public sector program:* the prime reason for following up audit reports is to increase the probability that recommendations will be implemented and help in improving the performance of the audited entity;
3.  *Evaluating the Department’s performance:* follow-up programme and outputs may be a good measure for assessing and evaluating Department’s performance and improvements in programme management, etc. anticipated at the time of planning the audit; and
4.  *Providing an input* to the strategic planning of performance audit by the Department.

Ans.2 **Effectiveness assessment**

Accountants General may also carry out an evaluation of the effectiveness of the performance audits annually. The internal evaluation may consist of:

1.  the expected outcome of each performance audit anticipated at the time of planning *vis-à-vis* actual outcome; and
2.  the reasons for significant variation between the expected value addition and the actual. The variations may be attributed to under assessment or over assessment, deficient entity response and deficient quality of performance audit. The evaluation will include the remedial measures also.

The follow up or evaluation of Performance audits can be performed by:

1.  carrying out a desk review, which involves more detailed review of the implementation of the recommendations, including meeting, discussions and presentations, but does not necessarily comprise extensive field work;

 detailed follow-up review consisting of comprehensive field work in relation to the action taken by the entity on Audit’s recommendations with the objective of preparing a report to the legislature;

Ans.3 Continuous improvementis also one of the important outcomes of follow-up procedures. This can be achieved by the following:

1.  **Quality assurance review programme**

An annual plan of the activities to be performed by the ‘Quality Review Group’ may be drawn up, which may have the approval of the Department’s Senior Management. Only a sample of completed audit engagements should be selected for review by the group. Once the audits are selected, the quality review team may review the audit documentation and meet some of the staff members who worked on those engagements.

1.  **Peer Review**

A peer review is performed by an independent team which may be internal or external to the Department to evaluate whether an organization’s internal quality control system is suitably designed and operating effectively to provide the entity with reasonable assurance that established policies, procedures and applicable government auditing standards were being followed. The peer review involves testing the entire quality control system and not work in process. The Inspection and Peer Review Wing of Department is responsible for carrying out internal peer reviews. Besides, external peer reviews can also be arranged to seek assurance of robustness of the processes.

1.  **Dissemination of Lessons Learnt**

Regular meetings, workshops and seminars should be organized to deliberate on audit experiences, methodologies adopted, and any changes needed in them in the light of experiences gained so that appropriate steps are initiated for improvement.

Ans.4. **Inventory of recommendations is necessary as**

the starting point for follow-up procedures could be a comprehensive inventory of recommendations maintained in appropriate data base by all Accountants General. The inventory, maintained performance audit wise should consist of all recommendations, with appropriate grading under ‘vital or critical’, ‘significant’ and ‘important’. The database should also contain other relevant information *viz*. the year of audit report, status of acceptance *viz.* accepted, partially accepted, not accepted and not replied, nominal implementation reported by the entity and the time of such reporting, risk associated with non-implementation or poor implementation, besides follow-up reviews. This inventory should be maintained as a permanent database, which may assist in performance audit planning in future.

Where the committee of legislature has examined a performance audit report, the inventory may contain the final recommendations made by the committee.

Ans.5 Performance audit reports are essentially a means to improving public sector performance and accountability. This can be achieved through implementation of the recommendations contained in the performance audits. Consistent and systematic follow-up process in the Department may contribute significantly to the effectiveness of performance audit in improving the programme management.

Follow-up refers to the situation where the auditor examines the corrective actions the audited entity, or another responsible party, has taken on the basis of the results of previous performance audits. It is an independent activity that increases the value added by the audit process by strengthening the impact of the audit and by improving future audit work. It also encourages the user of the reports and the audited entities to take the reports seriously and provides a useful learning basis and performance indicator for the auditors. A follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problem and remedied the underlying conditions after sufficient time has been allowed for this process. When conducting a follow-up of audit reports, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow up and adopt an unbiased and independent approach.

1. Number of groups may vary according to no. of participants and sitting arrangement. [↑](#footnote-ref-2)
2. Number of groups may vary according to no. of participants and sitting arrangement. [↑](#footnote-ref-3)
3. Number of groups may vary according to no. of participants and sitting arrangement. [↑](#footnote-ref-4)
4. Number of groups may vary according to no. of participants and sitting arrangement. [↑](#footnote-ref-5)
5. Number of groups may vary according to no. of participants and sitting arrangement. [↑](#footnote-ref-6)
6. Number of groups may vary according to no. of participants and sitting arrangement. [↑](#footnote-ref-7)
7. Number of groups may vary according to no. of participants and sitting arrangement. [↑](#footnote-ref-8)
8. Number of groups may vary according to no. of participants and sitting arrangement. [↑](#footnote-ref-9)
9. Number of groups may vary according to no. of participants and sitting arrangement. [↑](#footnote-ref-10)