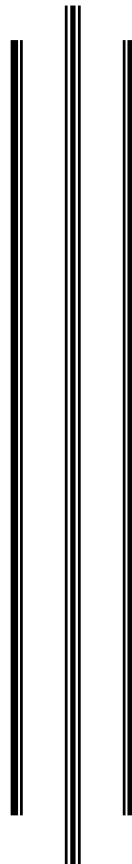# Performance Auditing Guide

Office of the Auditor General
Babarmahal, Kathmandu,
August, 2012

Preface

This Performance Auditing Guide has been prepared in a new look on the technical assistance of the World Bank on 2000 AD. During the implementation of guide different suggestions and feedback received from different sources. In the mean time, INTOSAI has issued ISSAI 3000 and 3100 to use while conducting performance audit. Considering those facts, office has initiated the process of updating Performance Auditing Guide. In this regards, Office of the Auditor General, Norway has provided technical assistance to update this guide in line with ISSAI.

Performance audit is more complex and challenging compared to the audit of compliance, as it provides appropriate recommendation for improvements after examining whether economy, efficiency and effectiveness have been maintained in the use of available resources and means. I am confident that this guide will help conduct performance audit in a simplified but effective way. The contents of this guide include selection of issues, audit planning and acceptance, execution of audit, reporting, documentation and quality assurance and follow-up. The performance audit by the OAG/N will be conducted in accordance with this guide.

Efforts have been made to make the guide error free. However, OAG/N will be grateful if the user could acknowledge any error or suggestion to Performance Audit Division or Planning, Research, Methodology and Human Resource Development Division of the OAG/N.

I appreciate team of OAG Nepal and Norway who are involved to update this guide in line with ISSAI. Similarly, I express my thanks to the Auditor General of Norway for sharing professional experience in making the guide meaningful.

Kathmandu
August, 2012
(Bimala Subedi)
Acting Auditor General

Performance Auditing Guide
Subject

- Audit Tool

40 "Audit Execution Section"

- Audit Tool

50 "Reporting Section"

- Audit Tool

60 "Documentation Section"

70 "Quality Assurance Review System Section"

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Abbreviations and Acronyms

AAG	Assistant Auditor General
ASOSAI	Asian Organisation of Supreme Audit Institutions
ADB	Asian Development Bank
AG	Auditor General
AT	Audit Tool
AQ	Audit Question
CAATs	Computer Assisted Audit Techniques
CCU	Central Co-ordination Unit
CFS	Critical Factors for Success
CFUG	Community Forest Users Groups
DAG	Deputy Auditor General
DDC	District Development Committee
DFO	District Forest Office
DOF	Department of Forest
EDP	Electric Data Processing
FGD	Focus Group Discussion
GAAP	Generally Accepted Accounting Principle
GDP	Gross Domestic Product
INTOSAI	International Organisation of Supreme Audit Institutions
INGO	International Non Governmental Organisation
ISSAI	International Standard for Supreme Audit Institutions
IT	Information Technology
KPIs	Key Performance Indicators
MP	Municipality
NGO	Non Governmental Organisation
OAG	Office of the Auditor General
OAG/N	Office of the Auditor General, Nepal
PA	Performance Auditing
PAC	Public Accounts Committee

PAD	Performance Auditing Division
PAG	Performance Auditing Guide
PAQRS	Post Audit Quality Review System
QA	Quality Assurance
QAR	Quality Assurance Review
QARQ	Quality Assurance Review Questionnaire
QMS	Quality Management System
QCC	Quality Control Committee
R&D	Research and Development
SAI	The Supreme Audit Institutions
SAQ	Sub Audit Question
VAT	Value Added Tax
VDC	Village Development Committee
3Es	Economy, Efficiency and Effectiveness

10 "Introduction Section"

10.1 Performance Audit – Diagram

	Process	Output from Process	Audit Tool
Selection	Selection of Subject/Unit	Subject/Unit for Performance Audit	AT 2
Planning	Understand Audit Entity	Segment Operation Model	AT 1,4,5
	Identity Audit Objectives, Risks, Criteria, Audit question	Broad Risk Profile	AT 6,7
	Prepare Audit Plan and detail programme	Audit Plan and Audit Design matrix	AT 8
Execution	Implement Audit Programme	Audit Work Papers & Evidence	
	Collection of Audit evidences (Using different audit techniques, control assessment, test procedures, performance assessment)	Audit Work Papers & Evidence	
	Analysing and interpreting information	Audit Work Papers & Evidence	
Reporting	Develop Audit Findings, Conclusions & Recommendations	Preliminary Audit Report	AT 8
	Finalize Audit Reports	Long form Audit Report to Auditee Management	AT 12
	Incorporating in Annual Report	Annual Report	AT 12
Documentation & Quality Review	Completing and Reviewing Audit File	Final Checklist	AT 13, 14
	Quality Review System	QA Review Report	
Follow-up	Debriefing	Report on Follow-up	AT 15,16

10.2   **Definition of Performance Audit**

According to INTOSAI's Auditing Standards, performance audit is an independent examination of the efficiency and effectiveness of government undertakings, programmes or organisations, with due regard to economy, and the aim of leading to improvements.[1]

Performance audit is based on decisions made or goals established by the legislature, and it may be carried out throughout the whole public sector.

Performance audit is concerned with the audit of economy, efficiency and effectiveness (the three E's). A performance audit assignment may include all/one or a combination of two aspects of "3Es". Regularity and propriety related issues which impact performance may be considered in the conduct of performance audits.

Economy- *Keeping the cost low*

"Economy" means the acquisition of the appropriate quality and quantity of human, financial, physical and information resources at the appropriate times and at the lower cost. It is minimising the cost of resources used for an activity (input), having due regard to appropriate quality. Audits of economy can be evaluated using following indicators and seek the answers to questions such as:

-   Are public funds spent economically?
-   Are management activities performed in accordance with sound administrative principles and good management policies?
-   Is higher rate of the contract approved without any reasonable and appropriate basis?
-   Is cost increased due to delay in completion of work?
-   Is procurement expenditure increased without procuring goods on competitive price?
-   Do the entities procure the goods and services at the cheapest price in a specified quality?
-   Are resources wasted by procuring unnecessary goods or more goods than requirement?
-   Are equipments remained idle?
-   Are vehicle and other resources used other than intended purpose?
-    Is the revenue collection cost higher than the standard?
-   Is there duplication of operations?

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[1] ISSAI 3000, p. 11.

Efficiency - *Making the optimum use of available resources*

"Efficiency" means the use of human, financial, physical and information resources such that the output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output. Audits of efficiency can be evaluated using following indicators and seek the answers to questions such as:

- Are human, financial or other resources efficiently used?
- Are public services of good quality, client-oriented and delivered on time?
- Are the objectives or target of government programs reached cost-efficiently?
- Is decision making process delayed?
- Is contractor's work schedule complied?
- Is work completed on time?
- Are hospital service affected due to non availability of doctor and medical equipment?
- Is waiting times in the Hospital reduced at no extra cost with any reduction in quality of service?
- Are complaints and cases settled on time?
- Is monitoring and evaluation system efficient?
- Is budget available in time?
- Are free medicines supplied in appropriate time and quality?

Effectiveness - *Achieving the stipulated aims or objectives*

"Effectiveness" means the achievement of the objectives or other intended effects of activities. It addresses whether policy objectives or goals have been met and whether this can be attributed to the policy pursued. Audits of effectiveness can be evaluated using following indicator and seek the answers to questions such as:
- Are the stipulated aims being met by the means employed and the outputs produced?
- Are the impacts observed really the result of the policy rather than other circumstances?
- Are government programmes effectively prepared and designed, clear and consistent?
- Are services produced in accordance with stipulated objectives?
- Has a departmental programme clearly improved the quality of service received by citizens?
- Are customers satisfied for the service provided by the entity?
- Are customer accepted and used the output?
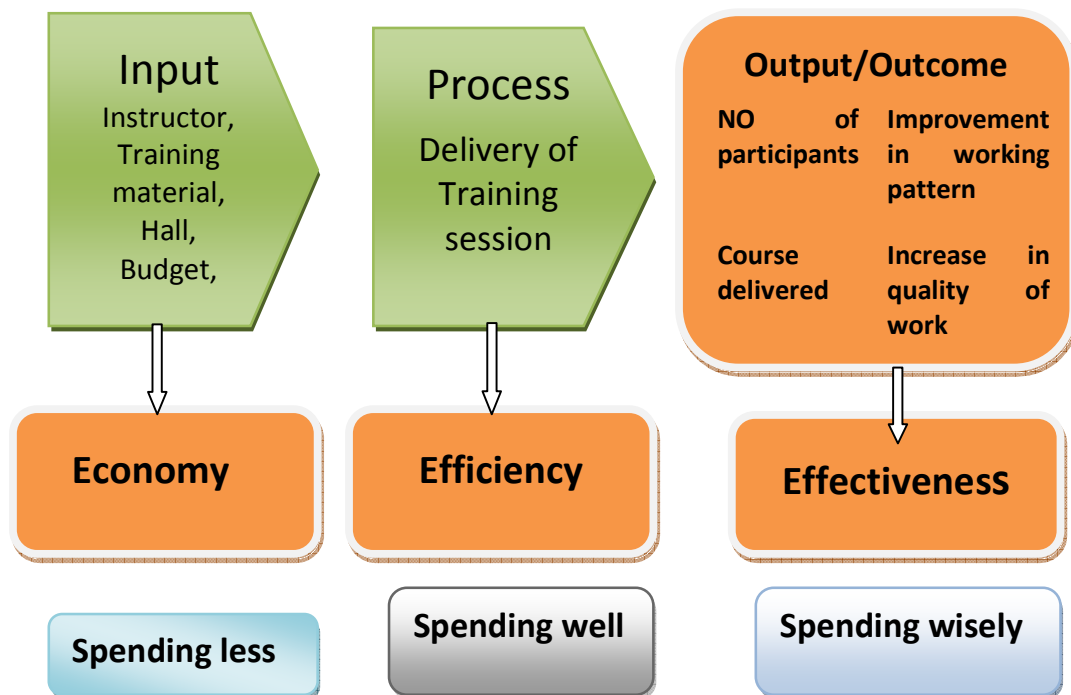
Figure: Relationship of economy, efficiency and effectiveness with input and output

10.3 Objectives and Scope of Performance Audit

10.3.1 The objectives of performance audits are to audit the economy, efficiency and effectiveness of auditees and to evaluate the discharge of accountability and due care of probity in the use of resources.

10.3.2 Performance audits focus on one or more of following interrelated elements:

- to provide objective assessment of the extent to which the auditee is currently pursuing the 3Es;

- to identify major deficiencies in management and control practices;

- to encourage improvement in the system of performance reporting;

- to provide information and propose recommendations that can lead to better internal control and public accountability.

10.3.3 Performance auditing covers a wide variety of issues to arrive at the conclusion relating to the 3Es. It examines and evaluates the systems, procedures, operation and result related to:

- planning, budgeting, accounting and reporting systems;

- development, appraisal and utilization of resources;

- acquisition and utilization of property, equipment, plant, inventory and other assets; and

- development, production and use of information.

10.4   **Need for Performance Audit**

10.4.1   Performance audit is the outcome of the important efforts directed to improve the system of management to ensure genuine output from resources employed. The concept of performance auditing emerged in response to :

- increasing demand for information on efficiency and economy in managing resources and the effectiveness with which objectives are met;

- need to determine whether :

  - ➢ the operations of audit entities were conducted in a way that ensures the best possible use of resources or considering the 3Es;

  - ➢ officials in the public sector have met their accountability obligations;

  - ➢ reporting on performance is credible and adequate.

10.4.2   Performance audit provides the legislature and the public with an assessment whether the audited entities are achieving real value-for-money. It intends to arrive at a verifiable condition for comparing what is being done and how well it is being done with the plans, policies and standards.

10.4.3   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.

10.5   **Performance Audit Versus Financial Audit**

10.5.1   Auditing is a process involving the examination of data, statements, records, operations and performance of an auditee for a stated purpose. The full scope of government auditing includes regularity and performance audit. Performance auditing goes beyond the consideration of regularity. It aims to determine to what extent the auditee has discharged its financial or other responsibilities which, imply assessment of the auditee's operation in terms of the *economy* in acquiring resources, *efficiency* in using resources and *effectiveness* in achieving objectives.

10.5.2   The major differences in the approach, scope and objectives between financial audits and performance audits are explained in the following table.

Financial Auditing	Performance Auditing
1. Uses financial data to express anopinion on financial position and compliance with existing rules and regulations and determines whether: • the financial statements the auditee fairly present the financial position, reflect results of operations and cash flows or manifest changes in	1. Uses financial as well as nonfinancial data to assess economy, efficiency and effectiveness in the management of resources and determines whether: • the reporting on performance fairly present the accomplishment and/or impact;

	financial position in accordance with generally accepted accounting principles; • the auditee has complied with laws and regulations for those transactions that may have a material effect on financial statements.		• auditee is managing its resources in an economical, efficient and effective manner.
2.	Its objectives are: • to obtain sufficient, competent evidential matter to enable the auditor to form and express an opinion on the auditee's financial report; • to promote compliance with laws, regulations, agreements, directives, policies and procedures as necessitated by statutory and/or auditee requirements; • to encourage application of generally accepted accounting principles; • to establish confidence in the reliability and integrity of the financial management system and the reports generated by it.	2.	Its objectives are: • provision of a basis for improvement of public sector management of all resources; • improvement of the quality of information on the results of public sector management that is available to policy makers, legislators and the general community; • encouragement of public sector management to introduce processes for reporting on performance; • provision for more adequate accountability.
3.	Does not comment on the extent to which auditee is meeting target relating to output and delivery of services to the targeted groups they are serving.	3.	Evaluates the extent to which auditee is meeting the target relating to output and delivery of services to target groups they are serving.
4.	Does not make recommendations for improving economy, efficiency and effectiveness of programme or projects being audited	4.	Offers general and specific recommendations for improving economy, efficiency and effectiveness of the auditee being audited.
5.	Concentrates attention on individual transaction to determine whether the transaction complies with laws and regulations.	5.	Considers transaction and performance from overall accountability framework.

6. Aims to strengthen control environment to reduce noncompliance.	6. Aims to improve overall performance capability to encourage better management of resources
7. Regularity and propriety are major aspects.	7. Economy, efficiency and effectiveness are major aspects.

10.6 Auditing Standards

Performance audits undertaken by the public sector auditors are conducted in accordance with auditing standards consistent with the professional standards required of private sector auditors. Ethical principles govern the auditors' professional responsibilities; independence; integrity; professional competence and due care; confidentiality; professional behaviour; and technical issues. These standards are reflected in the ISSAI's Auditing Standards, Government Auditing Policy Standards and the INTOSAI Code of Ethics for the public sector.

10.7 Performance Audit Mandate

The Interim constitution of Nepal 2007, confer on the authority to audit " economy, efficiency and effectiveness" of the financial management of the Executive, Judiciary and Legislative-Parliament and all corporate bodies subject to audit by the Auditor General which go beyond the traditional framework of financial statements, regularity or compliance audit. Since the OAG has mandate to work extends into the area of value -for - money audit. The relevant constitutional and legal provisions are quoted below:

- *Article 123 (1) of the Constitution states: The accounts of the Supreme Court, the Legislature-Parliament, the Constituent Assembly, the Commission for the Investigation of Abuse of Authority, the Office of the Auditor-General, the Public Service Commission, the Election Commission, the National Human Rights Commission, the Office of the Attorney General and other offices of the Constitutional Bodies, the Nepal Army, the Armed Police or Nepal Police, and all other government offices and courts shall be audited by the Auditor-General in such manner as may be determined by law, also having regard to the regularity, economy, efficiency, effectiveness and the propriety thereof.*

- ***Section 3 of the Audit Act, 1991****: It provides the mandate of determining the audit scope, process and duration. The OAG can decide which aspect(s) (regularity, economy, efficiency, effectiveness and propriety) would be considered while planning, executing and reporting of any audit.*

- ***Section 4 and 5 of the Audit Act, 1991****: It provides the matters to be audited considering regularity, economy, efficiency, effectiveness and propriety. Of the various matters, the following provisions relate specifically to 3Es auditing. In this context, audit is required to determine whether :*

  ➢ *the organisation, management and job allocation of the Office are sufficient and proper and are they operating accordingly;*

> ➤ *any function is being unnecessarily performed in duplication by any employee or agency or any essential function is being omitted;*

> ➤ *the available resources, means and assets are properly utilized and the maintenance and preservation thereof against any loss or damage has been properly arranged;*

> ➤ *the progress has been achieved within scheduled time and the quality and quantity of the work is satisfactory;*

> ➤ *the objective and policy of the office is explicit and the programme is delineated conforming to the specified objective and policy;*

> ➤ *the programme is being implemented within the limits of approved cost estimate and the proceeds received in comparison to the cost is reasonable;*

> ➤ *the arrangements for maintaining data relating to target, progress and cost are adequate and reliable;*

10.8   **Use and Users**

10.8.1   The purpose of this Guide is to provide a framework to establish policies and provide guidance on the general principles and approaches governing a performance audit.

10.8.2   The framework applies to all performance audits undertaken by the Office of the Auditor General.

10.8.3   The policies set out and explained in this Guide, along with the other guidance provided from time to time, form the basis for the Office of the Auditor General's approach in carrying out the performance audit engagements.

10.9   **Use of Professional Judgment**

It should be recognized that no guidance or policy of general application could suit all circumstances. Therefore, the auditors are required to exercise their professional judgment in using the Guide. If a particular approach, method, process, or procedures is inappropriate for a specific auditee and a more suitable and practical alternative can be used, then the alternative way should be used after obtaining the appropriate approval from the Assistant Auditor General in charge of the assignment. The approved departure should be adequately documented in the audit files.

10.10   **Professional relationship and communication**

The development of good and proper external relations is a key factor in achieving effective and efficient performance audit results. Auditors should seek to maintain good professional relationships with all stakeholders involved, promote a free and frank flow of information in so far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding of the respective role and responsibilities of each stakeholder. The communication process between the auditor and auditee begins at the planning stage of the audit and continues throughout the audit process, by a

constructive process of interaction, as different findings, arguments and perspectives are assessed.

10.11	**Implementation Responsibility**

10.11.1   The Assistant Auditor General - Performance Audit Division has direct management responsibility for implementing performance audit engagements, and has a coordinating role with other Assistant Auditor General to achieve a higher level of professional performance.

10.11.2   The Assistant Auditor General - Performance Audit Division is assigned to develop and recommend plans and programme for improving the efficiency and effectiveness of performance audit engagements. This includes conducting appraisals to evaluate the organisation, personnel management, objective, methods and accomplishment against policies, procedures and generally accepted standards of professional performance, and the follow-up to assure that understood and accepted recommended improvements have been accomplished.

10.12	**Performance Audit Progress Record**

Completed works in various stage of performance audit have to be recorded by the Audit Director and approved by Assistant Auditor General. Audit Tool-1 has to be applied.

Audit Tool – 1 (Performance Audit Progress Record Form)

Audit Unit

Engagement Team

Assistant Auditor General	
Audit Director	
Audit Officer	
Others	
External experts or specialists	

Parties Involved	Organization/Person	Contact(s)
Entity Subject to audit		
Experts engaged		
Financial Audit Team		

	Initials and date		
Performance Audit Progress Sign-Off	Auditor in-charge	Audit Director	AAG
Confirm that engagement team have read, are familiar with and have applied the relevant sections of the Performance Audit Guide.			
Planning stage completed in accordance with the Performance Audit Guide and audit questions and sub audit questions discussed with the AAG and approved			
Audit execution procedures complied with and			

completed, salient features discussed with Audit Director and problems resolved			
Reporting procedures complied with and completed, salient features discussed with Audit Director and problems resolved.			
Confirm that engagement is complete and report(s) and/or letter(s) may be signed			
Working papers are completed and Performance Audit Progress Record signed off.			

Work completion procedure of Audit Officer and Director is as follows:

- **Planning Stage**

✓ box when completed

	Confirm with the AAG that findings from the selection process substantiate carrying out a performance audit.

	Ascertain nature of letter(s) and/or report(s) required, their addressees and their purposes.

	Identify need for special expertise from the OAG/N or external consultants.

	Establish timetable and budget for audit.

	Inform other auditors involved if reliance is going to be placed on their work.

	Agree Audit planning memorandum with the AAG

- Audit Execution Stage

✓ box when completed

	Identify any relevant legislation.

	Audit and sub- audit questions agreed and discussed with audit team.

| | Formulate audit programme and consider review result of audit programmes used for other similar audits. |

| | Extent of evidence gathering considered and agreed with the AAG. |

| | Notes of all-important meetings placed on file |

| | Working papers complete and reviewed by the AAG. |

| | All queries and outstanding points raised by in-charge resolved. |

• Reporting

| ✓ box when completed | |

| | Reports and letters drafted in conformity with guidance contained in the Performance Audit Guide. |

| | Confirm that audit execution procedures have included gathering evidence appropriate to the specific findings contained in the report (and, where applicable that the report has been referenced to the underlying evidence). |

| | All outstanding audit execution procedures completed. |

| | Comments by the audited entity on matters of substance made at meetings approved by Audit Director and confirmed to audited entity in writing or discusses as appropriate. |

| | Report reviewed by the AAG and the DAG before final issuance |

| | Final Report reviewed by the AG before submitting in annual report. |

20 "Selection of Topics"

20.1   **Need for Selection**

20.1.1   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 the preliminary identification of auditable population (the audit universe) from which the auditors make initial decisions on whether performance audit is warranted.

20.1.2   Selection of audit topic is important in order to direct the audits towards areas where an external, independent audit may add value in promoting economy, efficiency, and effectiveness (ISSAI 3000 P.44)

20.1.3   It is important that selection of topics for auditing take place without any form of outside pressure, maintaining the OAG's independence (ISSAI 3000 p. 44)

20.1.4   On the basis of result oriented, problem oriented and / or system oriented approaches, the functions or activities or programme or operations should be selected. The selection of topics for performance audit is important for the following reasons:

- given the size, complexity and diversity of the operations of the auditee, it is normally impracticable to attempt to assess the overall performance of departments or agencies in the public sector;
- saves resources and time by concentrating on particular problematic area;
- enhances relevance of audit findings;
- timely completion and reporting facilitates initiation of corrective action.

20.1.5   Performance audit may examine an issue or a programme that is common to or influenced by a range of departments or agencies. These performance audits have the potential to increase the relevance and scope of audit findings and recommendations in the broad area of public sector. The examples of such across the board or common issues are as follows:

- the audit of implementation of programme evaluation system,
- aspects of budgetary system, and
- project appraisal system.

20.1.6   Audit of policy or systems issue serves broad purposes rather than specific issue of a project or organisation.

20.2   **Steps in Topics Selection**

20.2.1   The OAG prepare a well structured strategic planning for the performance auditing which ranked the topics to be audited in 2 /3 years. The objectives of strategic audit planning are to:

➢ provide basis for future audit coverage;

> ➢ provide future direction for performance auditing;

> ➢ identify and select audits with potential risks;

> ➢ establish monitoring mechanism to review the progress;

> ➢ promote accountability and governance in the OAG;

The strategic plan should include: a description of the OAG environment; a summary of the long term strategic view on performance auditing; broad risk profile of the issues or topics; list of potential areas for performance audit for the next two or three years etc. This plan is updated each year in the beginning of the fiscal year i.e. June or July considering the agency's environment.

20.2.2 The Central Co-ordination Unit (CCU) plays a decisive role in the formulation strategic plan and selection of audit topics or issues. Decisive role includes reviewing the topics or issues or projects proposed by the respective Performance Audit Division, discuss with the respective operational divisions and finalize the topics. Such topics are included in the strategic planning of the Performance Auditing. It also monitors the progress of the audit reviewing the progress report submitted by the Performance Audit Directorate and suggest way forward if necessary for the achievement of target set in the strategic plan.

20.2.3 The Performance Audit Division provides logistic support and facilities to this process. The Assistant Auditor General assigned to the Performance Audit Division holds the responsibility to initiate the plan formulation and selection process which involves organizing workshop and requesting to all Operational Divisions within Office of the Auditor General in writing to suggest/ nominate significant organisation, topics or issues considered potential for performance audit.

20.2.4 The request letter should seek the following information:

- name of the Programme/Project/Organisation/Activity

- year of commencement

- financial source - Donor assisted or Government of Nepal

- nature and brief description of activity

- location and geographical coverage (number of districts)

- designation and address of Chief Executive/ Programme/Administrator

- critical audit observations in previous years

- total cost of project/programme

- period to be covered by the audit

- suggested audit commencement and completion date

- major reasons for recommending the topic

- other matters of significance (media reports, public concern, requests,

complaints, etc.).

20.2.5   The Operational Divisions are obliged to provide information about the potential topics to be audited. CCU will monitor the process of recommending topics by different Divisions. The Performance Audit Division shall compile all the information received in the following format and shall indicate its preference or recommend the selection criteria of issues or topics to be considered for performance audit.

Compiled List of Suggested Topic or Issues Areas

Suggested Topic or Issue	Year or Establishment	Budget (Rs'000)	Nature of Activities	Volume of Work	Matter of Significance

20.2.6   In compiling the listing of suggested topic, the Performance Audit Division should consider preliminary issues pertaining to the broad areas of the auditee's operations, including:

- relative size of expenditures or revenues;
- trends in the entity's performance;
- comparative indicators of performance for similar organisations;
- compliance with relevant legislation;
- potential risks;
- matters of public interest;
- complexity of operations; and
- known unresolved problems from financial audits.

The CCU can request for additional topics for performance audits.

20.2.7   The CCU shall decide weightage to be applied to each topic proposed.

20.2.8   The selection matrix and criteria in the course of making decision about topic or issue for performance auditing may be developed using the Selection Matrix and Criteria for Performance Audit form provided in Audit Tool-2.

20.2.9   Objective assessment of factors such as risks, resource requirement, need and availability of service of independent experts within resource limitation is critical in the selection of topic or issue for performance auditing. The following aspects need to be considered in selecting topics for performance auditing:

- *"Risk"* Assess the following risks associated with the topics or issues proposed :

  - associated challenges and probability of completing auditing in time;

  - capability of audit personnel to undertake audit;

  - potential impact of audit report; and

  - operating environment of potential organisation.

  The assessment of risk generally enables the auditor to identify the expected benefits from the audit considering the resources available to undertake the

audit. The auditor shall assess the risks involved in performance auditing and minimise them to an acceptable level through proper audit planning.

- *"Resource requirement"* Timely completion of audit and reporting is essential from the viewpoint of enhancing the relevance of audit findings. Therefore, it is important to consider the availability of resources including manpower, the choice of personnel and the skills they possess as well as expert or specialist, equipment and budget.

- *"Strategic plans"* All audit operations shall help achieve the objectives outlined in strategic plan of the OAG. It is essential for the CCU to consider the strategic plan of the OAG in the selection of audit topic or issue. and formulating strategic plan for performance auditing.

20.2.10   Some Example of considerable broad risk area and issues in course of recommending and selection of subjects for performance audit is given bellow:

Broad Risk Area	Issues or Potential Areas
1. Asset/Inventory management	- Usage and safeguarding of assets - Repair and maintenance - Inventory management - Idle plant and equipment - Over and under stocking
2. Human Resource	- Training and development - Frequency in transfer - Human resource planning - Fulfillment of required position - Adequacy of technical manpower - Hiring expert
3. Procurement management	- Procuring without competition, direct procurement - Cost and time overrun - Bid evaluation - Specification not met - Procurement packages - Procurement plan and its compliance - Year end procurement - Delay in supply of essential goods
4. Contract management	- Work schedule and progress - Significant cost and time overrun - Variation and price escalation - Non-compliance to the quality control arrangement - Supervision - Completion and handover

5. Project management	• Feasibility study and cost benefit analysis • Detail survey • Environmental consideration • Resources planning • Adequacy of budget • Target and achievement • Performance indicator • People's participation • Operation repair and maintenance
6. Gender aspect and inclusion	• Gender sensitive programme • Women participation • Empowerment • Inclusion of ethnic and disadvantaged group • Increased participation
7. Programme implementation	• Institutional arrangement • Resources management • Operational plan • Achievement of output indicator • Monitoring and evaluation • Achievement of millennium development goals
8. Outcome	• Internal rate of return • Outcome indicator • Service delivery access, equity and quality • Access to health service • Access to education facility • Quality of education
9. Policy and legal arrangement	• Execution of policy objective • Compliance to the legal provision • Consistency between policy, programme and budget

20.2.11   There may be numerous criteria for ranking and selecting topics for a performance audit. These can be categorised as follows:
- "Impact" - Tentative judgment over the contribution or impact (improvement in service delivery system or resource management or institutional capacity building) of auditing. Potential impact of audit can be assessed by asking following questions
  - ✓ Does audit makes visible difference?

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- ✓ Does audit improve service delivery, financial management, Organizational capacity and programme implementation?
- ✓ Does audit can contribute by reducing cost and control wastages?
- ✓ Does there is possibility of increasing output and reducing duplication of work as well as improving coordination?
- ✓ Could audit contribute for the effective implementation, management and achievement of target?
- ✓ Does audit contribute for planning controlling and promoting public accountability?

- "Materiality" - Value judgement regarding the potential contribution of auditing in broader scenario of administration and/or management. Materiality is ranked using the answer of the questions below:
  - ✓ Is management aware about the weakness and introduce certain corrective measures to overcome the situation?
  - ✓ Is there any indication of non achieving target or objectives?
  - ✓ Does project/entity has vacant position and staff turnover?
  - ✓ Does audit get any instances of overspending, under spending, variation, sudden obstruction, expansion from various sources?
  - ✓ Does audit get the information of overlapping and confused responsibility in the respective project or programs?
  - ✓ Is that issue is burning in the present context?
  - ✓ Is there any political and social controversial debate?
  - ✓ Does the volume of budget material?
  - ✓ Is the project/programme running by using participative, decentralize approach and transferring power and responsibility?
  - ✓ Do the topics contribute widely in administration and management?
  - ✓ Is the programme/ project/activity complex to manage and operated in an uncertain environment? Some indicators are highly decentralized operations, use of rapidly changing technology, competitive environment, controversial and political debate etc.

- "Risk to good audit management" - Assessment of potential risks in managing audit considering coverage, complexity of business of organisation and availability of skill and knowledge. It deals whether audit topics is auditable or not. Following are the parameters to assess the auditability.
  - ✓ Does audit team have required competency and expertise to complete audit?
  - ✓ Are there sufficient and appropriate criteria for evaluating project/programme/entity?
  - ✓ Does audit evidence and information are available to evaluate the project or programme?
  - ✓ Does audit location of the audit topics are accessible?

- ✓ Does audit team have knowledge and skill to deal with the complexity and coverage of audit?
- ✓ Does Office have received act, regulation, agreement related to the audit topics?

- "Visibility and significance" - Visibility is related to the social, economic and environmental aspects of the activity and the importance of its operations to the government and the public. It is the degree of interest by the legislature and public in the outcome of the audit. Significance will rate highly where the topics in considered to be of particular importance to the agency and where improvement would have significant impact on the operations of the agency.

  - ✓ Does previous audit identified significant issues?
  - ✓ Is the topics is significant for the success of any project or periodic plan or policy?
  - ✓ Does the topic is the main portion of the project/programme?
  - ✓ Does the weakness identified also affect similar type of such project/programme?
  - ✓ Is the irregularity and weakness effect extensively in public accountability?
  - ✓ Does general public raise interest to the topics?
  - ✓ Does suggestion significantly affect the operation of programme/project?
  - ✓ Does the legislature raised interest to the topics or requested to the Auditor General for performance audit?

20.2.12 Simple summation of scores given to overall ranking of each auditable area would not be an accurate indication, although it provides a comparative picture of priority that may be accorded. As each of these factors (20.2.11) will have a different weight, ranking remains a matter of judgment for the CCU considering risks, resource requirement and strategic focus. Among the topics chosen, CCU decides the topics for in-depth and desk review.

Audit Tool – 2 (Selection Criteria and Matrix)

This Audit Tool gives guidance on the completion of the Selection Matrix and how to assign ratings to determine and evaluate overall ranking of each auditable area. To be effective, the specific criteria, topics, and the resultant ratings suggested in this Audit Tool will likely need to be modified to appropriately reflect the relative significance for the topics in question. Application procedure of this Audit Tool is given below.

- **Determining Overall Significance Ratings**

  After the auditor has judgmentally assigned a rating to each topic, the auditor shall determine the overall significance rating by topic by totaling the individual weighted ratings across the matrix. While determining individual weight, auditor shall assess the answer of the questions mentioned in the sections 20.2.11.

  The weighted ratings across each column are added and recorded in the "Overall Rating by Topic" by row. Those totals can be helpful in determining overall public sector exposure areas.

- **Evaluating Ratings by Individual Topics**

  The auditor then evaluates the overall significance rating by individual topics. This is done for each topic by row by comparing the total in the "Overall Rating by Topic" row to an appropriate scale that categorises the topics as low, moderate or high in terms of significance. Each topic will be then ranked on the basis of their merit.

Example of Selection Matrix

Topics	Selection Criteria				Overall rating by topic	Rank (Overall rating)
	Potential Impact	Materiality	Potential Risks	Visibility		
(weighting)	(0.3)	(0.2)	(0.2)	(0.3)	1	
Topic 1	10 *3*	5 *1*	10 *2*	5 *1.5*	*7.5*	*II*
Topic 2	10 *3*	10 *3*	5 *1.5*	5 *1.5*	*9*	*I*
Topic 3	5 *1.5*	5 *1.5*	5 *1.5*	5 *1.5*	*6*	*III*
Topic 4	5 *1.5*	0 *0*	5 *1.5*	5 *1.5*	*4.5*	*IV*
Topic 5	5 *1.5*	5 *1.5*	5 *1.5*	0 *0*	*4.5*	*IV*

Note:- • Not applicable = 0, • Low = 2, • Moderate = 5, • High = 10

30 "Planning Section"

30.1   Performance Audit Planning – Diagram

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            ┌─────────────────────────────────┐
            │   Review Background Information  │
            │          of the Entity           │
            └─────────────────────────────────┘
                            │
                            ▼
            ┌─────────────────────────────────┐
            │  Review Operational Objectives,  │
            │      Strategy and Mandates       │
            └─────────────────────────────────┘
                            │
                            ▼
            ┌─────────────────────────────────┐
            │   Prepare Segment Operation      │
            │             Model                │
            └─────────────────────────────────┘
                            │
                            ▼
            ┌─────────────────────────────────┐
            │      Perform Operational         │
            │       Process Analysis           │
            └─────────────────────────────────┘
                            │
                            ▼
            ┌─────────────────────────────────┐
            │        Perform Risk              │
            │        Assessment                │
            └─────────────────────────────────┘
                            │
                            ▼
            ┌─────────────────────────────────┐
            │  Determine Audit Objectives,     │
            │  Scope and Methodology Audit     │
            │           Questions              │
            └─────────────────────────────────┘
                            │
                            ▼
            ┌─────────────────────────────────┐
            │       Specify Audit Criteria     │
            └─────────────────────────────────┘
                            │
                            ▼
            ┌─────────────────────────────────┐
            │    Prepare Audit Planning        │
            │         memorandum               │
            └─────────────────────────────────┘
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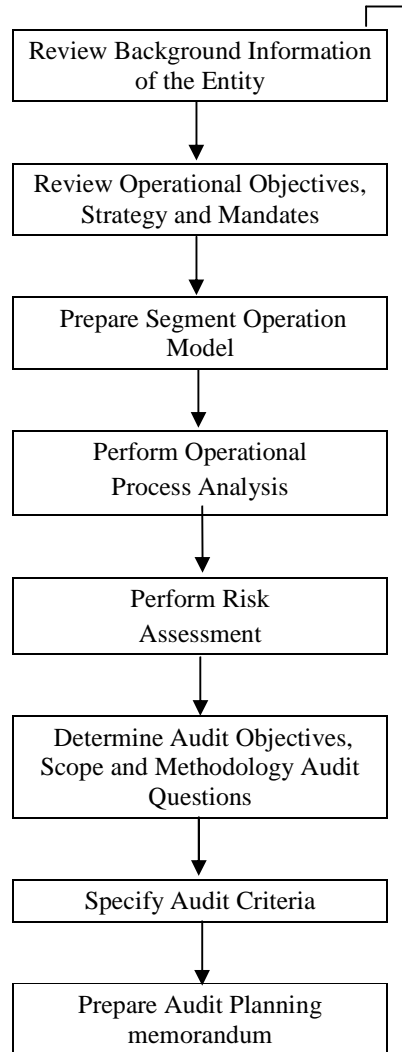
30.2   **Objective**

30.2.1   The objectives of audit planning are to establish guidelines and provide guidance on the methods and process of implementing performance audits in an organised 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. The output of this phase is to develop an audit planning memorandum which will guide audit in the execution stage.

30.2.2   Audit plan is prepared to determine the best way of doing the work to ensure a satisfactory and quality result. Audit scope, time, objectives, techniques and criteria are determined during the audit planning stage, which ensure that major organisational activities, systems and controls are sufficiently covered by audit.

30.2.3   Audit planning is important for performance audits 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 auditee.

30.3   **Policy & Procedure**

30.3.1   A team is constituted in which audit officer can be assigned as team leader, who is responsible to prepare planning document. Audit Directors review and recommend the plan to Assistant Auditor General for approval of the Audit Planning Memorandum. The Audit Planning Memorandum shall be prepared after completion of detail study.

30.3.2   The engagement personnel should possess appropriate skills and competence to properly carry out the work for which they are responsible. Because of the complexity of performance auditing, independent experts may be engaged to provide the necessary expertise in the unique and highly technical areas in respect of specific auditee culture and environment. The Office shall depute personnel with suitable qualification and performance audit training, adopt policies and procedures to develop and train its employee to perform their tasks effectively.

30.3.3   Upon approval, the audit planning memorandum is communicated to the Performance Audit team. Planning is a continuous process, changes in conditions or unexpected results of audit procedures may, if significant, result in revisions to the audit planning memorandum. Such changes or revisions in planning should be justified and documented.

30.3.4   Assistant Auditor General and Audit Director should ensure that team leader and members of the team have complied with ethical requirements OAGN Code of Conduct including integrity, objectivity, professional competence and due care, confidentiality and personal behavior. Code of ethics declaration must be signed as prescribed in Audit Tool 3.

30.3.5   The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

30.4   **Engagement of Personnel**

30.4.1   "Expertise and experience" The engagement is performed and the report prepared by professionals having appropriate technical training, experience and proficiency in performance auditing and possess appropriate level of professional skills and expertise

The introduction of Electric Data Processing (EDP) in an auditee has significant impact on the internal control structure and procedures adopted by an auditee. In such cases, the audit team must have the EDP knowledge and expertise to conduct an audit efficiently.

30.4.2   "Training" All Officers of the Auditor General's performance audit professionals are responsible for adhering to the education and training requirements as set out by their professional bodies or the relevant manual and practice guide of Office of the Auditor General. The minimum training requirement by each of the performance audit team member is to achieve 40 hours of structured learning annually. Structured learning includes attendance, either as lecturer or participant, at short courses, conferences and seminars relating to performance auditing. The minimum training requirement can also be obtained from services on a technical committee when technical materials on performance auditing is prepared by the staff member or from writing technical articles, paper or books on performance auditing.

30.4.3   "External consultants" When the work of an external consultant (independent expert or specialist) is used to support the performance audit team's findings, reasonable assurance should be obtained on the consultant's reputation for competence.

To rely on the findings of the consultant, the followings ought to be performed by the auditor.

• evaluate whether the consultant's findings are reasonable based on the auditor's knowledge of the organisation/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 consultant and whether the consultant's findings are based on adequate information.

30.4.4   "Establish reliance on other auditors" The extent of reliance to be placed on other auditors should be addressed to make the best use of audit resources. Reliance on other auditors minimises duplication or overlap of work between auditors. Coordination with other auditors will also reduce the frequency and period of disruptions caused by the auditors in the audited entity.

Where reliance is placed on the work conducted by another auditor, reasonable assurance should be obtained to ensure that the work is adequate. This could be achieved either by reviewing a summary of the other auditor's procedures or reviewing sufficient working papers of the other auditor.

30.5   **Review Background Information**

30.5.1   An audit team is formed for gathering or updating background information on the auditee for use in the preparation of audit planning document. If financial audit team is different from performance audit, financial audit team members may be called upon to provide updated information about the auditee.

30.5.2   The process of reviewing background information includes review of:

- auditee - specific information

- entity's general information

- the auditee's historical performance record

- entity's prior audit reports

- the Segment Operational Model, which summarises the input process output and specific information for the auditee

30.5.3   The resources devoted to this process must be tailored to the current level of knowledge and potential risk assessment of the auditee. Where the auditee is well understood or there are few indications of risk, then only limited gathering may be necessary using limited resources.

30.5.4   Where problems arise, the Audit Director in consultation with the Assistant Auditor General should discuss with the functional responsibility leader in the auditee's department for access to the required background information. Problems in accessing information should be brought to the attention of the Audit Director immediately.

30.5.5   Knowledge of the auditee's operations is a major input into the development of an audit plan. The performance audit team should gather sufficient auditee specific information to be aware of the risks of good management of the assigned agencies. Sufficient information should be collected to:

- develop a good understanding of the auditee - for example, its objectives, resources, activities, contracts, procedures and control environment;

- understand how the auditee organises its operations;

- gain an understanding of the preliminary risk areas (internal and external);

- understand the auditee's view on the essential processes in achieving its objectives.

30.5.6   The auditor should obtain information on the current status of the projects as it can be useful in planning an audit. Moreover, factors that affect programme performance and accountability and matters requiring further assessment should be identified. Discussing issues that are of management's concern will help the auditor in identifying further areas that may require detailed audit work.

30.5.7   The auditor should review the auditee's historical performance over the last 3 to 5 years in order to obtain understanding of:

- auditee's capability to achieve its objectives as indicated by recent

performance;

- past projects in strategic initiatives as an indication of management views on priorities;
- historical performance providing clues to management's philosophies on trade-off between long and short term objectives;
- how management measures and monitors performance;
- the auditee's current position in the entity/project operations.

30.5.8   Given diagram describes the auditee level components of the Segment Operational Model that is evaluated during the planning stage. Its knowledge helps to understand the auditee's operations. Audit Tool-4 provides details on the Segment Operational Model.
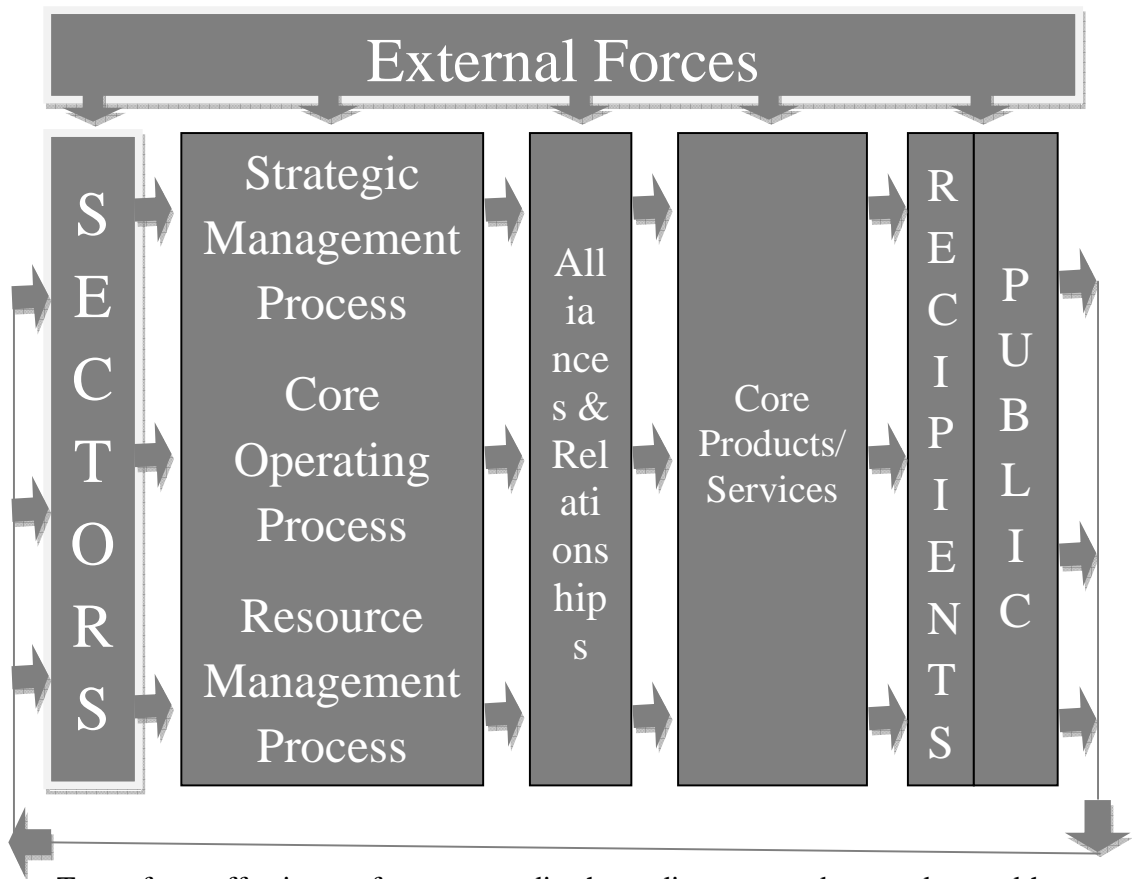
30.5.9   To perform effective performance audit, the audit team needs to understand how the auditee responds to external forces (or the environment). The information gathered on the environment the auditee operates in will help develop the Segment Operational Model. The components of the Segment Operational Model are:

Component	Description
External Forces	Current factors, pressures and influences that may keep the auditee from achieving its strategic objectives
Sector	Major segments and sectors in which the auditee operates

Strategic management process	Key elements of the strategic management process
Core operational processes	Basic value chain of recipient/customer requirements, as typically represented by core operational processes at the auditee level
Resource management processes	Resource management processes specific to the auditee
Alliances and relationships	Role that alliances play in the operational sector
Core products and services	Characteristics of the major outputs or services
Recipients/Public	Recipients/Publics requirements

The component structure of the Model represents a format for capturing information about the auditee's operations. As the auditor accumulates the information about the auditee's environment, organisational structure, and strategy, the auditor records that information in the Model. The Model represents a high level assessment of the relative strength of the control environment, both at the auditee and process levels. The results of that analysis will assist the auditor to understand the controls and identify key operational processes that require additional analysis at the planning stage.

30.6 **Review of Operational Objectives, Strategy and Mandates**

30.6.1 Once a basic understanding of the auditee's past and present operations/ services is in place, the auditor begins to gain insight into where the auditee is going. The auditee's objectives and strategy will describe the directions the auditee is taking to achieve the auditee's objectives and goals. Understanding the auditee's direction helps the auditor focus the performance audit activities on the most significant areas of the auditee.

30.6.2 When identifying the auditee's objectives, the following three broad categories of objectives should be considered:

Category	Description
Operational	Operational objectives relate to the effective and efficient use of auditee's resources, and include performance and profitability goals (if applicable).
Financial reporting	Financial reporting objectives relate to the preparation of reliable financial statements and related disclosures.
Compliance	Compliance objectives relate to the auditee's compliance with: • established controls, • policies and procedures, • applicable laws and regulations • contracts and agreements

30.6.3   The auditor should understand the goals, objectives and strategy of the auditee as it would quantify the level of performance intended or desired by the auditee and how they intend to achieve this level. This also steers the focus of the performance audit activities to the most significant parts of the auditee. Moreover, the goals and objectives can be used by the auditor as criteria for assessing programme performance. The auditor will also be better able to assess the operations as to whether it is achieving its objectives and also the level of efficiency and effectiveness. Understanding the auditee's strategy also enables the auditor to identify risk and focus efforts on areas of greatest operational risks.

30.6.4   Information on organisational structure, major responsibility centers or organizational components, their roles and responsibilities, and how they relate to programme and activities, can help in understanding the lines of accountability.

30.6.5   It is necessary to gather information on auditee's mandate for operation as well as its relevant rules and regulations. It enables the auditor to confirm illegal transactions or business of auditee in course of achieving objectives. Such information will aid the auditor to:

- examine the relationship between services provided and the authority for doing so

- specify audit criteria - mandate, rules, laws or regulations may describe level of service that programme are legally required to provide

30.7   **Sources of information to understand the entity**

30.7.1   Sources of information to understand the entity may include the following:
- relevant legislation, regulations and publications
- auditee's policies and procedures manual
- agency periodic plan
- project appraisal/feasibility study
- site visits and observations of programme operations
- organisation chart
- public accounts, departmental and agency annual reports
- previous audit files and reports
- risk register maintained in the directorate
- participating in an auditee's orientation/subject matter training course (if any)
- media coverage and external reports
- the OAG documentation on the auditee
- minutes of relevant parliamentary committee
- formal reports prepared by central agencies, in-house task forces or outside consultants on the operations of the auditee
- photographs or other visual aids taken or prepared by the auditors or obtained from the department and other sources
- management meeting minutes
- interviews with senior personnel of agencies involved in the execution of the

project
- interview with senior personnel of central coordinating agency

30.7.2   Director has to ensure that required information is collected for preparation of Audit planning memorandum.

30.7.3   Audit Tool - 5 provide the guidance to obtain necessary information of an auditee.

30.8   **Operational Process - Analysis of Key Process**

30.8.1   During the preliminary study, the auditor performs an Overview Analysis to gain an understanding of the auditee. The processes are determined which serve to:

- focus the audit work at the process level; and

- identify those processes in which further analysis may be required during Operational Process Analysis.

Operational Process Analysis involves identifying and gaining an understanding of the auditee's key processes, the operational risks produced by those processes and how the auditee mitigates risk.

When the auditor understands the characteristics of processes that contain significant operational risks, he is able to better understanding the potential impact of those risks on the financial statements, key operations and processes.

30.8.2   Having reviewed the auditee's historical background and operational environment and the auditee's strategy, the auditors are now in a position to look at those processes where the auditee is experiencing significant operational risk.

By gaining a deeper understanding of the operational risk in these key operational processes, the auditor is able to learn where the auditee may be exposed to the risks of material operating weaknesses and financial misstatements.

30.8.3   The scope of Operational Process Analysis is based on the auditors' assessment about the operational risks of each process and may vary from process to process. The depth of the analysis depends on:

- how critical the process objectives are in achieving the auditee's strategic objectives;

- the auditor's assessment of the auditee's strategic operational risks, including:
  - ➢ their impact on the business processes; and
  - ➢ the implications for our audit approach;

- regulatory and/or management mandates; and

- the degree and number of centralized support processes utilized by the auditee, and their significance to the other components of the auditee's audit universe.

30.8.4   The results of the work done during Operational Process Analysis contribute to the audit by:

- identifying operational risks to be considered in terms of audit implications;

- helping the auditor to understand how the results of the process are reflected in the overall operating results;

- helping to identify the audit universe and eventually finalising the audit plan;

- helping to identify performance improvement opportunities and the level of risk which management is likely to accept to achieve the enhancements;

- summarising the understanding of the auditee's operations in the Segment Operational Model for discussion with management; and

- summarising the auditee's perspective on operational risks for discussion with management.

30.8.5   It is important that the auditor selects key business processes from the auditee's perspective. The auditor performs this selection to give the audit team a starting point for discussion with management regarding those processes that are key to successful operations.

30.8.6   In order to identify process risks and controls effectively, the auditor must first gain a deeper understanding of the key operational processes. This effort involves:

- identifying process objectives,

- identifying the flow of work within the process, and

- understanding the effectiveness of the process management.

30.8.7   In many instances, the auditee is not aligned by process. Therefore, in order to gain an understanding of the processes in place, the auditor identifies the functions that significantly impact the process activities and discuss their roles with the respective functional owners.

30.8.8   The operational and programme delivery systems comprise key business processes the auditee uses to produce and deliver products and services to its clients. An understanding of these systems is critical for identifying economy and efficiency matters, and determining the focus for effectiveness measurement.

30.8.9   The auditor bases his analysis of key operational processes, operational risks and controls on the auditee's perspective. Once the auditor understands how the auditee deals with Process-level Operational risk, he is in a position to evaluate the true scope and effectiveness of its risk management approach. This evaluation is completed during Risk Assessment process where inherent risk levels and preliminary assessments on control effectiveness are carried out.

30.8.10   Audit Tool-6 provides the Process Analysis Template which could be used as a tool in documenting the Operational Process Analysis of key processes.

30.9   **Risk Assessment**

30.9.1   So far in the audit methodology, the auditor has analyzed the auditee's operations from management's perspective. This has allowed the auditor to maximize his/her leverage from the auditee's knowledge of its operations.

Now the auditor should step back and objectively evaluate the completeness and

quality of the auditee's perceptions of strategic risk and process risk, which cumulatively comprise the auditee's operational risk. This will include conducting workshops or interviews with the appropriate level of management in the audited entity.

30.9.2   The purpose of the risk assessment phase is to:

- assess and minimise audit risk by focusing the audit on high risk areas;

- determine the completeness of management's perceptions, assumptions, and judgments about operational risks and controls;

- start to evaluate the impact of economic value;

- use resources properly; and

- perform a preliminary control assessment.

30.9.3   Risks are events that threaten the resource management processes, or the essential services provided by the auditee. In essence, a risk is anything which has the potential to prevent the auditee from achieving its objectives.

30.9.4   The evaluation of operational risk by the auditor serves to minimise the audit risk for the performance audits. Audit risks are the probability or risk that the auditor will arrive at an inaccurate audit conclusion by:

- ailing to detect significant weakness that exist in an auditee although such weaknesses exist; or

- concluding that a significant weakness exist when it does not.

30.9.5   The auditor should consider the audit risks by addressing the inherent risk and the resultant residual risk, as explained below:

- "inherent risk" it is a measure of the auditor's expectation of risk before considering the effectiveness of internal controls.

- "residual risk" it is the level of risk that remains after taking into account the mitigating effect of related controls.

These risks are evaluated by the auditor during the planning process under the risk assessment phase.

30.9.6   The auditor performs the risk assessment portion of the methodology by using his understanding of the auditee's operations and related operational risks and controls to make an informed assessment of the :

- risk of significant operating errors;
- weaknesses;
- risk of misstatements, errors or fraud; and
- appropriateness of the control in relation to a cost/benefit consideration.

This would enable the audit team to focus their efforts and resources on areas which present significant risks to the attainment of management's objectives.

30.9.7   The control environment is the entire system of policies, methods and procedures

that is instituted to manage and control an auditee. Management is responsible for establishing a control environment appropriate to the risks the auditee faces.

30.9.8   The identification of inherent risk, the associated controls and residual risk can be performed by using either one of or more of the following methods:

- workshop

- interview

- case study

The workshops are typically facilitated and conducted by the auditor for a group of auditee personnel to determine whether management's views on the completeness of strategic and process risks as well as significance of these risks in relation to its each individual process. The size of the group will be dependent on the auditor's judgment and prior facilitation experience to ensure that an effective workshop is conducted. For smaller groups, interviews can be held with people within the auditee in assessing operational risks.

30.9.9   Alternatively, the auditor could perform risk assessment by obtaining and understanding up-to-date information concerning policies and administration procedures, significant programme accountability relationships, internal management of performance measurement/reporting systems, and planning and budgeting systems in use. The auditor should validate the results of risk assessment with the appropriate auditee personnel.

30.9.10   The usage of methods vary significantly in regard to their complexity and level of sophistication. Uses of appropriate risk assessment method/tool on each particular engagement should be matched basically with the auditee's needs and level of sophistication, so that it could help substantiate their needs to the best extent. Regardless of the risk assessment method or tool used the auditor considers the potential impact of the identified risk on the goal acheivement of the auditee.

30.9.11   Once the inherent risks have been determined, the controls that manage the exposure coming from each risk must be determined. Typically, the controls for each key risk are divided into three areas as follows:

- primary controls (preventive);

- secondary controls (detective);

- mitigating controls.

Primary controls are preventive in nature and are designed to prevent error or fraud from occurring. Secondary controls are similar to detective controls and are designed to identify or detect when an error or fraud has already occurred. Mitigating controls are controls in other areas that alleviate, or mitigate, the risk exposure.

30.9.12   If the primary and secondary controls are considered weak, then the mitigating controls may make the situation at least tolerable. If the primary control is adequate and is working effectively, having a secondary control may be

inefficient and result in over-control.

30.9.13   The identification of risks and controls has a significant impact on the audit approach. For example, if management:

- fails to identify a significant risk or does not adequately consider risks, it is unlikely to have established control activities to manage those risks; or

- does not consider environmental changes effectively, the control activities in place may no longer be adequate or appropriate.

30.9.14   At the completion of the risk assessment process, a risk profile will be prepared for each segment of the auditee's operations. The auditor should discuss the risk profile with management and validate the assumptions on the auditor's assessment on strategic and process risks.

30.9.15   Upon determining the inherent risk rating, the auditor needs to determine the degree to which the control mitigates the identified risk (assuming the control is operating as intended). The auditor draws conclusion on the residual risk levels after consultation with management and decides whether they are acceptable in the context of the operational objectives. The objective is not to eliminate all residual risk but rather to ensure that residual risk is maintained at an acceptable level in a cost effective manner.

30.9.16   If it is acceptable, then tests of control are designed to ensure that the controls are, in fact, working as designed. If it is not, then the auditor would have to decide whether to continue with detail audit work.

30.9.17   Where the residual risk level is not acceptable, the auditor has to consider the control effectiveness of the control design to decide whether detail audit work is warranted. In situations where control effectiveness is weak, the auditor has no reason to perform testing (because the controls do not effectively manage the risk exposure) and the concern needs to be raised with management at this point. Controls should be strengthened to a level where the residual risk is acceptable. Where controls are either satisfactory or contain some weaknesses, the auditor may use his judgment to pursue an in-depth audit by identifying the audit questions, specifying the audit scope and the audit criteria.

30.9.18   The following diagram illustrates the outputs of each operational process directed towards the potential risks.

Example : Broad Risk Profile Inherent Risk Rating

Rare	Likelihood	Almost Certain
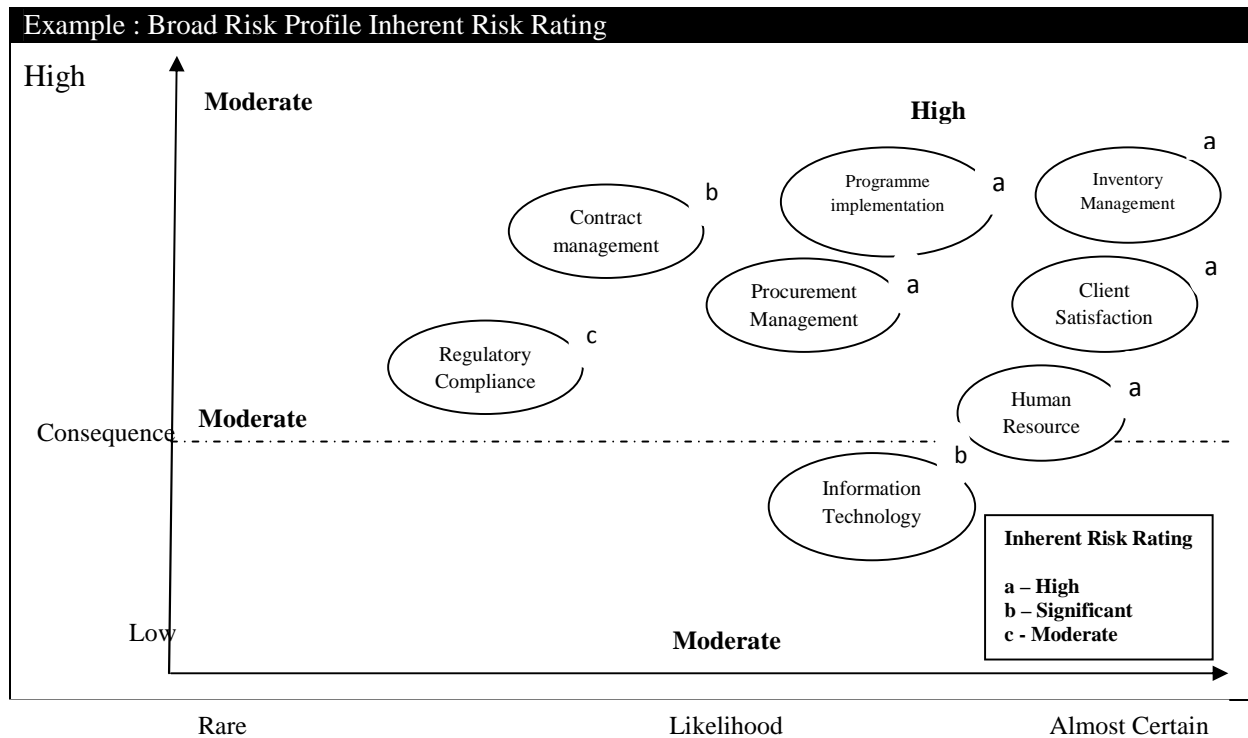
30.9.19   The risk assessment process is illustrated in detail in Audit Tool-7 under "Overview of Risk Assessment Process". It also provides details on how to conduct the workshops/interviews. Once the key risks have been determined, the controls that manage the exposure coming from each risk must be determined. Typically, there is more than one control for key risk areas.

30.9.20   It is not always practicable to follow detail procedures as mention in the audit tool 6. Auditor can use separate tool to identify the risk associated with the audit topic. It is like an information request form which is given in Audit Tool 8.

30.10   **Audit Objectives**

30.10.1   Audit objectives should be linked to areas where there are substantial risks and relate to why the audit is being conducted and are based on the audit mandate. For example, an audit objective may be to assess whether there were any aspects of project management within a particular agency which could be undertaken in a more efficient and effective manner.

30.10.2   Audit objectives should be established or assessed by the auditor with a view to defining an audit which has the potential to improve public administration. Performance audits should therefore not only warn against defective practices but also identify and promulgate good practice.

30.10.3   Audit objectives should be precisely defined or specified. The audit objectives should be achievable, realistic, relevant, specific and meaningful. Audit objectives will provide the information about the expected outcome of audit, such as results achieved or the economy or efficiency in the utilization of resources. A

performance audit has broader objective than a financial audit, it should cover one or more of three aspects of economy, efficiency and effectiveness. Whenever necessary the audit objective can be divided into sub-objectives.

*For example, while conducting risk assessment auditor finds that procurement and contract management has higher residual risk, the auditor should determine main audit objective as **"To assess whether the procurement has been made economically and contract were executed efficiently while implementing the project/programme."***

*Another example for setting of audit objective while conducting performance audit of community manage schools, it is found that school were handed over to the community for improving the quality of education and increase accessibility to the education. Control procedures and environment was designed but not implemented effectively to achieve objectives of the programme. In this regard, the auditor needs to set main audit objective as **"To assess the status of community managed school regarding physical infrastructure, learning environment, and access to education and identify whether the activity positively contributed to the education sector indicator"***

30.10.4   One way of facilitating an analysis of economy, efficiency and administrative effectiveness is to view public sector activities in relation to the following:

- the programme objectives, which should be clear enough to identify the desired outcomes;

- the financial, human, physical and information resource inputs used;

- the processes or activities by which the inputs are converted into outputs;

- the goods, services or other results which constitute the output of the programme; and

- the actual impacts or outcomes, both intentional and unintentional.

30.11   **Audit Scope**

30.11.1   Given the size, complexity and diversity of their operations, it is normally impracticable to attempt to assess the overall performance of departments or agencies in any meaningful way. Consequently, performance audits are usually directed towards specific functions, activities, programme or operations of the auditee's organisation.

30.11.2   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 significance matter that relate to audit objective.

30.11.3   Once the audit objective is identified, the auditor should determine the audit scope and identify audit questions and sub questions. The audit scope is:

- that part of the organisation, programme, activity or function to be examined;

- the matters subject to the audit;

- the time period of the audit.

30.11.4   ISSAI 3000, suggests that scope of an audit is determine by answering the following questions:

What?   What specific questions or hypothesis are to be examined?

Who?   Who are the key players involved i.e. auditee?

Where?   Are there limitations in the number of locations to be covered?

When?   Are there limitations on the timeframe to be covered?

30.11.5   The scope of an audit and the audit objectives determine the procedures that will be required during the conduct of an audit, the resources needed and the matters that will be reported. The auditor should use his professional judgment to establish the audit scope in specific terms, for example, to achieve the objective as mentioned in paragraph 32.4.3 regarding the procurement the auditor can determine the scope a " *Audit will focus on the procurement of construction work made by the Project Coordination Unit. It will review the bid evaluation report of the evaluation committee and procurement decision made since the last 3 years. It also review the execution of the construction contract focusing on work progress, estimated cost, variation, time extension and quality of work"*

30.11.6   The auditor establishes the audit scope based on information obtained throughout the planning process. The scope of audit should be explicitly stated in the audit plan to document decisions made on resource requirements and the general approach to the audit.

30.12   Audit Questions (AQ)

30.12.1   After deciding the objective and scope of audit, the questions to be answered by the study have to be defined. Audit scope is defined in broader term whereas, audit question deals with specific areas where investigation required. In formulating the audit question, performance auditor must rely on the information collected and their own skills and experience. Techniques such as mind mapping, brainstorming, internal discussion, meeting with the stakeholder and expert etc. are used to formulate audit question.

30.12.2   In the problem- oriented approach, emphasis has to be put to define the problem properly. Usually the audit begins with problem indicator like shortcomings in service, complaints, raising cost etc. At the next stage, the auditor tries to relate different problems to each other and define the problem to be audited precisely.

30.12.3   Risk assessment approach can also be taken to formulate AQ. In such case, Audit Tool - 5 & 6 should be used for identifying the AQs. The risks which do not reside at the accepted level from the viewpoint of auditor should also be incorporated in the AQ.

30.12.4   Based on the significance of residual risk levels, the auditor can decide to firm audit questions which areas would require further detailed audit work to be performed. Selecting contractor without competition is an inherent risk of the contract management process. Legal provision has been made to prepare

procurement plan and publish public notice for competition. If any entity does not comply with such provisions, then residual risk will goes up and auditor needs to determine audit questions i.e. "Is there adequate competition has been maintained by the project in the procurement or not?"

30.12.5   The identification of the AQ follows from the auditor's decision that an in-depth audit is warranted and an audit is likely to result in significant findings and recommendations.

30.12.6   Audit question provides focus and clarity and direct the analysis of auditor to a specific end product needed or prove or disprove our understanding of the main issue or problems. Audit questions should be limited number and after having formulated general audit question, the auditors have to break it down into specific and testable sub questions. Following diagram provides example of audit question and sub questions.

Audit Question: Has adequate competition been maintained by the project in the procurement?

Audit Sub question: Are sufficient number of tender submitted?

Audit Sub question: Is the bid amount sufficiently low?

Audit Sub question: Is the notice published in the national media?
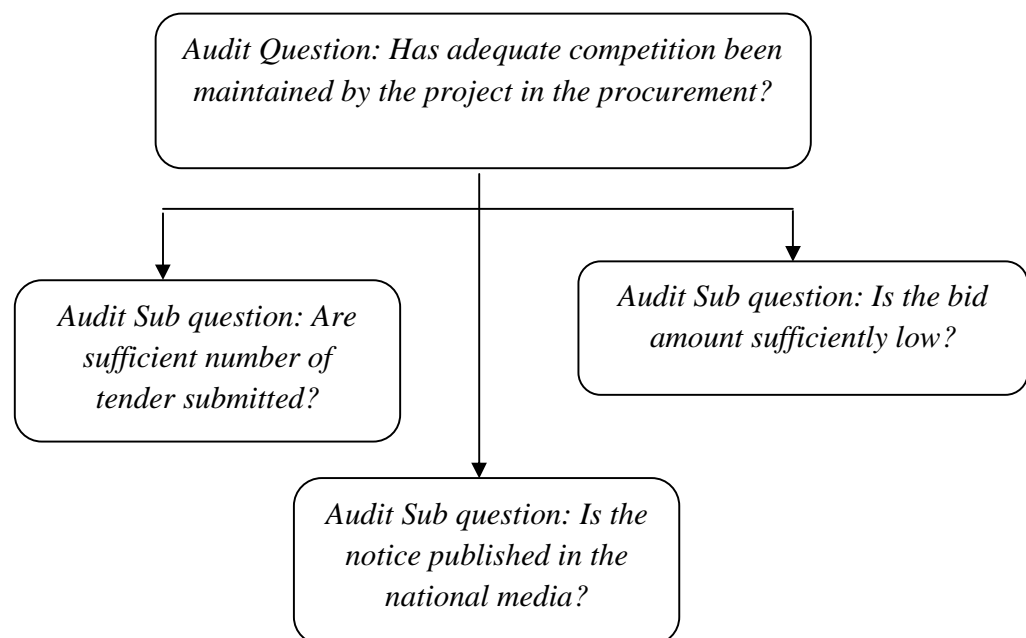
30.13   Audit Approaches and Methodologies

All performance audits are based on analysis of risk. This means audit universe is segregated into categories based on identifying risks. This helps to target audit resources in high risk area. Further, the risk identification process makes the audit team more aware of the audit environment and team gets in depth knowledge of the entity to be audited.

The audit approach should be flexible because of the nature of each audited entity. Different techniques can be used for both in depth and desk review under following audit approaches:

30.13.1   *Process oriented approach:* This approach focus on compliance with establish criteria, best practices or desirable control. It deals on the questions how a

government programme works? How does it produce the results? What are the process and procedures to execute the programme? Are the resources managed and utilized economically and efficiently? An analysis of procedures is often a starting point of audit. The auditor would review the system in place for planning, conducting, checking and monitoring of activity being audited. This would involve different audit techniques like observation, interviews discussion and examination of documents.

30.13.2   *Result oriented approach:* Analysis of results from examining a number of instances of agency activity in a particular area will help to decide whether agency performance in that area conforms to criteria and is generally satisfactory. The approach assesses the extent to which a programme achieves its outcome, goals or objectives. Common questions under this approach are: How the programme goals established? What is the status of the programme progress? Will the goal be achieved within the times specified? This approach is common in performance auditing. It is mainly used to examine whether set goals are reached. Any deviations can be established by relating outcome and effects to the stated goals and demands. Performance auditor uses such studies primarily when the goals are clearly defined and measurable. Suggested techniques for this approach are interviews, observation, and examination of documents and data analysis.

30.13.3   *Problem oriented approach:* In the problem oriented approach, emphasis has to be given on how to define and investigate problems. Usually, the audit begins with problem indicators of some kind (shortcomings in service, complaints, rising costs etc.) Auditors try to relate and link the different problems to each other and attempt to test the possible causes of the problem. Interview, focus group discussion, observation and document review techniques are under this approach.

30.13.4   *Cost benefit and cost effectiveness analysis:* Cost benefit analysis investigates the relationship between cost and benefits of government projects. It analyses the basic question whether programme benefit exceed the costs and are the objective met at the lowest possible costs? Cost effectiveness analysis is the relationship between project cost and outcomes expressed as costs per unit of outcome achieved. This methodology is used to evaluate the value for money which is the essence of performance audit.

30.14   **Audit Criteria**

30.14.1   Audit criteria can be defined as reasonable and attainable standards of performance and control against which the adequacy of systems and practices and the extent of economy, efficiency and effectiveness of operations, programme, or activities can be assessed. Auditor should develop the audit criteria during the planning stage. Criteria reflect a normative control model for the subject matter under review. They represent good practice - a reasonable and informed person's expectation of "what should be". When they are compared with what actually exists, audit findings are generated. Meeting or exceeding the criteria might indicate "better practice", while failing to meet criteria would indicate that improvements can be made. Where possible it is preferable to identify the nature of such improvements or even how they might be achieved.

30.14.2   The audit criteria are established for the specific audit question which warrants detail audit testing. The auditor may identify suitable KPIs to measure the extent where audit criteria are achieved. There would normally be a direct link between the audit criteria and the KPIs. If the KPIs cannot be identified during risk assessment, then the auditor should report the absence of knowledge on the auditee's performance and apply professional judgment either to perform a procedure-oriented analysis.

30.14.3   Criteria can perform a series of important roles to assist the conduct of a performance audit. They are:

- form a common basis for communication within the audit team and with the OAG's management concerning the nature of the audit;

- form a basis for communication with the auditee's management in that the audit team will often solicit the auditee's management understanding of and concurrence with the criteria and eventual acceptance of audit findings in light of those criteria;

- link the objectives to the audit programme carried out during the implementation phase;

- form a basis for the data collection phase of the audit, and the identification of key performance indicators to provide a basis on which to build and monitor procedures for the collection of audit evidence; and

- provide the basis for audit findings, helping to add form and structure to observations.

30.14.4   The degree to which criteria are successful in serving these uses is often determined by their level of detail and the form they take. By the end of the planning stage, the criteria should be sufficiently detailed and specific to give clear guidance for the execution stage of the audit. In particular specific audit programme is developed to test the criteria. It is unrealistic to expect that activities, systems or levels of performance in economy, efficiency and effectiveness areas will always fully meet the criteria. Satisfactory performance does not mean perfect performance but is based on what a reasonable person would expect, taking into account the auditee's circumstances.

30.14.5   Audit criteria can be of two types:

i) General criteria which are broad statements of acceptable and reasonable performance. Such criteria are determined from the common sense or generally accepted practices. For example, general criteria could be

"All vacant posts should be fulfilled"

"Constructed canal should be operated optimally"

ii) Specific criteria are more closely related to the entity's legislation, objectives, programmes and specific to the particular operations. For

example:

"Every year all vacant post should be fulfilled before the approval of the programme."

"The canal should irrigate 5000 hector of land in all season ".

30.14.6   The auditor can develop suitable audit criteria by looking at the following sources:
- lows, rules, regulations, manuals related to audited entity,
- decision made by the legislature and executive,
- Government policy and directions,
- key performance indicators set by the auditee or the government
- basic planning documents such as feasibility study report and approved plan,
- criteria used previously in similar audits conducted by the OAG,
- criteria published and used by other supreme audit institutions,
- performance standards used by the auditee, or previous parliamentary or other official inquiries,
- performance standards used by entities that are similar to the auditee, that is, organisations carrying out similar activities or having similar programme clients both local and abroad,
- performance standards used by professional organisations and standard-setting bodies,
- project documents,
- reference to historical comparisons or comparisons with best practice,
- organization (inside or outside the country) carrying out similar activities or having similar programme, and
- subject matter literature.

30.14.7   These sources provide a basis for the development of criteria for the audit, but may require interpretation and modification to ensure their relevance.

30.14.8   Criteria must be realistic and take into account the context of the auditee. Some key criteria relate directly to the auditee itself, for example :
- enabling and related legislation;
- auditee's operating and procedures manuals; and
- central auditee's policies, standards, directives and guidelines.

30.14.9   The auditor should be satisfied that suitable criteria have been identified to achieve audit objectives. Characteristic of suitable criteria include:

- **Reliability:** Reliable criteria result consistency when used by different auditor in the same circumstance.

- **Objectivity:** Criteria should be free from any biasness. Interpretation and subjectivity are to be limited.

- **Understandability:** Understandable criteria are clearly stated and free from vagueness. Anyone can understand such criteria without misinterpretation.

- **Completeness:** Completeness refers to the development of all significant

criteria appropriate to assessing performance of the entity.

- **Usefulness:** Criteria are to be useful for the users or beneficiaries.

- **Comparability:** Comparable criteria can be used consistently in previous and current performance audit of performance audit of other similar agencies.

- **Acceptability:** Acceptable criteria are those to which the audited agency, legislature, media, and general public accept. The higher degree of acceptance of the criteria, the more effective performance audit.

30.14.10   It is generally useful to obtain audited entity's input to the development of criteria. Audit criteria would typically be communicated to the agency at the start of the main performance audit. Any disagreement with the audited entity regarding the criteria should be discussed and resolved at an early stage. But, it is not necessary to get consent of auditee in audit criteria.

30.15   **Logistic Management**

30.15.1   Having identified the audit questions and planned the audit focus to gather audit evidence, the auditor should consider the logistical aspects of how the audit team may efficiently perform these tasks. As part of planning, the auditor looks at what resources the audit team requires as well as when and where the audit team needs them.

30.15.2   In considering the resources required for the audit, the auditor looks at :
- staffing and other resources required for the engagement, including specialists;
- other auditors involved;
- the availability of computers, internet and intranet facilities if planned to use Computer-Assisted Audit Techniques;
- the planned timing of the audit work;
- the location of the audit work;
- communication links such as telephones, facsimile and transportation links;
- the preparation of time cost budgets.

30.15.3   Planning the logistical aspects of the audit generally requires close co-ordination with the auditee. The auditor usually arranges meetings with management and the auditee's staff to discuss matters such as :

- timing of the audit and locations to be visited;

- schedules and information to be prepared by the auditee's staff;

- the involvement of specialists;

- other auditee's service issues, including management's expectations.

30.16   **Audit Budget**

30.16.1   The details of audit budget depend upon the complexity of the audit. The budget is developed based on an estimation of time required for each task to be performed.

30.16.2   The audit team comprises individuals with varying seniority and experience. The determination of the size and quality of staff required on each particular audit depends on the complexity and extent of the audit work expected.

30.16.3   Time and cost savings may be achieved by having auditee personnel prepare information for the use of the auditor, for example, the information requested under PAG - Audit Tool : AT 4. In addition, auditee personnel are also needed by the auditor to obtain access to client facilities, records and documents.

30.17   **Contents of the Audit Plan**

The contents of the audit planning memorandum should include the followings:
- background information
- policy
- laws
- objectives and target
- financial review
- operational status of project/programme
- segment operational model
- audit objectives
- scope of audit
- approach and methodology of audit
- Audit question and sub questions
- resources needed for the examination and reporting phases - identify and allocate resource requirements, including specialists where necessary
- manpower for the completion of the audit
- personnel engagement estimated working man-days of engaged manpower by level/skill or type.
- detailed time and work schedule.

30.18   **Audit Programme**

30.18.1   The main reasons for using audit programme are to :

- establish a clear relationship between audit objectives, audit questions, audit methodology, and the anticipated field work to accomplish those objectives

- 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

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

30.18.2   The audit programme working documents should describe the nature, timing and extent of planned audit procedures required to implement the audit plan. The audit

programme essentially translates the audit plan into detailed audit procedures designed to satisfy detailed audit objectives. It could be integrated with audit plan. The audit programme should be revised as necessary during the course of the audit.

30.18.3　The following steps have to be carried out in order to design the audit programme:

- review risk analysis results in order to decide which significant risks and related controls warrant further testing. Further testing may be appropriate for:
  - ➢ client processes that are heavily relied upon in meeting management and performance audit objectives
  - ➢ areas where significant residual risk remains
- determine performance audit objectives
- design audit procedures to meet objectives

30.18.4　During the risk assessment, the auditor decides whether the residual risk is acceptable. Audit tests or audit questions referred to the audit programmes are designed taking into account the residual risk levels to obtain appropriate evidence to meet the audit objectives.

30.18.5　The table below identifies exemplary situations where controls will need to be tested.

Inherent Risk	Control Effectiveness	Residual Risk	Testing/Audit questions
High	Satisfactory	Significant	Yes
Low	Satisfactory	Low	No
High	Weak	High	No

The extent of audit testing or audit questions should be efficiently focused on the areas where important potential risks existent as well as controls are deemed adequate. The auditor has to make careful trade-offs on the extent of testing to make efficient and effective use of available resources and to minimise audit risks.

30.18.6　Other matters that should be considered in the design of audit programme are:

- size of task
- geographic dispersions
- audit environment
- the components of the system to be audited
- whether only broad issues have been identified or specific criteria available
- based on resources and other known constraints, select an approach that will best help achieve objectives
- identify the universe that needs to be reviewed

- select the appropriate sample

- a precise description of data that is needed, where it can be obtained, and the reliability of the data

- if the data necessary to conduct the audits has not been compiled, surveys, case reviews, or other means can be used to collect the appropriate data

- whether it is necessary to visit the auditees' field offices, regional programme sites, or recipient household during the field work

- depending on the nature and complexity of the auditee, the definition of certain terms may need to be agreed upon to avoid misunderstanding later in the engagement

- based on the professional proficiency of the collective staff, the audit may require special skills such as electronic data processing, engineering, legal, or other specialist.

- when and in what sequence during the engagement should various audit procedures be performed

- what type of recommendations will be expected to result from the engagement and in what level of detail

30.18.7   Above considerations enables the auditor to develop audit programme. Audit design matrix can be used as a part of audit programme which helps the auditor in breaking down the audit objectives into sub-objectives or audit questions where appropriate methodologies are identified to answer the questions. Audit design matrix includes:

- audit sub-objectives concerning efficient, economical or effective operations

- audit question and sub audit questions to be answered

- audit criteria to be applied

- the specific tasks to be performed during the field work to determine whether audit criteria are met by the audited entity

- evidence to be collected, including audit sampling

- audit methodologies, procedures/techniques for collecting the evidence

- who is to perform the tasks, how, when and where they will be performed

- special instructions if necessary

The Audit design matrix and complete case of matrix is provided in Audit Tool: AT9, AT 9A and AT9B.

CODE OF ETHICS DECLARATION

Audited entity:

For the purposes of the audit of---------------------------------------, I confirm that

1. Myself, or any members of my immediate family do not have a financial interest in the *[-----------------------------------*.
2. I do not have any business relationships with the audited entity or any of its directors, officers and employees.
3. I have not received any benefits or gifts or donations from persons employed by or associated with the auditee.
4. I am not, and have not been in the last two financial years, an officer, employee or director of the audited entity.
5. I do not have any immediate or close family member(s) that currently hold(s) a financial reporting and oversight role at the audited entity or held such a position during the financial year under audit.
6. I do not have any other relationship with any director officer and employee of the entity under audit that may impair my independence.
7. I understand the requirements in the INTOSAI Code of Ethics as far as:
    7.1 I should exercise due care and perform the audit in a professional manner and to the best of my abilities.
    7.2 I should perform the audit with honesty, integrity, impartiality and political neutrality.
    7.3 The confidentiality of information obtained during the audit process and that I should not disclose such information to third parties.

Circumstances which may impair my compliance with the above statements for the audit:

[List circumstances where applicable]

DECLARATION

I, the undersigned fully understand the requirements and responsibilities contained in the Code of Ethics. Where applicable, I have documented the circumstances which may impair my compliance.

Name of team member	Rank	Signature of team member

CONCLUSION FOR THE AUDIT

[This conclusion should be signed once-off for the audit by the person responsible for the audit]

Threats identified by team members	Actions taken to address the threats

After consideration of the above declarations by the audit team and interviews with team members, I conclude that the all the requirements contained in the Code of Ethics for Professional Accountants are understood and met for the audit engagement. Any threats to the audit teams' independence have been eliminated or reduced to an acceptable level.
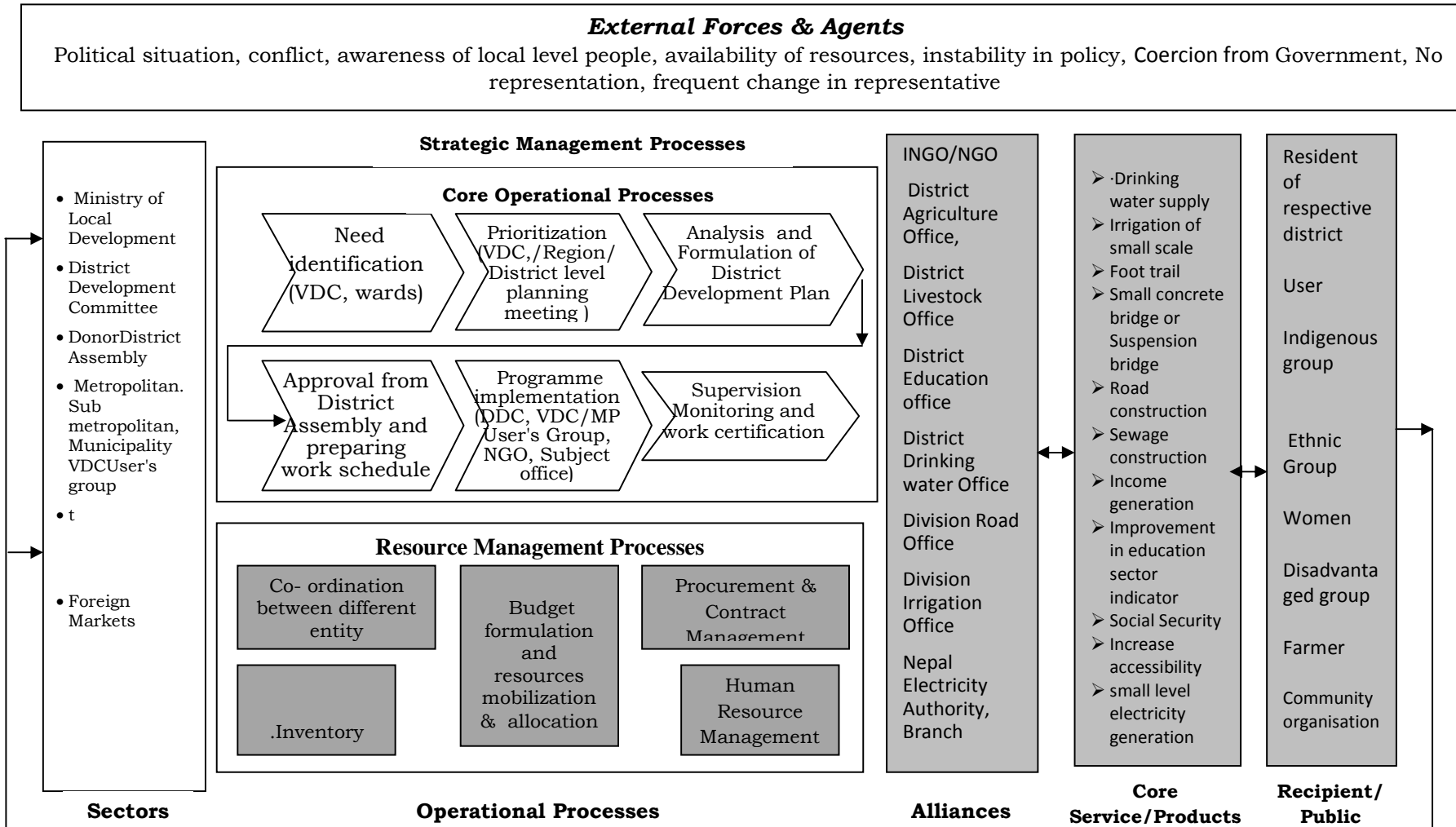
Signature of person responsible for the report	Date

Audit Tool – 4 (Segment Operational Model)

As shown on the next page, the entity Segment Operational Model is used to describe the interlinking activities carried out within an entity, the external forces that bear upon the entity, and the operational relationships with persons outside the entity. The items in the entity-level process model include the following components:

- External forces and agents are those factors, pressures and forces from outside the entity that often are threats to the attainment of the entity's objectives.

- Sectors are the segments of an industry that are applicable to the entity. Formats identify the design and location of the facilities where public goods and services are provided free of-charge (i.e. markets for goods and services do not exist).

- The strategic management process is the process that :
  - develops the entity's mission,
  - defines the entity's objectives,
  - identifies the risks that threaten attainment of the objectives,
  - manages the risks by establishing processes, and
  - monitors progress toward meeting the objectives.

- Core operational processes are the processes that develop, produce, sell and distribute an entity's products or services. These processes do not follow traditional organisational or functional lines, but reflect the grouping of related operational activities.

- Resource management processes are operational processes that provide appropriate resources to the other operational processes.

- Alliances are the types of relationships with third parties that entities in the industry may establish to
  - attain objectives
  - expand opportunities, and
  - reduce or transfer risk.

- Core products and services are the major products and services typically offered by entities within the industry.

- Recipients/Public are the major types of recipients/public within the markets in the industry that entities may choose to focus on.

Example of District Development Committee

External Forces & Agents

Political situation, conflict, awareness of local level people, availability of resources, instability in policy, Coercion from Government, No representation, frequent change in representative

Strategic Management Processes

Core Operational Processes

Need identification (VDC, wards)

Prioritization (VDC,/Region/ District level planning meeting)

Analysis and Formulation of District Development Plan

Approval from District Assembly and preparing work schedule

Programme implementation (DDC, VDC/MP User's Group, NGO, Subject office)

Supervision Monitoring and work certification

Resource Management Processes

Co- ordination between different entity

Budget formulation and resources mobilization & allocation

Procurement & Contract Management

.Inventory

Human Resource Management

Sectors

- Ministry of Local Development
- District Development Committee
- DonorDistrict Assembly
- Metropolitan. Sub metropolitan, Municipality VDCUser's group
- t
- Foreign Markets

Operational Processes

Alliances

INGO/NGO

District Agriculture Office,

District Livestock Office

District Education office

District Drinking water Office

Division Road Office

Division Irrigation Office

Nepal Electricity Authority, Branch

Core Service/Products

- ·Drinking water supply
- Irrigation of small scale
- Foot trail
- Small concrete bridge or Suspension bridge
- Road construction
- Sewage construction
- Income generation
- Improvement in education sector indicator
- Social Security
- Increase accessibility
- small level electricity generation

Recipient/ Public

Resident of respective district

User

Indigenous group

Ethnic Group

Women

Disadvantaged group

Farmer

Community organisation

Audit Tool - 5 (Information Collection Form)

1.   *Strategic overview - history and background*

Objective: Gain an understanding of the entity's history and strategic position

Potential risks
- ❐ Past target and achievement
- ❐ Unfocused management objectives
- ❐ Lack of linkage between policy, programme and budget
- ❐ Unfocused acquisition strategy
- ❐ Abnormal historical perspective

Recommended personnel to interview
- ❐ Chief / Manager/Coordinator
- ❐ Department/section chief
- ❐ Other members of senior management

Activities	Completed By & Date	File ref.	Comments
Enquire and consider organisational Structure and manpower management			
Enquire into and consider key factors behind past success or failure			
Enquire about policy and objectives and legal arrangements			
Enquire about historical back ground of the entity			

2. *Entity overview - management*

Objective : Consider management's strengths and weaknesses

Potential risks
- ❒ Management Ineffectiveness
- ❒ Frequent change of manpower
- ❒ Unstable policy
- ❒ Lack of reward and punishment system
- ❒
- ❒ Inadequate attention to career development
- ❒

Recommended personnel to interview
- ❒ Chief executive/ Chief
- ❒ Chief Financial Officer
- ❒ Other members of senior management

Activities	Completed By & Date	File ref.	Comments
Enquire about performance criteria or indicator and address effectiveness in meeting criteria or indicator			
Enquire if incentives scheme pay and promotion are based heavily on achievement of short term performance targets			
Consider dependence of entity's performance on key management			
Enquire about the key responsibility centres in the entity			
Enquire about the roles and responsibilities of each individual department			
Enquire about historical achievement of the entity			
Review constraints and threats of the entity			
Enquire operational plan and progress report			
Consider the working environment and technical capacity of the entity			

3.   *Feasibility of Projects – Project Appraisal*

Objective : Gain an understanding about the feasibility of the project

Potential risks	**Recommended personnel to interview**
❒ Feasibility study not carried out	❒ Project Manager
❒ Study does not cover all aspects (e.g. Economics, Technology, Social, Environment)	❒ Chief of Planning division of Ministry ❒ Consultant
❒ Over/under compensated management	
❒ Information/Statistics used are inaccurate	
❒ Lack of linkage with periodic plan and long term policy	
❒ Feasibility study report not used	

Activities	Completed By & Date	File ref.	Comments
Collect approved feasibility study report			
Inquire and consider sources of information/statistics used in feasibility study			
Inquire and consider about financial aspects of project			
Test the source reliability of statistics			
consider the cost and benefit analysis or economic rate of return			

4.   *Entity overview - structure and logic of major programmes*

Objective : Gain an understanding of the entity's major programmes' structure

Potential risks
❐ Programme objectives may not be clearly defined
❐ There may not be a link between policies, objectives and outputs

Recommended personnel to interview
❐ Programme manager

❐ Chief Financial Officer

❐ Chief executive

Activities	Completed By & Date	File ref.	Comments
Enquire about the policies and programme to achieve the overall objectives of the organization			
What are the intended results and effect			
Enquire about the current outputs and intended outputs of the entity and how these outputs contribute towards the objective of the programmes			
Enquire about the needs of the beneficiary of the programme and whether this is being met			
Enquire about organisations in the same or similar project/entity			

5. *Entity overview - operational factors*

Objective : Gain an understanding of the key operational factors affecting entity's performance

Potential risks
- ❐ Inefficient programme operation
- ❐ Constraints on technical capacity

- ❐ Inaccurate estimation
- ❐ Inappropriate resource management
- ❐ Unavailability of resources in time

- ❐ Poor supplier

- ❐ Quality control problems

Recommended personnel to interview
- ❐ Chief executive
- ❐ Functional head(s) of major department(s) / sections

- ❐ Programme Manager
- ❐ Chief financial officer

Activities	Completed By & Date	File ref.	Comments
Address whether organizational capacity is in line with operational strategy and enquire about surplus/constraints			
Enquire about availability of alternative implementation modality			
Consider the effectiveness of the programme implementation systems as required by operational strategy			
Enquire about operational cost and consider the economy aspect			
Consider the adequacy of inventory control procedures and management system			
Enquire about any problem raised in the execution			
Enquire about the methodology used to execute the programme and operational schedule as well as adherence of it			
Enquire about operational reporting systems in use			
Investigate the quality control and assurance mechanism			

6.   *Entity overview - Human resource development*

Objective: Gain an understanding of the   human resource development and its contribution to the programme operations

Potential risks
- ❒   Lack of human resource planning
- ❒   Overstaffing unused manpower
- ❒   Inadequate human resources its capacity
- ❒   Lack of training and development

Recommended personnel to interview
- ❒   Chief executive
- ❒   Human resources manager

Activities	Completed By & Date	File ref.	Comments
Analyse human resource expenditure as a percentage of total expenditure			
Collect human resource plan and enquire about its implementation			
Enquire about training and capacity development activities			
Obtain details of approved position and filled			
Assess the technical capacity of the staff required to discharge the obligation of the project/entity			
Enquire about the outsourced manpower if any?			
Enquire about morale of the staff employed in the office			

7. *Internal control system – management control systems*

Objective : Analyse the effectiveness of the systems for the organization, management and control of the programmes

Potential risks
- ❒ Autocratic chief executive
- ❒ Complex structure
- ❒ Lack of attention to operational planning

- ❒ Emphasis on achieving targets and forecasts
- ❒ Weak management reporting framework

- ❒ Poor budgetary control
- ❒ No effective code of corporate conduct

Recommended personnel to interview
- ❒ Chief executive
- ❒ Chief Financial Officer
- ❒ Human resource officer
- ❒ Administrative officer
- ❒ Auditors

Activities	Completed By & Date	File ref.	Comments
Enquire about the procedures used by the chief executive to ensure the effective management and control of the operational activities, including delegated responsibilities to the functional leader			
Enquire about and address the division of responsibility amongst respective division and sections			
Enquire about job allocation that any function is being unnecessarily performed in duplication by different division and sections or any essential functions are omitted			
Enquire about operational planning procedures, including financial planning and forecasting procedures, and consider its adequacy to meet the present and future needs of the operation			
Enquire about budgetary control procedures and consider budget release, expenditure, virement, variance analysis and adequacy of review procedures			
Consider job allocation is sufficient and proper and operating accordingly			

8.   *Internal systems – internal control structure*

Objective: Gain a general understanding of the internal control environment and consider its strengths and weaknesses

Potential risks
- ❒ Unreliable financial statements and data

- ❒ Control procedures not followed
- ❒ Understaffing/staff reductions

- ❒ overriding of internal controls
- ❒ Failure to detect error from internal control

Recommended personnel to interview
- ❒ Chief executive
- ❒ Chief Financial Officer
- ❒ Administrative Officer

- ❒ Departmental head
- ❒ Auditors

Activities	Completed By & Date	File ref.	Comments
Address the quality internal controls in operation			
Investigate the methodology used to to make payment and record inventory and assets			
Review organisation chart and consider whether this is conducive to effective control			
Collect and review manual or procedure for controls and consider whether they operate in practice are in accordance with the designed procedures			
Enquire about issues arising from internal audit reports and auditor's management letters and establish if recommendations have been implemented			
Enquire about treasury management systems and consider adequacy to control cash revenue/income and proper record and budget disbursement			
Enquire if there are appropriate process and procedures in place to monitor changes in legislation and ensure continued compliance			
Review the system of authority delegation and system of decision making process			
Enquire monitoring and evaluation system and consider whether system is operated smoothly			

9. *Internal control systems - information technology (IT)*

Objective : Analyse the effectiveness of the IT environment

Potential risks
- ❐ Compatibility with environment
- ❐ Restrictive covenants in current leases and licenses
- ❐ Software security problem

- ❐ Reliance on outside programming assistance
- ❐ Condition of equipment
- ❐ Human resources: skills, tenure and organization
- ❐ Restrictive covenants in software contracts for transfer of software licenses
- ❐ Inadequate capacity

Recommended personnel to interview
- ❐ Chief executive/ Chief/ Coordinator
- ❐ IT managers (operations, applications, support)
- ❐ Key IT personnel (managers, coordinators, administrators)

Activities	Completed By & Date	File ref.	Comments
Address the IT control environment and consider its adequacy to meet present and future needs of the operation			
Consider user's satisfaction levels			
Develop analysis of past and future IT investments from budget and cost information. Compare entity's investment levels to industry standards			
Address adequacy of back-up facilities			
Review the application of IT system established by the entity, report generation and use of the report			
Enquire the software licenses and security measures for unauthorised use.			
Consider the sustainability of the IT system.			

10. *Internal control systems - accounting policies*

Objective : Consider the nature of accounting policies and procedures

Potential risks

❐ Non compliance of the accounting policies
❐ Changes to accounting policies or bases

Recommended personnel to interview

❐ Chief Financial Officer

❐ Selected accounting staff
❐ Auditor

Activities	Completed By & Date	File ref.	Comments
Consider whether accounting policies are in line with Nepal Government Accounting principle			
Consider whether accounting policies have been consistently applied			
Consider the timeliness of income received and deposit			
Enquire the balance brought forward in case of deposits			
Enquire the third party confirmation about the yearend bank balance			

11. *Programme Performance - General*

Objective: Gain an understanding about the targeted and actual performance

Potential risks	Recommended personnel to interview
❒ Performance below targeted levels	❒ Programme Manager
	❒ Head of the different departments/sections
	❒ Chief Financial Officer

Activities	Completed By & Date	File ref.	Comments
Enquire about the standards or measures or indicator used to assess performance, how the standards were established and whether these standards can be adopted as audit criteria			
Enquire about how the results/performance are measured using the given standards / measures / indicators			
Collect annual and updated programme and progress report			
Enquire about the procedures used by management to monitor the performance. Also enquire about which aspects of performance is monitored			
Analyse output by value and units, obtain explanations for performance trends			
Compare actual output with budgeted output by activity wise and obtain explanations for significant variances			
Enquire about terms condition with donors' agreements and ensure funding mechanism			
Enquire about and consider the uncompleted contracts and performance of the contractors			
Enquire about the arrangements for maintaining data relating to target and achievement			
Enquire about cause of non-achievement of targeted programme			
Enquire about the policies and practice of executing programme activities consider whether policy and procedures have been followed			
Enquire about progress have been achieved within schedule time, quality and quantity			

12. *Asset management - property, plant and equipment*

Objective: Enquire about the safeguarding and usage of significant individual assets comprising property, plant and equipment

Potential risks	Recommended personnel to interview
❐ Poor condition of assets	❐ Chief executive ❐ Inventory officer
❐ Usage of asset other than intended purpose	❐ Chief Financial Officer ❐ Administrative officer
❐ Inadequate maintenance and repair ❐ Obsolete machinery and equipment laying in the field ❐ Idle plant and equipment ❐ Poor record management of asset ❐ Lack of ownership certificate	

Activities	Completed By & Date	File ref.	Comments
Enquire about condition of plant, equipment and other assets			
Enquire about assets not in service or under-utilised			
Consider the terms of leased property including options for renewal, lease classification, potential impact of renewal terms, unusual covenants and restrictions on use			
Enquire about impact of technological change			
Review adequacy of repair and maintenance procedures and consider expenditure involved			
Enquire the recording system of property and consider the property uses for unintended purposes.			
Enquire about compliance with environmental and safety requirements			
Enquire into the procedures by which the physical existence of tangible fixed assets is safeguarded			
Consider the obsolete machinery remaining in the office			
Collect the statement of assets used by different authority			

13. *Asset management - inventory*

Objective: Gain an understanding of inventory quantities and status

Potential risks	**Recommended personnel to interview**

Potential risks

❒ Slow-moving inventory
❒ Obsolete or damaged inventory
❒ overstocking of inventory

❒ Dependence on few suppliers for raw materials
❒ Lack of inventory control
❒ Shrinkage
❒ Unfavorable supply contracts

Recommended personnel to interview

❒ Chief executive
❒ Chief Financial Officer
❒ Administrative officer
❒ Storekeeper

Activities	Completed By & Date	File ref.	Comments
Analyse inventory by product, calculate inventory turnover ratio and enquire about significant trends and fluctuations			
Review ageing profile and enquire about slowmoving, obsolete and excess inventory			
Enquire about procedure and policies on safeguarding inventory			
Review the recording system of receipt and delivery of inventory			

14. *Risk management - Procurement management*

Objective: Gain an understanding of procurement management

Potential risks	**Recommended personnel to interview**
❒ Procurement with limited competition	❒ Chief executive
	❒ Chief Financial Officer
❒ Uneconomical procurement	❒ Procurement officer
❒ Lack of procurement plan	❒ Programme manager
❒ Non compliance of procurement plan	
❒ Direct procurement	
❒ Non compliance of the procurement act and regulation	
❒ Delay in procurement	

Activities	Completed By & Date	File ref.	Comments
Obtain procurement plan and actual contract awarding details			
Enquire about direct procurement			
Enquire about procurement policy and procedure			
Review procurement process whether procurement is economical			
Discuss about procurement is in right time, right place, right quality, right price and right quantity			
Obtain the details of timely competition of contract, time extension			
Enquire about consultant selection process if any and modality of consultant selection			

15. *Risk management - Contract management*

Objective: Gain an understanding of the contract management of the project/entity programme

Potential risks	**Recommended personnel to interview**

Potential risks

❒ Delay in completion of work

❒ lack of progress monitoring
❒ Inaccurate estimate
❒ Variation of work
❒ Cost and time overrun
❒ Substantial price adjustment

Recommended personnel to interview

❒ Chief executive
❒ Chief Financial Officer
❒ Procurement Officer
❒ Supervision engineer
❒ Quality Control engineer

Activities	Completed By & Date	File ref.	Comments
Enquire about capacity of contractor or supplier			
Enquire about contract agreement, completion date, up to date progress status			
Enquire about supervision monitoring and quality control mechanism			
Consider the price escalation clauses and its application			
Consider the approved estimated cost and enquire about the justification and valuation of variation			

16. *Risk management - environmental overview*

Objective: Gain an understanding of the environmental risk and sensitivity and management procedures to mitigate risk

Potential risks

❒ Non compliance of the environment rules and regulation

❒ Mitigation measures not taken

❒ Environment impact assessment not conducted

❒ Inadequate knowledge and awareness

❒ Project programme cost increased
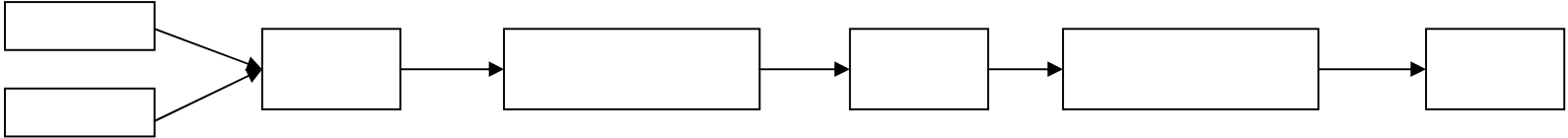
Recommended personnel to interview

❒ Chief executive

❒ Environmental Engineer

❒ Chief Financial Officer

❒ Consultant

Activities	Completed By & Date	File ref.	Comments
Interview management or outside consultants about technical issues and impacts of environmental issues			
Review correspondence files with regulators and related documentation			
Address adequacy of entity's environmental controls			
Carry out site visits as appropriate			
Enquire about the environment impact assessment report and consider whether mitigating measures have been complied.			
Enquire if the entity has procedures in place to manage health and safety concerns			

Audit Tool - 6 (Process Analysis Template)

- The components of the process analysis template is explained below :-

Process Objectives	The objectives of the process are statements that define the direction needing to be taken with respect to the process. Objectives often relate to items such as recipients/customers satisfaction, efficient use of resources and compliance with applicable regulations.
Inputs	The inputs to a process represent the elements, materials, resources, or information needed to complete the activities in the process.
Activities	The activities are those actions or sub-processes that together produce the outputs of the process. For some processes, arrows are omitted due to the non-sequential nature of the activities.
Outputs	The outputs represent the end result of the process - the product, deliverable, information or resource that is produced.
Systems	The systems are collections of resources designed to accomplish process objectives. Information systems produce reports containing operational, financial and compliance related information that make it possible to run and control the process.
Classes of Transactions	The classes of transactions are data and information that are related to the process for use in one or more reports to management or third parties. The classes of transactions, which are broken down into routine and non routine transactions and accounting estimates, provide a linkage from the process to the audit procedures.

Risks Which Threaten Objectives	**Controls Linked to Risks**
A process's risks are the risks which may threaten the attainment of the process's objectives.	Controls are the policies and procedures, which may or may not be put in place, that provide assurance that the risks are reduced to a level acceptable to meet the process's objectives.

Critical Factors for Success (CFS)	Key Performance Indicators (KPIs) Linked to the CFS
Critical factors for success are the prerequisites and areas of dependency for a process to be successful. the CFS may be inputs, parallel or supporting activities or aspects of an entity's philosophy or infrastructure necessary to ensure the proper delivery of the process.	The KPIs are quantitative measurements, both financial and nonfinancial, of the process's ability to meet its objectives through trend analysis within an entity or benchmarking against a peer of the entity or its industry. Whilst most the KPIs can be linked to the CFS, this may not always be the case.

Other Symptoms of Poor Performance

Other symptoms of poor performance represent other evidence which may exist and indicate that the process may not be operating to its most effective level.

Performance Improvement Opportunities

Performance improvement opportunities are areas for performance or process improvement. This improvement may be achieved internally by the client or through the OAG or other third-party assistance.

- An example of a completed process analysis for Contract management is shown below : -

Core Operational Process: Contract Management

Process Objectives	• Attract appropriate contractors for the work • Select contractor in competitive way • Economical and efficient contract • Complete work or supply goods within stipulated time and cost • Comply to the legal and regularity requirement	
Inputs	• Periodic plan • Operating plan • Annual plan • Act, regulation and manual	• Use of human financial and physical resources • Plant and machinery and equipment • Training and development Work schedule
Activities		

Invitation of bid	Contractor selection	Contractor Mobilization	Work execution	Supervision & monitoring	Quality control	Certification & payment	Hand over

Outputs	• Contractor selected • Work execution/ goods received • Quality assured	• Goal achievement/ target accomplishment • Service delivery • Welfare to the beneficiary
System	• Contract administration system • Contractor selection • Disbursement, certification and payment	• Supervision and monitoring system • Regularity system Quality assurance system

Classes of Transactions	**Routine** • Construction estimation • Measurement & payment • Mobilisation advance • Tax deduction • Deduction of retention money		**Non-routine** • Claims • Variation • Price Adjustment • New rate approval Time extension	
Risks Which Threaten Objectives • Awarding contract without competition • Delay in execution of contract • Work schedule not followed • Time and cost overrun • Unreliable cost estimate, variation of work • Capacity of contract	**Controls Linked to Risks** ⇒ Legal provision to public notice, procurement plan, monitoring through regulatory bodies ⇒ Compensation deduction for delay in executing work ⇒ Regular monitoring ⇒ Compare cost with norms standard or similar other project/programme ⇒ Regulation set limitation for cost variation ⇒ Technical and financial capacity of contractor evaluated			
Critical Factors for Success • Commitment to complying rules and regulation • Close supervision and monitoring • Use of norms, checking cost estimate in detail • Implementation of procurement plan • Implementation of work schedule of the contractor • Competitive procurement environment	**KPIs Linked to CFS** ⇒ Audit observation and monitoring report ⇒ Contract package per supervision engineer, number of site visits by engineer ⇒ Percentage of change in estimate, overall and item-wise varied percentage ⇒ Time elapse percentage, volume of work/contract period, percentage of time extension to the original contract period ⇒ No of instances of complying procurement plan ⇒ No of bid submission / No of bid document sold			
Other Symptoms of Poor performance	• Huge direct procurement • Approval of time extension not made • Termination of contract	• Delay in executing contract • Increment in estimated cost • Claims and litigation	• Poor quality of work/goods supplied • selecting bidder having higher tender amount rejecting the lowest bidder's proposal	
Performance Improvement Opportunities	• Public awareness • Detail survey and review of estimates • Quality assurance mechanism	• Performance monitoring mechanism • Performance review meeting	• Capacity building of engineering department • Updating norms • Capacity development of contractor	

Audit Tool - 7 (Risk Assessment Process)

Risks are events that threaten the assets and earnings of, or the essential services provided by, the entity. In essence, a risk is anything which has the potential to prevent the entity from achieving its objectives.

Risk Assessment Process - manpower management diagram:
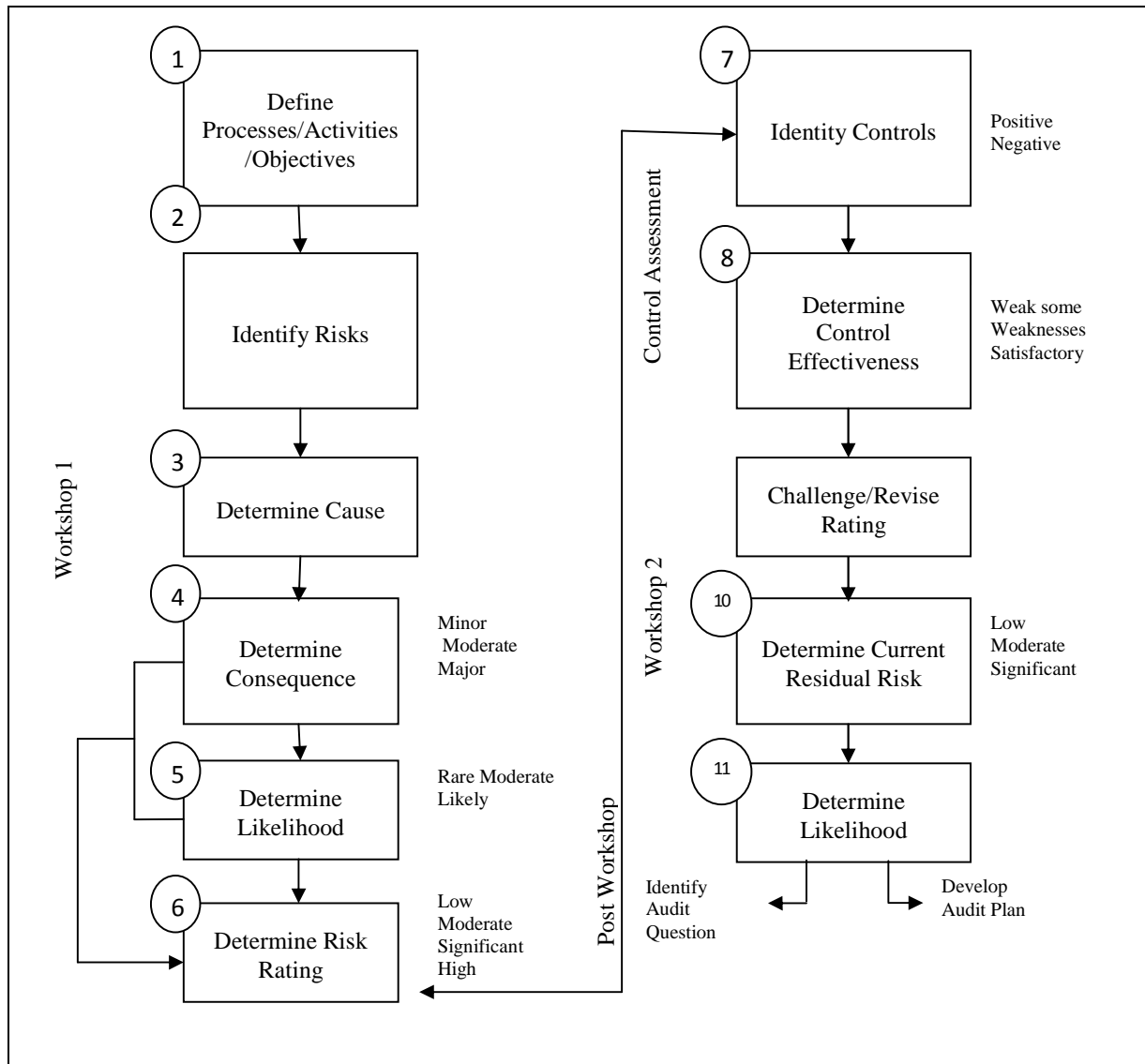
An effective risk assessment process must be based on the following core elements:

- the identification of each operational risk;

- the measurement of the identified risks in terms of magnitude and frequency of occurrence;.

- the control or the way the risk is managed in line with the needs of the entity's policies and

strategies.

Step 1. Define Processes/ Activities/ Objectives

It is useful in the risk identification phase to have some assurance that all of the key risks have been raised. The approach achieves this by first identifying the key processes and activities and objectives of each operational unit.

The information is then used as a guide or "map" in the workshop session and in the preparation by operational unit management prior to the workshop in thinking about the key risks.

Example:
Process: **Activities**
Contract Management   - Invitation of bid   - Contractor selection   - Contractor Mobilization   - Supervision and monitoring   - Quality Control   - Certification and payment

Conduct Workshop - 1

The workshop requires the participation of key managers in the entity. It should run for approximately 2 hours and should be facilitated by at least an Audit Director. We may also use one-on-one interviews with management and/or staff where it is considered more appropriate than the workshop approach.

Step 2. Identify Risks

Participants identify the key operational risks associated with the processes within their business area. They also nominate the person or persons responsible for managing each risk area.

Step 3. Determine Cause

Participants identify the situation(s) or cause(s) which could result in the risk event occurring. The main causes of the risk are then utilised to determine within which broad risk category the risk should be recorded.

Step 4. Determine Consequence

Participants are asked to describe the consequences associated with each risk.

Consequence are categorised as follows:

Significant : A critical event which with proper management can be endured

Moderate : A significant event which can be managed under normal circumstances

Insignificant : An event, the impact of which can be absorbed through normal activity.

Step 5. Determine Likelihood

Participants are asked to assign a likelihood rating (i.e. how likely is it that the entity will be exposed to each risk?). Consideration is given to:

- the anticipated frequency of the event occurring;
- the working environment;
- the procedures and skills currently in place;
- commitment on behalf of management;
- preventive mechanism and
- history of previous events.

The likelihood ratings uses are:

> Likely
>
> Moderate
>
> Rare

Given format has to be used to write matters relating step 2 - 5 (Workshop one) on the **"contractor selection"** activity of **"contract management"** process.

Inherent Risk Description	Causes (Describe)	Consequence (Describe)	Consequence Rating	Likelihood Rating
• Selecting contractor without competition	- Poor training in procurement	- Uneconomical procurement	Significant	Likely
• Direct procurement instead of open competition	- Lack of reward and punishment mechanism	- Wastage of resources - Increase in project cost	Significant	Likely
• Breaking the contract package to evade the provision of law	- Corrupted practice - Lack of financial discipline	- Transparency and accountability problem - Non-completion of work in time	Moderate	Moderate
• Collusion between the contractors			Significant	Rare

Step 6. Determine Inherent Risk Rating

On the basis of consequence and likelihood ratings identified the inherent risk rating for each risk can be determined by using following table

Likelihood	Consequences		
	Insignificant	Moderate	Significant
Likely	Low	Significant	High
Moderate	Low	Significant	High
Rare	Low	Low	Significant

Auditor should prepare a list of inherent risk rating in the format given below

S.No.	Risk	Likelihood	Consequence	Risk rating
1	Selecting contractor without competition	Significant	Likely	High
2	Direct procurement instead of open competition	Significant	Likely	High
3	Breaking the contract package to evade the provision of law	Moderate	Moderate	Significant
4	Collusion between the contractors	Moderate	Rare	Low

Conduct Workshop 2

During the second workshop, inherent risks rated will be allocated between the responsible managers to identify controls which are directly related with the risks identified.

Step 8. Determine Control Effectiveness

Once the key controls have been identified, an assessment of the effectiveness is made. The following ratings are used:

Satisfactory:	Controls are strong and operating properly, providing a reasonable level of assurance that objectives are being achieved.
Some Weaknesses:	Some control weaknesses/ inefficiencies have been identified. Although these are not considered to present a serious risk exposure, improvements are required to provide reasonable assurance that objectives will be achieved.
Weak:	Controls do not meet an acceptable standard, as many weaknesses/ inefficiencies exist. Controls do not provide reasonable assurance that objectives will be achieved.

Step 9. Revise Risk Ratings

During the second workshop, the management team is given the opportunity to discuss and challenge the rating proposed as a result of the work undertaken prior to the workshop. Changes to ratings may result.

Step 10. Determine Current Residual Risk Rating

The residual risk represents the risk, which remains after considering the controls in place to mitigate the risk. The following table illustrates the approach for determining this rating:

Risk Rating	Control Effectiveness		
	Satisfactory	Some Weaknesses	Weak
High	Significant	High	High
Significant	Moderate	Significant	High
Moderate	Moderate	Moderate	Significant
Low	Low	Low	Moderate

Step 11. Risk Profile and Matters of Potential Significant

At the completion of the risk assessment process, the risk records and residual risk ratings will be confirmed by the management team. A risk profile will be prepared. The following table illustrates the outputs (at the summary level) or confirmation on the degree of residual risk.

S. No.	Risk	Inherent Risk Rating	Controls	Control Effectiveness	Rating of Control effectiveness	Residual Risk Rating
1	Selecting contractor without competition	High	➢ legal provision ➢ procurement plan ➢ public notice ➢ internal audit	Legal provisions are not complied and internal audit is not effective	Weak	High
2	Direct procurement instead of open competition	High	➢ extent of direct procurement given in law ➢ approval	Lack of capacity to implement the procurement procedure	Some weakness	High
3	Breaking the contract package to evade the provision of law	Significant	➢ procurement unit ➢ capacity development	Procedural delay compel the entity to choose the direct procurement	Some weakness	Significant

At the completion of this risk assessment process, the management team then must consider the residual risk levels and decide whether they are acceptable in the context of the entity's

objectives. The objective is not to eliminate all residual risk but rather to ensure that residual risk is maintained at an acceptable level in a cost-effective manner. On the basis of residual risk rating Audit questions have to be identified. In above mentioned assessment auditor can determine audit questions as: *" Is there adequate competition has been maintained by the project in the procurement or not?"; "Is the procurement economical?"*

Audit Tool 8

…………………………….Office/Project

Risk Assessment Form

(This form is sent to audited entities in the planning stage to get reply from them)

1. Name of the Entity/Project/Issue/Programme

2. Objective of the Entity/Project/Issue/Programme

    _____
    _____
    _____
    _____
    _____

3. Main Activities:

    _____
    _____
    _____
    _____

4. Problems and constrains faced by the entity/project/programme while performing the work

Problems	Constraints	Effort made to resolve the problems	Impact of the effort

5. Basic Control mechanism to control the physical progress, cost, quality of the activities.

6. Core Operational process (Input to output)

7. Monitoring and reporting mechanism

8. Basic performance indicators

---

9. Achievement of the indicators regarding goal/objectives/activities with respect to cost and quality.

10. Risks of the entity/projects/activities/programme

Risks	Probability	Possible consequence	Measures to reduce risk

11. Strength and weaknesses of the entity/project/programme/activities *(Internal)*

Strengths	Weaknesses

12. Opportunities and threats of the entity/project/programme/activities *(External)*

Opportunities	Threats

13. Areas for improvement

14. Any suggestion to improve the performance.

Audit Tool 9

Audit Design Matrix

Audit Objectives	Audit Question (s) (AQ)	Sub Audit Question (s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working paper ref	Completed by date
1	2	3	4	5	6	7	8

Audit Tool 9A

Example: Audit design matrix prepared for the performance audit of procurement of the project. There may be several audit questions However only one question is given for the sample.

Audit Objective	Audit Question (s) (AQ)	Sub Audit Question (s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working paper ref.	Completed by and date
	2	3	4	5	6	7	8
To assess whether the procurement has been made economically and contract were executed efficiently while implementing the project/programme.	Has adequate competition been maintained by the project in the procurement?	• Is the notice published in the national media? • Are sufficient numbers of tender submitted?	Procurement Act 2063 clause 41 and Procurement Regulation 2064 section 5 and 7 stipulates about the provision.	**Evidence:** Procurement plan, procurement procedure, statement of direct procurement, sealed tender and tender.	Document review, discussion with management		
		Is the procurement economical?	Procurement Act 2063 clause 25 and regulation 2064 rule 61 states to award contract to the materially cost effective bidder.	**Evidence:** Report of tender evaluation committee, decision of awarding contract.	Document review, discussion with management		

Example: The Audit design matrix was prepared to assess the selling and distribution system of the harvested forest products in Sunsari, Udayapur and Rauthat District Forest Offices.

Audit Objective	Audit Question (s) (AQ)	Sub Audit Question (s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working paper ref.	Completed by and date
1	2	3	4	5	6	7	8
1. To assess the effectiveness of harvesting the forest products (timber and wood) of the District Forest Office Rautahat,Sunasari and Udayapur.	Does the entity District Forest Office (DFOs and Community Forest User's Group CFUGs) have accurate work plan?	Does the DFOs has accurate work plan?	Pursuant to rule (3) of the Forest Regulation 1995 for the purpose of management of Government Managed Forest, the Department shall have to prepare a Forest Management Plan for one or more districts according to the topography and natural boundaries, explicitly mentioning all area covered by forests, situation of forest, land use and species of trees, details of forest products, programmes, forest products required by the local people, estimated annual revenue and other details.	**Evidence:** Work plan and implementing reports (progress reports) of DFOs relating to the Government managed Forest. **Sources:** concerned DFOs.	Collecting the data and information through observation, interview and questionnaire relating to work plan and verify compare and analyze those acquired data.		
		Does the CFUGs have accurate work plan?	Pursuant to rule (28) of the Forest Regulation 1995 for the purpose of management of Community Forest, the Users' Group shall have to prepare a Work Plan of community Forest, explicitly mentioning the details of forest (area,	**Evidence:** Work plan and implementing reports (progress reports) of the selected Community Forest User Groups	Collecting the data and information through observation, interview and questionnaire relating to work plan and verify compare and analyze acquired data.		

Audit Objective	Audit Question (s) (AQ)	Sub Audit Question (s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working paper ref.	Completed by and date
1	2	3	4	5	6	7	8
			condition and type), objectives, methods, activities, programmes.	relating to the Community managed Forest. **Sources:** concerned DFOs.			
	Does the entity perform the harvesting operations properly?	Does the DFOs have resources assessment and pre-evaluation system?	*Pre-evaluation of the quantity of timber and firewood should be done by using area and species specific volume table. For that purposed area and species specific volume table should be approved in the manner as specified in Annex 7 relating to Rule 17 of the Forest Regulation 1995.*	**Evidence:** List of pre-evaluation done by the DFOs and actual quantity of harvested products. **Sources:** concerned DFOs.	Collecting the data and information through observation, interview and questionnaire relating to resource assessment and verify compare with the actual quantity of the harvested timber and firewood, analyze those acquired data.		
		Does the timber and wood harvested by the CFUGs exceed the quantity as specified in the work plan?	*Pursuant to rule 6(1) of the Forest Regulation 1995 the forest products shall not be collected, sold and distributed exceeding the quantity of collection, sale and distribution specified in Work Plan for the whole year.*	**Evidence:** approved and actual harvesting quantity of selected CFUGs. **Sources:** concerned DFOs.	Collecting the data of approved and actual harvesting quantity through observation and questionnaire of selected CFUGs and compare and analyze those acquired data.		

Audit Objective	Audit Question (s) (AQ)	Sub Audit Question (s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working paper ref.	Completed by and date
1	2	3	4	5	6	7	8
		Is the record of timber and firewood harvested by the CFUGs for their own use kept by the concerned DFO to manage their activities ?	The DFO and CFUFs should keep the update record of timber and firewood harvested by the CFUGs for their own use. Forest (Regulation Chapter 4)	**Evidence:** The quantity of timber and firewood harvested by the CFUGs for their own use. **Sources:** concerned DFOs.	Collecting the data of timber and firewood harvested by the CFUGs for their own use through progress reports and inspection reports, tool kits and questionnaire and compare and analyze those acquired data.		
		Is there any possibility of deteriorating the quality of harvested timber and firewood in log yard?	Timber and Firewood harvesting area plotting, sealed, numbering and listing should be inspected by authorized officers to ensure the quality (pursuant to Forest Products Collection, Sale and Distribution Directive 2000 (10.19.(a).	**Evidence:** Harvesting records and Inspection records **Sources: concerned DFO, and CFUGs.**	Collecting the information regarding the inspection reports of DFOs through observation and questionnaire and analyze those acquired information.		
		Does the harvesting operations complete in stipulated time?	Harvesting operations should be completed within the stipulated time (pursuant to chapter 3 of Forest Products (Timber and firewood) Collection, Sale and Distribution Directive 2000).	**Evidence:** Agreement and time extension memo. **Sources:** concerned DFOs.	Collecting the information about agreement and time extension from DFOs through observation and questionnaire and analyze those acquired information.		
		Is there any chance	The harvested timber and	1 **Evidence:** log yard records and	Collecting the data and		

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Audit Objective	Audit Question (s) (AQ)	Sub Audit Question (s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working paper ref.	Completed by and date
1	2	3	4	5	6	7	8
		of revenue loss?	firewood should not be kept in log yard for a long time. It deteriorates quality of wood and thereby cause revenue loss. Forest regulation, Rule (3 and 9) and Timber and wood) Collection, Sale and Distribution Directive 2000 (NO.) and Harvesting agreement.	other physical evidences (photo etc). **Sources:** concerned DFOs.	information through field observation and interview and compare and analyze those acquired data and information.		
		Does the security arrangement of logging yard find adequate and dependable?	The DFO should make sufficient arrangement for the security of log yard.(Timber and wood) Collection, Sale and Distribution Directive 2000 Direction NO.10)	**Evidence:** number of log yards and forest guards, and other physical evidences. **Sources:** concerned DFOs.	Collecting of information regarding the log yard and its security arrangement through field visit, questionnaire and interview analyze the obtained data.		
		Is there any chance of illegal harvesting?	The forest offices should be able to punish and control the illegal harvesting and poaching (Forest Act, 1993, section 49).	**Evidence:** Records of arrestment, types and number of cases and amount of penalty realization. **Sources: concerned DFOs.**	Collecting of information regarding illegal logging through observation, field visit, questionnaire, interview, photos and format filling and analyze those obtained data.		

| Audit Objective	Audit Question (s) (AQ)	Sub Audit Question (s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working paper ref.	Completed by and date
1	2	3	4	5	6	7	8
		Does the community forest users' groups expend its 25% income for the development, protection and management of forest?	The community forest users' groups should expend 25% out of its income for the development, protection and management of forest and support to sustainable harvesting (Forest Act, 1993, section 30.a).	2 **Evidence:** Income and expenditure statement of concerned CFUGs and its forest related programmes. **Sources:** concerned DFOs.	Collecting the of data and information through tool kits and questionnaire and verify, compare and analyze the obtained information.		
2. To evaluate the selling and distribution system of the harvested forest products in those DFOs.	Does the DFO have distribution plan?	Are the distribution activities in line with the plan?	Distribution of harvested products should be in line with the distribution plan. Forest Regulation Rule(3)	**Evidence:** Distribution plan and the data of distribution. **Sources:** concerned DFOs.	Collecting the of data and information relating to distribution plan through observation and questionnaire and analyze obtained information.		
		Does the DFO have proper distribution mechanism for harvested timber and firewood?	The entity should have marketing plan and mechanism to get the best price from the harvested products. Forest Act Section (9)	**Evidence:** marketing plan, type and quantity of distributed items. **Sources:** concerned DFOs.	Collecting the of data and information relating to distribution mechanism through observation, questionnaire and interview and analyze the obtained information.		
		Does the pricing policy of forestry products from national forest streamline in order to generate revenue?	Base price of harvested products should be time relevant and market oriented. Forest Act Section (9)	**Evidence:** Base price, market price and sale price. **Sources:** concerned DFOs.	Collecting the of data about base price and market price through survey and questionnaire and compare and analyze the obtained data and information.		

Audit Objective	Audit Question (s) (AQ)	Sub Audit Question (s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working paper ref.	Completed by and date
1	2	3	4	5	6	7	8
		Does the Forest Development Fund is utilized properly?	The Forest Development Fund collected from the traders who trade the timber should not keep ideal (Directives of Forest Development Fund, 2007,Direction No 6)	**Evidence:** Income and expenditure of the Fund. **Sources:** DOF and concerned DFOs.	Collecting the data about Forest Development Fund through observation and questionnaire and compare and analyze the obtained data and information.		
		Does the Nepal Timber Corporation take out all the allocated round timber?	The Nepal Timber Corporation should take out the round log allocated to it within the 6 month of such allocation. Otherwise the concerned Forest Office should auction those timbers. (Forest Products Auctioning Procedure 2003, directive 3.3).	**Evidence:** data of allocated and harvested quantity of round timber. **Sources:** concerned DFOs.	Collecting the data about Forest Development Fund through observation and questionnaire and compare and analyze the obtained data and information.		
		Does the District Forest Product Supply Committee comply the provision pursuant to rule 9 of the Forest Regulation?	The District Forest Product Supply Committee should follow the provision pursuant to rule (9)of the Forest Regulation to regulate the sales and distribution of the Timber and Firewood	**Evidence:** Minute of the committee and other physical and testimonial evidences. **Sources:** concerned DFOs.	Collection of data, verification, comparison, analysis are the main methodologies we will apply. For that purpose we will use interview, questionnaire, FGD as and when required.		

40 "Audit Execution Section"

40.1 Introduction

 The purpose of the audit execution is to implement the work plan, conduct the audit and produce a high quality audit report. Carrying out an audit may be seen as both an analytical and a substantive test procedure. In the analytical process, data are collected, interpreted, and analysed. The substantive test process begins to different findings, arguments and perspectives are assessed, and continue until the report has been finalized. Audit examination work takes place on the basis of audit planning already undertaken, and as per the developed planning documents, Audits should be performed with due care, with an objective state of mind, and with appropriate supervision.

40.2   **Audit Execution (Control and Performance Assessment) – Diagram**
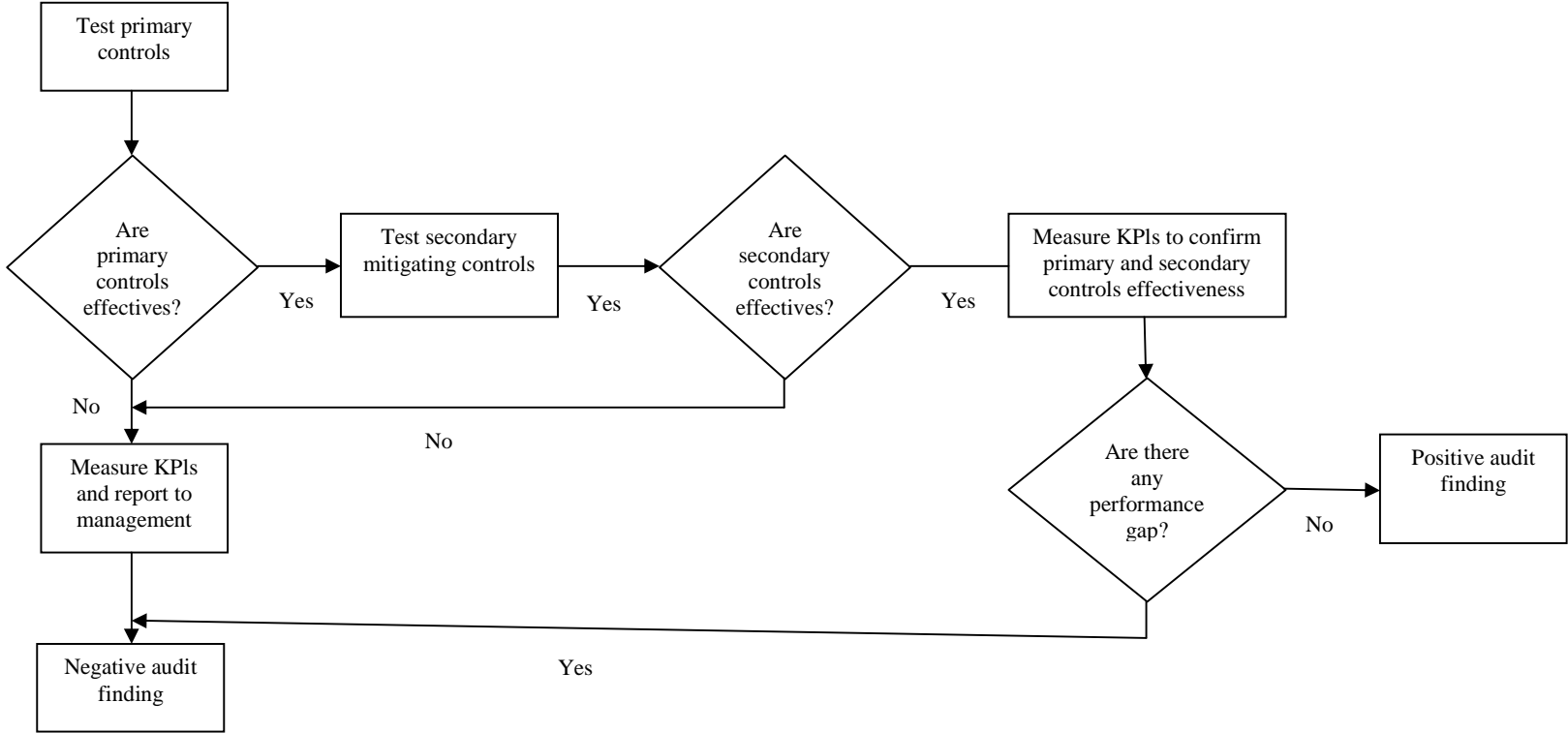
40.3   **Objectives of Audit Execution**

The objectives of audit execution are to:

40.3.1   Gather and evaluate information to compare actual condition with audit criteria,

40.3.2   Obtain relevant, sufficient, and objective evidence to answer audit question.

40.3.3   Develop conclusions and formulate recommendations which are well researched, practical and cost-effective.

40.4   **Entry meeting**

Before executing audit plan, auditor should communicate audit objectives, scope and audit questions to the auditee management by organizing entry meeting. Generally, such meeting can be organised in the premises of the auditee, in which all the responsible departmental or section head will participate. Minutes of the meeting will be prepared and signed by the both party. The feedbacks of the entry meeting if necessary should be consider and adjusted in the audit plan subsequently.

40.5   **Audit Test Procedures**

40.5.1   Once the audit programmes are drawn up, fieldwork can proceed. The process of executing the procedures to test the controls and measuring control effectiveness involves gathering audit evidence in order to develop audit findings. This enables conclusions and recommendations to be formulated.

40.5.2   Audit fieldwork involves a combination of a procedure-oriented, problem oriented and a result-oriented approach to performance auditing. Either audit approach may be used during performance audit but whenever appropriate, all audit approaches should be executed together as they are complementary.

40.5.3   During the Planning stage, the controls are identified as primary, secondary and mitigating. In testing these controls, the auditor seeks to:

- obtain evidence on whether the controls operated as documented in the planning stage; and

- confirm whether the controls functioned effectively throughout the period of intended reliance.

40.6   **Control Assessment**

The two stage of the Audit execution are control assessment and performance assessment. Control assessment essentially represents the qualitative assessment of the overall effectiveness of each control in meeting management's objectives. It designs and develops the assessment procedures in with the assessed inherent and control risk in planning stage for reducing the audit risk.

40.6.1   Control assessment involves the following key stages:
- if necessary develop further audit programmes by designing audit procedures and tests;
- execute audit test procedures and apply audit sampling to determine

whether the controls are operating as intended;

- assess the control environment and optimise the controls
- design, perform and review appropriate control test procedures;
- determine if the controls provide reasonable assurance that management's objectives will be met
- identify potentially excessive and/or ineffective controls
- identify and evaluate residual risks; and
- design and perform additional test of significant residual risk if applicable

40.6.2   The purpose of assessing control effectiveness is to perform a qualitative assessment of the overall effectiveness of each control in helping the auditee meet management's objectives.

40.6.3   The findings from the review should be compared to the audit criteria.

40.6.4   The qualitative assessment is typically carried out using an analysis of procedural approach. This involves testing procedures against established criteria, best practices or a desirable control model. Recommendations are made by the auditor where controls are either deficient or ineffective.

40.6.5   The auditor examines the results or outputs of the programme, activities or organizational units concerned to determine the significance of control deficiencies. In this way, the likely causes and effects can be identified and assessed. In instances where it was found that the auditee had no KPIs to measure achievement, then the auditor could report the absence of knowledge about performance, rather from attempting work which may or may not answer the question.

40.6.6   Control assessment should focus on the performance audit areas. However, the internal control review findings from the financial audit should be reviewed to avoid duplication in carrying out performance auditing. For this purpose, auditors should be able to differentiate between financial and performance audit objectives.

40.7   **Performance Assessment**

40.7.1   Performance assessment involves a quantitative assessment of the effectiveness of activities within a process, or the outputs of a process, in achieving management's objectives. Apart from reviewing internal controls, the auditor should also assess the performance of the auditee. The assessment includes both financial and non-financial performance analyses.

40.7.2   The primary objectives of business unit for performance analysis are to:

- compare the auditee's process' or current performance to that of prior periods or peer groups to identify potential problems and/or opportunities;

- understand the cause-and-effect relationships between financial and non-financial measures; and

- provide insight to the auditee/ process on the effectiveness of its measurement and monitoring systems.

40.7.3   The performance assessment is carried out by measuring the key performance indicators identified during the planning stage. The key performance indicators measure how well a process is performing and confirm the

effectiveness of primary, secondary and mitigating controls. Some more examples of sector-wise KPIs are given in Audit Tool 10. Performance gaps exist where the key performance indicators fall short of the specified goals and should they exist, the auditor should consider reporting their findings together with any related deficiency in controls procedures to management.

40.7.4   Some of the tools that can be used to measure financial performance are :

- financial ratio analysis - involves comparison of financial ratios for a single period or multiple periods.

- analysis of cash flows - carried out to assess the implications on long term solvency and to understand the relationship over time between net income and cash flow from operations.

- return on investment analysis - a primary measure of economic performance by providing an indication of the auditee's ability to earn a satisfactory return on capital employed.

40.7.5   The public sector organisations generally do not employ resources to generate profits, although some are engaged in commercial activities and are required to achieve profit targets. Consequently, the uses of financial performance measures need to coincide with entities where financial statements provide an account of the overall performance in terms of objectives.

40.7.6   The auditor could also analyse the auditee's performance by analysing the following:

- resource management - this includes management of human resources, information and technology. The objectives and the key performance indicators need to be identified for each of the above processes. For example, one of the objectives of human resources management is employee's productivity and key performance indicator could be revenue per employee. The auditor will need to assess how well this resource is being managed based on its key performance indicators.

- process performance - this includes process time, process cost and process quality. This need to be compared against the criteria identified to assess if the process performance can be improved.

40.8   **Data collection process**

Quality in data collection and documentation is vital. The Auditing Standards state that 'Competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusion regarding the organization, program, activity or function under audit. The auditors must be creative, flexible, resourceful and careful in their search for evidence. This approach reduces the risk of misunderstanding and may speed up the process. It is also important that the auditors seek information from different sources, since organizations, individuals in an organization, experts, and interested parties have different perspectives and arguments to put forward. Both qualitative and quantitative data may be collected for different purposes during an audit.

40.9 Audit Evidence

40.9.1 Audit evidence is information collected and used to answer the audit question and develop audit findings. Such evidence forms the basis of audit conclusions and recommendations and is a central concern from the planning to the completion of the audit.

40.9.2 The nature of the audit evidence is determined by the subject matter, the audit objective, and the audit questions. Under normal circumstances, performance audits require significant judgment and interpretation in concluding against the audit questions, due to the fact that audit evidence is more persuasive in nature.

40.9.3 The types of evidence to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance, and reasonableness. All audit findings and conclusions must be supported by audit evidence.

40. 9.4 The audit fieldwork involves gathering evidence in accordance with the audit plan prepared during the planning stage and the audit programme that were developed. The evidence gathered is analysed and used to determine if the audit criteria is met. The evidence gathered should meet the following criteria:

- "Sufficient" sufficiency relates to the weight each piece of evidence plays in influencing the auditors' mind concerning the conclusion to the audit objective. Sufficient information should be gathered so that a reasonable person would agree with the audit conclusion. The risk, materiality and sensitivity of the matter to be reported on and the cost of obtaining the evidence will determine how much evidence is sufficient.

- "Competent" competency of evidence relates to the reliability placed on the source of information used as evidence. The competency influences the persuasiveness of the evidence. The following can be used in judging the competence of evidence:
  - evidence obtained from a third party is more reliable than evidence obtained from the audited entity itself
  - evidence developed under a good system of internal control is more reliable than that obtained where such controls are weak or non-existent
  - evidence obtained directly (e.g. through physical examination, observation and inspection) is more reliable as compared to evidence obtained indirectly
  - original documents are more reliable than copies
  - testimonial evidence is more reliable where persons may speak freely compared to situations where they are intimidated
  - testimonial evidence obtained from a person who is unbiased and has complete knowledge in the relevant area is more reliable as compared to a person who is biased and has only partial knowledge

- "Relevant" the evidence should have a logical and sensible relationship to the criteria in order to provide a reasonable basis for the auditors findings. It should also be relevant to the subject and period of time encompassed by the audit.

40.9.5   Evidence may be categorized as physical, documentary, testimonial, or analytical. A direct inspection or observation of people, property, or events obtains physical evidence. Documentary evidence consists of information such as letters, contracts, accounting records, invoices, and management information on performance. Testimonial evidence is obtained through interviews or questionnaires. Analytical evidence includes computation, comparisons, separation of information into components, and rational arguments.

40.10   Techniques for Gathering Audit Evidence

40.10.1   "Analysis" visually or electronically identifies what is the same and what is different between two or more documents, tangible items or data. Analytical evidence should be derived by experts/people who are knowledgeable about the matters analysed and have the ability to make logical inferences and value judgments from the data collected

40.10.2   "Structured interviews/questioning" means seeking appropriate information of knowledgeable persons inside or outside the auditee. In the context of test of controls, auditor should ask knowledgeable client/personnel for information, listen to and consider their responses, ask follow-up questions and corroborate information, as appropriate.

40.10.3   "Observations" means looking at a process or procedure being performed by others. It provides evidence for that point in time and by them, which cannot be used to draw conclusions about matters that have occurred over a period of time.

40.10.4   "Physical examination" is an inspection of a tangible item, usually other than a document, such as an item of equipment

40.10.5   "Examining records/documentation" is reading records or documents either visually or electronically. Unlike observation, we do not need to be present at the time a process or procedure is performed to obtain audit evidence. Examples of records/documentation are correspondences, memorandum, minutes, reports, etc.

40.10.6   "Focus groups" Focus groups are a selection of individuals to discuss on specific topics or issues. They are used to collect qualitative data/information in the process or activities to being audited. Focus groups, as differentiated from interviews, are more of a discussion method where participants, have more chances of interacting between themselves and among the groups, led by the moderator / facilitator. The discussion focuses on the key questions, usually limited in number as opposed to the interviews where questions asked are significantly more in number.

40.10.7   "Survey or questionnaire" A survey is the systematic collection of information from a defined population, usually by means of interviews or questionnaire. Surveys are used to gather detailed and specific information from a group of people or organisations. They are particularly useful when one needs to collect information from large number of individuals. Questionnaires are mainly used to collect facts from the audited entity that are not available in are not available in any other way and that are important to substantiate a view point.

40.10.8   "Seminar and hearings" Seminars are used in different phase of performance audit. They are used to aquire knowledge of specialist area, discuss problems, observations and possible measures. The participants of seminars and hearings should be interested parties and experts.

40.10.9   "Replication" is walking through or repeating operational steps. For example, to check the accuracy of efficiency measures, the auditor may replicate procedures used to measure efficiency. Replication can help the auditor confirm or deny the system or some part of it works as claimed.

40.10.10   "Confirmation" is a response, ordinarily in writing, to an enquiry, also ordinarily in writing, to corroborate information. It can be used to verify that an asset or liability exists or to verify that procedures of the audited organisation

40.10.11   "Conducting system tests" involves audit programme set out the assignments and test to be performed. In general, testing involves applying a given auditing procedures to some items within a group. The purpose of testing is to gather appropriate audit evidence on the effective functioning of key systems, controls and results identified by the auditor in the survey stage. This type of testing gives the auditor the necessary degree of assurance that specified audit criteria are, or are not, being met.

40.11   **Audit Sampling[2]**

"Audit sampling" (sampling) involves the application of audit procedures to less than 100% of items within a population such that all sampling units have a chance of selection. It is in effect a process at the end of which items to be tested are identified. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can use either a statistical or a non-statistical approach. The main aim of sampling is to reduce the audit risk to an acceptably low level.

Selecting the methods of sampling depend upon the resources available, nature of the audit and policy guidance provided by the office. Auditor should be careful while selecting the methods of sampling consulting the expert in the office and/or management.

40.12   **Statistical versus non – statistical sampling approaches**

The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor's judgment regarding the most efficient manner to obtain sufficient appropriate audit evidence in the particular circumstances.

When applying statistical sampling, the sample size can be determined using either probability theory or professional judgment. Many textbooks suggest that auditors should adopt a statistical approach to audit sampling as it provides the link between the sample size and the certainty of the conclusions. But statistical sampling is very complex and mathematical and only few auditors are really able to understand it.

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[2] International Auditing Standard www.mia.org.my/handbook/guide/MASA/A1530.htm

Stratification is the process of dividing a population into subpopulations with similar characteristics, specifically for substantive testing. This may be the identification of high value transactions.

When performing tests of control the auditor uses sampling as a means of selecting items for testing the operating effectiveness of controls. The items are selected, regardless of their value, with a view to testing the effective functioning of the controls.

When performing substantive tests the auditor uses sampling to test the amounts in the financial statements. For this purpose the sample frequently consists of items of a higher value. Stratification is a useful aid in that it allows testing a high proportion by value of the population with relatively few items.

Sampling units are the individual items comprising the population. They may be defined as a document, an entry, a line item, a balance or a transaction. The decision will be based on the practicality of selecting the sampling units.

40.13 **Methods of sampling**

The next step is to identify the items of the population to be tested. Because the purpose of sampling is to select a representative sample by choosing items which have characteristics typical of the population, and the sample needs to be selected so that biasness is avoided. The following methods may be used:

40.13.1 *Random number sampling*

Random numbers may be generated by a computer (CAATs) or may be drawn from a random number table. The use of random numbers gives every sampling unit in the population the same probability of being selected.

40.13.2 *Systematic sampling*

Systematic sampling is to select sampling units at uniform intervals throughout the population beginning randomly. The sizes of the population and the sample determine the uniform interval. The number of items in the population is divided by the required sample size to determine the interval. For example, a population of 10 000 items divided by a required sample of 100 items would give a sampling interval of 100. Systematic sampling also gives every sampling unit the same probability of being selected.

40.13.3 *Judgmental sampling*

In judgmental sampling the auditor selects sampling units with no particular reason for including or excluding particular items. The auditor is warned, however, against distorting the sample by selecting only unusual items, items having one physical characteristic or omitting items such as the first or the last. Normally some form of Judgmental sampling is applied when relatively large error rates are anticipated, or when the total population is not known.

40.13.4 *Cluster sampling*

A cluster sample consists of a group of contiguous sampling units. The auditor should question critically and evaluate carefully the use of cluster sampling. There are two potential weaknesses in cluster sampling.

a) The improbability of each sampling unit having equal opportunity for selection.

b) Attaining reasonable assurance that the sample is representative of the population. While it may be possible to design a cluster sample to be representative of the population, it is very likely that it will be inefficient to

do so. In summary, the auditor would probably be better off avoiding the use of cluster sampling.

40.13.5   *Stratified Selection*

Stratification is the process of dividing a Population into sub-population, that is, a group of sampling units, which have similar characteristics (often monetary value). The strata must be explicitly determined so that each sampling unit can belong to only one stratum. Stratification enables the auditor to direct his/her efforts towards the items which potentially certain the greater monetary error. For example, audit might direct attention to larger-value items of grant provided to the user's group and nature of grant, completion status etc.

40.14   **Analysing and interpreting information**

Analysing 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.

Most audits involve some type of analysis in order to understand or explain what has been observed. A wide range of models or methods of analysis is used. This could be done in the form of more detailed statistical analysis, discussions on the findings within the audit team, studies of documentation and working papers etc. Some more techniques for analysis are given below:

40.14.1.   Regression analysis- 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;
- to identify relationships among variables that may be causally related that might explain outcomes;
- to identify unusual cases that stand out among expect values; and to make predictions about values in the future.

40.14.2   Data distribution may often be expressed in the form of a graph (bar chart or curve) that shows all the values of a variable. There are three basic dimensions of data distribution that may be important to an auditor:

- the '"central tendency'" of the distribution (mode, median, mean, quartile level, etc.);
- the spread (variability or dispersion) of the data (minimum and maximum values, tails, etc.); and
- the shape of the data (standard deviation, normal distribution, flat distribution, bi-modal distribution, etc.).

Data distributions may be used:

- to identify the level, spread, or shape of the data when this is more important than a single 'average' number;
- to decide whether variable performance meets an audit criterion or not;
- to interpret probability distribution to assess risk; and
- to assess whether sample data are representative of the population

Audit Tool 10

Some Example of Sector-wise Key Performance Indicators

Sector	Key performance indicators
1. Health sector	• Percentage of expired medicine • Vaccine wastage rate • Vaccination coverage • Delivery rate in the presence of skill birth attendant • Percentage of facilities with essential drug available • Infant mortality rate • Maternal mortality ratio • Contraceptive prevalence rate • Stock out ratio of medicine • Population per health institution • Public complaints/ Public survey
40 Hospital service	• Bed occupancy rate • Mortality rate • average stay in hospital • Success rate of major operation • Doctor patient ratio • Patient nurse ratio • Number of major operation conducted • Per day per doctor patient • Approved and fulfilled post of health professional • Public complaints/ public survey
41 Education Sector	• School operation days • Enrollment rate • Ratio of girl and boy • Drop out ratio • Pass out ratio • Repetition rate • Student teachers ratio • Rate of student absenteeism • Textbook availability percentage • Textbook distribution date
42 Irrigation sector	• Per hector irrigation cost • Ratio of irrigated land and projected command area • Water discharge per second or minute • Water availability index • Per hector operation and maintenance cost • Crop diversification • Production variance after irrigation facility • User's complaints/ user's survey • People's participation
43 Road sector	• Per Km cost of road construction (according to the type of road) • Per Km road operation and maintenance cost • Road roughness index

		• Target achievement • No of site visit by supervision engineer • All weather road accessibility
44	Human resource management	• Training hour per employee, training cost per employee • Employee turnover • Compensation/benefit levels compared to other offices • Client complaints/ client survey • revenue per employee
45	Agriculture sector	• Seed and pesticide availability index • Fertilizer availability index • Production growth rate • Crop diversification • Target achievement in crop, vegetable, fish, meat production • Per capita availability of milk and meat • Availability of technical manpower • Accessibility in service • Awareness coverage of modern farming methodology • Community mobilization
46	Drinking water supply	• Cost per tap • Water distribution hour • Daily time spent on collecting drinking water • Drinking water coverage by district or region • Operation and maintenance of water supply system • People's participation
47	Revenue collection	• Administrative cost for collecting per rupee of revenue • Structure of revenue mobilization • Ratio of VAT collection and refund • Percentage of contribution by large tax payers • Amount of tax in arrears • Target and collection of revenue • Total revenue collected/GDP • Tax gap: Total revenue collected/ potential revenue • Number of non-filers • Additional taxes assessed after audit / tax liability declared • Amount of additional taxes collected/ additional taxes assessed • Amount of additional assessed taxes upheld in appealed/ amount of additional assessed taxes challenged in appeal
48	Local Bodies	• Adoption of participative planning process • Increment in social and gender inclusion • Date of district assemble held • Utilisation of allocated budget • Percentage of irregularity settlement • Proportion of internal source utilization • Percentage of administrative cost • Numbers of project/programme monitored • Use of allocated budget for intended purpose

50 "Reporting Section"

50.1 Introduction

- At the end of performance audit the audit team shall prepare a written opinion or report as appropriate, setting out the finding in an appropriate form; its content should be easy to understand and free from vagueness or ambigutuity, include only information which is supported by competent and relevant audit evidence and be independent, objective fair and constructive.

- Where important audit findings are made during an audit these should be communicated to those charged with corporate governance in a timely manner.

- Where the nature of audit allows the auditor shall provide overall opinion on the achievement of 3Es (economy, efficiency and effectiveness) by an audited entity in relation to specific areas of the entity's activities.

- Audit report should be prepared keeping view on the audit objective.

The Office of the Auditor General should promote continuous report writing, which involves developing the main components of the audit report at the planning stage and periodically revising the draft report throughout the conduct of the audit. This approach allows the auditor to concentrate on the results of the audit, determined at the planning stage; fine-tuning the audit report and promoting the report's credibility, thus moderating the potential for management to disagree with the report contents.
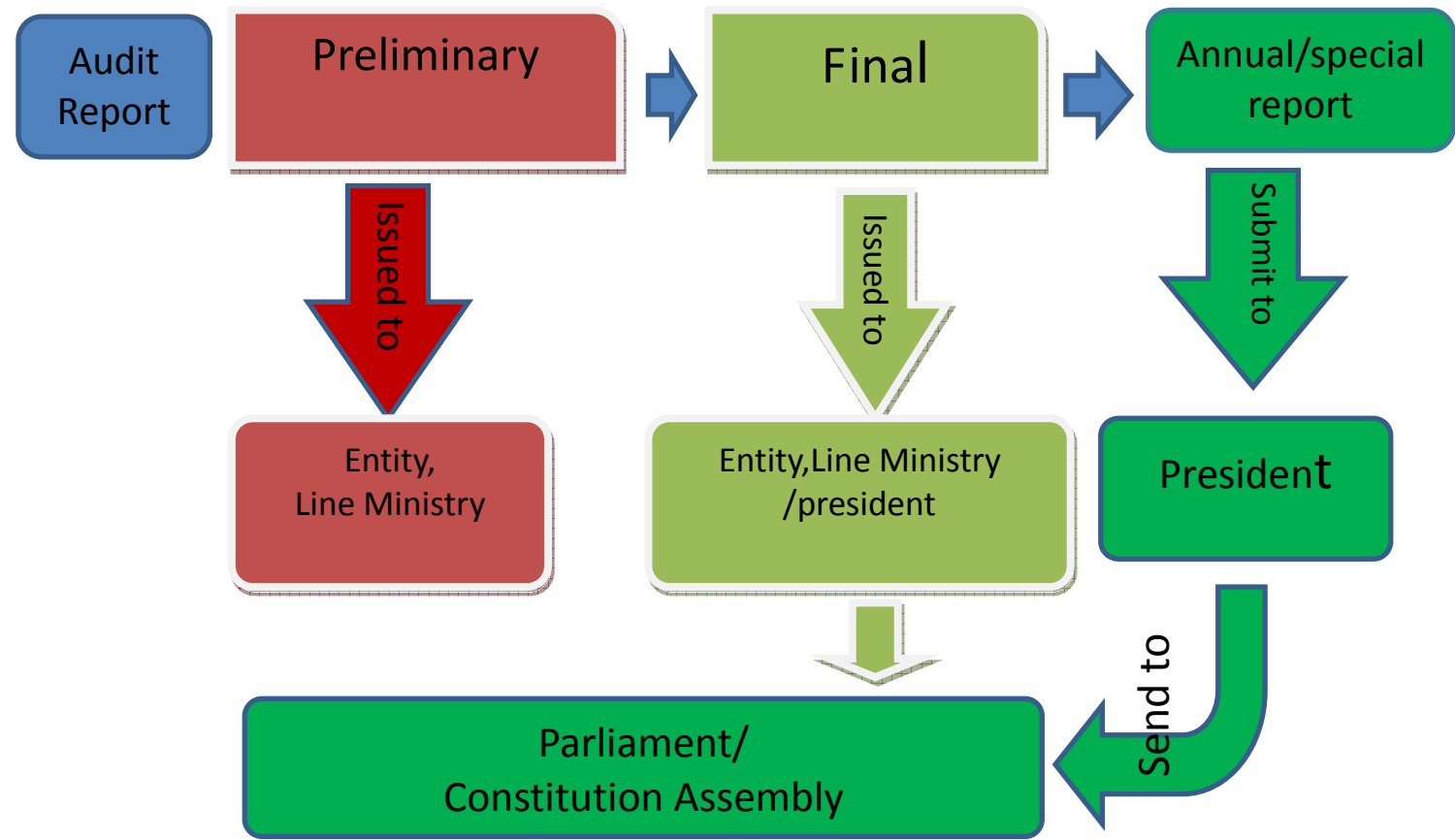
50.2 Objectives

The objective of audit reporting is to Communicate audit results conclusions and recommendations to the auditee management, Legislature and public? for enhancing economy and efficiency with which resources are acquired and used and the effectiveness with which objectives are met

50.3 Types of Report

Performance Audit team has to prepare three types of performance audit report:

- Preliminary Report: long form preliminary audit report to the audited entity and line ministry and department.

- Final Report: Performance Auditor should prepared final audit report after incorporating the response from the management for each subject of performance audit. All final audit reports shall be submitted to the President as and when completed and a copy of it will send to the audited entity, Line Ministry and concern departments..

- Annual Report: Important findings of performance audit shall be communicate to the President and Legislative or Parliament through an annual report of the OAG/Nepal. The Performance audit final report and annual report submitted to the President has to be tabled in the Parliament and forwarded to the Public Accounts Committee for detailed deliberations. Report flow chart is presented in the diagram below.

Audit Report	Preliminary	→	Final	→	Annual/special report

Issued to

Issued to

Submit to

Entity, Line Ministry	Entity,Line Ministry /president	President

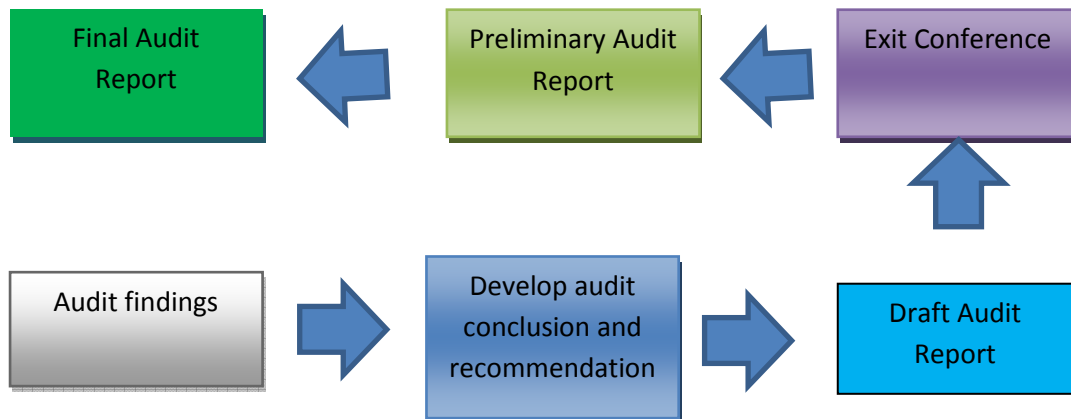Send to

Parliament/ Constitution Assembly

Report flow chart

50.4   Reporting Process

The performance auditor should follow the following reporting procedure during the preparation of report

Final Audit Report	←	Preliminary Audit Report	←	Exit Conference
Audit findings	→	Develop audit conclusion and recommendation	→	Draft Audit Report

Reporting Process

50.4.1   Develop Audit Findings

- The comparison of observed conditions against audit criteria results in audit findings. Audit findings are based on the identification of performance gaps that is where controls are deficient or ineffective in mitigating risks.

- The issues to be reported on should be identified. Once the issues have been identified the following components can develop the audit finding.

  ➤ *"Criteria"* ('what should be') Criterion is reasonable and attainable standard   against which to existing standards of performance is assessed. The criteria would have been identified in the planning stage of the audit.

  ➤ *"Condition"* (What is) The condition refers to what is currently being done or the current situation. The condition should be compared to the criteria to assess if the condition falls short of the criteria beyond acceptable levels. The comparison between the criteria and the condition will form the basis of the audit findings.

  ➤ *"Cause and effect"* (Why is there deviation from norms or criteria?) The findings should also identify the cause and effects of the condition. Cause can be defined as the source or factor for the occurrence of an

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event. Identifying the cause provides information on accountability relationship and initiates measures of improvement.

➢ *"Consequence"* (reasonable and logical future impact) The result of an event i.e. the effect of the condition falling short of the criteria.

➢ *Corrective action* ('measures to improve the condition)- On the basis of evaluated audit evidence and response received by the auditee, possible recommendation should be issued in the audit report.

• Where conditions fall short of the criteria, the reasons and the implications of this shortfall are examined. This step involves :

 ➢ examining relevant information
 ➢ defining the problem and collecting information on the causes of deficiencies
 ➢ critically evaluating the appropriateness of evidence to substantiate the findings
 ➢ collecting additional evidence on the causes and effects of deficiencies to illustrate the significance of the matter to be reported

It is the responsibility of the Audit Director and Audit team to ensure that the reasons identified for non-adherence to the criteria and the implications are discussed with the appropriate levels of management in the audited organisation. The viewpoint of management must be given due consideration before the reporting phase of the audit begins. Forms to write audit findings is given in Audit Tool-11.

50.4.2 Developing Audit Conclusions and Recommendations

• From the assessment of the audit findings and their possible causes and effects, the auditor draws conclusions. Tentative findings and conclusions should be tested against accumulated evidence and discussed with the auditee to get valuable input and to validate both correctness and completeness.

• Recommendations should be developed where unfavourable findings are made and significant adverse effects have been identified. High-quality recommendations highlight the problems in need of action and the corrective action needed to achieve desired results. The following questions should be considered in developing recommendations:

➢ is it clear why a change is needed, why current conditions should not be allowed to continue and what the root cause of the problem is?

➢ does the recommendation include specific   actions that should be taken and results that   should be achieved?

➢ is the recommendation convincing?

➢ will it correct the root cause of the problem?

➢ have alternatives been adequately considered?

➢ is the recommendation feasible and cost-   effective?

➢ is it clear who should take the corrective action?

➢ is it clear when does it need to be done?

- Recommendation should be given to enable the auditee to rectify the weaknesses reported. Auditor's recommendation should contain actions to be taken and results that should be achieved. Recommendations should be directed to remedy root causes of problems.

- The conclusions should be based on objectives, rationality and project specific criteria. Recommendation should be argued in a logical, knowledge-based and rational manner. The cause of a finding forms the basis for the recommendation. The cause may be outside the control of the entity under audit, in which case the recommendation should direct attention outside the auditee. It is important to ensure that recommendations are practicable, add value and address the objectives of the audit. In some cases it is also important to present the arguments for and against various alternative proposals.

- Whenever possible, positive audit observations should be reported to provide a fair and balanced report. This acknowledges the auditee's efforts and provides maximum leverage and value on the audit work done. The Assistant Auditor General is responsible to ensure that all recommendations are well researched, practical and cost-effective. The recommendations should also be consistent with those made by the Office of the Auditor General in similar situations either in the past or elsewhere in government. If they are inconsistent, the reasons must be documented. The auditor should ensure that the recommendations address the objectives of the audit. Process of developing conclusion and recommendation is given in the diagram below.
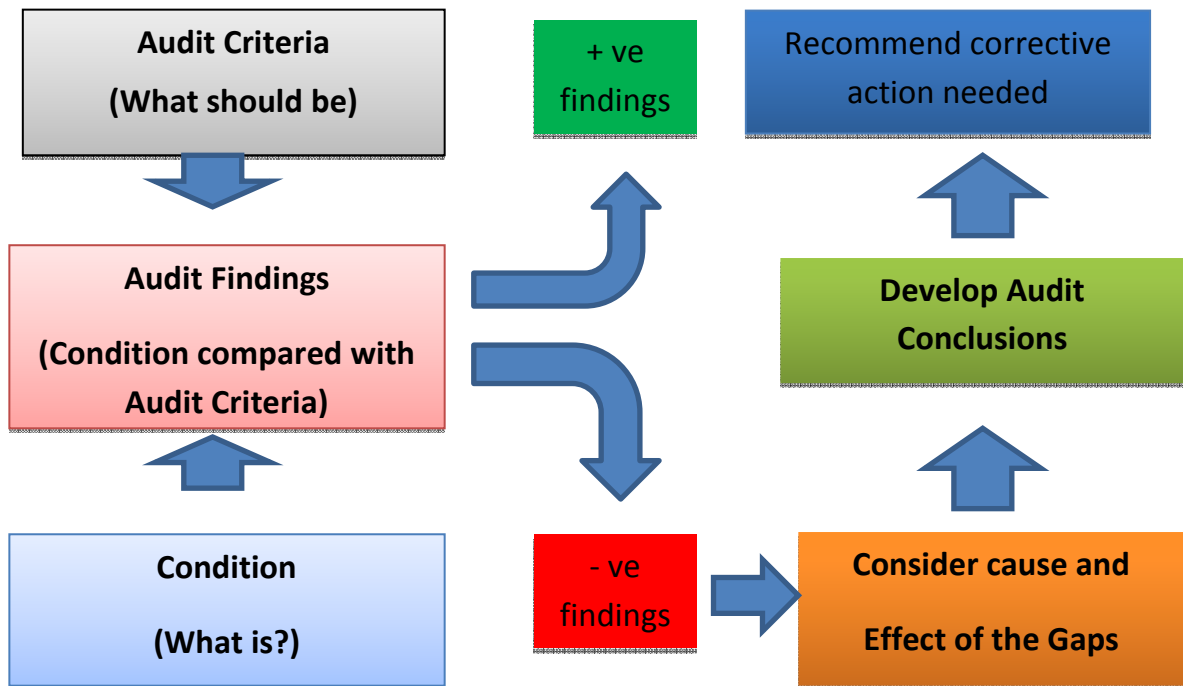
Developing Audit conclusion and recommendation

50.4.3 Prepare Draft Report:

After confirming significant issues, the audit team should draft performance audit report which incorporating the criteria, condition, cause and effect and consequences, conclusions and recommendations in the audit issue papers, should be reviewed by the Audit Director and the Assistant Auditor General before being presented to the appropriate level of management a few days prior to the exit conference.

Before issuing performance audit report, the auditee(s) involved should always be given the opportunity to examine its content. The draft report provides the first opportunity for the auditee to see the full context of audit findings, conclusions and recommendations in written form. Where responses provide new information, the auditor should assess this and be willing to modify the draft report.

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50.4.4 Exit Conference:

- A formal exit conference is held at the completion of the audit.
- Exit conference is held between audit team members and the entity's management group .On the   entity's side, it is most useful if the officer attending has sufficient authority to   commit   the   agency   to agreements reached.
- Exit conference is carried out to discuss audit findings conclusion and recommendation and to validate the accuracy and completeness of information included in the draft report.
- Serve   to   communicate   audit   findings   and   recommendations   to management and integrate prompt feedback for preliminary issues.
- The oral and written responses elicited from the agency by the exit conference audit findings should be documented by the audit team
- The exit conference should be noted and signed by both the parties.

50.4.5 Preliminary Audit Report:

- Based on the exit conference, a preliminary audit report is prepared by the audit team. The purpose of preparation of the preliminary audit report is to seek formal response of the audited entity

- The preliminary audit report should be prepared exactly similar in form and content as the final report.

- The performance audit preliminary report should describe relevant facts and findings sufficiently.

- The auditor's opinion in a performance audit may involve an attestation of management assertions to demonstrate management's regard for economy and/or efficiency and/or effectiveness.

- The preliminary report should be forwarded to the audited entities Copies of the report should also be forwarded to concerned departments and secretary of line ministry; it should be communicated to the responsible party that the response should be received in writing within 35 days. In the event this is not the case, the issues will be incorporated into the final report as it is, with mention that no response has been received. The response should address the issues raised in the audit report and include specific action plans with regards to implementing corrective action.

- The preliminary audit report reviewed by the Audit Director and the Assistant Auditor General. Finally, the director signs off the report ensuring that the Office of the Auditor General standards are met

50.4.6 Final Report

- The published final performance audit report is the product on which the SAI performance audit function is judge by the legislature and the public.

- The auditor should review each response received to determine that timely corrective action and adequate detail have been provided for each finding of the report.

- Once the management comments are analysed, the more important issues should be identified to be included in the final report. The final report should have clarity and focus on the subject matter after incorporating the responses from the audited entity the OAG/Nepal shall published separate final report of each audited entities. The template for final performance audit report is given in Audit Tool 12 which can be used in preparing draft report and preliminary report.

- The Audit Director shall review the audit files again to ensure that the evidence, working papers and other documents are sufficient to support the final report.

- The names of persons and institutions involved in transactions should not be mentioned in the final report. The AG reviews, challenges, approves and signs-off the report ensuring that the OAG standards are met.

50.5 Contents of the Audit Report

The form and content of all kind of performance audit reports are consistent with following:

50.5.1 *"Title"* The report should have an appropriate title in order to distinguish it from other reports.

50.5.2 *"Addressee"* The report should be addressed to the president or to the management of the auditee depending on the type of report.

50.5.3 *"Description of the auditee"* A description of the auditee will give the report user appropriate background information. The description should include organisation objectives and targets, overall organisation structure of the auditee, financial position, etc.

50.5.4 *"Auditing standards"* A statement regarding auditor's compliance with applicable auditing standards will provide the users with an assurance that the audit has been carried out in accordance with generally accepted audit practice.

50.5.5   *"Audit objectives, scope and methodology"* The objective and scope will establish the purpose and boundaries of the audit. The users should also be made aware of the methods and the extent of work carried out as well as the nature and extent of information available in order to arrive at audit findings, conclusions and recommendations.

50.5.*6*   *"Audit Limitation"* Any limitation to the audit should be disclosed to users of the audit report.

50.5.7   *"Audit findings"* The audit findings should address the economy, efficiency with which resources are acquired and used and the effectiveness with which objectives are met. Each issue of audit should include the criteria, condition, cause and effect and consequence where a departure from criteria is highlighted. Reports may include constructive criticism or may make no significant criticism but give independent information, advice or assurance as to whether economy, efficiency and effectiveness are being or have been achieved.

50.5.8   *"Conclusions and recommendations"* The report should give conclusions to the questions posed by the audit objectives and recommendations for actions to correct problems found.

50.5.9   *"Management's response"* The report should include management's response to the auditor's findings, conclusions, and recommendations. Management should comment on the acceptability or otherwise of each recommendation.

50.5.10   *"Signature and Date of report"* The report should be dated to inform the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date.

50.6   **Characteristics of the Report**

The audit report should be reliable and easy for reader to understand the purpose of the audit and interpret the result. Auditor should consider following characteristic for a good performance audit report.

50.6.1   **Accurate:** The report should be based on facts and should include only information which is supported by audit evidence. The accuracy of the report will depend on the reliability of the evidence the auditor draws conclusions from. Accuracy of the report can be further enhanced by discussing draft reports with appropriate level of management in the audited entity.

50.6.2   **Clear:** The report should be readable, easy to understand, straightforward and concise. Terminology used should be familiar to persons whom the report is addressed to. The contents of the report should be free from vagueness and ambiguity.

50.6.3   **Conciseness:** The audit report should be no longer than needed to convey and support the message. However, one must also have in mind that the performance audit reports are not only written for those who have special knowledge; they are also written for those who need more information to understand the subjects. Often a more comprehensive report might provide the reader with a better understanding of the basis for the conclusions drawn, and thus add value and creditability to the audit report.

50.6.4   **Courteous:** The report should be expressed in a respectful, professional and neutral tone. This would enhance the acceptability of the report and it is less likely the auditors will be perceived as biased.

50.6.5   **Completeness:** The performance audit report contains all information needed to satisfy the audit objectives, promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements. The relationship between audit objectives, criteria, findings and conclusions needs to be verifiable, complete and clearly expressed.

50.6.6   **Balance & Fair** –The Report also focuses on positive findings as well as areas for improvement and contains a fair assessment or evaluation.

50.6.7   **Consistency** – Consistency of the report should be maintained by ensuring that the same reporting format is consistently followed. The report should not contain contradictory findings or conclusions or the conclusions on the same segment in different sections of the report are not incompatible

50.6.8   **Timely:** Reports should be issued in a timely manner. The purpose of audit report is to ensure corrective action taken by the relevant persons in order to improve performance of the auditee being audited. If the report takes a long time in being issued, the audit recommendations may no longer be useful as the activities reported on may have been completed.

50.7   Confidentiality and security

All material related to performance Audit report should be kept confidential and secure in accordance with the policy of Office of the Auditor General Nepal.

.**Audit Tool - 11 (Audit Findings Form)**

1. Audit Question _____

2. Audit work paper reference _____

3. Discussion date _____

4. Criteria, condition, cause and consequence

5. Conclusion and Recommendation (include benefit)

6. Comment of auditee management (name, date and comments)_____

7. Explain cause

Prepared & recommended by	Reviewed by	Approved by
Audit Officer	Audit Director	Assistant Auditor General

Performance Audit Final Report

Template

Audit Tool 12

s.no	Logical Order	Example
1	Title of the audit report	Mentioned in the cover Page
2	Transmission letter	Date, addressee, subject, date and signature
3	Table of content of the report	
4	Executive summary	Audit objectives and Major Audit findings
5	Introduction of the audited entity	Background, Policy, Major Programs ,Budget and expenses should be mentioned
6	Comply with auditing standard	The audit has been conducted in accordance with performance audit guideline of OAG /Nepal and the auditing standards (ISSAI 3100)prepared by International Organization of Supreme Audit Institutions (INTOSAI)for performance audit
7	Audit objective, scope and methodology	
8	Limitation	Unavailability of the documents, any necessary audit technique unable to use due to different reason.
9	Audit findings	Each Audit question analyses with Criteria ,condition, cause, consequence and

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		recommendation
10	Audit Conclusions	Based on the audit findings auditor should provide opinion about 3Es
11	Audit Recommendation	Summaries audit recommendation categories them in time basis: < one year Short term >one year Long term
12	Management response	Summary of response provided by the management on the recommendation
13	Annexure	Long table, Complex data, analysis, Organisation structure , etc

60 Documentation Section

60.1 Policies

The significant policies in respect of Audit Documentation are as follows:

- the Audit Director should ensure that audit files exist, contain appropriate and sufficient evidence, are complete and easily retrievable.
- all working papers are confidential documents belonging to the OAG. Audited organisations and the public have no right of access to the OAG's working papers.
- audit staff should not disclose information gathered during the audit to third parties.
- audit files support reports issued.

60.2 Objectives of Documentation

The objectives of Audit Documentation are to

- provide evidence to support the auditor's report
- aid in the auditors in planning, conducting and supervising the audit
- provide evidence of a quality conduct of the audit and the quality of the reported results

60.3 Characteristics of Working Papers

Audit working papers should exhibit the following characteristics:

- completeness and accuracy - to show the nature and extent of audit work performed and to provide proper support for contents of the audit report
- clarity and conciseness without requiring supplementary oral support. The legend to tick marks or other symbols used to document performance of audit tests should be explained.
- ease of preparation
- legibility and neatness with adequate space for additional data, notes and comments

- relevance - should contain information that is important and useful with respect to the objectives established for the examination
- organisation - files should be systematically organised, indexed and cross referenced ease of review

60.4   Contents of Audit Work Papers

Audit working papers should contain the following:

*   basis and extent of planning(the objective, scope and methodology, including any sampling criteria used)
*   documentation of work performed to support significant conclusions and judgments. These include audit programmes, schedules supporting information contained in the audit report, third party confirmation, reliance placed on the work of other auditors, other evidence contributing to auditor's findings, etc.
*   evidence of supervisory work performed
*   draft reports
*   details of discussion with management
*   management responses
*   copies of photographs that form part of the audit evidence

The ultimate test on audit working papers is to ensure whether they contain appropriate and sufficient evidences and are complete enough to withstand knowledgeable scrutiny.

60.5   Audit File Structure

60.5.1   Information gathered should be separated between two audit files, namely the current audit file and the permanent audit file.

60.5.2   The permanent audit file consists of information of a permanent nature. The information contained here will be useful when conducting financial audit of the same auditee or when conducting performance audit in a different area of the same auditee.

60.5.3   Some examples of main or permanent file documents are as follows:

- Policy of the audit entity
- Laws/Rules - legal framework
- Organisational Structure

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- Details of closely related entity and programme.
- Project Memorandum/Appraisal
- Resource Management (Agreement of Loan/Grant)
- Project Documents
- Mid-term and other evaluation
- Target and Achievement
- Major Audit Findings of Previous years, which were incorporated into the Annual Report
- Decisions of Public Accounts Committee
- Cuttings of Matters of Public Concern Published in Magazines/Newspapers
- Other Relevant Documents and Statements (Useful for more than one Fiscal Year)

60.5.4 Current audit file should be established for each audit and should contain the working papers developed during that audit. Materials contained in current files should be arranged in a logical sequence in accordance with the planned file structure developed as part of the overall audit plan. The structure and contents of the current audit file is illustrated in Audit Tool-13.

60.6   Completing and Reviewing Audit Files

60.6.1 The overall review process should be done by the Assistant Auditor General, to ensure that all conclusions made are consistent with each other, are relevant, logical, constructive and supportive.

Working papers should be prepared in sufficient detail to enable an experienced auditor with no previous connection with the audit to ascertain what work has been performed to support the findings and conclusions.

Audit working paper should be cross referenced each and every issue of audit report.

60.6.2 Review form is given in Audit Tool-14.

Audit Tool - 13 (Audit File Documentation)

Topic	Index
Planning Stage	A
Performance Audit Progress Record Firm (AT1)	A1
Basic Information	A2
Internal Audit Report	A3
financial statements,	A4
Progress report	A5
Information Collection (AT4)	A6
Process Analysis (AT5)	A7
Risk Assessment (AT6)	A8
Audit Planning Memorandum	A9
Audit Design Matrix	A10
Other Working Papers	A11
Audit Execution Stage	B to X
Segregate audit areas in accordance with Audit questions and name each area with a different index (B..C..D….X) then Structure in the following manner :	
Reporting Stage	Y
Audit Findings (AT8)	Y1
Draft Report (Preliminary)	Y2
Preliminary Report	Y3
Management Response	Y4
Final Report	Y5
Audit completion report	Y6
Other Documents	Y7

Review/Follow-up Stage	Z
Audit Review Form (AT10)	Z1
Quality Assurance Form (AT11)	Z2
Follow-up Report (AT12)	Z3
Other Documents	Z4

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Audit Tool - 14 (Audit Review Form)

Audit Entity …………………..   **Audit Year …........………….**

S.No.	Subject Matter	Yes/No/NA	Comments
1.	Do the working papers contain sufficient evidence on the following: - Audit plan/ approach - Detailed audit programme/Audit design matrix - Evidence/ initial of staff performing work - Evidence/ initial of Supervisor/Director reviewing work - Documentation of findings, conclusions and recommendations. - cross referencing to the audit report		
2.	Has management agreed to our pre-determined audit criteria? Have disagreements been resolved?		
3.	Have we identified and documented the controls which are: - effective - ineffective - excessive (from a cost/benefit perspective)		
4.	Have we identified and documented operational and other potential improvement opportunities by performing appropriate operational measurement activities?		
5.	Have we communicated all matters included in the Report and performance improvement opportunities to management?		
6.	Has management reviewed and commented on the Report and have disagreements with the audit findings and recommendations been analysed?		
7.	Have all critical judgments, including management's response on contentious findings been appropriately and		

	comprehensively documented in the working papers?		
8.	Are the recommendations well researched, practical and cost-effective?		
9.	Are we satisfied that all elements of the Performance Audit have been satisfactorily completed in accordance with the legislative mandate and applicable auditing standards?		

Prepared and Recommended by   Reviewed by

Audit Director   Assistant Auditor General

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70. **Quality Assurance Review**

70.1 Background

Quality Assurance is the process that provides independent assurance to the Auditor General that the quality control systems and practices in the organisation are working effectively and that the OAGN is issuing appropriate reports. Thus, Quality Assurance is the process of comparing what is required of a product and what is actually being provided to the users of that product.

Quality Assurance is the process established by an OAGN to ensure that:

a) the OAGN and its personnel have adhered to professional standards and applicable legal and statutory requirements;

b) necessary quality controls are in place;

c) quality controls are being properly implemented; and

d) Potential ways of strengthening or otherwise improving quality controls are identified.

As such, Quality Assurance is an assessment process focusing on the design, operation, outputs (reports) and outcomes of the quality control system by persons independent of the system/audit under review. The purpose of Quality Assurance is not to criticise specific systems/audits but to help ensure that the audit products and services meet the required international best practices and the needs of the OAGN's stakeholders.

70.2 Purpose and Overview

To assist the quality assurance review team to understand the desired quality controls in performance auditing and, thereby, provide a basis for the QA teams to assess (i) the quality of SAI's performance audit methodology, (ii) compliance with required controls by the performance audit teams. This chapter focuses on the quality controls in performance auditing in terms of the good practice process for managing such audits. The quality controls relate to those that apply to each phase of a performance audit process, as well as the overarching quality controls that are equally applicable to all phases of the audit process.

70.3 Quality Assurance versus Quality Control

Although at times QA and QC are used interchangeably, there is a clear difference in scope and meaning of the two terms.

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As already stated above, QC involves the policies and procedures through which an OAGN **ensures** that all phases of an audit process (planning, execution, reporting and follow-up) are carried out in compliance with OAGN auditing standards, rules, procedures and practices in line with the best international practices. Basically it is a responsibility of each line function in an OAGN. QA is also a responsibility of management.

On the other hand, Quality Assurance is a process through which an OAGN **assesses** and monitors the system of quality control, to provide reasonable assurance to its top management that its process and product meet quality standards. This assessment is designed to ensure that the OAGN's system of quality control is working effectively and that individual audits are carried out in compliance with OAGN standards, rules, practices and procedures. These should be in line with best international practices as reflected in INTOSAI Standards of Supreme Audit Institutions (ISSAIs) and ASOSAI Guidelines or pronouncements on auditing standards and the code of ethics, appropriately adapted to suit the needs of national regulations and standards.

70.4 Benefits of the Quality Assurance Review (QAR)

The benefits that can be derived from an effective quality assurance function include the following:

- ✓ Ensure a high standard of audit work by improving audit performance and results;
- ✓ Ensure that the audit is conducted in the most efficient and cost effective way; which can lead to savings in audit time and cost;
- ✓ Improve the capability of the OAGN;
- ✓ Maintain a high degree of integrity, accountability and competence;
- ✓ Enhance the credibility and reputation of the OAGN;
- ✓ Improve training and identification of additional training needs;
- ✓ Motivate the personnel of the OAGN;
- ✓ Facilitate self-assessment of audit work performed;
- ✓ Provide a management tool for measuring the performance of the OAGN; and
- ✓ Avoid possible litigation by ensuring the OAGN's work is of high standard and quality.

70.5 Selection of the appropriate audits for quality assurance review

The main method of conducting a QAR at the performance audit level is through the scrutiny of the working papers contained in the performance audit files. This

method should be supported, where necessary, by other information-gathering methods such as unstructured discussions with performance audit team members, structured interviews, and focus groups.

For post-audit QARs, the QAR team should obtain a list of completed audits during, for example, the last 12-month period prior to the review. From the list of completed audits obtained, the QAR team shall select a sample of performance audits for review based on considerations of **risk** and **representativeness**. The QA team may consider the following while assessing risk and ensuring representativeness:

Following table shall be used to assess the risk for individual performance audit review:

No	Factors	Risk			Note
		High	Medium	Low	
	Public interest (parliamentary/ media/ users group etc.)				
	Scope of Audit (Large/medium/small)				
	Complex Audit				
	Substantial time was allocated to the audit				
	Substantial resources were allocated to the audit				
	Significant objectives from social and/or economic perspective				
	Audits that raised much disagreement between auditee and audit team				
	Significant limitation in the scope of the audit				
	New area of audit				
.	Significant shortcomings in previous audits				
Assessment					

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70.6 Factors to be considered to ensure representativeness. The following are some strategies to ensure the representativeness of the performance audits selected for post-audit QARs:

- Select at least one audit file of each performance audit team leader of the OAGN.

- select performance audits that pertain to different sectors (e.g. education, health, infrastructure, economic services, transportation, etc); and

- Select performance audits that pertain to different streams of government functioning (e.g., expenditure, revenues, public-private partnerships).

- In case of pre-issuance QARs, representativeness is not a key consideration. The primary consideration for selecting audits for pre-issuance reviews is whether it is appropriate for the OAGN to publish the draft audit report under the circumstances without risking its reputation. The following are examples of indicators which may trigger a pre-issuance review:

  - due to unforeseen circumstances, the risk of the audit has increased;

  - significant disagreements with management;

  - significant limitations on the scope of the audit; and

  - the auditor is uncertain of the audit observations and recommendations and would find benefit from an independent review.

70.7   Implementation arrangement

Quality assurance committee constituted as per the Quality Assurance Handbook is responsible to facilitate, guide and co-ordinate the quality assurance process. Annual volume of reviews and responsible quality assurance team is appointed as per the provision made in Quality Assurance Handbook.

70.8   Other considerations - Timing of review

A pre-issuance review needs to be performed before the audit report is issued. Various factors may influence the timing of the pre-issuance review, such as:

- when the audit report is due for issue (legal requirements);
- the complexity of the audit;

- whether the review needs to occur at appropriate stages during the audit, so that significant matters may be resolved to the reviewer's satisfaction promptly;
- the availability of suitable pre-issuance reviewers; and
- the time required by pre-issuance reviewers to perform the review.

70.9   Objective of a performance audit level QAR

The objective of an individual performance audit level QAR is to provide assurance as to whether appropriate quality controls were complied with by the different performance audit teams. The main purpose of the quality assurance is to identify weaknesses in quality controls at performance audit levels, assess the extent of compliance with existing quality controls and suggest strategies for addressing those weaknesses. To achieve this, some of the main issues for consideration are:

- ✓ determine if required quality controls are in place;
- ✓ determine if existing controls are being properly implemented;
- ✓ confirm the quality of the audit practices and reports, and identify potential ways of strengthening or otherwise improving the controls;
- ✓ determine if proper documentation for the control procedures exist;
- ✓ determine if the audit was properly planned, and whether risks were identified and received the appropriate attention;
- ✓ confirm that sufficient work was undertaken to support the findings and observations in the audit reports;
- ✓ confirm the working papers are in accordance with OAGN policies and procedures;
- ✓ determine if conclusions are properly explained and supported by audit working papers;
- ✓ determine that audit findings and observations opinions are fully supported and documented in working papers; and
- ✓ that the performance audit report issued is appropriate in terms of significance, scope, timing, etc.

To achieve this objective, the OAGN should conduct regular QARs of selected performance audits every year. The primary emphasis of pre-issuance review is to assure the OAGN top management that the audit report to be issued is appropriate under the circumstances, while that of post audit reviews is to identify potential areas of improvements in subsequent performance audits.

While the primary objective of QARs at individual audit engagement level is to assess the extent of compliance by audit teams with approved quality controls, it is also important to periodically assess whether the quality controls reflected in the performance audit methodology approved by the OAGN are adequate and aligned with international good practice. While the QA function should conduct **compliance check** QARs every year for a sample of performance audits, the **methodology check** should be conducted once every few years, or whenever there is significant development in the INTOSAI community with regard to performance audit methodology. Such a methodology check can very well be part of an OAGN-level QAR; however, an OAGN-level QAR will generally have a wide scope covering number of areas for examination, and may, therefore, not assess in detail the adequateness of an OAGN's performance audit methodology.

70.10   Plan the QA Review

70.10.1.The quality assurance team should develop a review plan that describes scope and methodology, execution period, human and other resources, names of team members and other special considerations. Team members should consist of staff with suitable qualifications and experience so as to fully understand the performance audits to be reviewed.

Before developing a QAR Plan, the review team should fully understand the performance auditing framework within an OAGN. In particular, the following aspects are important to have better understanding of the performance auditing framework within an OAGN:

- OAGN Mandate and Legislative Framework
- Structure of the Performance Auditing Function
- OAGN's Strategic Plan for Performance Audits
- Planning Individual Performance Audits
- Conducting the Audit
- Reporting the Audit
- Managing the Audit and Relationships with Entities
- Parliamentary Review
- Follow-up
- Quality Assurance requirements of the OAGN

In the case of working papers being documented in electronic form, the review team should ensure that they have adequate access to and competence to review such working papers.

70.10.2 A QAR plan at individual performance audit level contains background, objective, scope and approach, methodology, review period, budgetary and other resources required for review, and names of the review team members. As regards the scope, the QAR team may decide to focus on a certain stage of a selected performance audit and not necessarily on all stages, For example, if the QAR team has defensible reasons to conclude that the planning stage of the selected audit poses much higher risk than the other stages, then it should focus its review on that stage, rather than equally on all stages of the audit.

As mentioned earlier in this chapter, the quality assurance of individual performance audits covers two aspects:

(i) adequacy of the OAGN's performance audit methodology, and

(ii) adequacy of compliance by performance audit teams.

(1) **Methodology Check** – It is an assessment of the extent to which the OAGN's performance audit methodology (practices/processes) is adequate and aligned with relevant ISSAIs and other good practices.

(2) **Compliance Check** – It involves checking whether the performance audit teams complied with approved performance audit practices/processes of the OAGN.

A suggested performance audit methodology check questionnaire is available in Quality Assurance Handbook.. It is based on good practice discussed in the ISSAIs and ASOSAI Guidelines on Performance Auditing.

70.11 Conducting the QAR

Once the QAR plan has been approved, the QAR team will take necessary steps to execute the plan. The following activities are involved in execution of a QAR:

70.11.1 Review of Performance Audit files – Prior to reviewing the files, it is important that the Reviewer has a good understanding of the Supreme Audit Institution's practices and procedures in the conduct of performance audit assignments. It is also imperative that the reviewer is familiar with, and understands, the content and layout of the OAGN's working paper files being reviewed. In the absence of standard working papers, the reviewer should confirm that all audit documentation has been provided.

70.11.2 Gathering information – The QAR team should gather information required to support their review objectives. The QAR team gathers information while reviewing individual performance audits using various sources and methods of gathering. The primary basis of gathering information at individual audit level QARs is a review of performance audit related guidelines and working papers in

the selected PA (performance audit) files. This method of document review may be supplemented by other methods such as interviews and group discussions with management of performance audit team and other relevant knowledgeable persons, depending on the needs of the particular situation. To ensure completeness of compliance checks, and consistency of checks across QAR teams, it is desirable that the QA team develops a quality assurance review questionnaire (QARQ) for compliance check. Unlike the QARQ for methodology check, the QARQ for compliance check should be based directly on the OAGN's approved performance audit manual or guidelines and other supporting instructions.

70.11.3. Record and Analyze Observations

The review team should utilise the individual findings template provided in Quality Assurance Handbook for recording the details relating to the findings. These findings only relate to a situation where there is a negative finding as per the QARQ for compliance check. This will require consideration of the implications of the findings, including the linkages to the causal factors and the domains and elements of the OAGN level quality management system (QMS). In addition, the reviewer will be required to state the category of the error using the following guide:

- ✓ High risk – signifying fundamental failures where for example, the audit opinion or key conclusions are incorrect;

- ✓ Medium risk – identifies where information provided to the reader of the audit report is omitted or information that is not important is included; and

- ✓ Low risk – other matters such as poor referencing or evidence of review.

After completing the individual audit findings, the review team then needs to compile the Quality Assurance Review Recording Form that summarises all findings including positive findings. Below is an explanation of the Quality Assurance Review Recording Form that can also be used directly as the reporting template for the review.

70.11.4 Discuss findings with Audit team members

After the Reviewer completes the Quality Assurance Recording Forms, the next stage is to present the summary of the findings to the Audit team to ensure that there is a common understanding among all concerned. If required by the OAGN, the shortcomings identified by review team should be corrected on the working papers of the PA teams. The correction of shortcomings in working

files could be possible in the case of pre-issuance reviews, but in the case of post audit reviews it could be the area for improvement in future audits.

70.12   Report the Quality Assurance Review

- After having discussed the review findings with Audit teams, QAR team should prepare the Quality Assurance Review Report in a suggested format in Quality Assurance Handbook.

- The findings should be discussed with the audit team, who should indicate for every finding whether there is agreement / disagreement on the finding;

- Where agreement was reached on a high risk matter:

- he audit team should ensure that the matters are addressed in a timely way;

- The review team should perform additional review work to corroborate that the matter has been addressed and should indicate whether the matter has been resolved to their satisfaction and the date on which the reviewer confirmed that it was resolved; and

- Where there was disagreement on a high risk matter, or other important matter the audit team should clearly state the reason for the disagreement and ensure that the OAGNs process for differences of opinion is followed to resolve the matter. Detail on such a process should be included in the working paper.

- Where there is a difference of opinion between the review team and the audit team, the following procedures can be followed:

- Where the reviewer makes recommendations on high risk findings from the review that the audit team does not accept and the matter is not resolved to reviewer's satisfaction, the QAR team should seek the advice of Senior Management.

- Prior to finalising their report, the QAR team may discuss the draft report with representatives of senior management to obtain their response. Since senior management representatives are likely to have several commitments, it might be more efficient if the QA team arranges for discussion of several QAR reports during a single exit meeting.

70.13 Finalise QAR report

The QAR team should consider the results of the exit meeting and finalise the report. The final report may be submitted to the QA unit for circulation to relevant units and levels of the OAGN through QA Committee.

70.14 Follow-up of the QAR report

All deficiencies and recommendations pointed out in the QAR reports should be communicated to the respective officials, or units for taking appropriate measures and remedial actions. Shortly after receiving the QAR reports, the concerned directorate of the OAGN should prepare an Action Plan to implement the recommendations provided in the QAR reports.

In response, the OAGN may organise a brain-storming session involving people from all levels of the management to review on the deficiencies and recommendations provided by the QAR team. The session could focus on, at least, the following areas:

- priority of the QAR recommendations;
- proposed actions;
- responsible official / unit / division / department to implement the action; and/or
- deadlines for implementation.

If there are shortcomings and recommendations related to the policy decisions or requiring amendment to the existing policies or introduction of new policies, it may be appropriate to consult with the AG. The final action plan should, however, be approved by the AG or the appropriate delegated authority.

80 "Follow-up Section"

80.1 Policies

The significant policies in respect of audit debriefing are as follows:

➢ the Office of the Auditor General should adopt proper, prompt and adequate follow-up programme on the implementation of its audit findings.

➢ a systematic review should be carried out by the Office of the Auditor General on the action taken by the management of an auditee on the recommendations/audit observations made by Office of the Auditor General or Public Accounts Committee ("PAC") of the Parliament;

➢ an assessment should be made by the Office of the Auditor General on the management action in correcting the problems that led to the recommendation or audit observation; and

➢ the OAG should report on results of follow-up reviews to the Parliament and/or management, as appropriate.

80.2 INTOSAI Pronouncement

The INTOSAI has not made any specific pronouncement on follow-up of audit findings and recommendations. However, the Lima declaration has made the following recommendations on "Environment of SAI findings" :

➢ the audited organisations shall comment on the findings of the Supreme Audit Institution within a period of time established generally by law, or specifically by the Supreme Audit Institution, and shall indicate the measures taken as a result of the audit findings.

➢ to the extent the findings of the Supreme Audit Institution are not delivered as legally valid and enforceable judgment , the Supreme Audit Institution shall be empowered to approach the authority which is responsible for taking the necessary measures and require the accountable party to accept responsibility.

Likewise, Mexico declaration 2007 of INTOSAI, establish the principle of existence of effective follow up mechanism. It deals that SAIs should submit their reports with specific recommendations and corrective action to the legislature and should also operate its own follow up system.

80.3   **Needs and Objectives of Follow-up**

80.3.1   Follow-up is an important and final stage of performance audit process, i.e. planning, execution, reporting and follow-up. It is the obligation of the OAG to carry out follow-up of the actions taken on the conclusions and recommendations of the audit.

80.3.2   The objectives of follow-up are:

➢ to report on the progress made by the auditee in taking corrective action against audit findings and observations.

➢ to discharge the OAG's public accountability to the Legislature which has the legitimate interest in reviewing the management actions taken or improvements made after the delivery of its judgment , directives and recommendations.

➢ to provide feedback for self-assessment of the opinion, conclusion and recommendation of the audit. (Such self-assessment support quality improvement)

➢ to remind the auditee to initiate corrective actions and demonstrate improvements.

80.4   **Follow-up Process in the Office of the Auditor General**

80.4.1   The auditee is required to prepare action plan and provide response the findings and recommendations presented by OAG in final report. The concerned AAG shall designate a competent officer to review the management response and also to examine the additional evidence, if any, produced in support of its response. The reviewers shall make a review note for the AAG who after being satisfied that the management has satisfactorily addressed the issue shall authorise to delete the audit findings and update audit working papers accordingly.

80.4.2   The PAC is legislative authority to review audit report submitted by the AG, hold discussions with the management of the auditee, examine all relevant facts and figures submitted subsequent to audit report and make deliberations on audit findings and recommend corrective actions. The OAG has the responsibility of reviewing the actions taken on the PAC's directives and recommendations and report progress to the Parliament.

80.4.3   OAG may select audit topics/entities/issues/project to conduct follow up audit after 3 to 5 years of previous audit. Strategic plan for performance auditing should identify the topics/entities/issues to conduct follow up

audit. Individual audit team assigned to follow up prepares plan and programme to follow up in relation to the audits conducted in the past. While conducting follow up of recommendations of past year, the auditor should focus on the corrective action on previous year identified weaknesses.

The auditor should also validate the significant impacts with the audited entity. Impacts include examples of improved economy, efficiency, effectiveness, quality of service, planning, control and management. Such follow up is conducted in two ways: desk review and comprehensive review. Desk review is conducted using Audit Tool 15, which involves review of implementation of the recommendations but does not involve extensive field work. A comprehensive follow up involves use of auditing technique such as document review, physical observation, inspection, interview, discussion and requires extensive field work complemented by a desk review.

80.4.4   Results from the follow up audit recommendations should be reported. Deficiencies and improvements identified in the follow up of audit should be reported to the audited entity.

80.5   Responsibility for Implementation of Recommendations

The auditee is responsible to make written response on the audit findings and recommendations to the PAC with a copy to the OAG. The deliberations and recommendations delivered by the PAC are legally valid and enforceable judgment on the management of the auditee.

80.6   Issues in Follow-up

The major problem regarding effective follow-up is the resources that are required for it to be truly authoritative. To determine whether management has, in fact, followed audit recommendations and instituted procedures that will overcome the weaknesses identified in the audit might, in some instances, require almost as much effort as did the original audit. As a result most audit organisations rely heavily on declarations from management, supplemented where possible by specific-checks undertaken during financial audits. In such situation, the auditor may select sample cases to provide judgment on the sufficiency of actions taken and improvements observed.

80.7   Reporting Format

Audit Tool-16 is provided for review, monitor and report follow-up actions.

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Audit Tools 15
Follow up Template

This tool is used to conduct follow up audit of status of previous year audit recommendation. It is an effective way to take action taken report from the audited entity.

Audited entity:

Annual report:

S.N	Recommendation	Action taken	Progress report (Completed, partially completed, not done)	Reasons for not completing action on recommendation	Effect

Prepared by: Certified by:

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Audit Tool - 16 (Annual Report, Response & Decision of the PAC)

Name of the Audit Entity : Report year :
Audit Officer : Audit Director :
Date of deliberation held in Public Account Committee :
Public Account Committee's report reference and date:

Ref. No.	Summary of Audit Observations	Audit Entity Response	Directions and recommendations of the PAC	Auditor's remark

Audit Officer   **Audit Director**

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Glossary of Term

ASOSAI	An international and independent body which aims at promoting the exchange of ideas and experience between Asian Audit Institutions in the sphere of public auditing.
Audited Entity or Auditee	The organisation, agency, program, activity, area or function subject to audit by the Office of the Auditor General Nepal.
Audit Evidence	Information that forms the foundation which supports the auditor's or OAG's opinions, conclusions or reports.
Audit Mandate	The auditing responsibilities, powers, discretions and duties conferred on a OAG under the constitution or other law.
Audit Methodology	Methodology is how SAI codifies its standards and practices that are to followed by auditors in carrying out their works.
Audit Objective	A precise statement of what the audit intends to accomplish and/or the question the audit will answer. This may include elements of 3E's.
Audit Planning	Defining the objectives, setting policies and determining the nature, scope, extent and timing of the procedures and tests needed to achieve the objectives.
Audit Procedures	Tests, instructions and details included in the audit program to be carried out systematically and reasonably. Audit Procedure's may include:

- Test of Control
- Analytical Procedures.
- Test of Details.

Audit Program   Audit requirements and procedures necessary to implement the audit objectives and to make assessments against audit criteria.

Audit risk   The converse of assurance is audit risk. This is the risk that the auditor will reach the wrong conclusion regarding the financial statements being examined - i.e. that the auditor fails to express a reservation on financial statements that are in fact materially misstated.

Audit Sampling   Statistically based techniques that extrapolate from specific cases to make assertions about the population as a whole and are used when it is not feasible to analyse entire population e.g. users group, grant provided, elements of internal control systems, agency units, etc.

Audit Scope   The fictions activities or time limits and subjects of the audit.

Auditing Standards   Auditing standards provide minimum guidance for the auditor that helps determine the extent of audit steps and procedures that should be applied to fulfill the audit objective. They are the criteria or yardsticks against which the quality of the audit results is evaluated.

Control Environment   The control environment comprises the overall attitude awareness and actions of management regarding the internal control system.

CAATs   Computer Assisted Audit Techniques and Tools are computer-based tools and techniques which permit auditors to increase their productivity as well as that of the audit function in gathering audit evidence by exploiting the power and speed of computer.

Due Care   The appropriate element of care and skill which a trained

auditor would be expected to apply having regard to the complexity of the audit task, including careful attention to planning, gathering and evaluating evidence, and forming opinions, conclusions and making recommendations.

Documentation   Documentation is the material (Working paper) prepared by and for or obtained and retained by the auditor in connection with performance auditing.

Economy   Minimising the cost of resources used for an activity, having regard to the appropriate quality.

Effectiveness   The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

Efficiency   The relationship between the output, in terms of goods, services or other results, and the resources used to produce them.

Expert   An expert is a person or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing.

Engagement   The term engagement refers to the work carried out in exercising the functions of the SAI (for example, a financial audit under the relevant jurisdiction of each SAI).

Financial Systems   The procedures for preparing, recording and reporting reliable information concerning financial transactions.

Findings, Conclusions and Recommendations   Findings are the specific evidence gathered by the auditor to satisfy the audit objectives; conclusions are statements deduced by the auditor from those findings; recommendations are courses of action suggested by the

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auditor relating to the audit objectives.

Inherent Risk   Auditor's expectation of risk before considering the effectiveness of internal control.

Internal Control   The whole system of financial and other controls, including the organizational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information.

INTOSAI   An international and independent body which aims at promoting the exchange of ideas and experience between Supreme Audit in the sphere of public financial control.

Legal Authority   Legal Authority means laws, regulations, orders, directives, circulars, or other documents having the force of law.

Materiality and Significance (Material)   In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material--for example, where the law or some other regulation requires it to be disclosed separately regardless of the amount involved. In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to the overall view given by the accounts; the total of which it forms a part; associated terms; the corresponding amount in

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previous years. Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures.

Opinion   The auditor's written conclusions on a set of financial statements as the result of a financial or regularity audit.

Performance Audit   An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.

Public Accountability   The obligations of persons or entities, including public enterprises and corporations, entrusted with public resources to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them.

Quality Assurance   Quality assurance is an assessment process focusing on the operation of the quality control system. It is a review completed after the audit by persons who are independent of the audit under review. Quality assurance necessarily involves the examination of specific audits. However, the purpose of the review is not to criticize specific audits. Rather, it is to determine what controls were intended to be applied to those audits, how those controls were implemented, any gaps in the controls, and other ways of improving the audit quality system.

Quality Control   Quality control is a process through which an SAI seeks to ensure that all phases of an audit (planning, execution, reporting, and follow-up) are carried out in compliance with the SAI's rules, practices, and procedures. A quality control system should ensure that audits are timely, comprehensive, adequately documented, and performed

and reviewed by qualified staff.

Residual Risk   The level of risk that remains after taking in to account the mitigating effect of related controls.

Report   The auditor's written opinion and other remarks on a set of financial statements as the result of a financial or regularity audit or the auditor's findings on completion of a performance audit.

Stakeholder   Parties that are affected by the entity, such as shareholders, the communities in which the entity operates, employees, customers and suppliers.

Supervision   An essential requirement in auditing which entails proper leadership, direction and control at all stages to ensure a competent, effective link between the activities, procedures and tests that are carried out and the aims to be achieved.

SAI   The public body of a State which, however designated, constituted or organised, exercises by virtue of law the highest public auditing function of that State.

Working Paper   Working paper is a record of the auditor's planning, nature, timing and extent of the auditing procedures and the conclusion drawn from the audit evidence obtained.