

Royal Audit Authority



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PERFORMANCE AUDIT GUIDELINES

JULY 2019

REPORTING ON ECONOMY, EFFICIENCY & EFFECTIVENESS IN THE USE OF PUBLIC RESOURCE

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ISBN 978-99936-18-84-3

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Vision

“A credible Supreme Audit Institution that promotes value for money and good governance in public operations and contributes towards achieving the societal aspirations of Gross National Happiness”.

Mission

“RAA is an independent constitutional body which contributes to accountability, transparency, and effective service delivery. In the service of Tsa-Wa-Sum (the King, Country and People), we audit without fear, favour, or prejudice and provide timely, reliable, and quality audit services to assist effective decision making in the public sector”.

Foreword

The Royal Audit Authority (RAA) as a constitutional body enshrined under the Constitution of the Kingdom of Bhutan has been bestowed with a mandate to audit and report on the economy, efficiency and effectiveness in the use of public resources. Accordingly, it is the responsibility of the RAA to carry out proper and timely audits of agencies entrusted with public funds and report thereon.

Over the years, the RAA geared its focus from transactional audit to performance audit. Performance audit provides independent and objective examination of economy, efficiency, and effectiveness of public undertakings, services and activities. It plays an important role in keeping legislature well informed about governmental actions and the outcome of its own decisions. It aims to increase public transparency and accountability by providing objective and reliable information on how the public services perform.

The RAA embarked upon performance auditing as early as 2000 and established a separate division for performance and thematic audits in July 2007. The Performance Audit Guideline (PAG) was first developed in 2005, which was later revised in 2011.

The adoption of International Standards of Supreme Audit Institutions (ISSAIs) as the RAA's authoritative auditing standards in January 2017 and the subsequent changes in auditing standards and practices necessitated revision of the existing Guideline. Therefore, the Guideline is revised in conformity to the principles and provisions of the ISSAIs and applicable international best practices in the field of performance auditing.

The Guideline aims to assist the performance auditors of the RAA in ensuring compliance to the standards and maintaining uniformity and consistencies of approaches in the process. The Guideline provides only minimum guidance in performance auditing. Therefore, the users of the Guideline should not apply the guidance as rigidly prescriptive, and should exercise professional judgment in the process of auditing.

The Guideline would also remain to be a dynamic document and the contents would undergo revision on continual basis, responding to evolving changes and practices. Therefore, the suggestion and comments of the users would be very critical for its further improvements.

It is my fervent hope that the auditors would find the Guideline useful, and assist them in executing their professional duties and thus, enhancing quality, credibility and professionalism.

A handwritten signature in blue ink, consisting of a vertical line with a small loop at the top and a small flourish on the left side.

July 2019

**(Tshering Kezang)
Auditor General of Bhutan**

ACRONYMS

ADM	:	Audit Design Matrix
AFROSAI	:	African Organisation of Supreme Audit Institutions
AS	:	Accountability Statement
EID	:	Employee Identity Number
ICT	:	Information and Communications Technology
INTOSAI	:	International Organisation of Supreme Audit Institutions
ISSAI	:	International Standards of Supreme Audit Institution
MAP	:	Management Action Plan
MDGs	:	Millennium Development Goals
PA	:	Performance Audit
PAC	:	Public Accounts Committees
PAG	:	Performance Audit Guideline
PAS	:	Performance Audit Subcommittee
PASAI	:	Pacific Association of Supreme Audit Institution
RAA	:	Royal Audit Authority
RACI	:	Responsible, Accountable, Consulted and Informed stakeholders
SAP	:	Strategic Audit Plan
ToR	:	Terms of Reference
UN	:	United Nations
UNDG	:	United Nations Development Group
SAI	:	Supreme Audit Institution
SDGs	:	Sustainable Development Goals



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About the guideline

Introduction

- 1) The Guideline is a revised version of the RAA's Performance Audit Guideline 2011. It shall be referred as the Performance Audit Guideline 2019. It has been reviewed and amended to seek more coherence with the International Standards of Supreme Audit Institution (ISSAIs) for Performance Auditing, particularly ISSAI 3000 (Standard for Performance Auditing).
- 2) The significant changes brought about in this revised version are in terms of incorporation of ISSAIs requirements, and making it simpler and as practical as possible by introducing many useful audit tools. However, it will remain to be a dynamic document, which shall be revisited and amended as necessary.

Nature and Scope of the Guideline

- 1) The Guideline contains a framework for undertaking performance audits by the RAA. It provides guidance through all phases of performance audit viz., planning, conducting, reporting and follow-up. It outlines consistent principles, objectives, approaches, methodologies, techniques and procedures for performance audits. The Guideline shall apply to all performance audits undertaken by the RAA. However, the Guideline provides only minimum guidance, and the auditors shall not apply the guidance as rigidly prescriptive, and should not restrain themselves from exercising professional judgment.

Purpose of the Guideline

- 1) The aim of the Guideline is to promote professionalism and competence in carrying out performance audits. The Guideline should therefore help the RAA to achieve high quality performance audits, ensure uniformity and consistency in audit approaches and promote professional competence.

Mandate

- 1) The Article 25 (1) of the Constitution of the Kingdom of Bhutan provide that "There shall be a Royal Audit Authority to audit and report on the economy, efficiency, and effectiveness in the use of public resources"; and Section 68 of the Audit Act of Bhutan 2018, under the 'Functions and Jurisdiction of the Authority' states, "The Authority shall audit and report on the economy, efficiency and effectiveness in the use of public resources". Further Section 69 of the Audit Act of Bhutan states, "The Authority shall carry out performance, financial, compliance, special audits and any other form of

audits that the Auditor General may consider appropriate”.

Structure of the Guideline

- 1) The Guideline comprises of seven chapters, which set out the entire process of planning, implementing, reporting and follow-up. Chapter 1 introduces the concepts and principles of performance auditing. Chapters 2-7 provides detailed guidance on each phase of performance auditing. Specific audit tools or templates are introduced in relevant phases to assist auditors to perform the audit procedures effectively and the 42 requirements for performance auditing derived from ISSAI 3000-Standard for Performance Auditing is attached as **Annexure I** at the end of the document.

Chapter 1: Introduction to performance auditing

Chapter 2: Selection of performance audit topics

Chapter 3: Planning individual performance audit

Chapter 4: Conducting performance audit

Chapter 5: Reporting

Chapter 6: Follow-up

Chapter 7: Documentation and maintaining audit working papers

Chapter 1: Introduction to Performance Auditing

This chapter presents concepts and principles of performance auditing explaining definitions, purpose, scope and the concept of economy, efficiency, effectiveness and equity in performance auditing. It also describes the conceptual logic in performance auditing, the basic differences in types of public sector auditing and elements such as the three parties, subject matter, criteria and the assurance in performance auditing. At the end of the Chapter, Figure 1.6 depicts the entire performance auditing process in a nutshell.

Definition of Performance Audit

- 1.1 Performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organizations are operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there is room for improvement. Performance auditing often includes an analysis of the conditions that are necessary to ensure that the principles of economy, efficiency and effectiveness can be upheld.

What is Economy, Efficiency and Effectiveness (3Es)?

ECONOMY - keeping the costs low

- 1.2 'Economy' means minimizing the cost of resources used for an activity, having regard to appropriate quality. Audits of economy may provide answers to questions such as:
- Do the means chosen or the equipment obtained (i.e., the inputs) represent the most economical use of public funds?
 - Have the human, financial or material resources been used economically?
 - Are the management activities performed in accordance with sound administrative principles and good management policies?
- 1.3 It is often a challenging task for an auditor to assess whether the inputs chosen represent the most economical use of public funds, resources available have been used economically, and if the quality and the quantity of the 'inputs' are optimal and suitably coordinated. It is even more difficult to provide recommendations that will reduce the costs without affecting the quality and the quantity of services.¹

¹ISSAI 3000/1.5

EFFICIENCY - making the optimum use of available resources

1.4 'Efficiency' is defined as, "The relationship between the output, in terms of goods, services or other results, and the resources used to produce them". Efficiency means optimum utilization of resources keeping in view the objectives of the organization. It implies maximizing output from the given resources or minimizing input for given output. Auditing efficiency embraces aspects such as whether:

- Human, financial, and other resources are efficiently used;
- Government programs, entities and activities efficiently managed, regulated, organized, executed, monitored and evaluated;
- Activities in government entities are consistent with stipulated objectives and requirements;
- Public services are of good quality, client-oriented and delivered on time; and
- The objectives of government programs are met cost effectively.

1.5 Audit of the efficiency of utilization of human, financial and other resources, includes examination of information systems, performance measures, monitoring arrangements and procedures followed by audited entities for remedying identified deficiencies.

EFFECTIVENESS - achieving the stipulated aims or objectives

1.6 'Effectiveness' is defined as, "the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity." Effectiveness is essentially a goal-attainment concept. It is concerned with the relationship between goals or objectives, outputs and impacts. For instance, are the stipulated aims being met by the means employed, the outputs produced and the impacts observed? Are the impacts observed really the result of the policy rather than other circumstances? Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity entails audit of the actual impact of activities compared with the intended impacts.

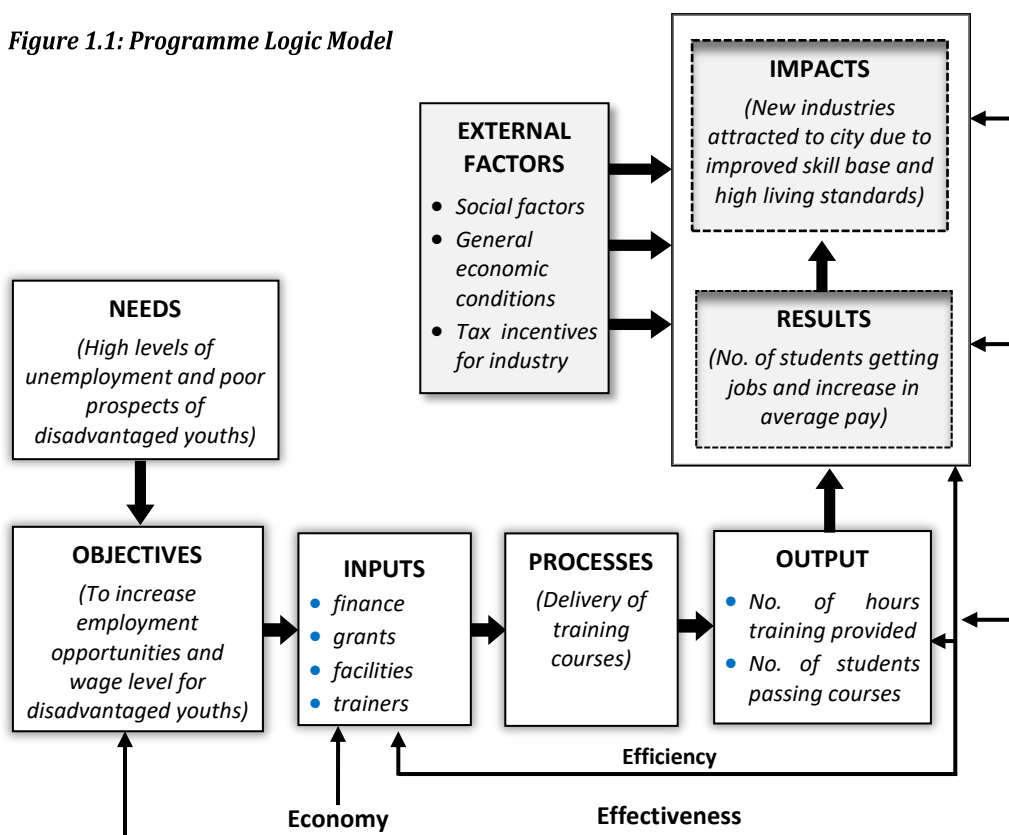
In practice, such comparisons are usually difficult to make, partly because comparative material is often lacking. In such cases, one alternative is to assess the plausibility of the assumptions on which the policy is based. Often a less ambitious audit objective will have to be chosen such as

assessing to what extent objectives have been achieved, target groups have been reached, or the level of performance.²

Application of 3Es

1.7 Regardless of its nature, all activities can be analyzed as a set of financial, organizational and human resources mobilised to achieve, in a given period of time, an objective or a set of objectives. The use of logic models can help auditors to identify and set out the relationship between economy, efficiency and effectiveness. **Figure 1.1** of Programme Logic Model illustrates the example of socio-economic needs addressed by the activity and its objectives, inputs, processes, outputs, and outcomes, including results and impacts with an explanation of application of 3Es.

Figure 1.1: Programme Logic Model



Source: Adapted from Performance Audit Manual, European Court of Auditors

The fourth E – Equity

1.8 In addition to the 3Es that are commonly used, Equity is also increasingly being considered in Performance Auditing as the fourth E. So, in many

²ISSAI 3000/1.5

audits, the performance auditor will also be expected to address concerns relating to equity while assessing the effectiveness of a program/activity. This section discusses equity based on “gender equity” as the example to relate the concepts with practical audit processes.

The nature of disparity between male and female around the world has resulted in mainstreaming gender issues into government policies, plans, organizations and programmes. It is an approach or strategy to ensure that:

- All governmental efforts consider and address the experiences, needs and priorities of men and women at all stages;
- Socio economic development outcome benefit women and men equally; and
- Gender disparities are not continued or made worse.

Equality	Gender Equality
<p>Aims to ensure that everyone gets the same things in order to enjoy full, healthy lives. Like equity, equality aims to promote fairness and justice, but it can only work if everyone starts from the same place and needs <i>the same things</i>.</p>	<p>Equality between women and men. Refers to the equal rights, responsibilities and opportunities of women and men and girls and boys. Equality does not mean that women and men will become the same but that women’s and men’s rights, responsibilities and opportunities will not depend on whether they are born male or female. Gender equality implies that the interests, needs and priorities of both women and men are taken into consideration, recognizing the diversity of different groups of women and men. Gender equality is not a women’s issue but should concern and fully engage men as well as women. Equality between women and men is seen both as a human rights issue and as a precondition for, and indicator of, sustainable people-centered development.”³</p>

³Concepts and definitions, United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) website

Equity	Gender Equity
<p>Equity, which can be derived from effectiveness of public policy, is based on the principle that recognizes the difference among individuals and the need for differential treatment.</p> <p>To provide genuine equality of opportunity society must cater more to those born with fewer skills and those born in socially disadvantaged areas. Unequal treatment is fair when it benefits the neediest individual - fair inequality.⁴</p>	<p>Introduction of measures, such as quotas or affirmative action, to ensure that women and men are given the same opportunities as equals; for example, in access to health care, education, employment, or participation in political life. Gender equity establishes fairness between women and men, but it does not in itself address the systemic sources of discrimination that women face. Nevertheless, measures that establish gender equity between women and men can contribute to the achievement of gender equality.</p>

- 1.9 Therefore, it is important to address equity issues as a core development objective and as a means to increase economic growth and development of the country. Governments around the world use a number of analytical tools and planning frameworks social equity field, such as focused budgeting, programme design, etc. that auditors should become familiar with. These can be important sources of information for developing knowledge of business, assessing risks, and determining sources of criteria.

Relationship between Equality and Equity

- 1.10 The terms equity and equality are sometimes used interchangeably, which can lead to confusion because while these concepts are related, there are also important distinctions between them. Equity, as we have seen, involves trying to understand and give people what they need to enjoy full, healthy lives. Equality, in contrast, aims to ensure that everyone gets the same things in order to enjoy full, healthy lives. Like equity, equality aims to promote fairness and justice, but it can only work if everyone starts from the same place and needs the same things. Understanding the differences between equity and equality helps us to recognize and respond to differences in situation that are unfair, avoidable and changeable.

⁴Performance Audit Manual, SAI Brazil, 2010/12.

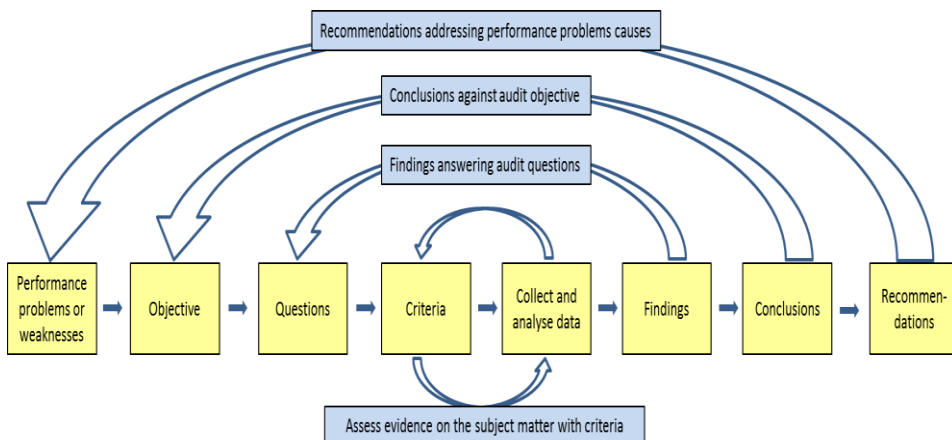
The Sustainable Development Goals (SDGs)

- 1.11 In 2015, member states of the United Nations (UN) approved a new set of 17 post-Millennium Development Goals (MDG) targets, called the Sustainable Development Goals (SDGs) that are to be achieved by 2030. The 17 goals and 169 targets of the SDG were developed with an expectation to end poverty; combat inequalities within and among countries; build peaceful, just and inclusive societies; protect human rights and gender equality; empower women and girls; and protect the planet and its resources. For the achievement of these expectations, ensuring social inclusiveness, equal opportunity and equity by governments becomes essential. Similarly, public sector auditors also need capabilities to address these issues. The 2030 Agenda proposes a holistic approach to development strategies and calls for pursuing all dimensions of sustainable development in a balanced and integrated way.
- 1.12 All the member states of the UN including Bhutan has committed to implementation of the 2030 Agenda by integrating the Agenda and the SDGs into national processes. As such to mainstream the 2030 Agenda at country level, the UN Development Group (UNDG) has developed a guideline providing several sequential stages. Therefore, every activities and programmes of the government will have a bearing on the SDGs. As a result, audits relating to the Agenda and SDGs are important.

Conceptual logic in performance auditing

- 1.13 The conceptual logic illustrates the logic the auditors need to have when conducting a performance Audit. **Figure 1.2** illustrates this conceptual logic and how the concepts are related to each other. For a performance audit to be of a high quality, the conceptual framework needs to be coherent and consistent.

Figure 1.2: Conceptual model (Source: PA handbook)



- 1.14 Usually, carrying out performance audit entails significant performance problems or weaknesses in a selected area of government, or risks for such weaknesses. By formulating the audit objective, the auditors establish a focus of the audit. This is done after initial research where the auditors developed an understanding of the audit area and the problems/weaknesses in it.
- 1.15 There are other aspects the auditors need to consider in planning the audit. This include deciding audit approach, defining the scope, planning the audit in terms of resources and activities including communication with stakeholders and managing risks in the audit.

As part of planning the audit, the auditors need to consider what audit criteria to be used for evaluating the subject matter and what methods to be used for collecting and analyzing data. When the audit planning is completed, this becomes a major component of the work in the main audit. While the conceptual framework in principle is linear, the activities in defining them may not be. The main iterative process takes place during the main audit, when data on the subject matter stepwise is collected, analyzed to form evidence that can be assessed against the criteria. In this process, there may be a need to redefine the methods for data collection and analysis as well as the criteria. As the auditors' knowledge increases during the audit process there arises situation to revise the audit question or even modify the audit objective.

- 1.16 The assessment of the audit evidence on the subject matter enables the auditors to develop audit findings on performance problems or weaknesses. The evidence must be sufficient (quantity) and appropriate (quality) to support the findings. The conceptual idea is that the findings should answer the audit questions, and sub-questions if such has been defined. When this is not possible, it needs to be explained in the audit report. Findings need to be systematically based on evidence – evidence that is evaluated with the audit criteria. This includes objective arguments and logical reasoning which are considered analytical evidence. Based on the findings the auditors take a step further and develop audit conclusions. The conclusion may include a summary of the audit findings and should ideally be of an overall nature and address the audit objective.
- 1.17 When appropriate, performance auditors are also expected to develop recommendations addressing the causes of performance problems and weaknesses in the subject matter. The recommendations need to be practical, realistic and address those responsible for taking initiatives to

improvement. The recommendations also need to flow logically from the findings and conclusions – making the whole conceptual framework for the audit coherent and consistent.

Purpose of Performance Audit

- 1.18 The purpose of performance audit is to contribute to improved economy, efficiency and effectiveness in the public sector by examining, analyzing and reporting on the performance of public entities.
- 1.19 The performance audit seeks to provide new information, analysis or insights and recommendations for improvements. Therefore, it is expected to contribute to promote good governance, accountability and transparency in public operations by assisting those charged with governance and with oversight responsibilities in improving performance, rather than merely to identify weaknesses or past errors.
- 1.20 The performance audit examines whether decisions by the legislature, or the executive authorities are efficiently and effectively implemented, and whether the taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, but instead examines whether possible shortcomings in the laws and regulations have affected those intentions being met. Performance auditing focuses on examining issues that can add value to the citizens, and on areas with most potential for improvement. It provides constructive incentives for the responsible authorities concerned to take appropriate actions.

Scope of Performance Audit

- 1.21 While the scope of performance audits is primarily to evaluate the economy, efficiency and effectiveness in the use of public resources, it also looks into the aspects of discharging accountability and due care in the use of resources by the audited agencies. The performance auditors may also be expected to address concerns relating to equity and environment while assessing the programme or activity.
- 1.22 The RAA may not audit government or public entities' policies but restrict themselves to the audit of policy implementation. However, it may not necessarily imply that the RAA cannot audit the basis of policy formulation if it does not yield the desired impact.

The mere awareness that the basis for decision-making is subject to scrutiny by the auditors may, by itself, compel public administrators to exercise caution and prudence in their actions.

Differences in Financial Audit, Compliance Audit & Performance Audit

- 1.23 All public sector audits start from objectives, which may differ depending on the type of audit being conducted. However, all public sector auditing contributes to good governance through improved accountability and transparency in the use of public resources. In general, public-sector audits can be categorised into one or more of three main types: financial audits (audit of financial statements), compliance audits (audit of compliance with authorities) and performance audits (audit of 3Es).
- 1.24 The major differences in terms of approach, objectives, scope, criteria used and subject matter in different type of public sector audits are explained in **Table 1.1**.

Table 1.1: Different types of Public Sector Audit

FINANCIAL AUDIT	COMPLIANCE AUDIT	PERFORMANCE AUDIT
Financial audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework.	Compliance audit focuses on whether a particular subject matter is in compliance with authorities identified as criteria.	Performance audit focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.
The objective of the audit is to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.	The objective is to express or conclude whether activities, financial transactions and information are, in all material respects, in compliance with the authorities, which govern the audited entity.	The objective is to answer key audit questions and to provide recommendations for improvement. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analyzed.
The criteria used in the preparation of financial statements are financial reporting frameworks.	The criteria used may include both the aspects of <i>regularity</i> (adherence to formal criteria such as relevant laws, regulations, policies, established codes and agreements) and/or <i>propriety</i> (observance of	The criteria may be general or specific, focusing on <i>what should be</i> according to laws, regulations or objectives; <i>what is expected</i> , according to sound principles, scientific knowledge and best practice or industry

	the general principles governing sound financial management and the conduct of public officials).	benchmark; or <i>what could be</i> (given better conditions).
The subject matter is generally a public-sector entity's financial data.	The subject matter may take the form of activities, financial transactions or information.	The subject matter may be specific programmes, undertakings, systems, entities or funds and may comprise activities (with their outputs, outcomes and impacts) or existing situations, including causes and consequences.
It is always an attestation engagement.	It may be an attestation engagement or direct reporting engagement.	It is always a direct reporting engagement.

Performance Audit and Program Evaluation

1.25 Program evaluation has been described as an epitome of activities and methods that aim to make exhaustive assessments of an issue, using more or less sophisticated scientific approaches. In addition to examining the impact of outputs, program evaluation may include issues such as whether the stipulated aims are consistent with general policy. Although performance auditing may use the same approaches and methodologies as program evaluation, it may not necessarily engage in assessing policy effectiveness or policy alternatives.

Elements of Performance Auditing

1.26 All public-sector audits have the same basic elements: the three parties to the audit, criteria for assessing the subject matter and the resulting subject matter information.

Three parties in performance auditing

1.27 **Auditors** in performance audits typically work in a team offering different and complementary skills. Auditors frequently have considerable discretion in the selection of subject matter and identification of criteria. While auditors can give recommendations, they need to take care that they do not assume the responsibilities of the responsible parties (ISSAI 300/16).

- 1.28 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. 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. Others still may be responsible for providing the auditor with information or evidence (ISSAI 300/17).
- 1.29 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 (ISSAI 300/18).

The auditors shall take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users. - ISSAI 3000/23

Subject matter and criteria in performance audit

- 1.30 The subject matter relates to the question “what is audited” and is defined in the audit scope. The subject matter of a performance audit may be specific programmes, undertakings, systems, entities or funds and may comprise activities (with their outputs, outcomes and impacts) or existing situations, including causes and consequences.
- 1.31 Audit criteria are the benchmarks used to evaluate the subject matter. In audits covering complex issues, it is not always possible to set audit criteria in advance. The auditor might find more detailed audit criteria during the audit process. Whereas in other audit types there can be unequivocal audit criteria, this is not typically the case in performance auditing.

The auditors shall identify the subject matter of a performance audit. - ISSAI 3000/29

Reasonable Assurance in the context of Performance Audit

- 1.32 A performance audit conducted in accordance with ISSAIs provides reasonable assurance whether the entity's systems and procedures are effective and efficient, or whether the entity has acted in a particular matter with due probity. Reasonable assurance relates to the accumulation of audit evidence necessary for the auditor to conclude whether there are any material misstatements in the information relating to performance. What is 'reasonable' is dependent on the facts of that situation and is to be

The auditors shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way. - ISSAI 3000/32

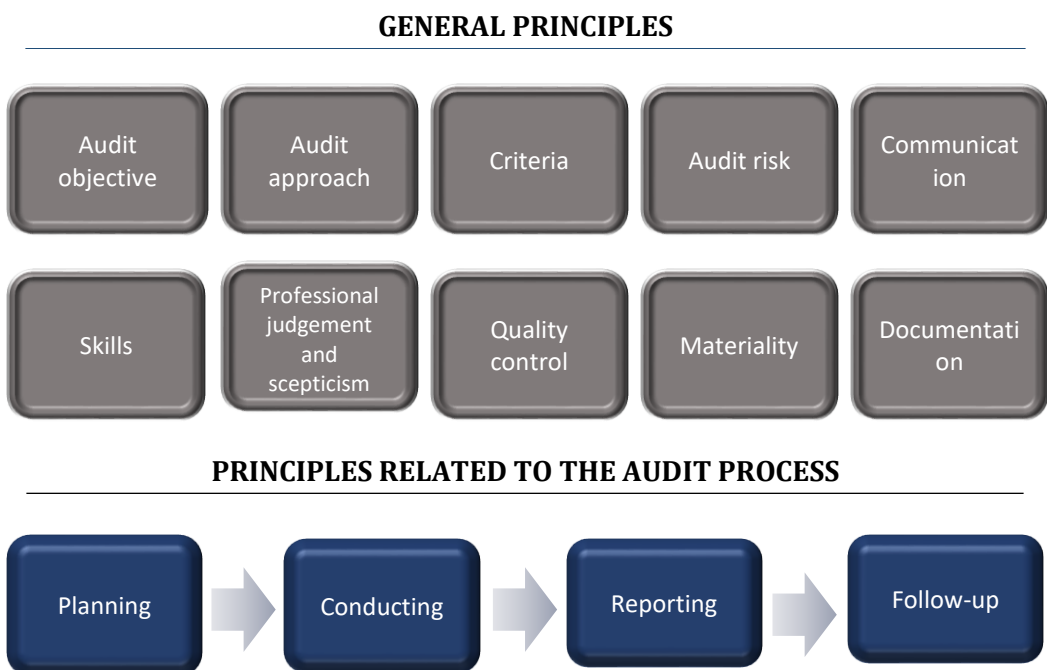
determined by what evidence could reasonably be expected to be gathered and what conclusions could reasonably be expected to be drawn in the particular situation.

1.33 The level of assurance provided by a performance audit should be communicated in a transparent way. The degree of economy, efficiency and effectiveness achieved may be conveyed in the performance audit report in different ways:

- either through an overall view on aspects of economy, efficiency and effectiveness, where the audit objective, the subject matter, the evidence obtained and the findings reached allow for such a conclusion;
- or by providing specific information on a range of points including the audit objective, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions (ISSAI 300/22).

General Principles

Figure 1.3: Principles related to audit



1.34 The general principles (ISSAI 300) for performance audit that are relevant throughout the audit process are as given in Figure 1.3 Auditors should keep these principles in mind and apply them throughout the audit process. Besides those principles, there are also ethics and independence, addressed

by ISSAI 100 and ISSAIs at level 2 (ISSAI 10 and 11 for independence and ISSAI 30 for ethics) and mentioned in ISSAI 3000 that the auditors need to recognize. The principles related to audit are discussed and explained below:

Audit Objective

- 1.35 The auditor shall set a clearly-defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness. The auditor needs to narrow down the audit topic or problem to be audited and establish the audit objective. It also relates to the reason for conducting the audit. The audit objective should be designed to maximise the benefits and impacts from the audit. In setting the audit objective the audit team should take into account the mandate of the SAI and be careful not to exceed it, as well as the reasons for the audit as defined in the Strategic Audit Plan. The audit objective(s) can be expressed in the form of one overall audit question, which is then broken down into more detailed/specific sub-questions. The audit objective(s) must give sufficient information to the audited entity and other stakeholders about the focus of the audit.
- The auditor shall set a clearly defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness. - ISSAI 3000/35

Audit Approach

- 1.36 The overall audit approach is a central element of any audit. It determines the nature of the examination to be made and is an important link between the audit objective(s), audit criteria and the work done to collect the evidence (ISSAI 3000/41). It also defines the necessary knowledge, information and data, and audit procedure needed to obtain and analyze them. There are three audit approaches in performance auditing namely result, problem or system oriented approaches. The auditors should design a performance audit using one approach or a combination of approaches.

Audit Criteria

- 1.37 Audit criteria is the performance standard used to measure economy, efficiency and effectiveness of the subject matter. Its purpose is to determine whether the audited subject matter reaches, exceeds or falls short of expected performance. It can be defined quantitatively or qualitatively. Meeting or exceeding the criteria may indicate the occurrence of good practice. Not reaching the criterion indicates opportunity for

performance improvement. It is important to note that satisfactory performance is not a perfect performance but the expected performance, considering the circumstances with which the audited entity works.

Audit Risk

- 1.38 Audit risk include audit report being inappropriate or the risk of reaching incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users (ISSAI 100/40 and ISSAI 300/28). Therefore, the performance auditor shall design and conduct the audit in order to reduce the audit risk to acceptably low levels. The concept of audit risk is inseparable from the concept of audit assurance (ISSAI 100/40). For the same reasons that the auditor cannot provide absolute assurance⁵, he/she will always have to deal with some level of audit risk.
- 1.39 According to the ISSAIs, dealing with audit risk is embedded in the whole process and methodology of performance audit (ISSAI 300/28). The auditor shall select the subject matter and criteria taking into consideration the risk and materiality (ISSAI 100/29) and the audit planning documents should state the possible or known risks and show how these risks will be handled (ISSAI 300/28). The definition of the scope and audit questions shall be guided by the audit risk assessment and, during conducting stage, the auditor shall perform procedures to obtain sufficient appropriate evidence to support audit findings, as a response to the risks identified in the subject matter.
- 1.40 The ISSAI 3000/53 and 54 states that managing audit risk includes the following:
- Anticipating the possible or known risks;
 - Developing audit approaches to addressing those risks;
 - Documenting how those risks will be handled;
 - Considering whether the audit team has competence to conduct the audit, has adequate access to accurate, reliable and relevant information, has considered any new information that is available, and has considered alternative perspectives.

Risks that are not related to specific subject matter

- 1.41 The nature of the risks that the auditor has to deal with varies according to the subject matter and to the audit's objective(s). However, there are some

⁵ The main reasons are that the evidence-gathering procedures have their limitations and that most of the types of evidence are rather persuasive than conclusive.

risks that should be dealt with in any audit, regardless of its specific conditions or elements. Some of those risks are:

- lack of necessary skills by the audit team;
- unfeasible time frames for meeting audit's objectives;
- lack of sufficient supervision;
- misconceptions concerning the subject matter or the interpretation of existing criteria;
- misunderstandings that lead to the development of inappropriate criteria;
- Existence of falsified information or fraud.

Besides, to address the audit scope appropriately, the auditor should control for the audit risk by defining the correct nature, timing and extent of the evidence-gathering procedures. The overall audit design should also include responses to risks that are not related to specific subject matters.

Communication

1.42 There are several reasons why planning communication with the audited entities and stakeholders is of particular importance

Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit. - ISSAI 3000/55

in the entire performance audit. For example, as performance audits are not normally conducted on a regular basis on the same audited entities, channels of communication may not already exist. Often there are no predefined criteria and thus an intensive exchange of views with the audited entity is necessary. Besides, the need for balanced reports requires an active effort to obtain insight into the points of view of the various stakeholders (ISSAI 300/29).

Skills

1.43 The professional competences to perform the audit includes 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, creativity and receptiveness. Performance auditors should also have a sound knowledge of government organizations, programmes and functions (ISSAI 300/30; 3100/74-81).

1.44 Since performance auditing is a team effort and the issues involved are complex, it is not suggested to conduct a performance audit alone. Consequently, not all members of

The SAI shall ensure that, the audit team collectively has the necessary professional competence to perform the audit. - ISSAI 3000/63

an audit team may possess all required skills. However, the SAI shall ensure that the audit team collectively possess all necessary professional competence to perform the audit (ISSAI 3000/63). Furthermore, it may not always be possible for an SAI to recruit people who meet all the requirements. The required skills may therefore be developed once a person is in service, as long as candidates for appointment have clearly demonstrated the potential mind set and aptitude for the kind of work that performance auditing entails (ISSAI 3100/79). It is a good practice for the SAI to have a training and staff development programme to ensure that its staff maintains professional proficiency through continuous education and training. A key factor in the development process is learning through practical auditing work (ISSAI 3100/77).

1.45 Depending on the nature of the specific audit, some special skills or expert knowledge of the subject matter may also be required. If the auditor determines that external expertise is required to complement the knowledge and skills of the audit team, then the auditor may consult, as appropriate, with individuals, within and outside the SAI, who have this specialized expertise. Before using experts, the auditor needs to ensure that the expert indeed has the necessary competence required for the purpose of the audit. Any external experts engaged with the audit also need to be informed about the conditions of the audit and the ethical requirements and need to be independent from situations and relationships that could impair the external experts' objectivity. Although the auditor may use the work of experts as audit evidence, the auditor retains full responsibility for the audit work and the conclusions in the audit report (ISSAI 3000/65).

Professional Judgment and Scepticism

1.46 Professional judgment refers to the application of collective knowledge, skills, and experience to the audit process. Using professional judgment

The auditor shall exercise professional judgment & skepticism and consider issues from different perspectives, maintaining an open and objective attitude to various views and arguments. - ISSAI 3000/68

helps the auditor determine the level of understanding needed for the audit subject matter. It involves the exercise of reasonable care in the conduct of

the audit and the diligent application of all relevant professional standards and ethical principles (ISSAI 3000/70).

Some examples of how professional judgment can be used in performance audits are:

- identifying and evaluating threats to independence;
- determining the required level of understanding of the subject matter;
- determining the nature, timing and extent of audit procedures;
- determining which findings are significant enough to report;
- evaluating whether sufficient and appropriate audit evidence has been obtained;
- determining the recommendations to be made.

1.47 Professional scepticism means maintaining professional distance from the audited entity and an alert and questioning attitude when assessing the sufficiency and appropriateness of the audit evidence obtained throughout the audit (ISSAI 3000/71).

Some examples of how to apply professional scepticism in performance audit are:

- considering the integrity of management;
- revising risk assessment;
- planning for sufficient procedures;
- being alert to audit evidence that contradicts other.

1.48 Performance audits require significant judgment and interpretation because audit evidence for this type of audit is more persuasive than conclusive. Exercising professional judgment and scepticism allows the auditor to be receptive to a variety of views and arguments and better able to consider different perspectives (ISSAI 3000/69, 72).

Quality Control

1.49 Conducting high quality audit is often a major challenge. We know that quality audit work increases our credibility and reputation, and ultimately our ability to fulfil the mandate. Therefore, it is important that there is a

system established and maintained to safeguard quality, which the auditor complies with to ensure that all requirements are

The SAI shall establish and maintain a system to safeguard quality, which the auditor shall comply with to ensure that all requirements are met, and place emphasis on appropriate, balanced, and fair audit reports that add value and answer the audit questions. - ISSAI 3000/79

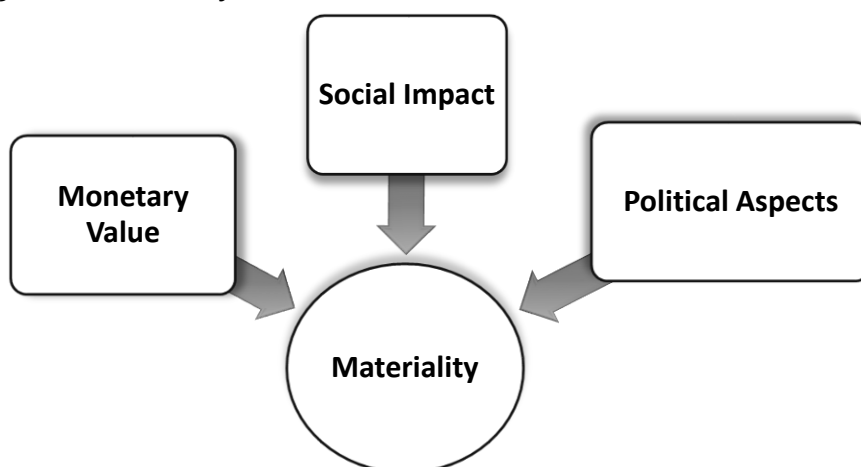
met, and place emphasis on appropriate, balanced, and fair reports that add value and answer the audit questions. For effective implementation of quality regime, the organization needs to define the quality requirements and the process on how to comply with them.

Materiality

1.50 The concept of materiality has a significant factor in the three audit streams. Materiality can be defined as the relative importance (or significance) of a matter within the context in which it is being considered (ISSAI 3000/83). In performance audit, materiality by monetary value may, but need not, be a primary concern. The auditor should also consider 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 (ISSAI 300/33).

The auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter with the goal of delivering as much added value as possible- ISSAI 3000/83

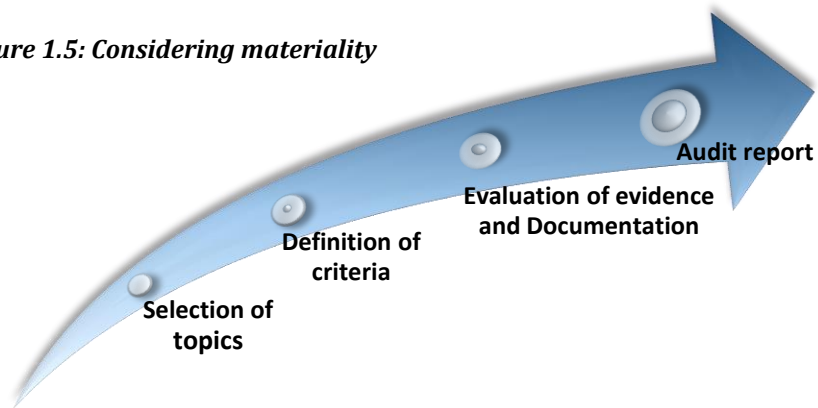
Figure 1.4 Materiality



1.51 Performance auditors should consider materiality at all stages of the audit process. It 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 (ISSAI 300/33).

Figure 1.5: Considering materiality



- 1.52 The audit should lead to important benefits for public finance and administration, the audited entity, or the public. Aside from audits carried out under legal mandate at the request of the Parliament or other empowered entity, performance audit topics should be selected on the basis of problem and /or risk assessment and materiality or significance (not only financial significance, but also social and/or political significance), focusing on the results obtained through the application of public policies.
- 1.53 When planning its audit, the audit should examine the risks and materiality of government programmes or activities, taking into account the resources involved, the importance of the environmental aspects to be addressed, and the magnitude of the intended effect. The auditors should also consider whether there are indications of problems of efficiency and effectiveness in the area to be audited. In the conducting phase, the auditor should collect sufficient and appropriate evidence to support the finding and conclusion. One of the factors that dictate the strength of evidence required to support a finding is the level of materiality or significance. Therefore, identifying and gathering evidence with the adequate level of materiality will lead to a reliable audit documentation.
- 1.54 Throughout the whole audit process, the auditor needs to manage the risk of producing inappropriate or low-impact audit findings and audit reports. ISSAI 3000 has two requirements about independence and ethics. They mention the obligation to comply with the procedures and ISSAIs related to those two principles. ISSAI 3100 defines ethics as the moral principles of an individual that include independence, integrity, objectivity, professional

competence and due care, confidentiality and professional behaviour. ISSAI 30 define those ethical values, including transparency.

The auditor shall comply with the SAI's procedures for independence and ethics, which in turn shall comply with the related ISSAI's on independence and ethics. - ISSAI 3000/21

1.55 According to ISSAI 3000, independence comprises two aspects: independence in fact and independence in appearance. Independence in fact allows the auditor to perform activities without being affected by influences that compromise professional judgement, to act with integrity and exercise objectivity and professional scepticism. Independence in appearance is the absence of

The auditor shall take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users. - ISSAI 3000/21

circumstances that would cause a reasonable and informed stakeholder, having knowledge of relevant information, to reasonably doubt the integrity, objectivity or professional scepticism of the auditor, or conclude that they have been compromised (ISSAI 3000/22, 3100/10).

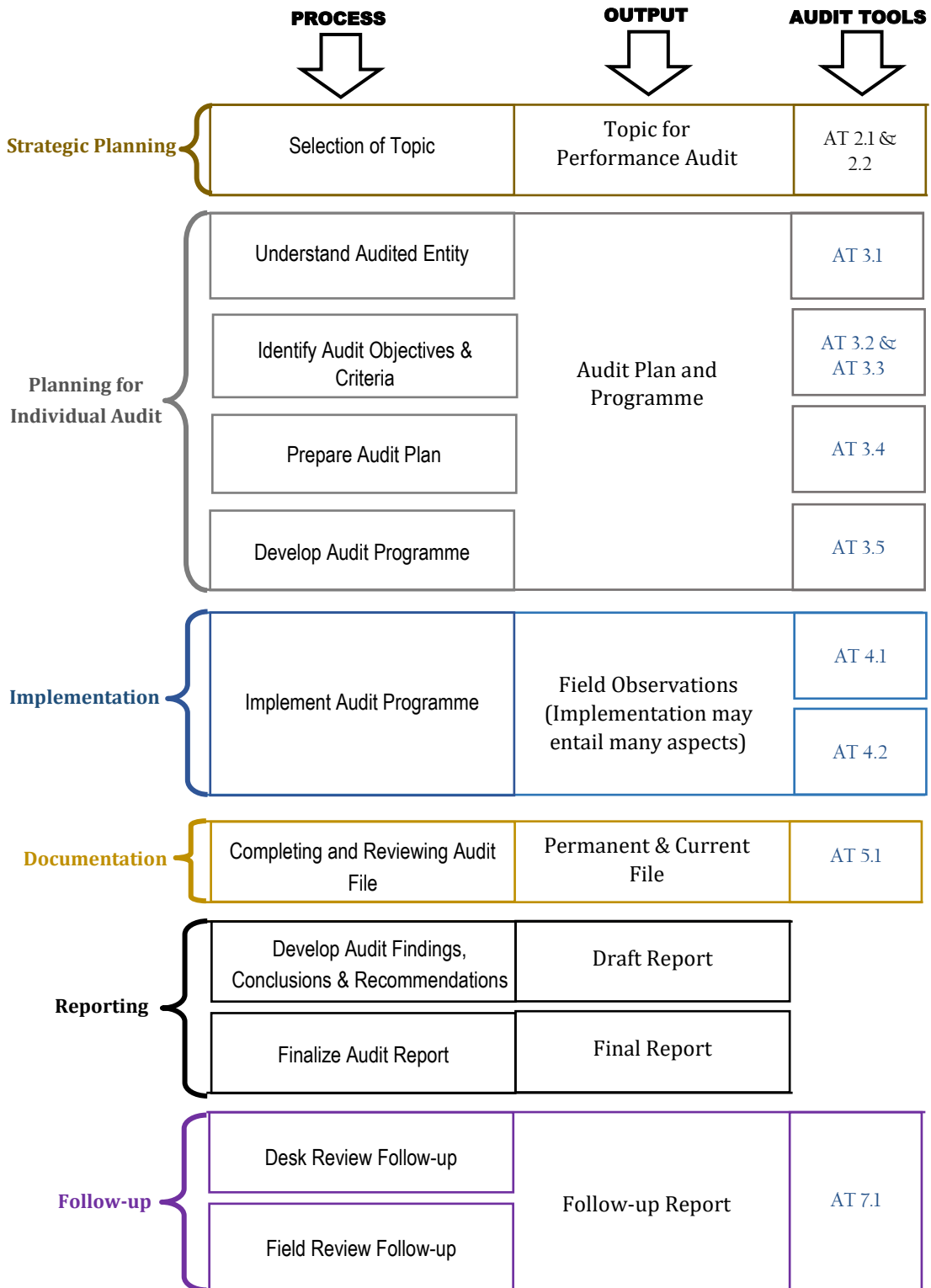
1.56 The auditor must consider specific risks to independence that may be present in performance audits. The auditor has a particular role in identifying audit criteria, measuring against them, and formulating a balanced audit report. In this regard, the auditor needs to remain independent so that the audit report is impartial and the ethical behaviour of the audit team is safeguarded. It is also important to consider the positions of relevant stakeholders, their interests, and to establish open and good communication with them nevertheless, it is essential to guard one's independence (ISSAI 3000/24).

1.57 Threats to compliance with the relevant independence requirements must be considered before and during an audit. Threats may be related to self-interest, advocacy, familiarity, intimidation, self-review and management participation. If the threat is significant, control mechanisms ought to be applied. Some control mechanisms could be: involving another person to review the work done, consulting a third party, rotating personnel, having the independence confirmed by the individuals working in the audit, removing a person which independence is compromised (ISSAI 3100/14, 17, 19).

Documentation

- 1.58 It is important to establish a system for documenting the actions taken and the communications made as well as the audit evidence and analysis conducted in the audit. The SAI should ensure timely documentation (such as maintaining audit working papers) of all work performed. All documentation should be the property of the RAA and retained for the period specified in laws, regulation, professional standard and guidelines.

Figure 1.6: Performance Auditing Process



The Chapter discusses the framework for selecting performance audit topics. The selection of topic or issue is considered to be a critical task in performance auditing. The selection process provides a basis to pursue performance audit in greater detail through preliminary identification of audit topics.

Introduction

2.1 Strategic planning is the process of determining the long-term goals of the organization and the best approach for attaining them. The Royal Audit Authority's strategy

The auditor shall select audit topics through the SAI's strategic planning process by analyzing potential topics and conducting research to identify risks and problems. - ISSAI 3000/89

provides the main direction for the Authority's work which should include the plan of performance auditing function. The RAA's strategy plan normally covers for five-year period. Therefore, the performance audit topics should also be selected for strategic plan period, and included as part of the overall strategic planning of the RAA. The strategic planning determines the future programme of performance audit work and the priorities and resources required to carry it out. It should serve as an instrument for strategic policy decisions on the future direction of the performance audit.

2.2 Determining which audits shall be carried out is part of the RAA's strategic planning process. However, it should be reviewed and updated annually or periodically to reflect changing needs, priorities and circumstances, and operationalized through the RAA's annual work plan of the specific divisions concerned.

Objectives and importance of strategic planning

2.3 A well-structured strategic planning process, based on a sound rationale is necessary to ensure that the resources of the RAA are used in the most economic, efficient and effective manner.

2.4 Proper strategic planning process to select performance audit topics for planned period is essential to ensure that:

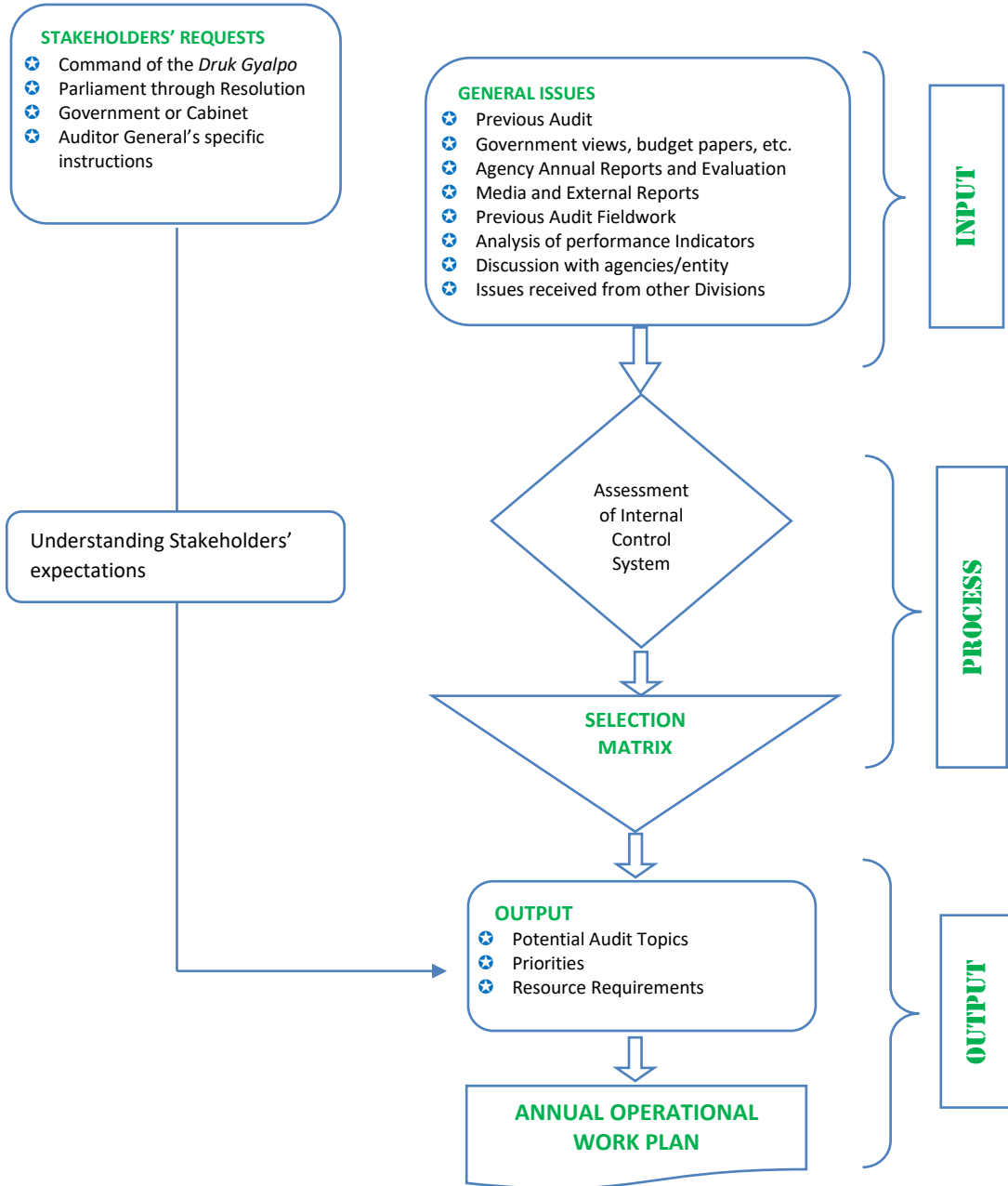
- There is a firm basis for the RAA to give strategic direction for future performance audit coverage;

- An effective performance audit work plan is in place which is comprehensive and well planned;
- Potential audit areas are identified and prioritized to improve public sector accountability and administration;
- Resources are allocated cost-effectively to areas with the greatest potential impact and which will add value in promoting economy, efficiency and effectiveness; and
- Monitoring arrangements are in place to review progresses on delivering the agreed audit work plan.

Procedures for identification of potential audit topics

2.5 **Figure 2.1** shows a flow chart depicting topic selection process:

Figure 2.1: TOPIC SELECTION PROCESS



2.6 The performance audit topic selection process involves procedures for identifying, prioritising and selecting possible areas for performance audit on the

The auditor shall conduct the process of selecting audit topics with the aim of maximising the expected impact of the audit while taking account of audit capacities. - ISSAI 3000/91

basis of certain parameters. Audit topics are generally selected on two grounds: firstly, to focus on areas where the audit expects to add maximum value in terms of improved accountability, economy, efficiency and effectiveness; secondly, to ensure appropriate coverage of programme operations within the limitations of audit resources available.

Input of Audit Topics

2.7 Generally, the audit topics are generated from sources broadly classified under:

- ✦ Specific Stakeholders' Request
- ✦ General issues

Specific Stakeholders' Request

2.8 If the audit topics are requested by the stakeholders, the audit topics are incorporated in the Strategic and Annual Work Plans. The Audit Act 2018 provides that the competent stakeholders may direct or request the RAA to conduct audit of specific entity or activity. Section 90(14) of Audit Act requires the RAA to audit any entity or activity as commanded by the Druk Gyalpo. Section 91 of the Audit Act also empowers the Parliament through its resolution direct the RAA to conduct any audit, if public interest so requires. The Auditor General may also direct audit team to take up audit of an entity or activity which he considers significant and necessary to improve the performance of that entity or activity.

2.9 The audit topics requested by the stakeholders could either have associated risks or the impact of the audit topic could be significant. The auditors should in the first place understand the expectations of the stakeholders. The expectations of the requesting stakeholders may sometimes be explicit, in which case, the process of understanding it may be much simpler. There may be instances where the expectations of the stakeholders were not explicit, in which case, the auditor should communicate with the requesting

stakeholders to understand clearly the intent and objectives of the particular audit.

- 2.10 Then the auditor should formulate the stakeholder's request into relevant topics and sub-topics. This includes determining specific risks that relate to the identified topics and sub-topics. It is also worth noting that, sometimes, stakeholder requests are described in terms of areas of risk rather than key areas of interest.

General Issues

- 2.11 When audit topic(s) are not clearly specified, the auditor should approach the audit by considering the existing risks, the capacity of the management in mitigating those risks, and then prioritising topics and sub-topics to be audited. All of these processes would tantamount to conducting a preliminary study, resulting in most viable audit topics that are expected to add greater value to the system and create a meaningful impact.

Identify Risks

- 2.12 The potential risk areas would be identified through various sources like, previous audit, cabinet discussions, budget papers, agency annual reports and evaluation, media and other external reports, analysis of performance indicators, discussions with agencies, etc. These potential risk areas are general in nature for which the auditor should consider assessment of existing internal control system of the management in mitigating those risks using the Internal Control Assessment Matrix (**Audit Tool – 2.1**). The audit topics should then be prioritised using the Audit Topic Prioritising Matrix (**Audit Tool – 2.2**).
- 2.13 General issues may not necessarily be converted to audit topics. It is important that the existing and potential risks of the issues be identified based on risk analysis. Some of the factors that indicate higher risk could be the following:
- The financial or budgetary amounts involved are substantial, or there have been significant changes in the amounts involved;
 - Areas traditionally prone to risk (procurement, technology, environment issues, health, etc.) are involved;
 - New or urgent activities or changes in conditions (requirements, demands) are involved;
 - Management structures are complex, and there might be some confusion about roles and responsibilities; and

- There is no reliable, independent, and updated information on the efficiency or the effectiveness of a program.

2.14 Sometimes assessing risks are difficult and complex as there is no comprehensive data available. In such situation, the auditors should use external sources to identify risks. These sources include budget papers, studies done by external agencies, interviews of relevant officials and representatives, and information from the media, previous audit report, etc.

Evaluate the actions undertaken by the entity to mitigate those risks

2.15 The auditor should get an understanding of the audited entity's efforts to mitigate those risks by reviewing legal regulations, standard operating procedures, policies, and instruments set out by the government, and by interviewing some 'key players'.

2.16 The audited entity's various controls systems and procedures could be discussed in order to gain a better understanding. Additionally, sample-testing or walk-through can also be undertaken to check whether the systems and procedures are sufficiently effective and reliable. This step should result in assessing the effectiveness of entity's control systems to mitigate identified risks and having an understanding of the adequacy of controls.

2.17 The actions undertaken by the entity may be evaluated using the Internal Control Assessment (ICA) Matrix provided as **Audit Tool - 2.1**. The resultant risks after assessment of internal control system of the audited agencies would generally be referred to as residual risks. These resultant risks would then be translated as the potential audit topics.

2.18 However, the auditors should understand that this stage of risk assessment is conducted only at macro level assessment of risks to identify potential audit topics. Once the audit topics are identified and the audit resources allocated to pursue the audit, in-depth understanding of audit risks at the activity or sub-activity level has to be conducted to identify key lines of enquiry.

Criteria for selecting audit topics

2.19 The analysis of risks using the ICA matrix will lead to a list of potential audit topics. These potential audit topics need to be prioritised appropriately to employ the

The auditor shall select audit topics that are significant and auditable, and consistent with the SAI's mandate. - ISSAI 3000/90

resources and time efficiently and effectively. The selection of audit topics would undergo two-tier selection criteria. First Tier selection criteria are necessary conditions that would determine whether the potential audit topics merit further examination or not. Second Tier selection criteria would determine the priority of audits based on the prioritisation criteria.

First Tier Selection Criteria

2.20 At the outset, the auditors should determine whether the identified potential audit topics merit further examination using the First Tier Selection Criteria – (i) Audit Mandate, and (ii) Reputational Risks. The assessment under this tier should give the auditors a conclusive decision whether to proceed further or not. Once it has been decided that identified audit topics can be taken up for audit, it shall be subjected to further screening process using the prioritisation criteria.

Audit Mandate

2.21 Assessing audit mandate is an important requirement in selecting the audit topic. It is of paramount importance to determine whether the RAA has sufficient mandate or it is within the jurisdictions of RAA as enshrined in the Constitution of the Kingdom of Bhutan and the Audit Act of Bhutan 2018.

Reputational Risks

2.22 Equally important for the auditors is to assess that the identified audit topic does not present any risks to the RAA's credibility and independence. Such risks that may have potential to undermine the independence and credibility of the RAA needs to be avoided at all cost. The risks to the RAA may ensue from such audits which results may be used by the political parties or organisations to gain unfair political mileage or to pursue their vested interests/vendetta that may promote dissenting views and seriously disrupt the harmony in the society. Therefore, the auditors should take full caution in the timing of audits, and avoid selecting and planning such audits that have greater political sensitivity during the election period.

2.23 However, the political sensitivity of audits may be correctly understood and carefully assessed that it may not always be a ground to not carry out the audits. In fact, most of the audits that the RAA conducts are the activities or programme initiated or implemented by government or its undertakings. Therefore, the decision for further examination of audit topics should be

viewed in terms of timeliness and such audits may be scheduled at appropriate time during the strategic plan period.

Second Tier Selection Criteria

2.24 Once it has been determined whether the identified audit topics can be audited or not, it has to be subjected to further screening and prioritizing against the identified criteria discussed below.

(i) Potential audit impact

2.25 One major importance in the final selection of topics is the added value expected from the audit. The auditors should assess the likely benefits that may result from audits. The potential impacts of audit should be identified and classified with reference to: economy, efficiency, and effectiveness, quality of service, planning, control and accountability.

2.26 Adding value is about providing new knowledge and perspectives. Greater added value can often be achieved by auditing policy fields or subjects that have not previously been covered by audits or other reviews.

(ii) Materiality

2.27 The materiality relates not only to financial aspects, but also social and/or political ones, such as the number of people affected by a law or reform, transparency and good governance. Therefore, beside financial materiality which is determined based on the allocated budget and expenditure of an audited entity or programme in regard to its activities. A comparative analysis may also be done on the various topics to determine the materiality.

(iii) Risks to good management

2.28 Risks associated with economic, efficient and effective operations of the audited entity should be assessed for topic selection. The risks can be due to:

- Management inaction in response to identified weaknesses;
- Adverse comment by the legislature or media;
- Non-achievement of stated objectives such as revenue raised or clients assisted;
- High staff turnover;
- Identified weaknesses in internal control;
- Significant underspending or overspending;
- Sudden program expansion or contraction; and

- Overlapping or blurred accountability relationships.

(iv) Complexity

2.29 A program or activity that is more complex to manage and operates in an uncertain environment is more likely to have problems associated with performance. Auditors should look into complex and uncertain areas like:

- Highly decentralized operations with devolved management decision-making responsibilities;
- A multiplicity of interested parties;
- Use of rapidly changing and sophisticated technology;
- A dynamic and competitive environment; and
- Controversial, social and political debate surrounding the issue.

(v) Significance

2.30 The significance of an audit topic should have regard to the magnitude of its organizational impacts. It will depend on whether the activity is comparatively minor and whether shortcomings in the area concerned could flow on to other activities within the agency. Significance will rate highly where the topic is considered to be of particular importance to the entity and where improvement would have a significant impact on the operations of the entity. A low ranking in relation to 'significance' would be expected where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or with minimal impact. Cross-agency audits are more likely to rank highly on significance.

(vi) Visibility

2.31 The external coverage of an audit topic through various media like print and broadcast media, legislature, society, etc should be reviewed. It is related to the social, economic and environmental aspects of the activity and the importance of its operations to the government and the public. The auditors should also assess the degree of interest by the legislature and public in the outcome of the audit.

(vii) Coverage

2.32 Coverage refers not only to previous RAA audit 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 program evaluation.

The auditor should look into the frequency of coverage through these means to identify whether the audit is warranted.

(viii) Cross-Sectoral

- 2.33 The auditor should consider appropriate themes in proposing audits. Audits that cross several agencies, addressing themes which are of relevance to the entire public sector or addressing significant national concerns should be accorded higher priority.

(ix) Auditability

- 2.34 Assessing auditability is an important requirement in selecting the audit topic. It defines whether a topic is suitable for an audit. The auditor might have to consider, for instance, whether there are relevant audit approaches, methodologies, and audit criteria available and whether the information required is likely to be available and can be obtained efficiently. If the auditor determines that reliable information is not available then this may itself be a reason for selecting this area for an audit.
- 2.35 Since the RAA may have limited audit capacities in terms of human resources and professional skills, the audit topic selection process must consider the potential impact of the audit topic in providing important benefits for public finance and administration, the audited entity, or the general public with the resources available. Other aspects to be considered in topic selection are the results and recommendations of previous audits or examinations, and conditions in terms of timing.

Assigning Scoring to select audit topics

- 2.36 The potential audit topics should be ranked and prioritised using the Audit Topic Prioritisation Matrix provided as **Audit Tool – 2.2**.
- 2.37 The RAA should assign weights to each criterion which aggregates to 100%. The assignment of weight to each criterion will depend on importance of the criterion to the RAA's management, legislature, government and public in general.
- 2.38 The auditor should exercise professional judgment while assigning a score of 'low', 'medium' and 'high'. However, his/her judgement should be backed

with appropriate justifications and documentation. The guidance on how scoring should be assigned is explained in **Table 2.1**.

- 2.39 The product of 'weights' and 'score' would give the 'weighted score'. The aggregate of weighted score would result to "Aggregate Weighted Score" for each topic.
- 2.40 The topic scoring highest 'Aggregate Weighted Score' will be ranked as first priority. Hence, it would generally accord the highest priority of audit resources, and subsequently prioritized for audit.
- 2.41 Depending on the availability of audit resources, the numbers of audit topics are chosen to be audited in a given period of time, based on priority determined through rank.

Table 2.1: Selection criteria and assignment of score

Sl. No.	Criteria	Explanation on assignment of Score
1	Possible impact	The audits that will have a significant impact on enhancing the economy, efficiency and effectiveness should be given more priority.
2	Materiality	The greater the financial impact to the government or other associated impact, the higher is its priority for selection as an audit topic.
3	Risks to Good Management	If the risks of poor performance or not meeting the objectives of management is high or if any observed inadequacy in internal controls, it should be accorded high priority for selection as an audit topic.
4	Complexity	The complex nature of activities of the audited agencies should be accorded higher priority in selection of audit.
5	Significance	Significance will rate highly where the topic is considered to be of particular importance to the entity and where improvement would have a significant impact on the operations of the entity.
6	Visibility	The audits that will generate greater degree of interest to the RAA's major stakeholders, viz., legislatures and public in general should be given more priority.
7	Coverage	The scoring for this criterion may be bit confusing. As a general rule, a low ranking would occur when there has been a substantial review of activity within the past two years. If the topic was never audited or covered by other review, it should be accorded higher priority in selection of audit.
8	Cross-sectoral	Audits that cross several agencies, addressing themes which are of relevance to the entire public sector or addressing significant national concerns should be accorded higher priority.
9	Auditability	The topic which is generally auditable and there are relevant audit approaches, methodologies, and audit criteria available, and also considering that the auditors as a team has the necessary professional competencies on subject matter should be accorded higher priority in selection of audit.

Approval of the audit topics by top management

- 2.42 The performance audit topics, in pursuance of the strategic goals and objectives, prepared by the division should be approved by the top management. Once approved, the selected audit topics should form part of the strategic plan document which should be self-contained and consist of the following sections:
- Strategic goals and strategic objectives set for the RAA to be attained through performance audits over the perspective plan period;
 - Executive summary containing a gist of the strategic plan including categorization of the types of subjects selected for performance audit;
 - List of subjects suggested for selection of performance audits along with a schedule containing milestones from the stage of planning to the final report;
 - Detailed background note for selection of the subjects and prioritization using ICA Matrix and Audit Topic Prioritisation Matrix;
 - Tentative planning of resource and time and matching of resource required with the available audit resource, identification of the likely gap between the required and available resource, action plan to bridge the gap;
 - Tentative assessment of the required skill, in-house availability of technical skills and expertise of the audit team for the selected performance audits, gap between the requirement and availability in-house, need for the services of experts or consultants.
- 2.43 Strategic plan would be subjected to annual review based on new priorities and available resources. The annual review involves evaluating the relevancy of the identified audit topics which would result into preparation of annual work plan. The strategic plan should be updated at periodic intervals to make sure that efforts remain a vital and accurate reflection of the major issues facing the country. The audit topics selection should be reviewed annually before the start of the annual plan period.
- 2.44 The divisions entrusted for performance audit functions in the RAA shall be responsible for selection of performance audit topics and maintain the database of audit topics. The divisions shall also review annually the audit topics following the same procedures of topic selection process and

prepare Annual Audit Schedule which has to be approved by the management.

Common Issues in prioritising of topics

2.45 The common factors that affect prioritisation process include:

- Temptation to select issue that covers wide scope;
- Temptation for auditors to select topics of their own interests;
- Determining the matters of potential significance;
- Delineating audit scope and defining the subjects of performance audit;
- Understanding cause and effect relationships; and
- Foreseeing the nature and content of potential audit findings.

2.46 During the topic selection process, the auditors have to exercise their professional judgement at all times to objectively select the topics. The management involvement and consultation should be a continuous process during the selection process.

Working Papers for Strategic Planning

2.47 The strategic planning should be supported by working papers that include:

- A description of the entity and its environment;
- An assessment of the risks to performance of the entity's programme and activities;
- Recent RAA audits, recent and proposed inquiries by the legislature, and agency evaluations and internal audits;
- A list of potential areas for performance audit; and
- A list of audits proposed for the next two to three years, the basis for their selection and the indicative timing where possible. This list should reflect resource availability and also distinguish between new performance audit topics and follow-up audits.

Quality Assurance of Strategic Planning

2.48 The auditor should maintain comprehensive data and information on the entity, transparent application of techniques and tools for selection of subjects and their prioritization.

Audit Tool 2.1

Internal Control Assessment Matrix

This Audit Tool helps the auditor to assess the internal controls (policies, procedures, and practices) in place to mitigate and manage the existing and potential risks by the management. The auditor should first identify risks through various sources and list under the column titled 'Risk' and accordingly, assess the internal control in place to mitigate the risks. The auditor should then consider the effectiveness of the internal control in prioritizing the risks. The auditor should also consider and provide due judgement on the significance or impact if the risk becomes real, and the frequency of occurrence of the risk (the more frequent the risk, the more possible to be prioritized).

Sl. No.	Risk	Internal Control Assessment (ICA)					Detailed description	Priority based on ICA		
		Legal Regulation (Act, etc.)	Standard Operating Procedures	Manual	Policies	Others		High	Medium	Low
1										
2										
3										
4										
5										
6										

Note: Assess the internal control system with the detail information such as the name and number of the legal regulation and short description of the content for each specific risk. The risk which has ineffective internal control system in place should be rated as high.

The Conclusion: Priority should be given to those risk areas which are rated high in the matrix.

Audit Tool 2.2

Audit Topic Prioritisation Matrix

The following consists of a number of topics identified through application of tools identified earlier in this chapter:

1. Solid waste management
2. Climate change adaptation
3. Sustainable Fisheries
4. Maternity Services in public hospitals

The following table illustrates an example of how scoring is assigned and audit topic prioritized based on selected criteria: (The topic selection criteria will be identified based on its relevancy and importance to the SAI)

CRITERIA	WEIGHTS	Identified alternative audit topics							
		Topic 1		Topic 2		Topic 3		Topic 4	
		Score	Weighted Score	Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
1. Possible impact	15	3	45	2	30	2	30	2	30
2. Materiality	15	3	45	2	30	3	45	3	45
3. Risks to good management	15	3	45	3	45	0	0	3	45
4. Complexity	10	3	30	1	10	3	30	3	30
5. Significance	15	3	45	1	15	2	30	2	30
6. Visibility	10	3	30	3	45	1	10	2	20
7. Coverage	5	2	10	3	15	2	10	2	10
8. Cross-sectoral	5	2	10	1	5	1	5	1	5
9. Auditability	10	3	30	0	0	3	30	2	20
AGGREGATE WEIGHTED SCORE	100		290		195		190		235
RANK			1		3		4		2

Comments:

1. Materiality:.....(State here the reasons/justifications for specific score for each topic)
2. Possible Impact:
3. Improvement:
4.

The above assessment indicates Topic 1 (Solid Waste Management Climate) as the first priority, Topic 4 (Maternity Services in public hospitals) as the second priority and Topic 3 (Sustainable Fisheries) as the third priority.

Note: Not applicable = 0, Low = 1, Medium = 2, High = 3

- ★ Weights are assigned to each criterion, which aggregates to 100%. The assignment of weight to each criterion will depend on importance of the criterion to the SAI’s management, legislature, government and public in general.
- ★ The auditor should exercise professional judgment while assigning a score of ‘not applicable’, ‘low’, ‘medium’ and ‘high’. However, his/her judgement should be backed with appropriate justifications and documentation.
- ★ The product of ‘weights’ and ‘score’ would give the ‘weighted score’. The aggregate of weighted score would result to “Aggregate Weighted Score” for each topic.
- ★ The topic scoring highest ‘Aggregate Weighted Score’ will be ranked as first priority. Hence, it would generally accord the highest priority of audit resources, and subsequently prioritized for audit. Depending on the availability of audit resources, the numbers of audit topics are chosen to be audited in a given period of time, based on priority determined through rank.

The audit plan is a key document that sets the road map for the individual performance audit of any entity or activity which focuses directly on issues and areas relating to the subject matter in detail. One must plan in order to obtain sufficient, relevant and competent evidence in

The auditor shall plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management.
- ISSAI 3000/96

an efficient and timely manner. The output of planning is the audit plan and programme which should be approved by the supervisor or the Auditor General.

Objective of audit planning

- 3.1 The objective of audit planning is to establish a consistency of approach and provide guidance on the methods and process of implementing performance audits in an organized manner. Audit planning involves developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit, in order for the audit to be performed effectively.
- 3.2 Audit planning is prepared to determine the best way of doing the work to ensure a satisfactory and quality result. This ensures that major organizational activities, systems and controls are sufficiently covered by audit.
- 3.3 A well thought-out plan in general is indispensable in performance auditing because of the diverse and complex nature of the methods and process of its execution. Audit planning identifies the essential elements of operation and performance. It is the best way to address the significant and high-risk issues that affect the performance of the entity.
- 3.4 The audit team shall be responsible for the audit planning and is accountable to his/her supervisor(s).
- 3.5 The supervisor(s) or the Auditor General shall review and approve the audit plan prior to the commencement of the audit.

Pre-requisites of the planning phase

Code of ethics

- 3.6 The code of ethics is a set of requirements that provide assurance that auditors will follow professional behaviour and work objectively towards achieving their targets. However, such requirements should be inculcated

in each and every auditor and is being signed during the appointment as 'Oath of Good Conduct, Ethics and Secrecy'.

- 3.7 The supervisor should ensure that the code of ethics as stipulated in the Audit Act of Bhutan 2018 is adhered to by the audit team.

Conflict of interest

- 3.8 The declaration of conflict of interest is to ensure that there is no conflict of interest in the context of close relatives occupying influential position in the entity identified for audit. It is also to ensure that the audit is conducted with complete objectivity and independence. **Audit Tool 3.1** should be used for declaration of conflict of interest.
- 3.9 The audit team including the audit supervisor should be and be seen independent. If there is conflict of interest of any team member, team leader or supervisor, the same should be declared and recorded.
- 3.10 The supervisor should ensure that the auditors with close relatives holding influential position in the audited entity is not engaged for that audit.
- 3.11 If the audit team engages the services of either internal or external expert, the same process of declaration of conflict of interest should be followed.

Competence and Qualification of Auditors

- 3.12 The quality of a performance audit is directly related to the auditors assigned to the audit. The audit team shall collectively have the requisite knowledge of the subject, experience, technical skills and the auditing proficiency necessary to fulfil the requirements of the audit⁶.
- 3.13 The team shall plan audit and engage personnel with appropriate skills and competence to discharge their responsibilities judiciously. The competency of individual auditors should be mapped in the competency matrix provided in **Audit Tool 3.2**. Some of the core competencies for performance auditors, adapted from the "Competency framework for public sector audit professionals at supreme audit institutions", are provided in **Appendix 3.1** for guidance.



Engagement of an expert/specialist

- 3.14 Performance audits are generally complex and highly specialised and it may not always be possible for the RAA to recruit people with necessary competence to meet all the requirements. In such cases, the required skills may therefore be obtained by engaging experts to provide necessary

⁶ISSAI 3000/64

expertise in the unique and highly technical areas. The audit team will be able to ascertain the need for an expert from **Audit Tool 3.2** after assessing the available competencies within the audit team. If needed, the audit team shall apprise their supervisor(s)⁷ on the need of specialist and technical expert for a particular audit. The supervisor will then apprise the senior management to fill in the competency gap with a written requisition.

- 3.15 The RAA shall have the power to require the agencies to provide technical and professional support as may be necessary and warranted in proper discharge of audit function. –Section 55(4), Audit Act of Bhutan 2018
- 3.16 The nature and the extent of engagement of expert for particular audit should also be clearly spelt in the audit plan and a specific TOR should be drawn for the same.
- 3.17 It should be ensured that the expert has the required professional competence and objectivity.
- 3.18 The risk that an expert's objectivity will be impaired increases when the expert is:
- employed from the audited entity; or
 - related in some other manner to the audited entity, for example, by being financially dependent upon or having an investment in the entity.

- 3.19 When the work of an external expert (independent expert or specialist) is used to support the performance audit team's findings, reasonable assurance should be obtained on the expert's reputation for competence. To rely on the findings of the expert, the followings ought to be performed by the auditor:
-  The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value. - ISSAI 3000/52 
- evaluate whether the expert's findings are reasonable based on the auditor's knowledge of the organization/agencies operations and knowledge of the methods, assumptions and sources of data used by the consultant;
 - assess whether all relevant documentation was provided to the expert and whether the expert's findings are based on adequate information.

⁷ISSAI 3000/65

Appointing a focal person

3.20 A focal person should be appointed for every audit. The responsibilities of the focal person are to ensure:

- Audit Event Diary (**Audit Tool 3.3**) is maintained;
- minutes of every meeting are prepared;
- communicating with the stakeholders;
- working papers and evidences (complete documentation) are in safe custody;
- developments for that audit are recorded;
- proper co-ordination and communication with the Follow-up and Clearance Division, Policy and Planning Division and the audited entities.

Audit Intimation Letter

3.21 The planning phase begins with the issue of an audit intimation letter, which should be served to the audited entity prior to commencing the fieldwork. The letter should contain information on

- Overall audit objective(s) expanding on the 3Es;
- The audit team and focal person details;
- Timeframe for the audit;
- Instructions to the audited entity to provide documents, information, proper working space (if required);
- Need to appoint one official as a point of contact for the audit;
- any other information related to audit as deemed appropriate by the management.

Developing an audit plan

3.22 The auditor should acquire sufficient knowledge of the audited programme or audited entity's business. Therefore, before starting the audit, it is generally necessary to conduct research work for building knowledge,

testing various audit designs and checking whether the necessary data are available.

3.23 The audit plan should be based on a sound understanding of the subject matter. Therefore, the auditor should cover the following steps in planning the audit:

- Understanding the subject matter
- Conduct Stakeholder Analysis
- Identify the key areas or lines of enquiry
- Carry out risk assessment
- Defining audit objective and scope
- Defining audit approach
- Designing Audit Program
- Job Distribution
- Presentation and Approval of Audit Plan

Understanding the subject matter

3.24 It is important to develop a sound understanding of the subject matter that is sufficient to determine the audit objectives, facilitate the identification of significant audit issues and fulfil assigned audit responsibilities. This will familiarise the auditor with the policy objectives, operational objectives and main activities, working methods and problems of the entity.

The auditor shall acquire substantive and methodological knowledge during the planning phase. - ISSAI 3000/98

3.25 In order to thoroughly understand the subject matter, the auditor should collect background information and assess the internal control system relating to the subject matter. While the process involved may appear to be similar to the identification of risks for audit topic selection process, the steps here would be more in-depth to understand the minute details of the specific subject matter.

3.26 This knowledge includes (but not limited to) an understanding of the following:

- characteristics of the topic being audited (role and function, activities and processes in general, resources, development trends etc.);
- performance goals of the entity;
- organizational structure and accountability relationships;

- internal and external environment and the relevant stakeholders;
- external constraints affecting outputs and outcomes delivery of the entity;
- strategic plan, corporate plan, management plan and annual report;
- policy, rules and regulations;
- internal guidelines and operating manuals;
- recent amendments to the act, rules and regulations;
- budget and expenditure statements; and
- recent external audits, internal audits, reviews, evaluations and inquiries into the agencies.

3.27 The above information documents the auditor's understanding of the subject matter, ensures a systematic approach to obtain knowledge and provides a source of information.

3.28 Past reviews can prove to be an extremely useful source of information. They can help to avoid unnecessary work in examining areas that have been under recent scrutiny. There is, however, no substitute for discussions with senior program management to gain an overall programme perspective against the background of the above information.

3.29 Obtaining the required knowledge of the entity is a continuous and cumulative process of gathering and assessing information. Auditors must relate the resultant knowledge to audit evidence and information gathered at all stages of the audit. The information on the audited entity can be obtained using the document requisition form (**Audit Tool 3.4**) and return of document form (**Audit Tool 3.5**).

Stakeholder Analysis

3.30 Stakeholder in auditing refers to people, organizations and groups interested or involved in the audit topic. It shall also include those who have influence on, are influenced by or are important for the good performance of the audit topic.

a) Stakeholder Mapping

3.31 The first step in stakeholder analysis is the stakeholder mapping. Identification of the main stakeholders, their interests, how those interests

The auditor shall plan for and maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process. - ISSAI 3000/55

can affect the risk and the performance of the audit topic are parts of stakeholder mapping.

3.32 Stakeholder mapping will help to identify

- the main stakeholders and their roles in the audit topic;
- conflicting interests;
- possible people to provide documents, to be interviewed, to send questionnaires or to participate in focus groups;
- groups to support the changes proposed by the audit.

3.33 Stakeholder mapping should be carried out as provided in **Audit Tool 3.6**

b) RACI Analysis

3.34 Another step in stakeholder analysis is to conduct the RACI analysis. RACI refers to Responsible, Accountable, Consulted and Informed stakeholders. This assessment will help the audit team in identifying stakeholders according to their roles in a particular audit. The RACI can be done using **Audit Tool 3.7**

Identifying the key lines of enquiry

3.35 After understanding the subject matter, it is important to identify significant areas for audit focus rather than applying equal efforts and resources to all aspects of the audit. This process is also referred to as defining lines of inquiry or identifying issues of significance. Lines of audit enquiry are matters or areas selected for in-depth analysis. The key lines of enquiry will enable auditors to generate a focus area for audit.

3.36 A rational approach to identifying key areas of the audit topic involves analysis of subject matter information. It is of utmost importance that the right questions or enquiries are asked in order to get best results.

Some relevant Key Lines of Enquiry:

✪ Authority:	Does the activity have specific authority under relevant legislation or regulations?
✪ Need:	Is there a need for public expenditure or resources to be used on this activity?
✪ Alternatives:	Has consideration been given to alternative means of meeting the need? Was the best alternative chosen?
✪ Method:	Have activities been planned, organized and implemented in an acceptable way?

✧ Standard:	Were the requirements or specifications appropriate, at the right level and are they being met?
✧ Timeliness:	Did matters proceed at the appropriate rate, avoiding delay and unnecessary costs?
✧ Controls:	Are there adequate controls to ensure the achievement of satisfactory value for money?
✧ Cost:	Were resources used economically and efficiently?
✧ Recovery:	Were receipts or returns optimised?
✧ Achievement:	Were the intended objectives properly defined and communicated? Were they achieved?
✧ Performance Indicators:	Do the intended objectives have indicators to measure their achievements?
✧ Implications:	Were there any significant implications of the activity concerned?
✧ Other relevant questions:	Any other relevant question of significance to the audited entity.

Carrying out risk assessment

- 3.37 The processes of identifying key lines of enquiry will include conducting risk assessment. However, it is important to understand that the processes of risk assessment here entails different approach and premises from risk assessment in selection of audit topics.
- 3.38 Risks are events that threaten the assets and earnings of, or the essential services provided by the audited agencies. In essence, a risk is anything which has the potential to prevent the audited agencies from achieving its objectives.
- 3.39 Risk assessment is carried out in performance audit to identify the main threats to economy, efficiency and effectiveness of the subject matter.
- 3.40 General risks in Economy can include:
- waste, i.e. using resources which are not necessary for the achievement of the desired outputs or results;
 - overpaying, i.e. obtaining resources which are used, but could have been obtained at a lower cost; and
 - gold-plating, i.e. paying for a higher quality of input than required to achieve the desired outputs or results.

3.41 General risks in Efficiency can include:

- leakages, i.e. resources used do not lead to the desired outputs;
- non-optimal input/output ratios (e.g. low labour efficiency ratios);
- slow implementation of the intervention; and
- failure to identify and control externalities, i.e. costs imposed on individuals or entities falling outside the boundary of the intervention or organization.

3.42 General risks on Effectiveness can include:

- faulty policy design, e.g. inadequate assessment of needs, unclear or incoherent objectives, inadequate means of intervention or impracticability of implementation; and
- management failures, e.g. objectives not being met, management not prioritizing the achievement of objectives.

3.43 The definition of the scope and audit questions shall be guided by the risk assessment and, during conducting stage, the auditor shall perform procedures to obtain sufficient appropriate evidence to support audit findings, as a response to the risks identified in the subject matter.

Risk Assessment Model

3.44 The potential risks that are identified are prioritized in order to focus the audit on those which have the highest overall impact. Risk assessment involves identifying each risk, establishing how important it is (based on an assessment of its likelihood and consequence) and deciding whether the size of the risk is acceptable. A risk assessment tool is included in this document as **Audit Tool 3.8**.

3.45 This risk assessment helps the auditors to focus the audit effort more efficiently and effectively on those high risk areas, and lesser focus for medium and low risks to make best use of the existing resources. The risk assessment processes should be properly documented.

3.46 A risk assessment model explained in **Figure 3.1** is used for assessing the risks. The red colour in the diagram indicates existence of high risk, thus the audit should deploy more resources on dealing with it. On the other hand, the green colour indicates low risk, thus it may not warrant audit attention. Likewise, amber colour indicates relatively medium risk signifying prioritization of audit resources based on its availability.

Figure 3.1: Risk Assessment Model

<div style="text-align: center;"> <p>Consequence</p> <p>Likelihood</p> </div>		<p>May have minimal impact</p>	<p>Could have some impact</p>	<p>Might have impact on the business resulting in reduced performance</p>	<p>Is expected to result in critical business failure</p>
		<p>Insignificant</p>	<p>Minor</p>	<p>Moderate</p>	<p>Major</p>
<p>Is expected to occur in most circumstances</p>	<p>Most Likely</p>	<p>M</p>	<p>M</p>	<p>H</p>	<p>H</p>
<p>Might occur at some time</p>	<p>Possible</p>	<p>M</p>	<p>M</p>	<p>M</p>	<p>H</p>
<p>Could occur at some time</p>	<p>Unlikely</p>	<p>L</p>	<p>M</p>	<p>M</p>	<p>M</p>
<p>May occur only in exception circumstances</p>	<p>Rare</p>	<p>L</p>	<p>L</p>	<p>M</p>	<p>M</p>

High = High Risk
 Require deployment of more audit resources

M = Medium Risk
 May require some degree of audit attention

Low = Low Risk
 May not warrant audit attention

Fraud

3.47 ISSAI 1240 defines fraud as *“An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage”*.

3.48 The auditors shall make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives. If the risk of fraud is significant, it is important during the audit for the auditor to obtain a good understanding of the relevant internal control systems and examine whether there are any sign of irregularities that could hamper performance.

The auditor shall assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process.
 - ISSAI 3000/73

3.49 Fraud and corruption may be committed by individuals, but it can also be more broadly prevalent in government systems and entities. In general, the performance of individuals is significantly affected if they are taking bribes or is involved in using deception to obtain unjust or illegal advantages, as it

distorts the attempts of reaching government objectives. When this is not limited to individual cases, or if it is of a sufficiently large scale, it poses a serious threat also to the performance of the concerned government systems and entities as such. The significance of risks for performance problems due to fraud and corruption are affected by the type of government operations as well as by the general prevalence and perception of fraud and corruption in society.

- 3.50 The methodology of performance auditing is highly appropriate for analysing the functioning of administrative and management systems in order to better prevent fraud and corruption. On the other hand, performance auditing is in general not well designed to identify and/or investigate individual cases of fraud and corruption. When suspicion arise on individual cases of fraud and corruption, performance auditors should report those suspicions to management, for consideration on whether to make further investigations and/or to report the suspicions further to the appropriate authorities.
- 3.51 Each audit must be governed by the audit objective, which may make the risk for fraud and corruption more or less relevant in the audit.
- 3.52 Features increasing the risk for fraud and corruption are for example when the operations:
- affects benefits for private actors, such as in the case of procurement, payment of grants, subsidies, permits and licenses;
 - affects obligations for private actors, such as taxation, revenue collection, inspections, investigations and limitations negatively affecting private actors;
 - involves services the clients in some way are depending on.
- 3.53 If the risk for fraud and corruption in government general and/or in the specific operations are considered to be significant, auditors are advised to perform limited procedures (interview management and possibly staff, and review documents) in the audited entities to collect information on if management:
- have identified the risks for fraud and corruption in their operations?
 - have communicated principles of ethical behaviour to staff?
 - in case of significant risks for fraud and corruption, have put in place appropriate systems to prevent fraud and corruption?
 - have addressed instances if and when they occur?

3.54 If the risk for fraud and corruption is considered significant, and management has not taken appropriate action, the auditors should consider what appropriate action to take. These actions may include to:

- address (explicitly or implicitly) the risk relevant to the audit objective if such risk could affect government performance;
- inform management of the audited entities that, preliminary, weaknesses in handling the risk for fraud and corruption have been identified, but will not be addressed in the current audit as they are not relevant to the audit objective; the audit entity can also be recommended to further investigate the weaknesses and take appropriate action to overcome them;
- inform financial and/or compliance auditors in the SAI about the preliminary observations made;
- inform those charged with governance of the concerned audit entities about the preliminary observations made;
- inform the appropriate enforcement or oversight authorities, such as the police or an anti-corruption commission about the preliminary observations made.

3.55 Performance audits may specifically address systems where fraud or corruption is known or believed to be significant. The risk for fraud and corruption may also need to be considered in other performance audits, as it may be an important factor for poor performance relevant to the audit objective. There are many opportunities to consider the risks for fraud and corruption in performance auditing, for example:

- To select audit topics that addresses systems where fraud and corruption is known or perceived to be significant – for example systems with a high risk of corruption like procurement, services where citizens inappropriately may need to pay extra money to get the services delivered or studying whether systems for inspection and control focuses on major risks for corruption, rather than compliance with less important regulations.
- To define audit questions targeting factors or systems likely to explain poor performance as well as enabling fraud and corruption.
- If relevant to the audit objective, to collect data directly providing evidence for that fraud and corruption are likely to be a cause to poor performance (for example asking selected clients if they have ever paid bribes – guaranteeing anonymity).

- To consider in the analysis if fraud and corruption may be underlying reasons for observed performance problems, even if no direct evidence has been obtained; without evidence the suspicions cannot be presented in the report, but the risks can explicitly or implicitly be considered in the analysis.
- In developing recommendations, to consider how the performance can be improved at the same time as the recommended measures are designed to have a preventive effect on fraud and corruption.
- To separately report observations or suspicions of fraud and corruption to the relevant authorities or regularity auditors as appropriate, regardless of whether the information will be used in developing the performance audit report or not. In such cases, the need to keep the detailed information secret should be carefully considered, in order to enable other potential forensic investigations.

Defining Audit Objective and Scope

- 3.56 Having determined the area of focus through key lines of enquiry and risk assessment, the auditor should then frame audit objectives and define the audit scope. Audit objectives will provide the auditor information on the expected outcome of conducting the audit and the audit scope defines the audit boundary.
- 3.57 Audit objectives are normally expressed in terms of what questions the audit is expected to answer about the performance of an activity, such as results achieved, or the economy or efficiency of resource utilisation. Audit objectives must be defined in a way that will allow the audit team, at the end of the audit, to reach conclusions against each objective.
- 3.58 Audit objectives should be precisely defined or specified. A performance audit has a broader objective than a financial audit because it covers the areas of economy, efficiency and effectiveness. Audit objectives relate to the reasons for conducting the audit and should be established early in the audit process to assist in identifying the matters to be audited and reported. The audit objectives should address the concerns of improving the economy, efficiency and effectiveness of programme management. The audit objectives should be achievable, realistic, relevant, and meaningful, and pertain to the focus area.
- 3.59 After the audit objectives have been decided, the scope of the examination should be determined to achieve the objectives. The audit scope refers to the framework, boundary, limit, subject and nature of the audit. Scoping the individual study involves narrowing the audit down to a relatively few

matters of significance that relate to the audit objective. It describes the parts or functions of the entity that are subject to the audit in addition to the time period covered by the audit. It must also be within the capacity and capability of the audit resources available.

Defining Audit Approach

3.60 The overall audit approach is a central element of any audit. It determines the nature of the examination to be made and is an important link between the audit objective(s), audit criteria and the work done to collect the evidence⁸.

The auditor shall choose a result, problem or system-oriented audit approach, or a combination thereof.
- ISSAI 3000/52

3.61 As such, it aids in forming appropriate audit questions to achieve the audit objectives. It also defines the necessary knowledge, information and data and the audit procedures needed to obtain and analyse them. Auditors should design a performance audit using one approach or a combination of approaches. The different approaches are result, problem or system oriented approach.

- A result-oriented approach assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended⁹. In this approach, the findings will be in the form of a deviation from the criteria and the recommendations will aim at eliminating such deviations. If the criteria are difficult to determine, the auditor may need to work with experts to develop credible criteria. The audit would usually focus on different issues in a certain area, but not necessary link factors to each other in a cause-effect relationship. A result-oriented approach deals mainly with questions such as: what results have been achieved? Have the objectives been met? The result oriented audit approach is provided in **Audit Tool 3.9** along with an example.
- In the problem-oriented approach the starting point for an audit would normally be a problem that needs to be verified. This approach examines, verifies and analyses the causes of particular problems. It can be used when there is a clear consensus on a problem, even if there is no clear statement of the desired outcomes or outputs. Conclusions and recommendations are primarily based on the process of analysing and confirming causes rather than comparing audit evidence with audit

⁸ISSAI 3000/41

⁹ISSAI 3000/43

criteria¹⁰. The audit criteria have a less significant role in this approach. This approach deals with questions such as: What are the causes of the problem? To what extent can the government solve the problem? This can be done using as provided in **Audit Tool 3.10** along with an example.

- A system-oriented approach examines the proper functioning of management systems. Public services are complex, and the growing complexity of government programs increases the incidence of conflicting goals and unintentional side effects, caused by overlapping or coinciding functions. Therefore, it is important to develop models to help performance auditors to evaluate implementation and effectiveness of government interventions. Frequently, elementary principles of good management will be helpful in examining the conditions for efficiency or effectiveness even when there is a lack of a clear consensus on a problem or when outcomes or outputs are not clearly stated¹¹. **Audit Tool 3.11** provides the system oriented approach to performance auditing along with an example. This type of audit can use descriptive questions, such as: what are the responsibilities of each actor? What are the relevant information flows? Can be complemented by evaluative questions, such as: is there a good quality monitoring system? Are the processes evaluated periodically and properly?

Table 3.1: Audit Approaches

Approach	Why?	How to implement?
Analysis of procedures/ System-oriented Approach	Process Level: <ul style="list-style-type: none"> ▪ Focus on compliance with established criteria, best practices or desirable control model ▪ Assess the extent to which the activities, systems and procedures are well designed or implemented ▪ Optimize the controls 	<ul style="list-style-type: none"> ◆ Examine the relevant programme and activities. If control deficiencies are significant, assess the results or outputs of the programmes, activities or concerned organizational units ◆ Apply audit techniques like observation, interviews/ discussions and examination of documents, process walk-through.
Analysis of results/ Result-	Programme/Activity Level:	◆ Examine key performance indicators in relation to identified

¹⁰ISSAI 3000/44

¹¹ISSAI 3000/42

oriented approach	<ul style="list-style-type: none"> ▪ Focus on programme outputs, objectives and targets ▪ Assess conformance with specific audit criteria ▪ Identify issues with output, outcome and impact of programme. <p>Process Level:</p> <ul style="list-style-type: none"> ▪ Quantify the effectiveness of activities within a process, or the outputs of a process, in achieving specific audit criteria 	<p>controls for high risk areas on conformance with audit criteria</p> <ul style="list-style-type: none"> ◆ Perform substantive procedures (including analytical review) to obtain evidence on completeness, accuracy and validity of data ◆ Apply audit techniques like observation, interviews, examination of documents and data analysis
Analysis of Problems/ Problem-based Approach)	<ul style="list-style-type: none"> ▪ Focus on the main problems in the audit program. ▪ Assesses the root causes of the problems, ▪ Aim to understand each problem studied in all relevant aspect, in answering particular types of questions 	<ul style="list-style-type: none"> ◆ As far as practicable, analysis should be illustrative, exploratory and contains critical application of knowledge to findings ◆ Some issues may require generalized findings ◆ Problems should appropriately researched to ensure that main problems are addressed.

Use of Criteria in terms of Audit Approaches

3.62 In the system-oriented and result-oriented approaches the assessment of performance is systematically made against pre-defined objectives or audit criteria. The predefined objectives and criteria need to cover the different issues addressed in the audit. They provide a basis for evaluating the evidence on the subject matter to determine performance and develop audit findings. The different issues covered in the findings should be thematically related and may or may not include issues with a cause-effect relationship.

3.63 The use of criteria in a problem-oriented performance audit is somewhat different. Also in this approach there is a need for at least one normative statement (the criteria) in order to define at least one main performance problem. This may be based on the main objective of a programme, statements in the legislation, overall human values based on United Nations Declaration of Human Rights or other sources. There is a need for evidence that the main performance problem exist. This can be verified by evidence collected during the audit or by referring to sufficiently legitimate existing

sources. In principle, there is no need for additional criteria in analyzing the causes to the main performance problems if a sufficient and appropriate analysis of the cause-effect relationship is presented. The cause-effect relationship makes the criteria used for the main problem indirectly relevant also for the causes to the problem.

Analyzing causes to weaknesses and problem

- 3.64 In all approaches, the audits may involve more or less thorough analysis of causes to the weaknesses and problems identified. However, result- and system-oriented approaches audits can also be limited to identify the deviations from the audit criteria without analyzing the causes for these deviations. If causes are analyzed in these approaches, the analysis may be of a more overall nature or be a more in-depth analysis of causes to weaknesses and problems.
- 3.65 In problem-oriented approach, the main factors expected to cause the performance problems are often preliminary identified during planning of the audit, and constitutes a major part of the audit design with separate audit questions and possibly sub-questions. The analysis of the causes to the main performance problems are in general of a more in-depth nature and separate audit findings may be developed for the explanatory factors. Such findings can also be described as performance problems in themselves, as they contribute to the main problem.

Designing Audit Programme

- 3.66 The audit programme is part of audit plan and essentially translates the key lines of enquiry and the audit criteria into detailed audit procedures designed to satisfy audit objectives.
- 3.67 The main reasons for using audit programme are to:
- establish a clear relationship between audit objectives, key lines of enquiry, methodology, and the anticipated field work to accomplish those objectives;
 - Identify and allocate the resources and manpower necessary for conducting the audit;
 - identify and document the procedures to be performed, before commencement of testing;
 - facilitate delegation, supervision and review;
 - ensure that all planned procedures are performed;
 - document performance of procedures executed; and

- document the application of audit sampling to provide sufficient audit evidence.

3.68 An audit program should set out and specify the following:

- audit objectives and sub-objectives concerning the efficient, economical or effective operations of the area or entity being audited;
- audit criteria to be applied;
- the specific tasks to be performed during the fieldwork to determine the extent to which agency operations meet the requirements outlined in audit criteria;
- evidence to be collected, including details of audit sampling and the timeframe of the activity to be covered;
- procedures/techniques for collecting the evidence;
- the allocation and timing of tasks to be performed by audit team members; and
- any necessary special instructions.

Procedures in Audit Programming

3.69 Audit design matrix is a part of audit programme which helps the auditor in breaking down the audit objectives into sub-objectives or questions where appropriate methodologies are identified to answer the audit questions. Audit Design Matrix is provided as **Audit Tool 3.12**.

During planning, the auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence that respond to the audit objective(s) and question(s). - ISSAI 3000/101

3.70 Resource allocation is an integral part in designing the detailed audit programme. The audit programme should include the allocation of jobs distributed amongst the team with appropriate skills, knowledge and experience to focus on a specific area along with the time frame as provided in **Audit Tool 3.13**.

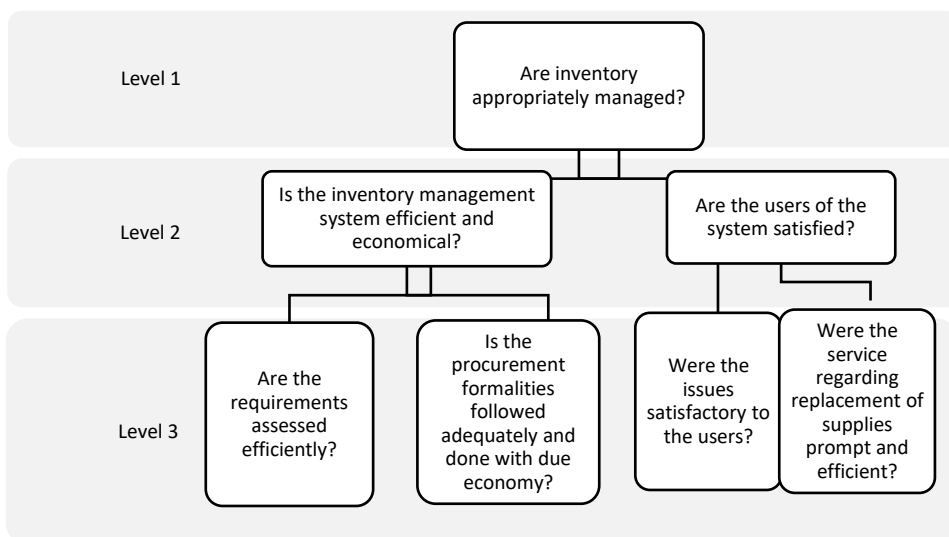
Formulating Audit Questions

3.71 Once the audit objective is defined and approach identified, the auditor needs to formulate audit questions in order to meet the audit objective using the audit approach. The audit objective could be answered with one audit question or several questions and sub-questions but the questions should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the audit objective (or overall audit

question). The auditor needs to formulate the questions on a proper basis as the success of the audit depends on the questions, since it will have implications for decisions regarding the types of data to be collected, how data collection will be carried out, the analysis that will be performed and the conclusions that will be reached.

- 3.72 Issue analysis is a common and relevant technique to break the audit objective down into a number of more detailed questions to form a pyramid. This technique stems down from the audit approach and formulates audit questions and sub-questions for the audit. **Figure 3.2** shows a simple example of the use of issue analysis.

Figure 3.2: Example of issue analysis



Source: Handbook on implementing performance audit ISSAIs

- 3.73 The purpose of the technique is to assure that the audit objective is met by a logical flow from specific audit procedures to the sub-questions all the way up to the main audit question.

Establishing Audit Criteria

- 3.74 There should be related and suitable criteria or performance measures that serve as a benchmark against which the audit questions are measured.

The auditor shall establish suitable audit criteria, which correspond to the audit objective(s) and audit questions and are related to the principles of economy, efficiency and/or effectiveness.

- 3.75 Audit criteria are reasonable and attainable standards of performance and control against which compliance, adequacy of systems and practices

- ISSAI 3000/45

and the economy, efficiency and effectiveness of operations can be evaluated and assessed.

3.76 Audit Criteria can be of two types:

a) General Criteria

3.77 General criteria are broad statements of acceptable and reasonable performance. General criteria are often derived from common sense or generally accepted practices. General criteria should be few in number with opportunities for expansion to make it more specific later. For example, a general criterion could be “The equipment should be optimally used”.

b) Specific Criteria

3.78 Specific criteria are more closely related to the entity’s legislation, objectives, programmes, controls and systems. Specific criteria are mostly derived from the objectives laid down for a particular project or program and their related standards and practices.

3.79 To make the above criterion more specific, the auditor will have to determine the usage time and other standards to make it more specific such as:

- The equipment should be used at least 500 hours in a month;
- Utilisation of equipment should be recorded and monitored;
- The equipment should not be used for personal benefit; etc.
- Specific criteria are closely related to the particular operations in specific areas. Auditors need to know the details of those operations. Auditors should always frame specific criteria in line with the key lines of enquiry.

Sources of Audit Criteria

3.80 Audit criteria should be devised from recognised sources, and be objective, relevant, reasonable and attainable. However, the judgment of the auditor plays an important role in identifying relevant and reliable sources. The following can often be used as sources of criteria:

- Basic planning documents such as feasibility study and approved plan;
- Financial reports of the entity;
- Expenditure statements;
- Budget documents;
- Project documents;
- Criteria used in past audits;

- Standards set by International bodies;
- Government policies and directions;
- Laws, rules, regulations, manuals;
- Literature on the subject matter;
- Past performance reports;
- Performance standards set by management;
- Interviews with relevant officials
- Best national and international practices.

- 3.81 Sometimes, performance indicators are used as audit criteria. However, identifying appropriate performance measures/indicators is one of the most difficult stages in planning for an individual audit. Since the audit covers issues of efficiency and effectiveness obtaining the performance measures/indicators may not always be possible. The auditors should, however, apply relevant international best practices and use professional judgment to ascertain the criteria in such cases.
- 3.82 Occasionally, owing to lack of national standards and laws to govern activities under scrutiny of the audit, establishment of audit criteria may be difficult in absence of legitimate source of audit criteria. In such cases, auditors should use applicable internationally accepted standards, laws and rationale after the consent and acceptance of the audited agency.

Information required and sources

- 3.83 The auditors should plan what information they would require to address the audit questions and measure against the audit criteria. The information required and sources of the information should be documented in the audit programme.

Data collection and analysis methods

- 3.84 Data collection and analysis methods refer to the methodologies used to gather data and analyse them. Generally, performance audits could employ various methodologies like surveys, confirmation, document review, comparative analysis, interviews, process walk-through etc.
- 3.85 The data collection and analysis will help the audit team in answering the audit questions and in determining whether it fulfils the given criteria.

Limitations

- 3.86 It may sometimes be difficult for the audit team to obtain the right information and gather evidences. If there are such limitations that the audit team foresees in attempting to answer the audit questions, the same

should be included in the audit programme.

Expected Audit Findings

3.87 The audit team should be clear on the expected audit findings that the team hopes to reach in conclusion to each audit question. It should be ensured that the audit conclusion on each question relates to the respective audit objective.

Plan Presentation and Approval

3.88 Upon completion of the audit plan and programme, the same should be presented to a panel of RAA's top management for their feedback and comments.

3.89 The comments should then be incorporated in the audit plan document and submitted for approval at appropriate level as per guideline 3.5 of this document.

Quality Assurance in Planning the Individual Audits

3.90 Adherence to planning standards in ISSAIs, Guidelines and Instructions;

3.91 Comprehensive data and information and knowledge of the subject matter/topic of audit, the legal framework of audit etc.;

3.92 Guidelines, policies and procedures which focus on transparent assessment of skill, knowledge and competence of audit staff and matching the skill and knowledge required for audit;

The auditor shall submit the audit plan to the audit supervisor and SAI's senior management for approval.
- ISSAI 3000/104

3.93 The audit plan should be brainstormed and discussed in a forum comprising team leaders, Division Chiefs and internal experts. The discussions may happen in a forum as Policy, Planning and Coordination Meeting or a meeting convened for specific purpose of discussion of audit plan.

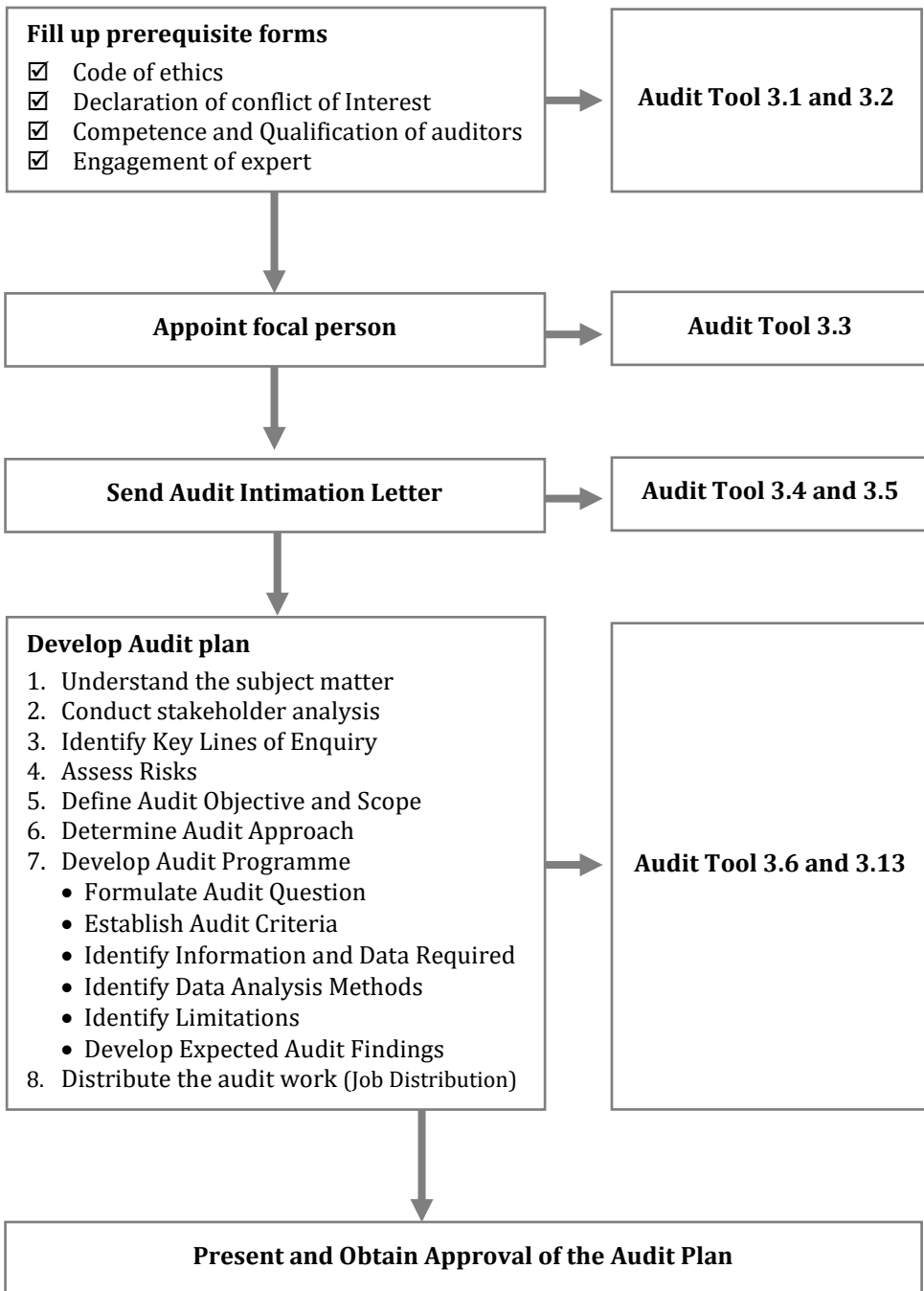
3.94 Review of the planning by top management; and

3.95 Independent review of the entire planning process of performance audits through use of Quality Assurance Tools.

Things to remember in audit planning and before proceeding to the field:-

- ✓ *Declare conflict of interest as required under the Audit Act of Bhutan 2018;*
- ✓ *Get the plan and programme approved by the appropriate authority.*

Figure 3.3: Planning Process



Audit Tool 3.1

Declaration of Conflict of Interest

I, (.....) have been assigned as Audit Supervisor/Team Leader/team member in auditing (.....) for the period covering 1 July 20..... to 30 June 20.....

In accordance with a clause on Conflict of Interest as stated in the **RAA's Oath of Good Conduct, Ethics and Secrecy of Auditors**, I hereby declare that

- to the best of my knowledge I do not have any of my close relatives holding influential position in.....

Further, I undertake to inform my supervisor/team leader should it be known later that thehas any close relatives of mine holding influential position or, any circumstances that may conflict or appear to conflict with my own interest.

In the event of any adverse situation arising out of a conflict of interest in which I am a part, I understand that I shall be held fully responsible and shall be liable to prosecution as per the laws of the land.

- that my close relative(s) given in the following table are holding influential position in.....

As such, I have a conflict of interest to be a part of the audit team to conduct this audit. In this regard, I could like to withdraw from this audit team.

Sl. No.	Name of close relatives	Position held in the entity
1	Mr. X	Financial Controller
2	Mr. Y	Human Resource Manager
3	Mr. Z	Procurement Officer

Dated Signature :
Name of the audit team member making the declaration :
Designation & Division/Section/Unit :

Dated Signature :
Supervisor/Head of Department :
Designation & Division/Section/Unit :

Audit Tool 3.2

Competency Matrix of Performance Audit Team

Name of the Agency :

Period covered :

	Prepared By	Signature	Reviewed & approved by	Signature
Name				
Designation				
Date				

Core Competency and qualification

Name of the auditor	Position Title	Professional qualification (include educational and relevant trainings)	Experience as a performance auditor (No. of years)

Mapping of required knowledge and skill competencies for the specific audit

<i>(Insert specialised knowledge/skills required in the particular field)</i>	<i>(Insert specialised knowledge/ skills required)</i>	<i>(Insert specialised knowledge/skills required)</i>	<i>(Insert specialised knowledge/skills required)</i>
<i>(Insert name of auditor(s) who has the required technical knowledge/skill or leave it blank)</i>			

If there are blanks in the mapping matrix, the team has to assess if the quality of the audit will be affected. If the quality will be affected, the audit team has to appropriately inform the supervisor(s) for engagement of internal or external expert.

Does the audit team have relevant skills and competencies to perform the audit?

Yes/No

If no, actions to be taken to address competency gap: Engage expert/leave the team formation as it is as the gap will not affect the quality of the audit (*provide detailed reasons*)

Conclusion: The engagement team collectively has the appropriate capabilities, competencies and experience to perform the audit or the engagement team collectively does not have the required specialised knowledge and skills to perform the audit and will require the engagement of an expert.

Audit Tool 3.3

Event Diary

The Performance Audit Event Diary will record the chronological events of a particular audit from commencement till end of the audit assignment to keep track of the events. The focal person will be responsible to record all important events for that particular audit. It also serves as a quick reference to the audit team on the progress of audit.

Amongst others, the following events should be recorded:

Sl. No	Date	Events/Activities	Record of Discussion if any	Officials Present	Remarks and Signature
1. AUDIT PLAN					
1.1		Commencement of planning			
1.2		Meetings with audited entity officials	Provide record of discussion or provide reference to RoD		
		Signing off of pre-requisite forms			
2. EXECUTION PHASE					
2.1		Entry Conference			
2.2		Commencement of Execution			
2.3		Meetings with officials			
2.4		Site visits			
2.5		Meetings with officials			
3. REPORTING PHASE					
3.1		Draft report submission to Division Chief			
3.2		Incorporate comments and feedback from DC			
3.3		Draft report submission to DAG			
3.4		Incorporate comments and feedback from DAG			
3.5		Issue of Draft Report			
3.6		Exit conference			
3.7		Receipt of comments and factual confirmation			

3.8		Incorporation of comments from the audited agency			
3.9		Report submitted to Division Chief after incorporating the audited entity's comments			
3.10		Incorporate comments and feedback from Division Chief			
3.11		Report submitted to DAG/Auditor General for final review and approval			
3.12		Incorporate comments and feedback from DAG/AG			
3.13		Final report Issue Date			

Audit Tool 3.4

Documents Requisition Form

From:	
To:	
Date	
Document Requisition No.	

Kindly arrange to provide the following documents and files for the audit of
.....

Sl. No.	Name of the Documents	Remarks

Note: This form should be used during the planning, implementation and reporting phases of auditing.

Thanking you.

Name & Signature
(Auditor)

Name & Signature
(Providing person)

Audit Tool 3.5

Return of Documents

From:	
To:	
Date	

We are returning the following documents and files obtained from you during the audit ofvide document requisition No.....

Sl. No.	Name of the Documents	Remarks

Note: This form should be used during the planning, implementation and reporting phases of auditing.

Thanking you.

Receiving Person:

Name & Signature

Name & Signature
(Auditor)

Audit Tool 3.6

Stakeholder mapping

Stakeholder	Stakeholder role	Stakeholder interests	Level of interest (++, +, 0, -, --)	Priority for the audit	Comments
<p>List of stakeholder related to the audit topic.</p> <p>Try to list as much stakeholders as possible and then rank them according to the importance.</p>	<p>Identify the role played by the stakeholder.</p> <p>The information can be obtained, for example, through document review, research on Internet (trustable sites), interviews.</p>	<p>Identify the interest and influence of the stakeholder on the audit topic.</p>	<p>Show if the stakeholder is highly interested (++), interested (+), neutral (0), against (-), highly against (--).</p>	<p>Level of importance of the stakeholder for the audit (high, medium, low).</p>	<p>Any comment regarding the information in the other columns that can be useful for the audit team.</p>

Audit Tool 3.7

RACI Analysis

Activity / Stakeholder	Stakeholder 1	Stakeholder 2	Stakeholder n
Activity 1				
Activity 2				
Activity 3				
Activity 4				
Activity 5				
Activity 6				
Activity 7				
...				
Activity n				

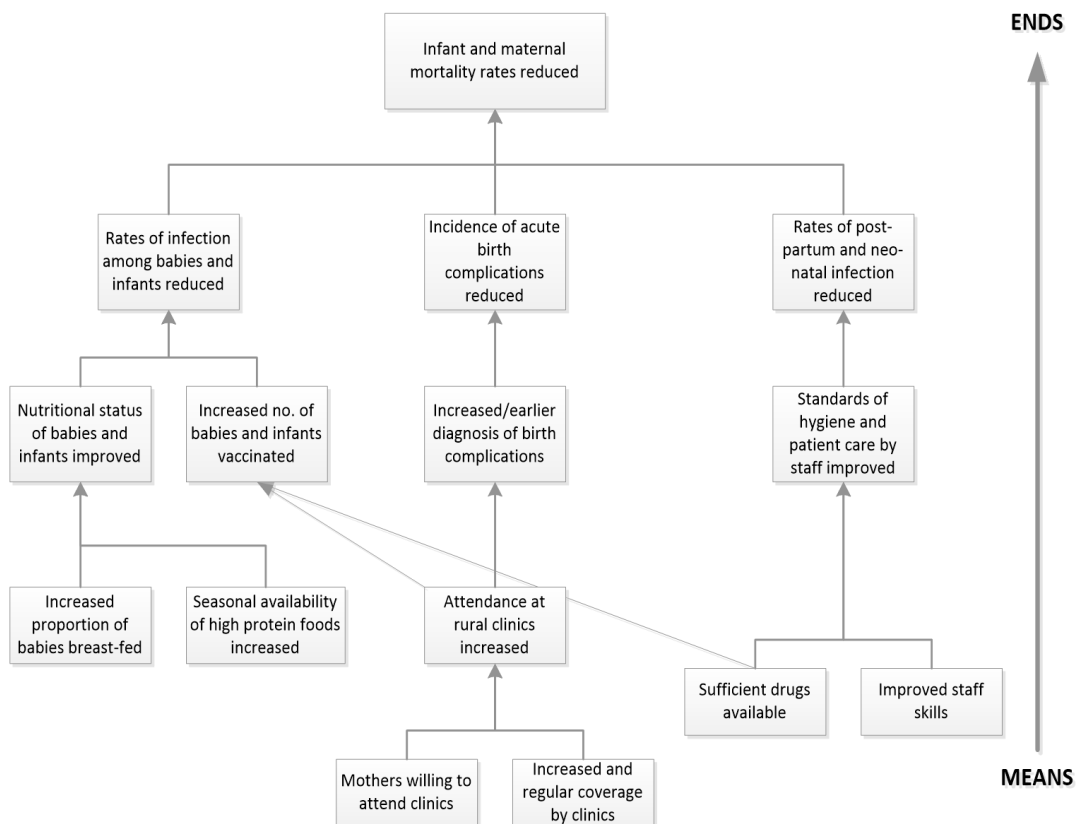
Audit Tool 3.8

Risk Assessment

Sl. No.	Key Lines of Enquiry	Potential Risks	Likelihood of occurrence	Impact	Severity of risk	Audit procedure to address risk (refer to ADM)
						<i>ADM Sub-obj# /Researchable question #</i>

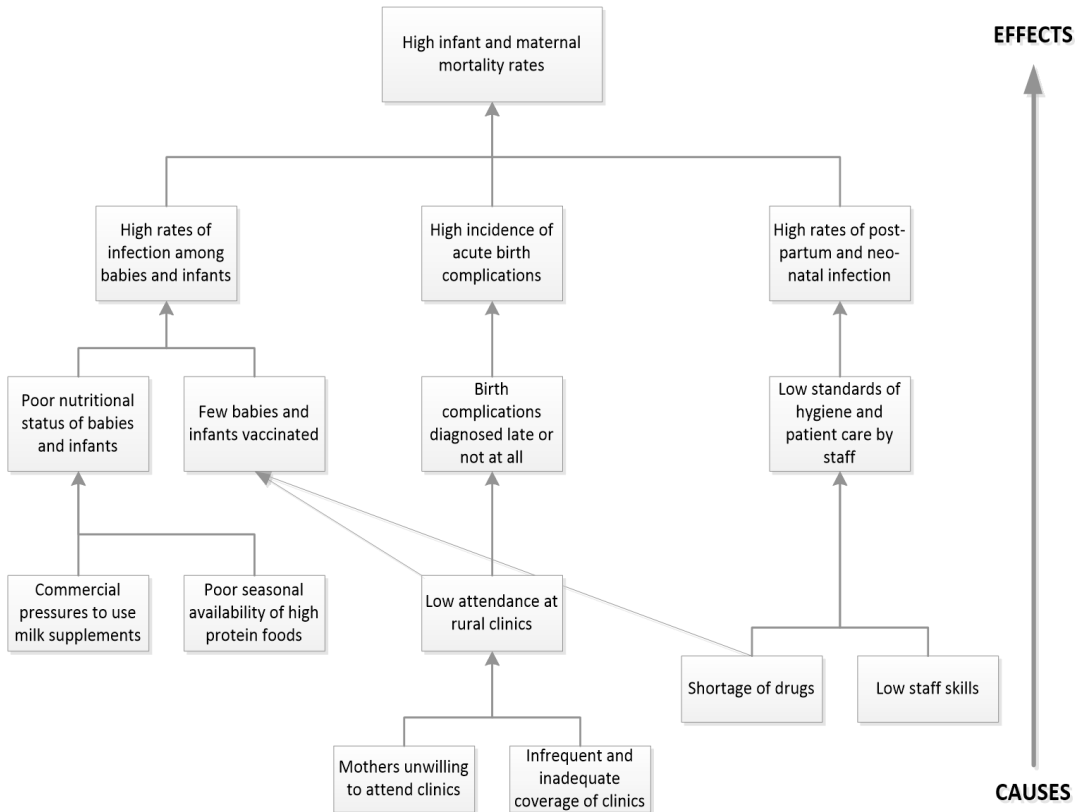
Audit Tool 3.9

Result oriented approach (Objective Tree)



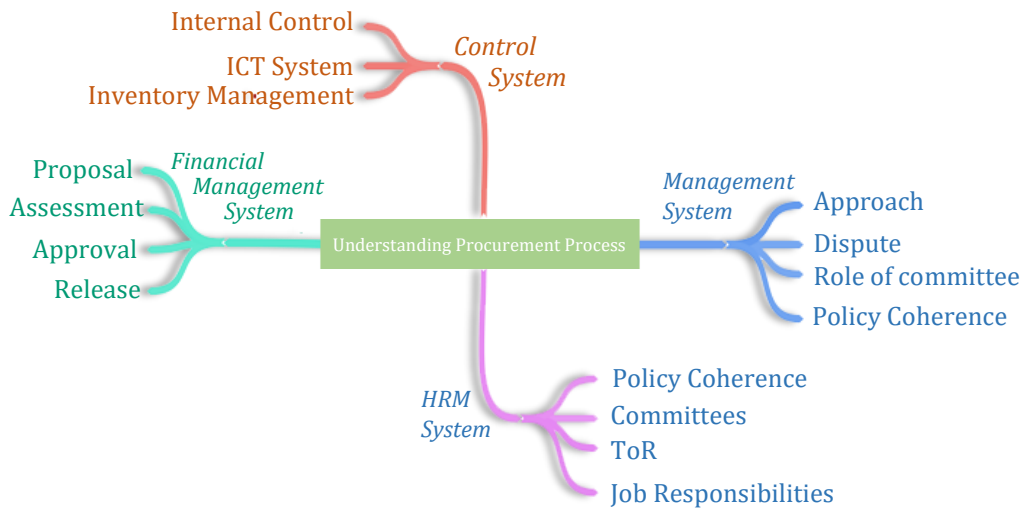
Audit Tool 3.10

Problem oriented approach (Problem Tree)



Audit Tool 3.11

System oriented approach (Mind mapping)



Audit Tool 3.12

Audit Design Matrix

This matrix serves as a tool to assist the auditor to achieve the audit objectives. This tool will help break down major audit objectives into researchable questions along with audit criteria, evidence, methodology, limitations, and the expected audit findings.

Audit Topic:					
Overall Audit Objective:					
Sub-objective:					
Risk:					
Research able question	Criteria & source of criteria	Information required & sources	Data collection & analysis methods	Limitati ons	Expected audit findings
<i>What questions are the team trying to answer?</i>	<p><u>Criteria</u> <i>What is the benchmark to measure?</i></p> <p><u>Sources of criteria</u></p>	<p><u>Information required</u> <i>What information does the team need to address the question?</i></p> <p><u>Sources of information</u> <i>Where will they get it?</i></p>	<i>How will the team answer each question?</i>	<i>What are the challenges and how will it affect the results?</i>	<p>The RAA will be able to conclude:</p> <p><i>What are the expected results of the work?</i></p>

Reviewed by:

Approved by:

Signature
Name
Designation
Date

Signature
Name
Designation
Date

Audit Tool 3.13

Job Distribution

This tool is used for job distribution amongst the team with allotted time frame for each assignment.

Audit Topic:						
Overall Audit Objective:						
Researchable question	Agency (ies)	Assigned to:	Start date	End date	No of working days	Total working days

The Chapter explains the practice and procedures to be followed by the audit team in implementation of performance audit. During this phase, the auditors should evaluate the conditions in the field against the criteria determined during the planning phase. The main purpose in the implementation phase is to gather sufficient and appropriate audit evidences to support audit findings.

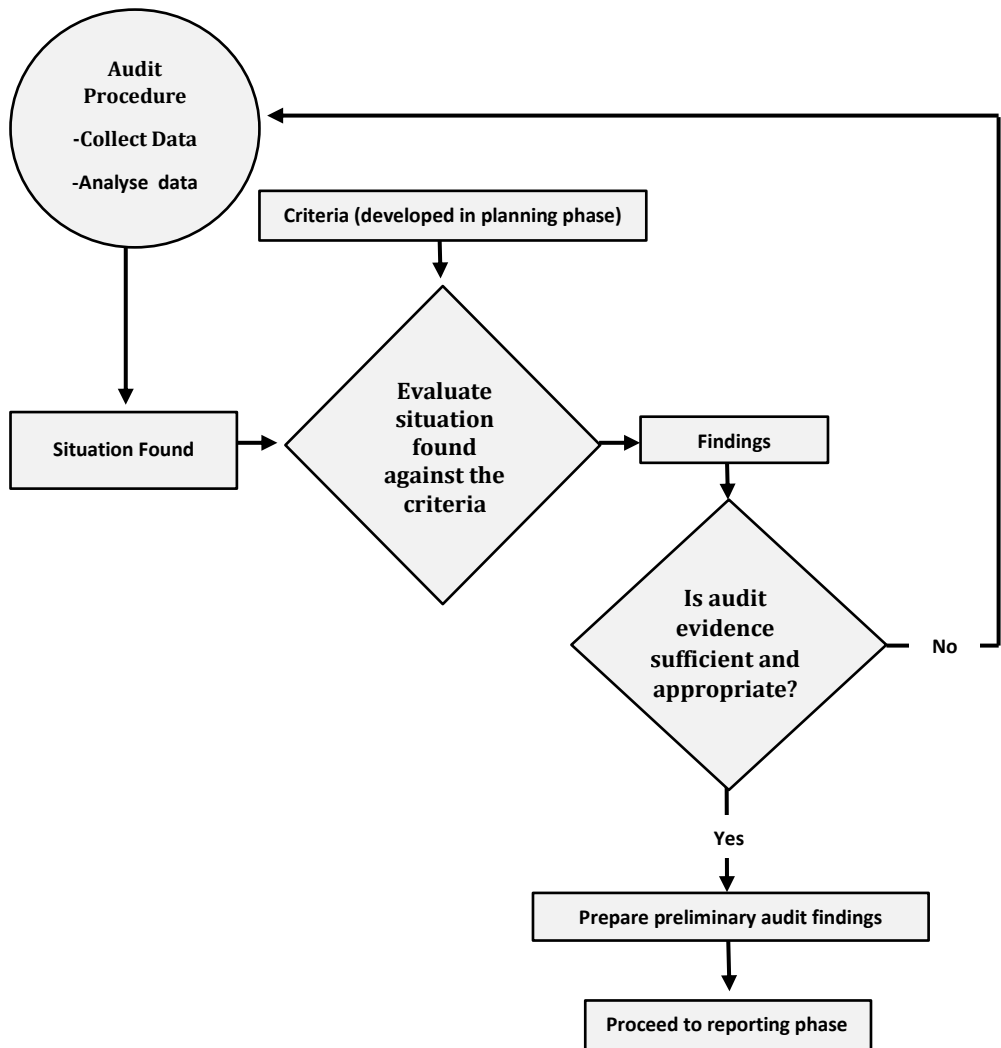
Audit Entry Conference

- 4.1 The auditors should conduct entry conference with relevant officials of the audited entity mainly to facilitate the following:
- the introduction of the members of the audit team;
 - the presentation of the audit plan for endorsement of audit criteria;
 - the discussion on audit objectives, scope, time-frame, workspace, audit report and follow-up process;
 - the management to designate a competent official (audit focal person) to assist the audit team;
 - information on the audit working procedures; and
 - discussions on any other matter.
- 4.2 The minutes of meeting for the entry conference should be prepared and changes/revisions to the audit plan, if any, should be incorporated. All changes or revisions in the plan should be documented and approval accorded in the format as provided in **Audit Tool 4.1**.

Field Work Process

- 4.3 The audit team should commence the field work to gather audit evidences. The auditors should implement the audit procedures and methodologies in order to gather evidences towards fulfilling the defined audit objectives. Data collection and data analysis are not stand-alone activities. Except for the surveys, generally data are collected, interpreted and analyzed simultaneously. Depending on the methodology adopted in a particular audit, there may be variation in the fieldwork strategy for data collection and data analysis. **Figure 4.1** outlines the audit fieldwork process.

Figure 4.1: Audit fieldwork process



Source: PA handbook

Audit Evidence

4.4 Audit evidence is the information collected and used to support audit findings. All audit findings and conclusions must be supported by evidence. Evidence should be placed in context, all relevant arguments (pros and cons) and perspectives should be considered before conclusions, and recommendations are drawn.

Characteristics of Audit Evidence

4.5 Audit evidence should be both sufficient (quantity) and appropriate (quality). Sufficiency is a measure of the quantity of audit evidence used to support the audit findings and conclusions. In assessing the sufficiency of evidence, the auditor should determine whether enough evidence has been obtained to persuade a knowledgeable person that the audit findings are reasonable. Appropriateness refers to the quality of audit evidence. It means that the evidence should be relevant, valid and reliable (ISSAI 3000/107-108).

The auditor shall obtain sufficient and appropriate audit evidence in order to establish audit findings, reach conclusions in response to the audit objective(s) and audit questions and issue recommendations when relevant and allowed by the SAI's mandate.

- ISSAI 3000/106

- Relevance refers to the extent to which the audit evidence has a logical relationship with, and importance to, the audit objective(s) and audit questions being addressed.
- Validity refers to the extent to which the audit evidence is meaningful or reasonable basis for measuring what is being evaluated.
- Reliability refers to the extent to which the audit evidence is supported by corroborating data from a range of sources, or produces the same audit findings when tested repeatedly (ISSAI 3000/109-110).

4.6 In performance audits, evidence is rarely conclusive (yes/no or right/wrong). More typically, audit evidence is persuasive 'points towards the conclusion that...'). When working in areas where evidence is persuasive rather than conclusive, it can be useful to have discussions in the planning phase or at the beginning of the conducting phase with the experts in the field about the nature of the evidence to be obtained and the way in which it will be analyzed and interpreted by the auditor. This approach reduces the risk of misunderstanding the evidence and may speed up the audit process. It is also important that the auditor seek information from different sources, since organizations, individuals in an organization, experts, and interested

parties have different perspectives and arguments to put forward (ISSAI 3200/71).

Factors affecting the evidence

4.7 Some factors that may affect the Sufficiency, Relevance, Validity and Reliability of the evidence are:

- Samples selected are not representative (sufficiency);
- Evidence collected relate to an isolated occurrence (sufficiency, validity);
- Evidence is incomplete and does not establish a cause and effect relationship (reliability, sufficiency);
- Evidence is conflicting (reliability);
- Evidence is biased (reliability)
- Evidence based on a single source (reliability, validity, sufficiency);
- Testimonial evidence not supported by documentation or observation (reliability);
- Evidence not time-sensitive, i.e. too old and does not reflect changes (relevance);
- Evidence too expensive to obtain relative to benefits (relevance and sufficiency);and
- Source of evidence has a vested interest in outcome (reliability).

Types of Evidence:

4.8 Evidences are categorized with reference to their type as Physical, Testimonial, Documentary and Analytical evidences.

- **Physical** – Obtained by observing people and events or examining property. Can take the form of photographs, charts, maps, graphs or other pictorial representations. A photograph of an unsafe condition is far more compelling than a written description. When the observation of a physical condition is critical to achieving the audit objectives, it should be corroborated;
- **Testimonial** – Statements obtained through questionnaires or interviews. They can be made by different stakeholders, for example: employees of the audited entity, beneficiaries and clients of the program being audited, experts and consultants contacted to provide corroborating evidence in relation to an audit, and general public. Corroboration of oral evidence is needed if it is to be used as evidence rather than mere background information;

- **Documentary** –The most common form of audit evidence either available in physical or electronic media. It may include letters, contracts, accounting records, invoices, memoranda, reports, statistics, management information on performance. The reliability and relevance of documentary evidence needs to be assessed in relation to the objectives of the audit. For example, the existence of a procedures manual is not evidence that the manual is put into practice. As with oral evidence, the position, knowledge and expertise of the author or approver of the document may need to be assessed; and
- **Analytical** –includes computations, comparisons, analysis of ratios, trends and patterns, separation of information into components. Analysis is usually numerical, and considers, for example, ratios of output to resources, or the proportion of the budget that is spent. It can also be non-numerical in nature, for example, observing a consistent trend in the nature of complaints made about an entity.
- The different types of evidence are linked to different methods of data collection, as shown in **Table 4.1** (Adapted from AFROSAI-E Performance Audit Handbook).

Table 4.1: Type of evidences and corresponding data collection methods

Type of evidences Type	Data collection methods
Physical	Direct observation Inspection of objects
Testimonial	Interviews Questionnaires Focus groups Reference groups
Documentary	File examination Document review Literature search Using existing statistics Using existing databases
Analytical	Built by the auditor, using different types of data The auditor can use any data collection method listed above or a combination of them

Sampling Techniques

- 4.9 Sampling is used to provide factual evidence and a reasonable basis to draw conclusions about a population from which a sample is selected. The auditor should design and select an audit sample, perform audit procedures, and

evaluate sample results to obtain sufficient, reliable, relevant, and useful audit evidence to achieve the engagement's objectives. Sufficient, in that the information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable, in that the information is the best attainable information through the use of appropriate engagement techniques. Relevant, in that the information supports engagement observations and recommendations and is consistent with the objectives for the engagement.

Statistical and Non-statistical Sampling

4.10 Statistical sampling (e.g., random and systematic) involves the use of techniques from which mathematically constructed conclusions regarding the population can be drawn. Statistical sampling allows the auditor to draw conclusions supported by arithmetic confidence levels (e.g., odds of an erroneous conclusion) regarding a population of data output. It is critical that the sample of transactions selected is representative of a population. Without ensuring that the sample represents the population, the ability to

Example on determining sample size (PA handbook)

In the performance audit of the Ministry of Education, the auditors wanted to conduct a survey to find out the reasons for low morale amongst the teachers in the Civil Service. There are over 20,000 teachers in the education system. It would be practically impossible and expensive to conduct survey for entire population. In such scenario, it is important to decide on sample size representative of the entire population. One of the most common formula used for random sampling as recommended by Yamane (1973) is:

$$\text{Size of sample} = N / (1 + Ne^2)$$

Where, N = population of sample

e^2 = probability of error

Therefore, using the above random sampling formula, the auditor determined the sample size as 392 respondents (applying the confidence level at 95%, i.e., 5% probability of error).

Mathematically,

$$\text{Size of sample} = 20,000 / (1 + 20,000 * 0.05^2) = 392.16 \text{ respondents}$$

Note: It is important for auditors to exercise the professional judgement in determining the confidence level as well as the schools and locations to collect the required proportion of respondents/teachers from each school.

draw conclusions based on the review of the sample is limited, if not erroneous. An example of random statistical sampling using the recommended formula of Yamane (1973) is provided in the textbox below. It is commonly used in social studies to ascertain the sample size when population is known and respondents are homogenous

4.11 Non-statistical sampling is an approach used by the auditor who wants to use his or her own experience and knowledge to determine the sample size. Non-statistical sampling (e.g., judgmental) may not be based objectively and, thus, results of a sample may not be mathematically supportable when extrapolated over the population. That is, the sample may be subject to bias and not representative of the population. The purpose of the test, efficiency, business characteristics, inherent risks, and impacts of the outputs are common considerations the auditor will use to guide the sampling approach. Non-statistical sampling may be used when results are needed quickly and needed to confirm a condition rather than being needed to project the mathematical accuracy of the conclusions.

4.12 Techniques for audit sampling are varied. Examples of a few techniques include:

- **Random sampling** - selection is not governed by predetermined considerations every unit in the population has an equal chance of being selected.
- **Monetary unit sampling** - used to identify monetary misstatement(s) that may exist in an account balance.
- **Stratified sampling** - used to segregate the entire population into subgroups; usually a random selection from each of the subgroups is selected for review.
- **Attribute sampling** - used to determine the characteristics of a population being evaluated.
- **Variable sampling** - used to determine the monetary impact of characteristics of a population.
- **Judgmental sampling** - based on the auditor's professional judgment; meant to focus and confirm a condition that is reasonably thought to exist.
- **Discovery sampling** - used where evidence of a single error or instance would call for intensive investigation.

4.13 When designing the size and structure of an audit sample, auditors should consider the specific audit objectives, the nature of the population, and the sampling and selection methods. The auditor should consider the need to involve appropriate specialists in the design and analysis of sampling methodology.

Data collection methods

4.14 The main purpose of collecting data in performance audit is to develop audit evidence, in order to develop findings answering the audit questions by comparing the evidence to audit criteria. Data is the primary observation, which is transformed into information when it is compiled. Information, which is analyzed and relevant to the audit objective and audit questions, can be used as audit evidence. When the audit evidence, in turn, is compared to criteria the auditors can develop audit “findings” – the discrepancies between criteria and the factual situation substantiated by audit evidence.

4.15 In the planning stages of performance audits, data is also collected as part of the learning process for auditors, developing a general understanding of the audit topic and the entities to be audited. Even if the auditors have a general knowledge about the way government administration is organized, it will be necessary to obtain up-to-date information about the subject matter. Data also needs to be collected to fully understand the role of different stakeholders and the intended functioning of activities and processes to be covered in the audit.

4.16 During a performance audit, the audit team can use many different methods for gathering evidence. Some of the methods are as follows:

- **File examination** - Files examination include examining wide range 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 files at the outset of audit so that they can be examined cost effectively. Some of the examples are; annual reports, financial statements, project documents, correspondence, memoranda, reports, directions to staff and internal audit reports.
- **Document review** - Document review covers the review of documents gathered from the audited entity, general research reports, relevant publications (e.g. academic articles) and available studies conducted on the audit topic.

- **Literature Review** - While secondary analysis and literature search forms a part of document review, it may specifically relate to the review of general research reports, books and papers in the subject area of the program, or to studies that are more specific and statistics in the area, including both historical material and current publications. It is important to examine different kinds of documents from the audited entity as well as past audits and evaluations carried out by the audit team, or others as these may update and enlarge the auditor's working knowledge of a particular subject. Studies of documentation can give the performance auditor access to useful material, but it is important to assess the reliability of the content of the documents – whether the information contain gives an objective or subjective picture, or a multi-faceted picture, etc.
- **Surveys and Questionnaires** - Survey is a method of collecting information from members of a population to assess the incidence, distribution, and interrelation of events and conditions. Surveys can be used as corroborative evidence for audit findings established with the help of primary evidence. They are particularly useful when one needs to quantify information from a large number of individuals on a specific issue or topic. Questionnaires are mainly used to collect facts that are not available in any other way and that are important as a reference to substantiate a viewpoint. Questionnaires are thus used when comprehensive knowledge is needed. Surveys are used to collect data that, in some cases can be used to generalize the audit results. They allow the generalization of testimonial evidence they gather directly from the respondents. Generalization of results under surveys can only be possible when they meet a number of statistical requirements, including, for example, an appropriate sampling method and a reasonable response rate. Carefully undertaken surveys yield statistically precise results that are reliable.

For the choice of the most appropriate survey administration methods, the following ten issues along with the strength and weakness of the of each survey methods for the particular data requirement is factored in:

- Time
- Resources and Costs
- Sensitivity of survey data
- Survey Population Characteristics
- Survey Population Sample Size
- Survey Formatting

- Technical/ Complex Nature of the data being collected
 - Number and Location of the respondents for single survey response
 - Complexity/Number of questionnaire skip pattern
 - Request to submit supplementary documents
- **Case study** - The case study is a method of learning about a complex issue involving extensive description and analysis of the particular issue within the context of the whole area under review.
 - **Interviews** - Interviews are used to collect mostly qualitative data and sometimes quantitative data. Information collected through interviews may be used to increase team knowledge of a topic, inform the background of a report and serve as a source of evidence that supports findings, conclusions or recommendations.

In an interview, an individual (Interviewer) asks questions to one or more persons (Interviewee). It can be conducted by phone or in-person. The engagement team develops interview questions that help it to collect data to answer researchable questions. Interview questions can be structured, semi structured and unstructured. A structured interview is a systematic collection of the same information from multiple respondents in the context of a face to face, telephone or VTC meeting (with each respondents interviewed separately). The questions are asked in the same order for each respondent, the question wording and response options are identical for each respondent. It allows for discussion and exploration but usually allows key issues to be summarized through close ended response scales and allows for valid comparison of responses across respondents.

- **Seminars and hearings** - Seminars might be used for acquiring knowledge on a specialized area; discussing problems, observations, and possible measures; gathering arguments for and against different views and perspectives. The purpose of hearings is mostly to invite or call for interested parties and experts to give their views on a particular area to be audited.
- **Focus group and Expert** - Focus group is a technique used to collect qualitative data. The source of data is the discussion and interaction among participants of a group brought together to discuss specific topics and issues. Focus groups are used to obtain information on the implementation and impacts of government programmes based on the perspectives of the beneficiaries and other stakeholders. The purpose of using experts is, to make technical knowledge or skills that are essential for the achievement of the audit objectives available to the audit team.

This kind of expert assistance has the advantage of allowing relevant information to be acquired quickly. One drawback, however, is that it may be difficult to judge the competence of experts, to obtain the appropriate expertise, to check their work, or to evaluate the results produced by the experts.

- **Direct observation** - This method is mainly used to gain insight into, and understanding of process, system, and operations. It helps to obtain the views of staff in the field, discuss test ideas, and to add or make comparisons with other information. Sometimes direct observation is necessary to obtain photographic testimony to corroborate other forms of evidences.

Analysing and interpreting information

4.17 Analyzing quantitative and qualitative data is an important step in all performance audits. When analyzing data (whether from questionnaires, interviews, focus groups, etc.), the auditors should start by reviewing the audit objectives and the audit question. This will help the auditors to organize their data and focus their analysis. In interpreting the information, the auditors should attempt to put the information in perspective, by comparing the results to audit criteria or to what is generally expected.

4.18 A wide variety of analysis techniques can be used in performance auditing. Some quantitative analysis techniques are: descriptive statistics, regression analysis, frequency tabulation, multivariate and audit questions as needed. Some qualitative analysis techniques are: content analysis, alternative interpretations, and negative case. Among these descriptive statistics, regressions analysis and content analysis are more commonly used techniques.

Descriptive statistics to understand data distribution

4.19 Data distribution may often be expressed in the form of a graph that shows all the values of a variable. The statistics that describe data distribution can be powerful tools for audit analysis and reporting. There are three basic dimensions of data distribution that may be important to an auditor: the central tendency (mean, median, mode, quartile level etc.), the spread (variability or dispersion) and the shape of the data (standard deviation, normal distribution etc.). Data distributions may be used: to identify the level, spread, or shape of the data; to decide whether variable performance meets an audit criterion or not; to interpret probability distribution to assess risk; to assess whether sample data are representative of the population.

4.20 The auditor might examine a data distribution to understand some characteristics of the audited entity, or to compare actual values with expected values. Examining data distributions is often more informative than focusing on a single figure (an average for example). Single figure estimates can easily lose much of the richness of the information available to the auditor. The example below explains the usage of descriptive data relating to central tendency.

Audit Objective: To assess the impact of farm roads in improving the living standard of local community

Mean

There are 10 households in the locality who are the beneficiaries of the road. The auditors have decided to use the monetary income as the yardstick to measure the impact. The survey result showed the average annual increase in income of 10 households for first five years after the construction of farm roads:

House hold	A	B	C	D	E	F	G	H	I	J	Total
Incom e (Nu.)	1000	2000	3000	4000	5000	2000	1500	2500	2000	1800	24800

Now to derive audit conclusion, we find the average annual increase in the income of 10 households, which is: $\mu = \sum X/n = 24,800/10 = \text{Nu. } 2,480$ per household

Thus, we conclude that the average income generation of the locality is Nu. 2,480 which may be attributed as the probable impact of farm road.

Median

In case of data containing extreme values, the use of mean may not be representative. Centre for such data can be better described by a measure of location called the Median. It is the midpoint of the values after they have been arranged in ascending or descending order.

House hold	A	B	C	D	E	F	G	H	I	J	Total
Income (Nu)	1000	2000	3000	4000	5000	2000	1500	2500	2000	30000	53000

Example: $\mu = \sum X/n = 53,000/10$, Mean=Nu. 5,300

Household	A	G	B	F	I	H	C	D	E	J	Total
Income (Nu)	1000	1500	2000	2000	2000	2500	3000	4000	5000	30000	53000

Conclusion: In this example, one household has an extreme income of USD 30,000 thus, pulling the Mean (Nu. 5,300) upward causing it to be unrepresentative. In such cases, the median provides a more valid measure of location.

If the sample has odd number of observation, we can directly take the middle value as the median. In case of our above example, we have even number of observations, so we have to take the two middle values and divide by two. i.e. $(2000+2500)/2 = 2250$

Conclusion: We can conclude that USD 2,250 is a more representative value.

Mode

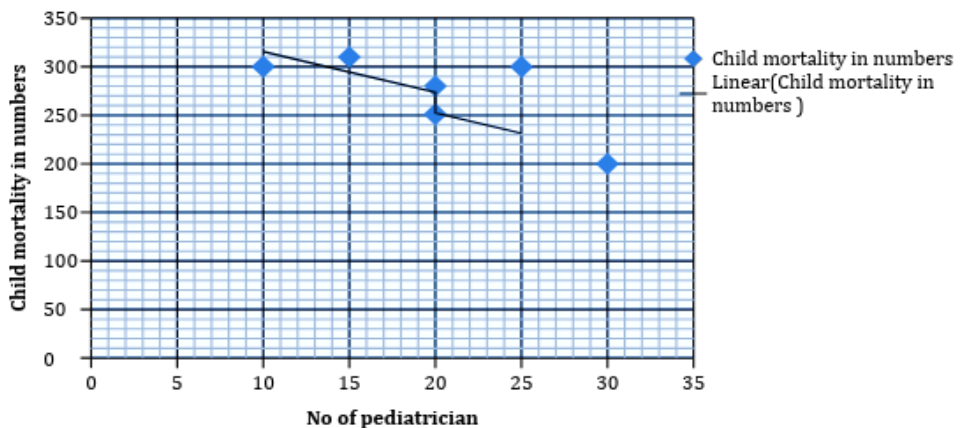
Mode is the value of observation that appears most frequently. The mode has the advantage of not being affected by the extreme values. However, it also has disadvantage that causes it to be used less frequently than mean and median because there can be cases without mode if no value appears more than once.

In our example above, the mode is Nu. 2,000 because it appears 3 times.

Regression Analysis

4.21 Regression analysis is a technique for assessing the degree to which variables are associated (correlated). Regression analysis may be used to:

- Test a relationship that is supposed to hold true;
- Identify relationships among variables that may be causally related that might explain outcomes;
- Identify unusual cases that stand out among expected values; and
- Make predictions about values in the future.



4.22 An example provided in the textbox below explains the usage of regression analysis.

Example of Regression Analysis

The simplest form of regression analysis is frequently referred to as correlation analysis. It examines the correlation between two variables, 'X' and 'Y' (i.e., the degree to which changes in one are associated with changes in the other).

Example: Goal of health sector is to reduce the infant mortality rate and the table below represents the data:

Year	2003	2004	2005	2006	2007	2008
No. of Paediatricians	10	15	20	20	25	30
Child mortality	300	310	280	251	300	200

Scatter Diagram

It is a graph that plots values of dependent variable 'Y' and independent variable 'X' on the vertical and horizontal axis respectively. Dependent Variable is the variable that is being predicted or estimated and Independent Variable is the variable that provides the basis for estimation.

With the data, a scatter diagram is plotted as given below:

Conclusion: It shows that with more paediatricians, the child mortality decreases. There appears to be a negative correlation between them. To measure the strength and direction of this relationship between two variables, number of paediatricians and child mortality, coefficient of correlation is used.

Coefficient of correlation (r)

The designated r is often referred as Pearson's r. It assumes any value from ± 1 . When $r = 0$, it indicates there is no relationship, $r = -1$ indicates perfect inverse/negative correlation and $r = +1$ indicates perfect direct/positive correlation.

$$r = \frac{\sum (X_i - \bar{X})(Y_i - \bar{Y})}{\sqrt{\sum (X_i - \bar{X})^2 \sum (Y_i - \bar{Y})^2}}$$

In the above example, $r = -0.712$

Interpretation: Strong negative correlation and inverse relationship between the number of paediatrician and the child mortality exist.

Coefficient of Determination (r²)

It is the proportion of the total variation in the dependent variable Y that is explained by the variation in the independent variable X. r^2 is computed by squaring the coefficient of correlation. Example: $r^2 = (-0.712)^2 = 0.508$

Interpretation: 50.8% of the variation in the number of child mortality is explained by the number of paediatrician available. 49.2% is due to other factors. Using the same example above, we can derive the regression equation as:

$Y = a + bX$; Where, Y = Dependent Variable, X = Independent Variable, a = Y intercept (estimated value of Y, when $X=0$), b = slope (how much Y changes for each one-unit change in X)

$$\text{Mathematically: } b = \frac{n(\sum XY) - (\sum X)(\sum Y)}{n(\sum X^2) - (\sum X)^2}; \quad a = \bar{Y} - b\bar{X}$$

$$Y = 357.5 - 4.2 X$$

$$Y = 357.5 - 4.2 (35)$$

$$Y = 210.5 \text{ (child mortality in numbers)}$$

Interpretation: If there are no paediatrician ($X=0$), the child mortality in numbers would be 357.5.

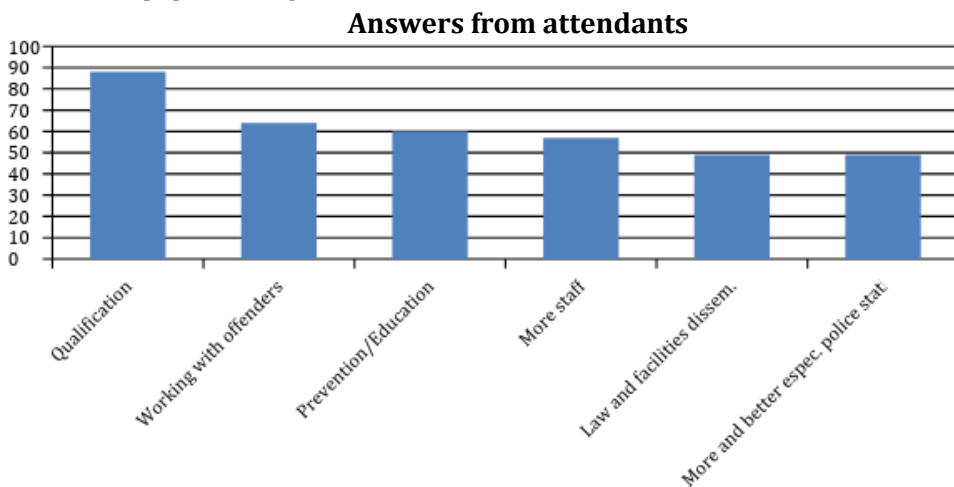
Content analysis

- 4.23 Content analysis is a set of communication analysis techniques that aims to obtain, through systematic and objective procedures of the contents description, indicators that allow the inference of knowledge. It is used to analyze interviews, focus groups and documents (Bardin - Content analysis, 1970).
- 4.24 There are different kinds of content analysis. The most commonly used is the categorical analysis. It is done by breaking up the content in different categories. The content analysis can be done on open questions (without predefined answers), which gives different views from the respondents, while analyzing the answers of a questionnaire.
- 4.25 The content analysis has three phases: pre-analysis, material exploration and results treatment. In the pre-analysis, data are organized and procedures for analysis are established. In the second phase the codification, breaking up and enumeration are executed. The third phase is about interpreting the results.
- 4.26 An example of content analysis used in a performance audit is presented below.

Content analysis used in the performance audit in actions to face domestic and family violence against women (PA handbook)

A questionnaire was answered by 340 people attending women victims of violence (police officers, psychologists, social assistants).

The final question was: in your opinion, what should be done to improve the service to women victims of violence and to decrease this type of violence in our country? A content analysis was performed in the answers and all the answers were categorized. The six most popular categories are shown below:-



Audit findings

4.27 Audit findings are information gathered by the auditor during the fieldwork that will be used to answer audit questions. Audit finding is the discrepancy between the existing situation and the criteria.

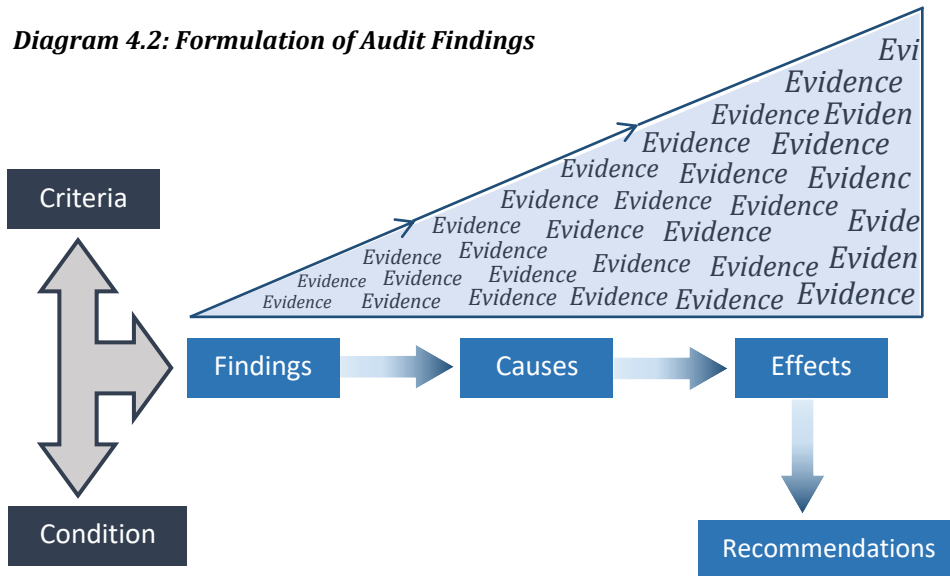
The auditor shall analyse the collected information and ensure that the audit findings are put in perspective and respond to the audit objective(s) and audit questions; reformulating the audit objective(s) - ISSAI 3000/112

The Five Attributes of an Audit Finding

- Criteria – What should be;
- Conditions – what is;
- Cause – why is there deviation from the norms or criteria;
- Effect – what are consequences; and
- Recommendation – what is needed to correct the condition?

4.28 **Figure 4.2** exhibits the flow of generating audit findings and the intensity of evidences required

Diagram 4.2: Formulation of Audit Findings



4.29 Audit findings should set out in a clear and logical framework to allow for an easy understanding of audit criteria applied, facts established by the evidence, and the analysis by the auditor of the nature, significance, and causes of the situation found. The impact in terms of economy, efficiency and/or effectiveness must also be considered, as this provides the basis to demonstrate the need for corrective action.

- 4.30 In stating the audit finding, the auditor must assess the degree of confidence in the audit finding, based upon the strength of the evidence. The assessment must be clearly reflected in the wording of the finding, with qualifying words (e.g. generally, frequently) used. Performance audits should focus on providing a balanced view of the topic, presenting not only deficiencies but also, when appropriate, positive findings and indications of good practice. The overall emphasis is to formulate audit findings in a constructive and balanced way.
- 4.31 Furthermore, the auditor will need to determine auditee management's awareness of the issue; if management is aware of the problem and already taking corrective action, this needs to be recorded and taken into consideration for reporting purposes.

Findings Matrix

4.32 The finding matrix forms the core documents in the conducting phase. It can be used to record all the information, data and evidences gathered during the audit. The findings matrix is a useful tool to support and guide the preparation of the audit report. The matrix enables members of the audit team and other stakeholder to have uniform understanding of the findings and their components. Completion of the findings matrix should start during the fieldwork, as findings are noted. The clarification that may be necessary to get from the audited entity should be collected while the team is still at the field. The audit findings matrix follows the audit design matrix with regard to each audit question and tabulate the information gathered for answering the question. **Table 4.2** provides an example of filled findings matrix and the findings matrix format is provided as **Audit Tool 4.2**.

Explanation of component of findings matrix

Component	Description
Situation found	Most relevant occurrences identified in the fieldwork that directly answer the audit questions
Criteria	Benchmark used to evaluate the subject matter, which can be qualitative or quantitative.
Evidence and analysis	Result of the data analysis and how it has led to evidence Techniques used to handle the information collected during the fieldwork
Cause	Reason for the deviation from the norms or criteria Reasons for the situation found
Effect	Consequences related to the cause and to corresponding situation found
Good practice	Action identified that lead to good performance

	Such action may aid in developing a sound recommendation
Recommendation	Should deal with the cause of the diagnosed problem Recommendation has to be related to the cause
Expected benefit	Expected improvement when implementing the recommendation May be quantitative and qualitative. Whenever possible quantify them.

Table 4.2: Example of findings matrix

Audit Objective 1: To what extent has the government adapted the 2030 Agenda to its national context?							
Audit Question: 1.1 Audit question: Has the government put in place processes and institutional arrangements to integrate the 2030 Agenda into the country's legislation, policy, plans, budget and programmes, including the country's existing sustainable development strategy, if there is one?							
Findings:							
Situation Found	Criteria	Evidence & Analysis	Causes	Effects	Good Practices	Recommendations	Expected Benefits
The attributions in the government regarding the 2030 Agenda are not clearly defined. Country	Country needs an institutional arrangement to integrate the 2030 Agenda into its actions	The government has established a committee to coordinate the implementation of the 2030 Agenda. However, this committee does not have representation from all the relevant stakeholders. The attributions and plan activities for this committee are yet to be defined.	The government is in the initial stage of preparation for the implementation of the 2030 Agenda. Many areas in the government are not aware of the 2030 Agenda. Scattered initiatives among the ministries.	The 2030 Agenda's principles, for example, inclusiveness and integration, might not be followed.		The committee responsible for the coordination of the implementation of the 2030 Agenda, - consider the 2030 Agenda principles in the composition of the committee. - define the attributions of the government stakeholders involved in preparedness and implementation of the 2030 Agenda.	Attributions in the government regarding the 2030 Agenda clearly defined. Definition of needed activities in the government for the implementation of the 2030 Agenda.

Managing audit risk in the conducting phase

4.33 It is important to monitor audit risk and the plan mitigation strategies throughout the audit, and adjust to changing circumstances when necessary. Good planning will enable the auditor to manage audit risk when conducting the audit, as the auditor will have planned for different eventualities and scenarios. For example, if the planned data collection procedures do not allow the team to collect sufficient evidence, the auditor needs to develop an alternative plan for adjusting these procedures or, if necessary, adjust the audit questions to be answered. Also, the auditor always needs to consider whether the audit risks have changed in a way that can lead to inappropriate conclusions, unbalanced information or not adding value. Proper quality control procedures and supervision are important in this regard (ISSAI 3200/99).

Audit Completion Report

4.34 The audit team on completion of fieldwork should prepare an audit completion report for documentation. The document should be submitted by the audit team leader and validated and signed by the supervisor/Division Chief. The document is provided as **Audit Tool 4.3**.

Quality assurance in conducting performance audit

4.35 Quality in implementation of the performance audit is assured through the following:

- Adherence to the principles of field standards in the RAA Auditing Standards, Auditor General's Standing Instructions and guidelines;
- Ensuring appropriate skills and knowledge;
- Supervision, monitoring and review;
- Documentation of performance audit processes;
- Discussions of preliminary audit findings amongst the audit team and more importantly with the audited agencies; and
- Presentation of preliminary findings to supervisor and senior management of the RAA.

Audit Tool 4.1

Changes in Audit Plan

This tool should be prepared to document changes/revisions in the approved audit plan.

Subject	Existing	Changes	Remarks
Audit scope	(The auditor should fill in the existing audit scope)	(The auditor should fill this column if there is any change in the audit scope)	
Audit objective			
Audit criteria			
Audit procedures			
Any other changes			

Prepared by:

Approved by:

(Name of the Auditor & date)

(Name of the supervisor & date)

Audit Tool 4.2

Audit finding matrix

This tool should be prepared to document the audit findings and should be completed before the end of fieldwork.

Audit Objective 1:							
Audit Question 1:							
Findings:							
Situati on Found	Criteria	Evidence & Analysis	Causes	Effects	Good Practi ces	Recomme ndations	Expected Benefits

Audit Tool 4.3

Audit Completion report

This tool should be prepared to document the completion of the audit fieldwork

Audit topic	Type of Audit	Period covered	Planned/ Ad-hoc	Intimation No. & date	Start Date	Completion Date	Remarks

Prepared by:

Approved by:

(Name of the Auditor & date)

(Name of the supervisor & date)

The Chapter includes the guidelines, standards and the best practices in reporting of the performance audit. It is to guide the performance auditors through the process of the development of the performance audit report.

Introduction

- 5.1 The audit report is the main output of the entire audit process. It is the medium to communicate the audit findings and recommendations to the relevant stakeholders.
- 5.2 The reporting phase begins with preparing a draft report containing preliminary audit findings. Based on the comments and responses received from the audited entity, the draft is then further developed into a final audit report. Once passed through the quality control and assurance process of the RAA, the report shall then be published and circulated.

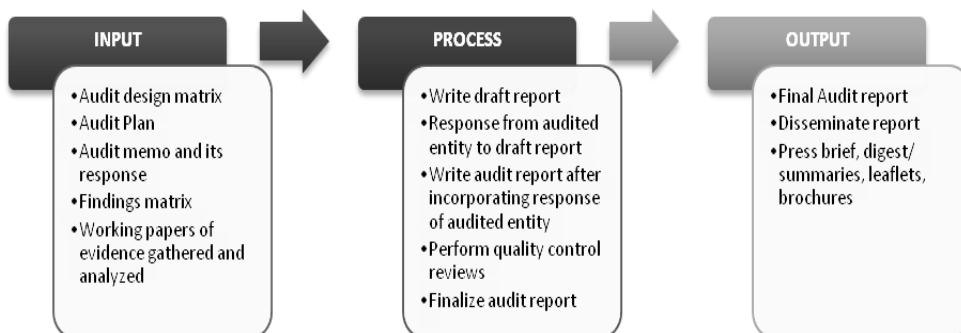
Purpose of reporting

- 5.3 The main purpose of the reporting is communication of audit results to the relevant stakeholders. The key to a good report is effective communication. The auditors shall use appropriate and language as simple as the subject matter may allow. The report shall clearly link the audit objectives, findings, conclusions and recommendations. It shall allow the reader to understand what was done, why and how, and provide pragmatic recommendations.

The reporting process

- 5.4 A graphical representation of the reporting phase is illustrated in **Figure 5.1**.

Figure 5.1: Reporting process (Source: PA handbook)



- During the reporting phase, the auditor shall revisit the audit plan, audit objectives and the design matrix to ensure that all the key issues identified at planning stage had been addressed adequately.
- Analysing working papers while writing the report will give assurance that the audit findings and conclusions are supported by sufficient and appropriate evidence.
- The findings matrix, audit findings contained in the draft report, responses and working papers on evidence gathered provide a basis for the audit report process.
- The team shall draft the audit findings making necessary analysis as against the audit objectives and submit the draft report to the immediate supervisors.
- The audit team shall hold an audit exit meeting to discuss the audit findings contained in the draft report and seek for the audited agency's comments and response.
- The response of the audited agency shall be examined and incorporated and necessary changes be made in the audit report, provided the evidence requirements are satisfactory.
- The report shall then be sent to immediate supervisors and advisory group or professionals as may be necessary to check for the language, content and presentation of the report. Such checks and reviews provide assurance to the credibility and quality of the report.
- Necessary changes, if any, shall be carried out to finalize the audit report.
- The report shall be disseminated widely to various stakeholders as per the RAA's Policy Guidelines on Media Communication 2016 and Audit Act of Bhutan 2018.
- The diverse audience and stakeholders for performance audit work suggests that RAA shall address different groups with different products. Performance audit work can lead to a number of separate products in addition to the report, including summaries, leaflets, brochures, press releases and presentations.

5.5 The reporting process undergoes the following:

Refining audit observations

5.6 Refining audit observations is an ongoing process. From the onset of the implementation throughout the audit, the issues shall be considered in the light of

Audit findings clearly conclude against the audit objective(s) and/or questions, or explain why this was not possible.
- ISSAI 3000/124

new information, arguments, comparisons and further analysis. Observations shall then be organized in a structured form (in the findings matrix as discussed in the implementation section). As the audit progresses the auditors shall draft, evaluate and rewrite the observations. Based on new evidences and views, the main issues and conclusions shall be debated, facts confirmed with the audited agencies and the proposals developed shall be refined keeping the audit objectives in mind.

5.7 Clear linkage shall be established between the audit objective (s), audit questions, audit findings, conclusion and recommendation. At this stage, the auditor shall revisit the working papers and audit findings to see whether all the attributes of good audit findings are presented.

5.8 While refining the observations the auditors shall consider the following:

- Consider the sufficiency and appropriateness of the evidences with the findings and conclusion made in the report
- Consider from the view point of the reader and intended users to make the findings reader friendly;
- Maintain consistency of style and use of language;
- Constant review of the draft findings by supervisors; and
- The team shall ensure that the draft audit findings are consolidated before the end of the field work, so that the team can concentrate on the drafting of the report.

Audit criteria and its sources

5.9 It is essential to have suitable audit criteria for assuring the quality of a performance audit. Therefore, it is important to state in the audit report, what are the audit criteria, how were they developed and what were the sources. Audit criteria are not always readily available in performance auditing. In such cases, the audit team needs to develop the criteria and agree with the audited entity. If the audited entity does not agree with the criteria, the auditor has the final responsibility to set it. The audit criteria are typically based on knowledge of best practice on how activities are carried out to be most economical and efficient (or what conditions are the most favourable for good performance and effectiveness).

The auditor shall identify the audit criteria and their sources in the audit report.
- ISSAI 3000/122

Developing recommendations

5.10 A recommendation is a clear statement of the action that must be taken to correct the problems and causes identified by the audit. Auditors shall make constructive recommendations. A constructive recommendation is one that is well founded, has potential to add value, and is practical and linked to the audit objective(s), audit findings and conclusion.

The auditor shall provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit, whenever relevant and allowed by the SAI's mandate.

- ISSAI 3000/126

5.11 Section 67 and 100 of Audit Act of Bhutan 2018, stipulate "The Authority shall promote accountability, transparency and integrity in public operations through its reports and recommendations."

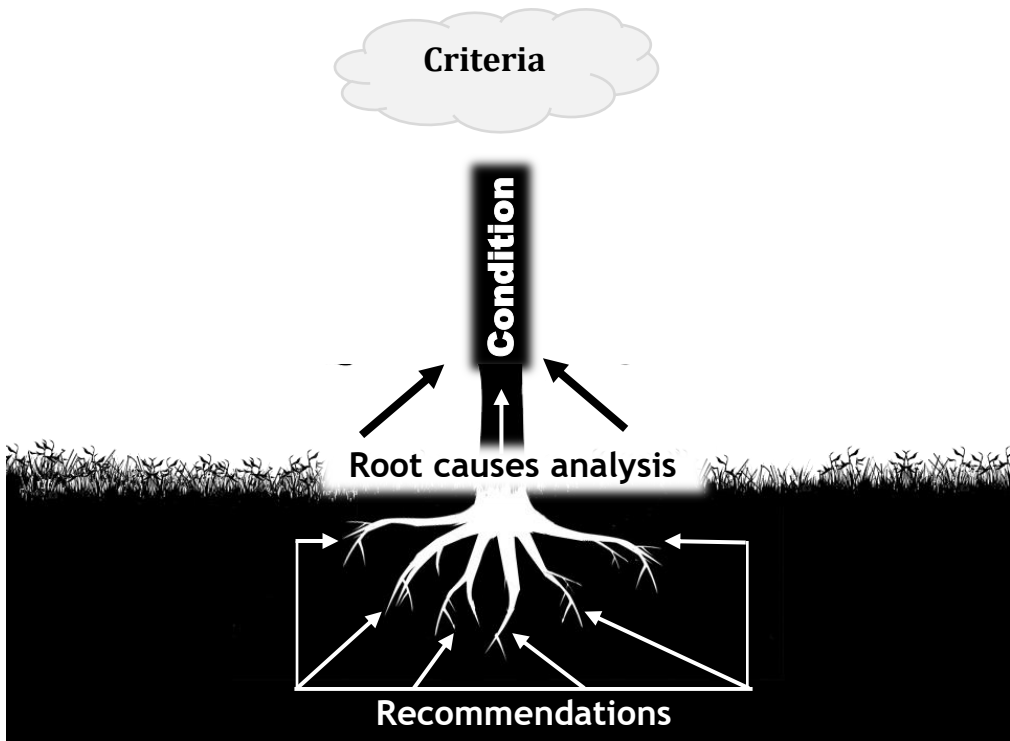
5.12 A good quality recommendation is one that is:

- **Action-oriented** – properly-directed to the agency that has the mandate and competence to implement. It should be specific, convincing, significant, positive in tone and content;
- **Hard-hitting** – recommendations should be clearly articulated and not hidden, or obscured by text. They should be readily identifiable and stand out in the report. Vague language should be avoided.
- **Deal with underlying causes** – should correct the root cause of the deficiency or the audit findings;
- **Feasible** – the basis for implementation is workable;
- **Cost-effective** – the benefit to be derived from implementation of the recommendation outweighs the cost for its implementation.

Recommendation development process:

5.13 The development of audit findings and the formulation of recommendation based on those findings are critical phases in the audit process. The steps involved are illustrated in **Figure 5.2**.

Figure 5.2 Audit Recommendation Formulation Tree



Draft performance audit report

5.14 The findings and the recommendations shall be compiled to form draft audit report. The draft as well as main final reports follow the same structure and form.

5.15 The draft performance audit report provides the first opportunity to the audited entity to view the full context of audit findings. The purpose of preparation of the draft report is to seek final confirmation on the audit findings, conclusions and appropriateness of recommendations and additional responses from the audited entity.

The auditor shall record the examination of the audited entity's comments in working papers, including the reasons for making changes to the audit report or for rejecting comments received.

- ISSAI 3000/130

5.16 A deadline shall be specified to the audited entities to respond to the audit findings contained in the draft report. Responses from the audited entity on the draft audit report shall be incorporated and changes be made in the report if the responses are valid and supported with evidences to ensure that the report is fair, complete, objective and balanced.

Things to remember in writing the report:

- Proper criteria, condition, cause and effect should be clearly specified
- Avoid lengthy tables/charts/explanations in the main report. They can be attached as appendices.
- Findings and recommendations in the Executive Summary should be clear and concise;
- The headings and titles of the observation should clearly communicate the contents of the findings;
- Recommendations should be directed to address the causal factor(s) or should be able to correct the deficiencies noted;
- Recommendations should be addressed to the specific agency responsible for implementing the recommendation; and
- Recommendations should be implementable and relevant.

Attributes of a good audit report

5.17 Performance audit reports which are comprehensive, convincing, timely, reader-friendly and balanced are considered good report.

The Auditor should strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced. - ISSAI 3000/116

5.18 The attributes of a good performance audit report are elucidated below:

- **Comprehensive** - An audit report needs to include all the information and arguments needed to address the audit objective and audit questions. The report includes the audit objective, the scope and the methodology used to address the objective.

The report also includes the criteria and provides the background information about the audit topic and the limitations to conduct the audit. Most importantly, the report should be backed by sufficient and appropriate evidence to support the findings and conclusions in relation to the audit objective.

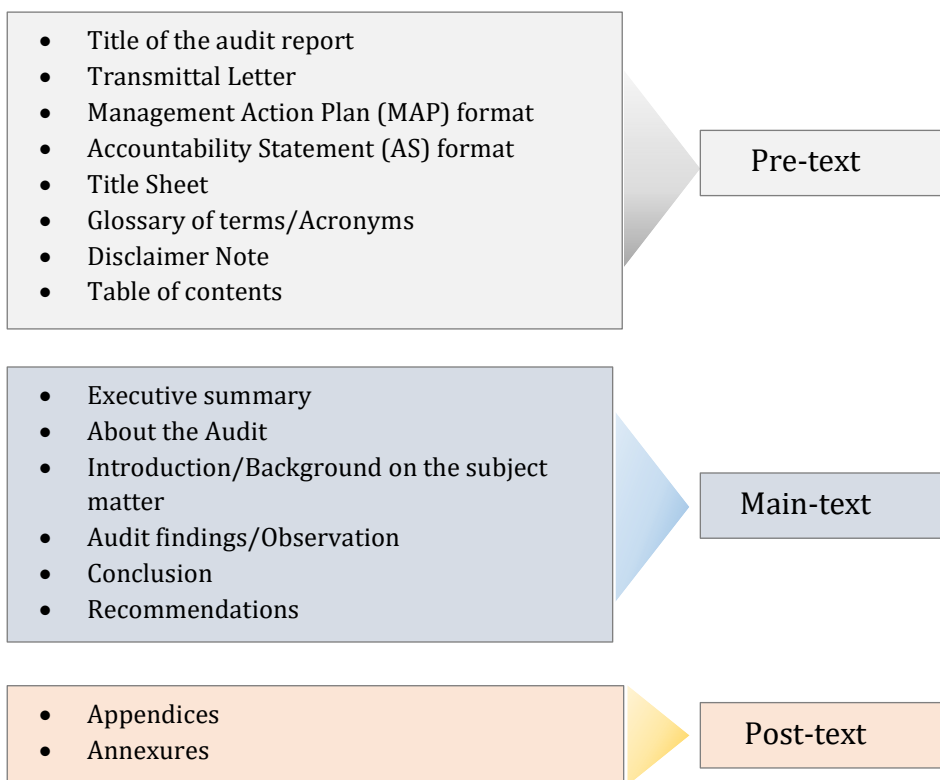
- **Convincing** - To be convincing, an audit report needs to be logically structured and present a clear relationship between the audit objective

and audit questions, audit criteria, audit findings, conclusions and recommendations.

- **Timely** - The reports needs to be issued on time in order to make the information available for use by the management and stakeholders and reports has to be relevant and must be a value addition to the audited agency.
- **Reader-friendly** - The auditor should use simple, clear, concise and unambiguous language in the audit report to the extent permitted by the subject matter.
- **Balanced** - Being balanced means the audit report has to be impartial both in the contents and tone. All audit evidence needs to be presented in a fair manner. The auditor needs to be aware of the risk of exaggeration and overemphasis of deficient performance.

Form and contents of a report

5.19 The content and structure of the audit report may vary depending on nature and diversity of topics audited. Typically, the structure of a performance audit report shall include the following:



5.20 A brief explanation on the contents of a report is as follows:

- **Title of the audit report:** The performance audit report should have a suitable title. The title shall also indicate the audited entities responsible for the activities audited. The title shall be a short and catchy.
- **Transmittal Letter:** It shall include date, addressee, subject matter, highlight of the significant audit findings. The transmittal letter of draft report must contain the time frame (one month from the date of issue of draft report) for receiving audited agency comments and responses. It shall also briefly indicate on requirement for submission of MAP and fixing of the accountability based on the audit recommendations.
- **Management Action Plan (MAP) & Accountability Statement (AS):** The transmittal letter should clearly indicate the need for the audited entity to submit the MAP and signed AS. The sample/format of these documents (**Audit Tool 5.1 & Audit Tool 5.2**) should be appended in the report for reference. The timeline for submission of both the documents should be specified. It should be also clearly mentioned that in the event of non-submission of Accountability Statement, the RAA as per the provision of the Audit Act of Bhutan 2018 shall fix the responsibility of implementation of the recommendations on the Head of the Agency.
- **Title sheet:** The Title Sheet shall contain the name of the audit report, the entity responsible for executing the programme or audited agency, the schedule of audit, names and Employee Identity Number (EID) of the audit team, supervisor and advisory group, if any.
- **Glossary of terms/ acronyms:** It shall contain the expansion of abbreviations, acronyms and meanings of technical terms.
- **Disclaimer Note:** It shall reflect on the reference made to the ISSAI's and Performance Audit Guidelines. It shall also contain a certification as in the RAA's Code of Good Conduct, Ethics and Secrecy.
- **Table of Contents:** This illustrates the structure of the report with details of sections and their page numbers.
- **Executive summary:** The executive summary should reflect accurately and comprehensively what is in the report, and guide the reader to the significance of the audit questions and the answers thereto. It summarizes the background, major findings, conclusions and recommendations. It is a short summary designed for those who have little time to read the full report.
- **Introduction:** The introduction to the audit report sets out the context of the audit, why the audit is conducted helping the reader to understand

both the audit and the observations. It comprises a description of the audit area or subject. The introduction should not be overly long and detailed. If further detail is considered as useful for the reader, it should be provided in an appendices, and indications can be given of how the reader could obtain further information (e.g. references).

- **About the audit:** About the audit is a brief background on as to what is the objective for carrying out the particular audit including among others such as;
 - Audit Mandates;
 - Audit Standards;
 - Scope and approaches of audit;
 - Data collection methods and analysis used in the audit; and
 - Limitations encountered
- **Audit Findings/Observations:** Audit findings represent the difference between 'what should be' and 'what there is', also explaining the cause and the effect of this difference. Audit findings shall have two parts namely positive developments and deficiencies and lapses. It should clearly be related to the criteria and to the information gathered during fieldwork. Audit findings ideally shall contain criteria, condition, causes and impacts presented in a logical sequence.
- **Conclusions:** Audit conclusions are logical inferences about the subject matter based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are more compelling if they lead to the auditors' recommendations and convince the knowledgeable user of the report that action is necessary.
- **Recommendations:** The report shall have recommendation/actions to correct the causes of the deficiencies and other findings identified during the audit.
- **Appendices/annexures:** Appendices or annexures can be used to present descriptions of the audited entities, statistical tables, detailed explanations of methods used, etc. This is a way to avoid the report to become too long and make it easier to read.

The terms annexure and appendix are used interchangeably however, they have subtle differences. Appendices are part of the main document appended for reasons of readability and clarity. While annexures are

standalone documents which supplement the subject matter in consideration.

Communication of Draft Report to the agency

5.21 The draft report shall be communicated to the concerned agency('ies) within a given time frame after completion of the field audit for the following reasons:

- for clarification of relevant information, data, and confirmation of facts and figures;
- to obtain additional audit evidence or information that was not available or understood during the field audit;
- to facilitate dialogue with the audited entity. The entire process of audit should be consistent, constructive and effective as both the audit and the audited entity may be required to focus only on recommendation and their implementation; and
- for the comments of the audited entity and for the agreement of the observations and recommendations.

Exit Conference

5.22 An audit exit conference is a meeting held between the audit team and the audited entity upon receipt of responses to the draft audit report to discuss on audit findings, conclusion and recommendations. Wherever, more than one department/agency is involved, representation from such agencies/ departments should be insisted upon for discussion. It assists the audited entity in providing the comments for consideration in preparing the final audit report. The deliberation and decisions of the exit conference should be minuted and signed by all the parties, which shall be documented properly in the audit working papers.

Final Audit Report

5.23 After incorporating the responses from the audited entity subsequent to exit conference, the report should be reviewed by the supervisor(s) concerned for finalization. On review and approval of the draft report by the supervisor and advisory group, the final report may be sent for the formal approval of the Auditor General.

Great care should be taken for accuracy, logic and clarity in order to make the report defensible. Any material error, particularly in areas contested by audited entity could potentially damage the credibility of the RAA as a whole.

Admissible period to respond

5.24 All the audited entities must respond to the audit reports within the time frame indicated in the Audit Act of Bhutan 2018 as specified below:

Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report. Any disagreements should be analysed and factual errors corrected. - ISSAI 3000/129

<i>Response to draft report</i>	– <i>within one month from the date of issue of draft report</i>
<i>Management Action Plan/Report</i>	– <i>within three months from the date of issue of the final report</i>

Publishing and distributing the audit reports

5.25 Confidential information may be covered in a separate report. Such information may not be divulged or released prior to its authorized release, or revealed to other parties not concerned, without prior clearance and approval of the Auditor General or his duly designated representative (Section 141,142 and 143 of Audit Act of Bhutan 2018).

The SAI shall make its audit reports widely accessible taking into consideration regulations on confidential information.
- ISSAI 3000/133

5.26 The final Performance Audit report shall be sent to the audited entities. The signed copies of the report shall be submitted to His Majesty the Druk Gyalpo, the Prime Minister and the Chairperson of the Royal Civil Service Commission or the Chairperson of the Anti-Corruption Commission, where offences are serious and require urgent attention as required under the sections 114, 115 and 116 of Audit Act of Bhutan 2018.

5.27 Submission notes shall also be prepared and submitted along with the report.

5.28 The RAA should publish Performance Audit Report and it has to be made accessible for the readers and users appropriately.

Communication strategy/policy

5.29 Good communication with the audited entity and relevant stakeholders is important during the entire audit process. There are several reasons why planning communication with the audited entities and stakeholders is of particular importance in performance audit. For example, as performance audits are not normally conducted on a regular basis on the same audited

entities, channels of communication may not exist. Often there are no predefined criteria and thus an intensive exchange of views with the audited entity is necessary. Besides, the need for balanced reports requires an active effort to obtain insight into the points of view of the various stakeholders.

- 5.30 The communication of the performance audit reports and findings shall be guided by the policy guidelines on media communication. Appropriate strategies shall be outlined to engage and communicate with the media, legislative, citizens and other stakeholders in relation to performance audits, reports and findings.
- 5.31 The communication process between the auditor and the audited entity begins at the planning stage of the audit and continues throughout the audit process. Auditors should notify audited entities of the key aspects of the audit, including the audit objective, audit questions, subject matter, audit criteria and the time period to be audited. Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the RAA issues its Final audit report. The audit team may meet with entity officials to discuss the entity's comments, to gain a full understanding of the comments, and/or to obtain any additional significant information related to the comments. If conflicts occur, efforts must be made to air contradictory opinions with a view to making the final picture as true and fair as possible.
- 5.32 Communication with parliament/legislative is equally important as it is the Parliament that will use the RAA performance audit reports to improve government management and accountability. If reports are ignored or messages are misunderstood, audit resources could be wasted and the RAA's credibility could be called into question. Generally, RAA assists Public Accounts Committees (PAC) by debriefing members and providing relevant information regarding reported audit findings. In addition to prior communication, it is vital that representative(s) of the RAA should attend the PAC hearings where audit reports are discussed. RAA shall also make presentations to the PAC as and when required. The legislature should appreciate the fact that performance auditing is about identifying opportunities for improvement in economy, efficiency and effectiveness. The RAA should make it clear that naming and blaming individuals is not the purpose of performance auditing.
- 5.33 As soon as the audit report is tabled in Parliament, it shall be in the Public domain by uploading the reports or the summarized reports on RAA's website as per RAA Policy guidelines on media communication of 2016.

Press releases are to be left at the discretion of RAA. The RAA must ensure that the information provided to the media is timely, accurate and clear. In providing the information, the RAA should be responsive, helpful, and informative, without compromising its independence or political neutrality, or offending parliamentary privilege. Following are important to ensure proper communication with the media with relations to the audit report:

- Responding to media inquiries;
- Developing news releases in conjunction with audit teams;
- Organizing and managing media events such news conferences, and interviews;
- Assisting staff in developing questions and answers and media lines;
- Providing staff with media training;
- Monitoring news and public discussions about the RAA;
- Informing senior management about emerging issues in the media;
- Conducting media analysis to assist in improving message development.

5.34 Citizens are, at the same time, a source of ideas for performance auditing, a source of demand for performance auditing, and the users of performance audit reports. This can be communicated through medium of mix of television interviews, articles, leaflets and use of the RAA's website.

5.35 Other important stakeholders are representatives of the academic community. They have expert knowledge in specific audit areas, and may provide a more objective view, less restricted by personal interest. Non-government organizations can also be a useful source of ideas. They may have conducted their own research through surveys and case studies, and may have a range of relevant contacts. Civil society can be motivated to put pressure on the legislature to act, particularly if RAA is providing high profile and relevant material that is of interest to them and to the society.

Quality Assurance in reporting process

5.36 Quality of reports shall be maintained by undertaking following quality assurance measures;

- Adherence to Quality and Assurance Handbook, Guidelines and Instructions;
- Securing audited entity response at all stages of audit process;
- Concurrent supervision and control by senior management, audit specialist(s); and

- Quality control assessment and review by the top management.

Documentation

5.37 As in all preceding phases of audit, in the reporting phase too the auditor shall document and index the files in a systematic, chronological and logical order for easy and ready references.

Audit Tool 5.1

Management Action Plan format

Recom. No	Audit Recommen- dation in brief	Action Plans: Action taken or to be taken (<i>a recommendat- ion may have one or several action plans. The actions mentioned as taken should be supported by evidences</i>)	Estimated implemen- tation date (<i>the implemen- tation date for each action plan may be different</i>)	Estimated completi- on date (<i>the completion date for each action plan may be different</i>)	Responsibility entrusted to:	
					Name & Designation (<i>official responsible for implem- entati- on of each action plan may be one or more</i>)	EID no.

Audit Tool 5.2

Accountability Statement format

Recom No.	Recom menda tions	Action Plans <i>(actions to be taken provided in the Management Action Plan)</i>	Accountability for implementation of action plans					
			Personal Accountability			Supervisory Accountability		
			Name & Design ation	EID No.	Signature of consent	Name & Design ation	EID No.	Signature of consent

(s/d)
Head of the Agency

Follow up process is an important aspect of performance audit as in other streams of audit. It is an important tool to ensure and evaluate the impact of the audit findings and recommendations in improving the systems and performance of the public sector operations. This chapter describes the follow-up process of the performance auditing.

Introduction

- 6.1 A primary objective of audit is to improve public sector performance and accountability through the implementation of audit recommendations. The effective and timely implementation of recommendations will be facilitated by a follow-up process. A follow-up audit is a process through which the auditors monitor if the audit recommendations are implemented by the audited entity.
- 6.2 Follow-up is an important tool to ensure the impact of the audit as well. At the same time, it helps to improve the future audit work by making better quality recommendations. A follow-up process will facilitate the effective implementation of recommendations. It provides feedback to the RAA, the legislature and the government on the improvements made by the audited entity as a result of the audit.
- 6.3 An exception can be made if, for example, the audited entity activities have changed completely and this could not be foreseen when the audit report was transmitted. A separate decision must be made in such case responding to changes undergone.

Purpose of Follow-up Audit

- 6.4 Following up on audit recommendations serves four main purposes):
 - Identify the extent to which audited entities have implemented changes in response to audit findings and recommendations;
 - Determine the impacts which can be attributed to the audits;
 - Identify areas that would be useful to follow-up in future works; and
 - Evaluate the RAA's performance.
- 6.5 When conducting follow-up of audit reports, the aim is to determine whether actions taken on findings and recommendations have remedied. A

The auditor shall follow up, as appropriate, on previous audit findings and recommendations and the SAI shall report to the legislature, if possible, on the conclusions and impacts of all relevant corrective actions.
- ISSAI 3000/136

follow-up is not restricted to the implementation of recommendations but focuses primarily on whether the audited entity has adequately addressed the problems and improved the underlying situation after a reasonable period.

Objectives of Follow-Up Audit

6.6 The objectives of follow-up audit are as follows:

- Increase the effectiveness of audit reports - the prime reason for following up audit reports is to ascertain whether the recommendations have been implemented in time and to report on the progress of corrective actions taken by the audited entity;
- Achieve improvements in performance of the government programmes;
- Evaluate the RAA's performance - provide feedback for self-assessment of the opinion, conclusion and recommendation of the audit (such as self-assessment support, quality improvement and contribute to better knowledge);
- Provide an input to the strategic planning of audit; and
- Remind the audited entity to initiate corrective actions and demonstrate improvements.

Follow-up programme

6.7 The RAA may prepare operational plan for follow-up programme in relation to the audits conducted in the past. The follow-up programme should be supported by data on major recommendations made in the past, recommendations stated to have been implemented but not tested through follow-up audit and recommendations not implemented by the audited entity.

The auditor shall focus the follow-up on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period.
- ISSAI 3000/139

When to follow-up

6.8 The acceptable period for follow-up activity by the RAA may depend on the context and nature of audit recommendations provided and the timeframe provided by the audited agencies in the MAP.

6.9 The timing of follow-up therefore, constitutes a key management decision to be taken by each individual in accordance with its policies or mandate. Some recommendations may require longer period of implementation while some

may require a short span of time. Generally, recommendations provided for improvement of system may take longer period of time, to the extent of even taking five years or more.

6.10 The follow-up on the recommendations should be done within a reasonable timeframe considering the estimated completion time provided in the MAP, to ensure effective implementation of the recommendations and to improve future audit works by reviewing the recommendation under the changed circumstances.

How to Follow-Up

6.11 When conducting follow-up of audit reports, the auditor should adopt an unbiased and independent approach. The focus should be to determine whether the actions taken and to be taken mentioned in the MAP has been implemented or not and whether actions taken on findings and recommendations remedy the underlying conditions.

6.12 The RAA shall prepare an operational plan for follow-up process based on the MAPs submitted for the audits conducted in the past. The follow-up process should be supported by data on major recommendations made in the past, recommendations stated to have been implemented but not tested through follow-up audit and recommendations not implemented by the audited entity.

6.13 The follow-up can be done using one or more than the methods as detailed in the up-coming follow-up audit guidelines and as summarized below:

- Desk review by the follow-up and clearance division in accordance with its annual plans;
- Desk review by follow-up and clearance division before finalizing the Annual Audit report;
- Carry out a follow-up audit, resulting in a new performance audit report; and
- Submit status of the recommendations and collaborate with the PAC as and when required.

Quality Assurance in reporting process:

6.14 Quality of reports shall be maintained by undertaking following quality assurance measures:

- Adherence to Quality and Assurance Handbook, Guidelines and Instructions;

- Transparent audit and audit management process documentation of entire reporting process;
- Securing audited entity response at all stages of audit process;
- Concurrent supervision and control by senior management, audit specialist; and
- Quality control assessment and review by the top management

Documentation

6.15 As in all preceding phases of audit, in the follow-up phase too the auditor shall document and index the files in a systematic, chronological and logical order for easy and ready references.

This Chapter explains the practice and procedures to be followed by the audit team in documenting the audit working paper. This will guide auditors in documentation of audit working papers.

Purpose of Audit Documentation

7.1 It is important for the auditor to prepare the audit-working paper in a timely manner, maintain up to date throughout the course of the audit and complete the documentation at every stage of audit process, to the extent possible.

The auditor shall document the audit in a sufficiently complete and detailed manner.
- ISSAI 3000/86

7.2 The purpose of the audit documentation are to:

- Serve as evidence of the auditor's compliance with applicable standards;
- Assist in planning, conducting and reporting the audit;
- Confirm and support the auditor's conclusion and recommendations;
- Serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- Facilitate effective management;
- Assist in the supervision and review of the audit work;
- Record evidence resulting from audit work performed to support the audit work;
- Maintain adequate and defensible basis for the conclusions and recommendations;
- It enables auditors to explain audit findings better to the legislature;
- It provides an effective link between successive audits; and
- Any changes to the draft audit report, or reasons for making changes, are documented.

What is Audit Working Paper?

7.3 All relevant documents and information collected and generated during audit constitute working papers. They include the documents recording the audit planning, nature, timing and extent of the audit procedures performed, the results thereof and the conclusions drawn from the audit evidence

obtained. Ideally, the working papers should consist of three sections – each linked to the other: planning, execution and reporting.

- 7.4 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 and legal requirements.

What to document?

- Events of the audit (Audit Event Diary);
- Background information about entity/program;
- Memos/notes with decisions to finalize audit questions, objective, criteria, methods;
- Approved audit plan (Audit design matrix, administrative plan);
- Minutes of audit entry conference;
- Audit enquiries issued during field work and their response;
- Reports, extracts of files, minutes of meetings, copies of vouchers/challans/registers & other documents collected;
- Physical verification reports, photographs, video clippings, tapes of interviews, completed survey questionnaires;
- Details of analysis & interpretation of collected data (calculation sheets, tabulation of responses to surveys, summary tables, regression analysis results, etc.);
- Minutes of exit meeting, response & feedback of audited entity;
- Papers/reports of supervisory review, Quality Assurance review;
- All draft versions & final report with cross referenced to Audit Working Paper;
- Responses of the audited agencies on the draft report;
- Press briefs, brochures, leaflets, presentation made to Public Accounts Committee;
- Print & electronic media clippings on report;
- MAP and signed AS received;
- Assessment of acceptability of the MAP and AS; and
- Any other correspondences.

Characteristics of good Working Papers

7.5 Characteristics that the working papers should have are set out in **Table 7.1**.

Table 7.1: Characteristics of good working papers

<i>Completeness and Accuracy</i>	Working papers should provide proper support for findings, conclusions and recommendations, and demonstrate the nature and scope of the examination performed.
<i>Clarity and Conciseness</i>	Without supplementary oral explanations, anyone using the working papers should be able to understand their purpose, the nature and scope of the work done, and the conclusions reached.
<i>Ease of preparation</i>	This may be achieved by using auditee-produced schedules, pre-printed standard audit stationery and automatically generated standard working paper formats using databases or word processors.
<i>Legibility and Neatness</i>	These are necessary for their use in report preparation and their value as audit evidence.
<i>Relevance</i>	The information contained in working papers should be restricted to matters, which are materially important, pertinent, and useful with reference to the objectives established for the assignment.
<i>Organization</i>	Working papers should be organized and exhibit a consistent structure. This is facilitated by a logical and easy-to-follow index.
<i>Ease of review</i>	Reviewers are presented with a less onerous task if working papers exhibit the characteristics discussed in the points above. When preparing working papers, their end users should be kept in mind. These include forming the basis for audit findings and recommendations, and facilitating prompt answers to questions posed by the legislature.

Content of working paper

7.6 The Audit working paper are maintained in two types of files – the Permanent File and the Current File.

7.7 **Permanent File**– holds more information that can be used in future course of audits, which hold a continuing audit interest. The Permanent File would include:

- Reference files maintained and kept from year to year; and
- Contain matters of continuing interest:
 - Statutes of the entity;
 - Organization;
 - Accounting and financial rules;
 - History of the entity;

- Various reports on the entity; and
- The systems in force in the entity.

7.8 **Current File** – holds detail information regarding the audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached in a particular audit. The Current File would include:

- Working papers created for each audit;
- A chronological summary of the audit and to show key milestones;
- Working papers recording work specific to an audit relating to – planning, execution and reporting.
- All data and information relevant and meaningful to Audit:
 - Internal and external correspondence;
 - Key meeting details and outcomes;
 - Major audit developments;
 - Copy of proposed report and subsequent correspondence;
 - Final copy of audit report; and
 - Copy of final master index outlining content of working papers.

Organization of working papers

7.9 It is advisable that the documentation records include a system that cross-references the audit report to the working papers (ISSAI 3100/117). All supporting documentation should be cross-referenced to related working papers, where necessary, and also to the audit plan and report. It is also important to index and cross-reference the information held on magnetic media relating to the audit. **Table 7.2** shows some examples of working papers that could be documented.

7.10 The filing and indexing of working papers promote an efficient cross-referencing system, which can help:

- Easy access to all information concerning the audit;
- To avoid the continual restatement of information throughout the file; and
- To facilitate supervisory review.

7.11 The audit file documentation is an indexing system, which helps to arrange working papers (client prepared papers as well as work done by the auditors) in a systematic and chronological order for easy and ready references.

Table 7.2 Example of Audit File Documentation

Name of Audited Entity:

Working paper	Code	Reference
Pre-engagement Phase	3000 to 3099	Current File
Detailed Planning Phase	3100 to 3199	Current File
Execution Phase	3200 to 3299	Current File
Reporting Phase	3300 to 3399	Current File
Reference Documents	3400 to 3499	Permanent File

Annexure I

Requirements for Performance Auditing from ISSAI 3000 - Standard for Performance Auditing		
Reference	Requirement	For explanation refer:
<p>General requirements for performance auditing: covers independence and ethics, intended users and responsible parties, subject matter, confidence and assurance in performance auditing, audit objective(s), audit approach, audit criteria, audit risk, communication, skills, supervision, professional judgement and scepticism, quality control, materiality and documentation and has 24 requirements in total.</p>		
Independence and ethics		
ISSAI 3000/21	The auditor shall comply with the SAI's procedures for independence and ethics, which in turn shall comply with the related ISSAIs on independence and ethics.	ISSAI 3000/22
ISSAI 3000/23	The auditor shall take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users.	ISSAI 3000/24
Intended users and responsible parties		
ISSAI 3000/25	The auditor shall explicitly identify the intended users and the responsible parties of the audit and throughout the audit consider the implication of these roles in order to conduct the audit accordingly.	ISSAI 3000/26,27 & 28
Subject matter		
ISSAI 3000/29	The auditor shall identify the subject matter of a performance audit.	ISSAI 3000/30 & 31
Confidence and assurance in performance auditing		
ISSAI 3000/32	The auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way.	ISSAI 3000/33 & 34
Audit objective(s)		
ISSAI 3000/35	The auditor shall set a clearly-defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness.	ISSAI 3000/38 & 39
ISSAI 3000/36	The auditor shall articulate the audit objective(s) in sufficient detail in order to be clear about the questions that will be answered and to allow logical development of the audit design.	
ISSAI 3000/37	If the audit objective(s) is formulated as audit questions and broken down into sub-questions, then the auditor shall ensure that they are thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit question.	
Audit approach		

ISSAI 3000/40	The auditor shall choose a result-, problem or system-oriented audit approach, or a combination thereof.	ISSAI 3000/41,42,43 & 44
Audit criteria		
ISSAI 3000/45	The auditor shall establish suitable audit criteria, which correspond to the audit objective(s) and audit questions and are related to the principles of economy, efficiency and/or effectiveness.	ISSAI 3000/46,47 & 48
ISSAI 3000/49	The auditor shall, as part of planning and/or conducting the audit, discuss the audit criteria with the audited entity.	ISSAI 3000/50 & 51
Audit risk		
ISSAI 3000/52	The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value.	ISSAI 3000/53 & 54
Communication		
ISSAI 3000/55	The auditor shall plan for and maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process.	ISSAI 3000/56, 57 & 58
ISSAI 3000/59	The auditor shall take care to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI.	ISSAI 3000/60
ISSAI 3000/61	The SAI shall clearly communicate the standards that were followed to conduct the performance audit.	ISSAI 3000/62
Skills		
ISSAI 3000/63	The SAI shall ensure that, the audit team collectively has the necessary professional competence to perform the audit.	ISSAI 3000/64 & 65
Supervision		
ISSAI 3000/66	The SAI shall ensure that the work of the audit staff at each level and audit phase is properly supervised during the audit process.	ISSAI 3000/67
Professional judgment and scepticism		
ISSAI 3000/68	The auditor shall exercise professional judgment and scepticism and consider issues from different perspectives, maintaining an open and objective attitude to various views and arguments.	ISSAI 3000/69, 70, 71 & 72
ISSAI 3000/73	The auditor shall assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process.	ISSAI 3000/74
ISSAI 3000/75	The auditor shall maintain a high standard of professional behavior.	ISSAI 3000/76
ISSAI 3000/77	The auditor shall be willing to innovate throughout the audit process.	ISSAI 3000/78

Quality control		
ISSAI 3000/79	The SAI shall establish and maintain a system to safeguard quality, which the auditor shall comply with to ensure that all requirements are met, and place emphasis on appropriate, balanced, and fair audit reports that add value and answer the audit questions.	ISSAI 3000/80, 81 & 82
Materiality		
ISSAI 3000/83	The auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter with the goal of delivering as much added value as possible.	ISSAI 3000/84 & 85
Documentation		
ISSAI 3000/86	The auditor shall document the audit in a sufficiently complete and detailed manner.	ISSAI 3000/87 & 88
Requirements related to performance auditing process: covers planning –selection of topics, planning-designing the audit, conducting, reporting and follow-up and has 18 requirements in total.		
Planning – selection of topics		
ISSAI 3000/89	The auditor shall select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify audit risks and problems.	ISSAI 3000/92, 93, 94 & 95
ISSAI 3000/90	The auditor shall select audit topics that are significant and auditable, and consistent with the SAI's mandate.	
ISSAI 3000/91	The auditor shall conduct the process of selecting audit topics with the aim of maximising the expected impact of the audit while taking account of audit capacities.	
Planning - designing the audit		
ISSAI 3000/96	The auditor shall plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management.	ISSAI 3000/97
ISSAI 3000/98	The auditor shall acquire substantive and methodological knowledge during the planning phase.	ISSAI 3000/99 & 100
ISSAI 3000/101	During planning, the auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence that respond to the audit objective(s) and question(s).	ISSAI 3000/102 & 103
ISSAI 3000/104	The auditor shall submit the audit plan to the audit supervisor and SAI's senior management for approval.	ISSAI 3000/105
Conducting		
ISSAI 3000/106	The auditor shall obtain sufficient and appropriate audit evidence in order to establish audit findings, reach conclusions in response to the audit objective(s) and	ISSAI 3000/107, 108, 109, 110 & 111

	audit questions and issue recommendations when relevant and allowed by the SAI's mandate.	
ISSAI 3000/112	The auditor shall analyse the collected information and ensure that the audit findings are put in perspective and respond to the audit objective(s) and audit questions; reformulating the audit objective(s) and audit questions as needed.	ISSAI 3000/113, 114 & 115
Reporting		
ISSAI 3000/116	The auditor shall provide audit reports, which are a) comprehensive, b) convincing, c) timely, d) reader friendly, and e) balanced.	ISSAI 3000/117, 118, 119, 120 & 121
ISSAI 3000/122	The auditor shall identify the audit criteria and their sources in the audit report.	ISSAI 3000/123
ISSAI 3000/124	The auditor shall ensure that the audit findings clearly conclude against the audit objective(s) and/or questions, or explain why this was not possible.	ISSAI 3000/125
ISSAI 3000/126	The auditor shall provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit, whenever relevant and allowed by the SAI's mandate.	ISSAI 3000/127 & 128
ISSAI 3000/129	The auditor shall give the audited entity the opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report.	ISSAI 3000/131 & 132
ISSAI 3000/130	The auditor shall record the examination of the audited entity's comments in working papers, including the reasons for making changes to the audit report or for rejecting comments received.	
ISSAI 3000/133	The SAI shall make its audit reports widely accessible taking into consideration regulations on confidential information.	ISSAI 3000/134 & 135
Follow-up		
ISSAI 3000/136	The auditor shall follow up, as appropriate, on previous audit findings and recommendations and the SAI shall report to the legislature, if possible, on the conclusions and impacts of all relevant corrective actions.	ISSAI 3000/137 & 138
ISSAI 3000/139	The auditor shall focus the follow-up on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period.	ISSAI 3000/140 & 141



REPORTING ON ECONOMY, EFFICIENCY & EFFECTIVENESS IN THE USE OF PUBLIC RESOURCE