

Presentation to the
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PERFORMANCE AUDIT
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PRESENTATION WILL COVER

- ❖ **Why performance audit?**
- ❖ **What is performance audit? 3Es?**
- ❖ **The performance audit process/ISSAIs**
 - Planning
 - Examination
 - Reporting
- ❖ **Quality Control**

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WHY
PERFORMANCE AUDIT?

PUBLIC SPENDING AND ACCOUNTABILITY

Increased demand from parliament, public, media and other stakeholders

- About how govt. spends public money
- Public monies should be used economically, efficiently and effectively
- More transparency in govt. operations
More accountability from public sector managers

FINANCIAL/COMPLIANCE AUDITS ARE VERY IMPORTANT
AND HAVE TO BE CARRIED OUT

HOWEVER, THEY DO NOT PROVIDE A COMPLETE PICTURE
OF THE ORGANIZATION'S OPERATIONS

THEY DO NOT GIVE US INFORMATION ON WHETHER

- RESOURCES WERE PROCURED AT THE LOWEST COST
- RESOURCES WERE USED EFFICIENTLY
- EXPECTED RESULTS WERE ACHIEVED

NEED FOR A NEW APPROACH

A new type of audit was needed to fill the gap,
i.e. provide information and assurance on the
performance of public sector organizations

The demand for change started in USA, Canada,
Europe in the 70s/80s

The result was performance audit, also called
value-for-money (VFM) audit

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WHAT IS PERFORMANCE AUDIT?

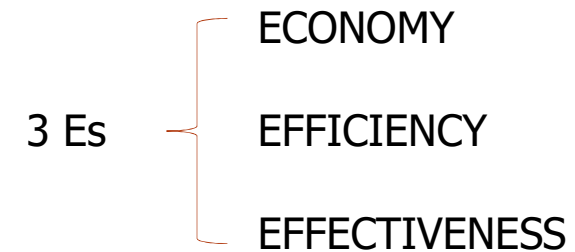
*Performance audit is an objective and
systematic assessment of an
organization's programs, activities, etc.
to determine whether the organization*

- Has achieved economy
- Has used resources efficiently
- Has achieved its objectives

BENEFITS OF PERFORMANCE AUDIT

- Focus attention on issues that need improvement and the causes
- Improve 3Es – economy, efficiency, effectiveness
- Redirect focus on results (not just expenditures)
- Encourage corrective action
- Improve quality of services
- Improve financial management and control
- Increase transparency & accountability

FOCUS OF PERFORMANCE AUDIT



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What is Economy?

- Economy deals with acquisition of inputs
- The principle of economy is keeping costs low.
- Key question: Has the organization procured human or material resources in the right quality and quantity at the lowest possible price?

Example: ECONOMY

Two shoe making machines can produce shoes of the same quality, require the same quantity of labor, and have the same amount of operating costs.

- Machine X costs Tk. 1 crore, can produce 1 lakh pairs per year and has a life of 2 years
- Machine Y costs Tk. 1.4 crore, can produce 1 lakh pairs per year and has a life of 2 years and 6 months.

Which machine should we buy? What is the basis for comparison?

What is Efficiency?

- Efficiency is the relationship between inputs and outputs
- The principle of efficiency is getting the most out of available resources
- Key question: Has the organization maximized outputs from given inputs without sacrificing quality?

Example: EFFICIENCY

- Which is more efficient?
 - Using 10 men for 5 days to make 1 km of road
 - Using 8 men for 6 days to make 1 km of road
- Which is more efficient?
 - Manual processing of claims using 10 persons
 - Computerized processing using 2 persons and 2 computers
- What is the basis for comparison?

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What is Effectiveness?

- The principle of effectiveness is meeting the objectives set
- Key question: Has the organization achieved its stated objectives?

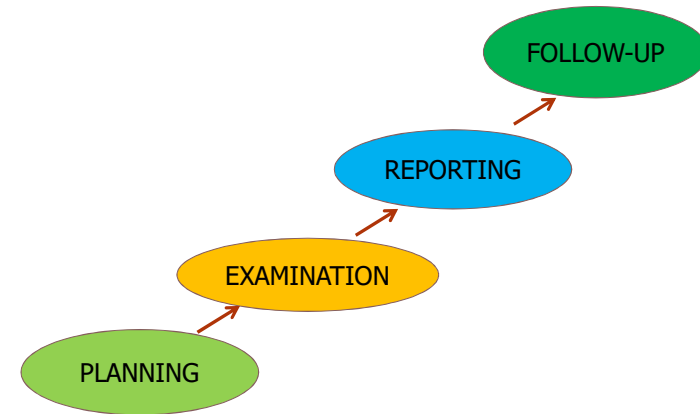
Example: EFFECTIVENESS

- A road Improvement project's objective is to rehabilitate 115 kms of highways and feeder road to a thickness of 8 cms (of bitumen) to allow heavy trucks to use the roads
- The project rehabilitated 153 kms of roads to a thickness of 5 cms (of bitumen).

Was the project effective?

THE PERFORMANCE AUDIT PROCESS

STEPS IN THE AUDIT PROCESS



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PLANNING PHASE

[ISSAI 300]

STEPS IN THE PLANNING PHASE

- Select an audit project from several options
- Build knowledge of audit topic/entity
- Develop Preliminary Survey Report (PSR)
- Identify issues for audit examination
- Develop an audit examination plan
- Have draft plan reviewed internally
- Discuss draft plan with auditee.

SELECTING AN AUDIT PROJECT

FACTORS TO CONSIDER IN SELECTING PROJECTS AND ISSUES

- Significance/Materiality
- Auditee-related risk to good management
- Likely impact/value added of audit
- Auditability/ability to carry out audit
- Legislative or public interest
- Timeliness

Rank audit projects based on selection factors

BUILD KNOWLEDGE OF TOPIC/ENTITY

Objective: Gather information, understand and become knowledgeable about audit topic and entity

The key output of the knowledge building stage is the Preliminary Survey Report (PSR)

IDENTIFY KEY ISSUES FOR AUDIT EXAMINATION

- What is the issue?
- Why is the issue significant/relevant?
- What is the risk that the auditee will not be able to deal economically, efficiently, effectively with this issue?
- Will the audit make an impact or add value?
- Is the issue auditable?
- Is there public or parliamentary interest in the issue?

DEVELOP AN AUDIT EXAMINATION PLAN

Table of Contents

Introduction

Background information on audit entity and topic

- Policies, plans, objectives
- Organization, manpower, budget, etc.

Results of planning phase

- Issues selected for examination
- Audit objectives and scope
- Audit criteria and their sources
- Evidence required and possible sources
- How the audit will be conducted
- Resources needed (staff, money, equipment, travel)
- Timetable

Annexes

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AUDIT OBJECTIVE

Defines the questions to which the audit is trying to find answers

- Were resources of the required quality acquired at appropriate cost?
- Are staff and facilities being fully utilized?
- Are program objectives clear and measurable? Are they being achieved?
- Is the program in compliance with applicable laws and regulations?

Basis for arriving at audit findings, conclusions, etc.

AUDIT SCOPE

- Puts a boundary on the audit
- Narrows the audit to relatively few matters of significance
- Describes
 - Key aspects (programs, systems, activities, etc.) of the entity that will be examined
 - Sources of information that will be used □
What the audit will cover and what the audit will not cover
 - The period of time the audit will cover

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AUDIT CRITERIA

Criteria are reasonable and attainable standards of performance against which compliance, economy, efficiency, and effectiveness are assessed

- **Appropriate** – suitable to the audit area/local conditions
- **Attainable** – achievable under normal operating conditions
- **Acceptable** – seen as fair and reasonable by auditee
- **Understandable** – precise, not vague; not subject to different interpretations
- **Objective/neutral** – free from bias
- **Reliable** – different auditors reach same conclusions in similar circumstances

SOURCES OF CRITERIA

- Relevant legislation
- Applicable financial rules
- Government policies and directions
- Standards/performance targets developed by auditee
- Operational procedures
- Administrative guidelines
- Entity plan and performance report
- Generally accepted good practices
- Professional standards
- Performance data of other organizations
- Global and regional agreements
- Prior work of the audit office, other audits
- Research centers, universities, technical publications

EXAMINATION PHASE [ISSAI 300]

STEPS IN THE EXAMINATION PHASE

- Collect relevant and reliable evidence
- Carry out 4Cs (criteria, condition, cause, consequence) analysis
 - Compare evidence against criteria
 - Determine cause and effect
 - Develop findings
 - Develop conclusions and recommendations
- Have internal review
- Discuss with auditee

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AUDIT EVIDENCE

CATEGORIES OF EVIDENCE

Documentary

- Files, management reports, manuals, etc.
- Computerized data

Analytical

- Analysis of data collected – comparisons, trend analysis, statistical methods, computer modeling, etc.

Physical

- Direct observation of people, property, activities, photos, etc.

Testimonial

- Interviews, oral/written statements in response to audit inquiries

AUDIT EVIDENCE

- Specific information obtained through analysis of records and other data, interviews and observations
 - **Relevant** - current; have logical/sensible relationship to the audit objective, criteria and the issue in question
 - **Reliable** - most accurate obtainable through the use of reasonable audit methods
 - **Sufficient** - Enough to support findings; should lead reasonable person to the same conclusion
- Findings, conclusions and recommendations must be based on strong audit evidence

CONDUCTING 4 C ANALYSIS

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Issue Area

Audit objective: What is our audit question?

Criteria: Benchmark - What we expected to find → **Finding**
Condition: Evidence – what we found
Cause: What is causing the condition?
Consequence: What are the effects of the condition?

Conclusion: Answer to the audit objective based on the **condition** that we found

Recommendation: What can be done to improve the condition we found; related to **cause**

AUDIT FINDINGS

AUDIT FINDINGS

- An assessment of the actual 'condition' the auditor found against what he expected to find (the audit criteria)
- Should address four elements: condition, criteria, cause and effect
- Basis for forming overall conclusions against audit objectives
- Free from personal opinions

AUDIT CONCLUSIONS

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AUDIT CONCLUSIONS

- Conclusions are logical inferences about the program based on the auditors' findings and possible causes and effects
- Conclusions should be specified and not left to be inferred by readers
- Should be specific; should relate to each audit objective
- Relationship between objectives, criteria, findings and conclusions should be verifiable and complete

AUDIT RECOMMENDATIONS

AUDIT RECOMMENDATIONS

- Auditor's suggestions for improvements in operations or performance of the auditee
- Must be
 - Fully supported by observations
 - Respond to underlying causes
 - Be clear, straightforward, practical, cost effective
- Auditor suggests what to do, not how to do it – that is the responsibility of auditee

REPORTING PHASE [ISSAI 400]

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CHARACTERISTICS OF A GOOD AUDIT REPORT

- | | |
|--|--|
| ○ Easy to understand | ○ Fairly presented |
| ○ Objective and convincing | ○ Constructive, action oriented and accurate |
| ○ Free from technical terms and jargon | ○ Timely |
| ○ Clear and logically set | ○ Addresses needs/interests/capability of audience |
| ○ Harmony between findings and conclusions | ○ Acceptable form and content |

CONTENTS OF A TYPICAL AUDIT REPORT

Title

Executive Summary

Introduction

- Legal basis, standards used
- Background information on entity, audit topic
- Audit objectives and scope
- Criteria
- Audit approach, time period covered

Main body

- Audit findings - condition, criteria, cause, effect
- Conclusions and recommendations
- Management comments; action plan, if available
- Appendices (if necessary)

WRITING WELL

Despite a well-conducted audit and strong audit findings, the audit will not be successful unless the report has a clear message and is well written

- **Present a clear, powerful and persuasive message**
- **Ask yourself: what is the most important point (s) I need to make?**
- **Summarize your major points at the outset**
- **Use illustrations – tables, graphs, bar charts, pie charts**

FOLLOW-UP PHASE [ISSAI 300]

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FOLLOW UP

- Activity undertaken to assess the extent and adequacy of corrective action taken by auditee to address previous recommendations
- Planning, conducting, reporting process similar to regular audit
- Key questions to ask:
 - Were agreed actions actually taken by auditee? If not, why not?
 - Did the actions have the intended results? If not, why not?
- Recommendations should be closed if not valid anymore or if conditions have changed
- Adds to impact of audit reports & assists legislature

ENTITY LIAISON AND RELATIONS

LIAISON AND RELATIONS WITH ENTITY

- Built on respect and trust
- Helps in obtaining information, minimizing delays
- Top audit office management must be involved
- Consult throughout, keep them informed
- **Key points for formal meetings**
 - Opening conference – inform about audit
 - Discuss draft audit examination plan
- Discuss draft findings, conclusions, recommendations, etc.
- Discuss draft audit report; request comments

QUALITY CONTROL

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QUALITY CONTROL

- Quality control is a continuous process
- Quality standards must be applied throughout the process, not just post audit
- All audit team members are responsible
- Critical elements of quality control
 - Supervision
 - Review
 - Consultation and advice
 - Documentation

SUPERVISION

The work of the audit staff at each level and audit phase should be properly supervised during the audit

SUPERVISION

- Essential and continuous process
- Objective is to ensure that
 - Audit work is systematic, thorough and accurate
 - Audit findings and conclusions are fully supported
 - Work done is properly and adequately recorded in working papers
- Begins with audit team leader
- More senior management responsible for staff below them
- Each team member responsible for self-assessment

REVIEW

Documented work should be reviewed by a senior member of the audit staff

REVIEW

Objective is to ensure

- Compliance with international auditing standards
- Findings, conclusions and recommendations are adequately supported by evidence
- Documentation/working papers are adequate

Performed by a senior and experienced member at specified points in the audit process

CONSULTATION AND ADVICE

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CONSULTATION AND ADVICE

- Performance audits require wide range of skills, expertise and experience
- Often these skills, etc. are not available in audit team
- Consulting with others and obtaining advice becomes essential
 - Subject matter specialists
 - Auditee staff; other govt. officials
 - Academics

DOCUMENTATION

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DOCUMENTATION

- Record of work carried out
- Working papers prepared by, obtained and retained by the auditor, during the planning, examination and reporting stages
- Can be in form of paper data, film, electronic media, etc.
- Should be sufficiently complete, detailed and properly referenced to provide an overall understanding of the audit
- Enables
 - Better planning and execution of the audit
 - Auditors to explain findings, conclusions, recommendations
 - Quality assurance reviews

QUESTIONS

Kea leboga – Thank You!