

UTTARAKHAND PERFORMANCE
AUDIT MANUAL- 2024
VOLUME- I
FINANCE DEPARTMENT
GOVERNMENT OF UTTARAKHAND

Preface

This Performance Audit Manual has been prepared to provide a guideline to audit staff and officials of Directorate of Audit (DoA), Government of Uttarakhand (GoUK) for conducting performance audits in various departments of Uttarakhand. The purpose of this manual is to provide guidance to Directorate of Audit (DoA), and other stakeholders about the professional standards, principles, and procedures that are to be adhered to when conducting performance audits. The manual would be applicable to all the departments in the state of Uttarakhand.

This manual is aligned with the performance audit principles, standards and guidance issued by the International Organisation of Supreme Audit Institutions (INTOSAI). It is primarily based on the three principles of performance auditing, i.e., economy, efficiency, and effectiveness.

The manual aims to provide guidelines on the entire audit life cycle i.e., from audit planning to audit monitoring, follow-up, and compliance. This manual also covers standardized formats and illustrative audit checklists that would facilitate execution of audit assignments. As per ISSAI 300, Performance audit is defined as “an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organizations are operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there is room for improvement”.

This manual has been divided into two volumes, Volume-I of the manual focuses entire audit life cycle viz. audit planning, audit execution, audit reporting, audit follow up & compliance. Volume-II of the manual provides audit checklists and forms & formats.

I would also like to express our gratitude to Shri Amit Singh Negi (Former Secretary, Finance & Project Director), Ms. Sowjanya-IAS (Former Secretary, Finance), Shri S. Murugesan-IAS (Former Director, Audit), Shri Surendra Narayan Pande-IAS (Director, Audit & Secretary, Finance), Dr. V. Shanmugam-IAS (Former Director, Audit), Dr. Ahmed Iqbal-IAS (Project Director), Shri J. C. Joshi (Director CTRFA), Shri Khajan Chandra Pandey (Joint Secretary Finance Audit Cell), Shri Vipin Bihari Lal (Deputy Director Audit), Shri Sobhan Singh Nagnyal (Deputy Director, Audit), Shri Ramesh Mishra (Senior Audit Officer, Directorate of Audit), Shri Rajat Mehra (Audit Officer, Audit Cell), consultants and all other Officers of the Directorate of Audit who contributed extensively in the development of this Performance Audit manual. The comments and suggestions provided by the World Bank Team have been pivotal in improving the quality and practicality of this manual.

I would be appreciative of suggestions for further improvements, if any, and to bring to our notice any error, inaccuracy, or omission to be incorporated in the next edition.

Anand Bardhan-IAS
Additional Chief Secretary, Finance
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Place: Dehradun

Glossary

The definitions of various terms used in this guideline are provided below:

- ▶ **Administrative Department** a self-contained administrative unit in the Secretariat responsible for the conduct of business of Government in a distinct and specified sphere and declared as such by Government.
- ▶ **Auditee or audit unit** means an organization or department or unit of an organization/department that is being audited.
- ▶ **Audit Design Matrix** assures to establish the link in desired results and audit scope, objective(s), criteria, and methods.
- ▶ **Audit Party** means the team of audit personnel specified in the approved audit calendar to conduct audit of the respective government agencies.
- ▶ **Audit Planning Memorandum** shows a detailed plan of the auditing work, including various audit checks and procedures, to be performed during the audit verification within the given timeframe to complete the audit.
- ▶ **Audit report** means a report issued by an Internal Auditor of the IAUs containing audit paras and recommendations for Auditee Unit's implementation.
- ▶ **Due care** the appropriate element of care and skill which a trained auditor would be expected to apply to have regard to the complexity of the audit task, including careful attention to planning, gathering, and evaluating evidence, and forming opinions, conclusions and making recommendations.
- ▶ **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 outputs, in terms of goods, services or other results, and the resources used to produce them.
- ▶ **Entity** Refers to an organisation, which is subjected to audit – both for the headquarters and the field units.
- ▶ **Evaluation** is the systematic collection and analysis of information to answer questions about activities, characteristics, and outcomes of the programmes to make a judgement about the programmes, suggest means for improving the programme effectiveness and assist decisions about future programme development. Programme evaluation is not limited to appraising what is accomplished about costs but also whether the objectives of the programmes are proper and suitable.
- ▶ **Government** refers to the State Government of Uttarakhand.
- ▶ **Head of Department** means any authority declared to be such for purposes of delegations and exercise of administrative and financial powers as per prescribed acts, rules, and regulation.
- ▶ **Initial Memorandum** refers to a letter issued by the Auditor to the Auditee Unit with certain audit observations or requesting Audit Unit to produce relevant accounting records, registers, files and documents for verification and clarifications on audit observations during the audit.

- ▶ **Management** refers to Head of Office (HoO)/ Head of Department (HoD), wherever applicable.
- ▶ **Performance Audit**, as per ISSAI 300, Performance audit is defined as “an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organizations are operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there is room for improvement”
- ▶ **Policy and programme Policy** is the broad statement of intent or principle proclaimed by the entity competent to establish it and may consist of one or more objectives. The policy objectives are accomplished through programmes framed consistent with the policy. The programme consists of programme objectives, inputs, implementation process, Organisation structure, information system, accountability relationship, outputs, and impact. Auditors need to distinguish between policies and programmes to enable them to select subjects for performance audits and frame audit objectives.
- ▶ **Qualitative audit evidence** of a non-quantitative nature gathered during a performance audit e.g., interview notes or document extracts. Forming conclusions about organisational performance using qualitative information requires the use of professional judgement and accordingly, the auditor would ordinarily seek corroborating evidence from different sources or of a different nature
- ▶ **Record:** It means any data, information, document, and file in whatever form including electronic and digital form, and includes vouchers, bills, invoices, challans, receipts, papers authenticated photographs, audio and video tapes, facsimile papers whether maintained by the auditable entity itself or on its behalf by anybody or person or obtained from third party and relied upon by it for performance of its functions.
- ▶ **Recommendations** are actions suggested by the auditor that will address the cause of audit findings.
- ▶ **Reporting standards** the framework for the auditor to report the results of the audit, including guidance on the form and content of the auditor's report
- ▶ **Risk Based Assessment** refers to the process of (i) Identifying and analysing potential risks posing threat on the government agency's financial aspects as well as achievement of its objectives, and (ii) Developing response to address the identified risks and prioritizing audit focus in the risk potential areas.
- ▶ **Transaction** It includes any act which results in outflow or inflow of public money, acquisition or transfer of any asset, store or stock or acquisition of a future liability or right to receive income or assets.
- ▶ **Working Papers** refer to those papers which are formally referred to as (i) Audit documents or (ii) Audit file. The documents serve as proof of audit procedures performed, evidence obtained and the conclusion or opinion of the auditor.

List of Abbreviations

Abbreviation	Full form
3E	Economy, Efficiency and Effectiveness
AIBP	Accelerated Irrigation Benefits Programme
APM	Audit Planning Memo
BOQ	Bill of Quantity
C&AG	Comptroller and Auditor General of India
CEO	Chief Executive Officer
CMO	Chief Medical Officer
CMS	Chief Medical Superintendent
DGHS	Director General of Health Services
DH	District Hospitals
DoA	Directorate of Audit
DPR	Detailed Project Report
DMRC	Delhi Metro Rail Cooperation
GAO	Government Accountability Office
GoUK	Government of Uttarakhand
GoUP	Government of Uttar Pradesh
GPW	General Condition of Contract
GUID	Guidelines
HoD	Head of Department
IAM	Internal Audit Manual
IIDD	Department of Infrastructure and Industrial Development
IIT	Indian Institute of Technology
INTOSAI	International Organisation of Supreme Audit Institutions
IPD	Inpatient Department
IPHS	Indian Public Health Standards
IT	Information Technology
ISSAI	International Standard of Supreme Audit Institutions
KM	Kilometre
KPI	Key Performance Indicators
MDM	Mid-Day Meal
MoRTH	Ministry of Road Transport and Highways
NCRPB	National Capital Region Planning Board
OPD	Outpatient Department
PA	Performance Audit
PMKYS	Pradhan Mantri Krishi Sinchayee Yojna
PPR	Preliminary Project Report
PWD	Public Works Department
SAI	Supreme Audit Institution
SBD	Standard Bidding Document

Abbreviation	Full form
SMC	School Management Committee
SPCB	State Pollution Control Board
SWM	Solid Waste Management
UDD	Urban Development Department
ULB	Urban Local Bodies

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Chapter 1: About the Manual

1.1 About the Manual

This manual is designed to provide guidance for conducting performance audits in accordance with relevant standards i.e. (International Standards for Supreme Audit Institutions (ISSAIs) issued by International Organization of Supreme Audit Institutions (INTOSAI).

This manual is prepared in accordance with the guidance provided under clause 8 (a) of notification no. 584/XXVII (6)/1466/Three/2021 dated December 06, 2021, and clause 8 (c) of notification no. A-584/XXVII (6)/1466/Three/2021 dated December 06, 2021. The manual contains comprehensive instructions and minimum requirements for smooth operation of activities in relation to performance audit by Directorate of Audit (DoA).

Roles as defined under the Preamble and Chapter 2 (Internal Audit Institutional Arrangement) of Uttarakhand Internal Audit Manual 2021, Volume I will be applicable for the Performance Audit Manual except in case of local bodies where the roles would be governed as defined under section 1.3 (An overview of the Institutional Arrangement of Audit in the State) of the Uttarakhand Financial Attest Audit Manual 2021, Volume I.

1.2 Objective of this Manual

The primary objective of the Performance Audit Manual is to provide guidance to Directorate of Audit (DoA) on applicable professional standards, principles, policies, and procedures that are to be adhered to when conducting performance audits.

With an intent to familiarize auditors with knowledge of performance auditing, the manual shall attempt to achieve the following objectives:

- ▶ Promote professionalism and competence of auditors in carrying out performance audit.
- ▶ Ensure consistency in audit approaches, provide minimum guidance, help achieve high quality in performance audits.
- ▶ Assist Auditors to manage and conduct performance audits.
- ▶ Set out a basic framework within which professional judgement may be exercised on analysing performance and reporting conclusions; and
- ▶ Standardize the practice of performance audit by the Auditors in the Directorate of Audit (DoA).

1.3 Applicability of this Manual

As per clause 1 (2) of notification no. 584/XXVII (6)/1466/Three/2021 dated December 06, 2021, Performance Audit Manual shall apply to all the auditees notified under the Gazette Notification No. 495/XXVII/2012 dated 26 November 2012 as per the provision of Section 4(1) of the Uttarakhand Audit Act 2012. Auditee includes all the Government Departments, Government Institutions, Authorities, Autonomous Bodies, Government Undertakings,

Government Boards, State Agencies, Universities, and all other Institutions, which are allocated or receive grants or loans of any kind from the Consolidated Fund of the Central or State.

The manual should be read along with financial handbook, rules and regulations, Government Orders issued from time to time and other manuals issued by Finance Department. All procedures and techniques set out in these documents, as far as they relate to performance audit, should be followed with due care.

1.4 Amendment and Revision of this Manual

The manual is a “living document” which shall be updated based on changes in legal and regulatory environment as well as changes in performance audit methodology and practices by INTOSAI. The manual shall be updated by the Finance Department at least within three years.

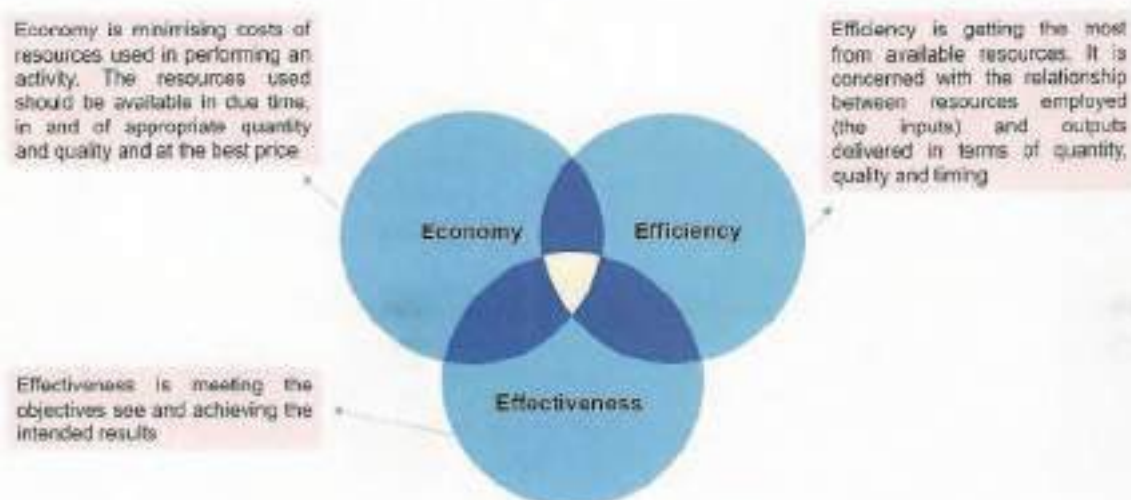
Chapter 2: Performance Audit - Overview

2.1 Definition of Performance Audit

Performance auditing focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency, and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement (ISSAI 100/22).

As per ISSAI 300, Performance audit is defined as “an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organizations are operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there is room for improvement”.

Figure 1: Three Es of Performance Auditing



ISSAI 3000.18/19 further adds that PA aims to achieve improved economy, efficiency, and effectiveness in the public sector. Its objective is to contribute to good governance, accountability, and transparency. Performance auditing seeks to provide new information, analysis, or insights and, where appropriate, recommendations for improvement. Performance audits deliver information, knowledge, or value by:

- ▶ Providing new analytical insights (broader or deeper analysis or new perspectives).
- ▶ Making existing information more accessible to various stakeholders.
- ▶ Providing an independent and authoritative view or conclusion based on audit evidence.
- ▶ Providing recommendations based on an analysis of audit findings.

2.2 Difference between Performance Audit and Other Audits

Performance audit is about analysing and assessing the performance of government programmes or public services. It is an information-based activity that requires analytical and creative skills. /Performance audit differs in many ways from financial audit or compliance audit. Key differences of Performance Audit from Financial and Compliance auditing are shown below:

Table 1: Difference between Performance Audit and Other Audits

Aspects	Performance Audit	Financial or Compliance Audit
Principle	Economy, Efficiency and Effectiveness Assess whether government interventions or measures have been conducted in accordance with the principles of economy, efficiency, and effectiveness	Compliance with Law, True & fair view Assess whether financial operations have been carried out in accordance with legislation and regulations and whether accounts are reliable
Purpose	The purpose is to contribute to public management improvement	The purpose is to verify if actions of the Head of Office (HoO)/ Head of Department (HoD) are according to the laws, rules, and official instructions
Focus	Policy, programmes, organization, activities, and management systems	Financial transactions, accounting, financial statements, and key control procedures
Academic basis and relevant Experience	Experience of professional evaluations and familiarity with methods applied in social science as well as other relevant methods/skills and experience in the sector of audit	- Accountancy and law, and - Professional audit skills
Auditor 's Role	Performance Evaluation	Verify discrepancy between the existing situation and the rule
Methods	Vary from audit to audit	Standardised format
Audit criteria	- More open to the auditors' judgement.	- Less open to the auditors' judgement

Aspects	Performance Audit	Financial or Compliance Audit
	- Unique criteria for the individual audit.	- Standardised criteria set by legislation and regulation for all audits.
Reports	- Special report published on ad hoc basis. - Varying structure and content, depending on objectives	- Annual opinion and/or report - Standardised

2.3 Objective and Scope of Performance Audit

2.3.1: Objective of Performance Audit

The main objective of performance auditing is to constructively promote economical, effective, and efficient governance and contribute to accountability and transparency. Performance audit of government programmes/schemes shall promote accountability by assisting those charged with governance and oversight responsibilities to improve performance.

Through performance auditing, the auditors shall examine whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented and whether the citizens have received value for money. The other key objectives of performance auditing are as follows:

- ▶ Provision of a basis for the improvement of public sector management.
- ▶ Improvement in 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 process for reporting on performance.

2.3.2: Scope of Performance Audit

The scope of the performance audit is primarily to independently assess the economy, efficiency, and effectiveness in the use of public resources. However, it also examines aspects of discharging accountability and due care in the use of resources. The scope of performance audit would be different in different situations and circumstances with varying emphasis on various factors, depending upon the actual situation.

A performance audit covers range of government activities, including organisational, financial, and administrative systems. A performance audit may focus on a single programme, policy, or fund, or may focus on outcomes or systems, looking across programmes, policies and entities that contribute to the outcome or system. It can focus on:

- ▶ Activities, for example, procurement policies across government.

- ▶ Outputs, for example, productivity levels in government-owned Public Sector Undertaking (PSUs).
- ▶ Outcomes, for example, reductions in carbon footprint due to energy efficiency policies in government buildings.
- ▶ Delivery of services, for example, speed and quality of government service.

2.4 The 3 Es in Performance Audit

A performance audit covers range of government activities, including organisational, financial, and administrative systems. A performance audit may focus on a single programme, policy, or fund, or may focus on outcomes or systems, looking across programmes, policies and entities that contribute to the outcome or system. It can focus on:

- ▶ Activities, for example, procurement policies across government.
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- ▶ Outcomes, for example, reductions in carbon footprint due to energy efficiency policies in government buildings.
- ▶ Delivery of services, for example, speed and quality of government service.

The core of performance audit is explained below:

2.4.1: Economy

Requirement according to ISSAI 300:

Economy is minimising costs of resources used in performing an activity. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price (ISSAI 330/11).

Audit of economy will entail focus on the cost of inputs and processes, and deals with the following concerns:

Assessing Economy: General Risks	Economy: General Issues	Economy: Answers to Questions
<ul style="list-style-type: none">• Resources used to obtain the desired output are not required or necessary;• Resources used could be obtained at lower cost;• Paying for a higher quality of input than that required to achieve the desired output or results.	<ul style="list-style-type: none">• The program/ activity does not acquire the appropriate type, quality and amount of resources;• The program/ activity does not manage its resources with a view to minimise the overall outlay;• The program/ activity could have been designed or implemented in another way which would have resulted in lower costs.	<ul style="list-style-type: none">• The input chosen or obtained represent the most economical use of public funds;• The resources i.e. human, financial or material resources have been used economically;• Activities performed by the management are in accordance with sound administrative principles and policies.

Economy is concerned with minimising the cost of resources used (staff, materials, and equipment) for an activity in the pursuit of its objectives and whether they are in accordance with sound administrative principles, practices, and policies of the Head of Office (HoO)/ Head of Department (HoD). Following are the illustrative questions for auditing economy:

- ▶ 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 equipment's 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?

2.4.2: Efficiency

Requirement according to ISSAI 300:

Efficiency is getting the most from available resources. It is concerned with the relationship between resources employed (the inputs) and outputs delivered in terms of quantity, quality, and timing. (ISSAI 300/11)

Efficiency assesses the relationship between inputs and outputs. Auditing efficiency means asking whether the inputs have been put to optimal or satisfactory use or whether the same or similar outputs (in terms of quantity, quality, and turnaround time) could have been achieved with fewer resources.

Efficiency is a relative concept. A process, instrument or programme is either more or less efficient than another. Comparison. Examples are comparing similar activities in comparable entities; comparing one process (in one entity) with the same process at an earlier point in time; comparing a process before and after adoption of a policy or procedure; (ISSAI 3100/41)

General questions on audit of Efficiency are as below:

Assessing Efficiency: General Risks	Efficiency: General Issues	Efficiency: Answers to Questions
<ul style="list-style-type: none">▶ Resources used do not lead to the desired outputs;▶ Non-optimal input/output ratios (e.g. low labour efficiency ratios).▶ Slow implementation of the intervention;▶ Failure to identify and control externalities; i.e. costs imposed on individuals or entities falling outside the boundary of the program or organisation.	<ul style="list-style-type: none">▶ Outputs or results have not been produced cost effectively;▶ There exist avoidable bottlenecks or unnecessary overlapping;▶ Human, financial and other resources are not used efficiently	<ul style="list-style-type: none">▶ Whether the program is getting the most output in terms of the quality and quantity of the deployed inputs;▶ Whether the government programs, entities and activities are efficiently managed, regulated, organised and monitored;▶ Whether the stipulated objectives and requirements are consistent with activities in government entities;▶ Whether the government program objectives are achieved cost effectively

Audits of efficiency can be in terms of

- ▶ Technical efficiency (for example, can processes be streamlined to improve performance?),
- ▶ Allocative efficiency (for example, can efficiency be improved by allocating resources differently) or
- ▶ Scale or synergy efficiency (for example, can the same output be realized with less input by sharing means or processes, or even merging organisations?)

Audit of Efficiency include examination of information systems, performance measures and monitoring arrangements and procedures followed by auditee agencies for remedying identified deficiencies. Following are the illustrative questions for auditing efficiency:

- ▶ Could project/scheme/ program had been implemented differently that would have resulted in improved timeliness and quality?
- ▶ Are adequate procedures and criteria for prioritising and selecting transport infrastructure projects to ensure maximum impact in place?
- ▶ Are schools maximising the use of their information technology equipment's
- ▶ Is hospital service affected due to non-availability of doctor and medical equipment?

2.4.3: Effectiveness

Requirement according to ISSAI 300:

Effectiveness is meeting the objectives set and achieving the intended results (ISSAI 300/11).

Effectiveness deals with outputs, results, or impacts. It is about the extent to which policy objectives have been met in terms of the generated output. It is concerned with the relationship between goals or objectives on the one hand and outcome on the other. The question of effectiveness consists of two parts: first, to what extent the objectives are met and second, if this can be attributed to the output of the policy pursued.

Assessing Effectiveness: General Risks

- ▶ Inadequate assessment of needs;
- ▶ Unclear objectives, inadequate means of programs;
- ▶ Impracticability of implementation of the project, activities, processes and programs;
- ▶ Objectives not being met, management not prioritising the achievement of objectives;
- ▶ Inadequate monitoring being done by the management.

Effectiveness: General Issues

- ▶ Stipulated objectives not being aligned with the means employed;
- ▶ Outputs produced and the impacts observed not in accordance with the set objective;
- ▶ Overall impact not created as expected to the target groups;
- ▶ Extent of instruments used have in fact not contributed towards the achievement of the policy objectives.

Effectiveness: Answers to Questions

- ▶ Assess whether government programs have been effectively prepared and designed, and whether they are clear and consistent;
- ▶ Assess whether the objectives and the means provided (legal, financial etc) for a new or on-going program are proper, consistent, suitable and relevant;
- ▶ Assess the effectiveness of the organisational structure, decision-making process and management system for program implementation;
- ▶ Assess whether the program supplements, duplicates, overlaps or counteracts other related programs;
- ▶ Assess the adequacy of the system for measuring, monitoring and reporting a program's effectiveness;
- ▶ Assess the effectiveness of government investments and programs and/or their individual components, i.e., ascertain whether goals and objectives are met;
- ▶ Assess whether the observed direct or indirect social, economic and environmental impacts of a policy are due to the policy due to other causes;
- ▶ Identify factors that inhibit satisfactory performance or goal fulfilment;
- ▶ Analyse causes of findings and observed problems in identifying ways of making government activities and programs work more effectively; and
- ▶ Identify the relative utility of alternative approaches to yield better performance or yield factors that inhibit program effectiveness.

In auditing effectiveness, Auditors shall distinguish among outputs, outcomes, and impacts. The **outputs** pertain to results of certain inputs produced by the organization. They are generally within the organization. The **outcomes** relate to the results external to the organization over a short to medium term. And **impact** refers to the effect of the outcomes on the society in the long run.

In performance audit, all the four elements i.e., inputs, outputs, outcomes, and impact are examined for a program/scheme/process/activity. There are several performance measurement aspects they can examine. For example,

- ▶ What is the quality of the output?
- ▶ What is the rate of error?
- ▶ How reliable is the service?
- ▶ How do users rate utility of an output?

To sum up, an Auditor is guided by Programme Logic Model of any programme/scheme/entity to identify and set out the relationship between the socio-economic needs to be addressed by the intervention and its objectives, inputs, processes, outputs, and outcomes, which are the results, as illustrated below based on one typical need of a community, i.e., drinking water crisis.

Figure 2: Programme Logic Model

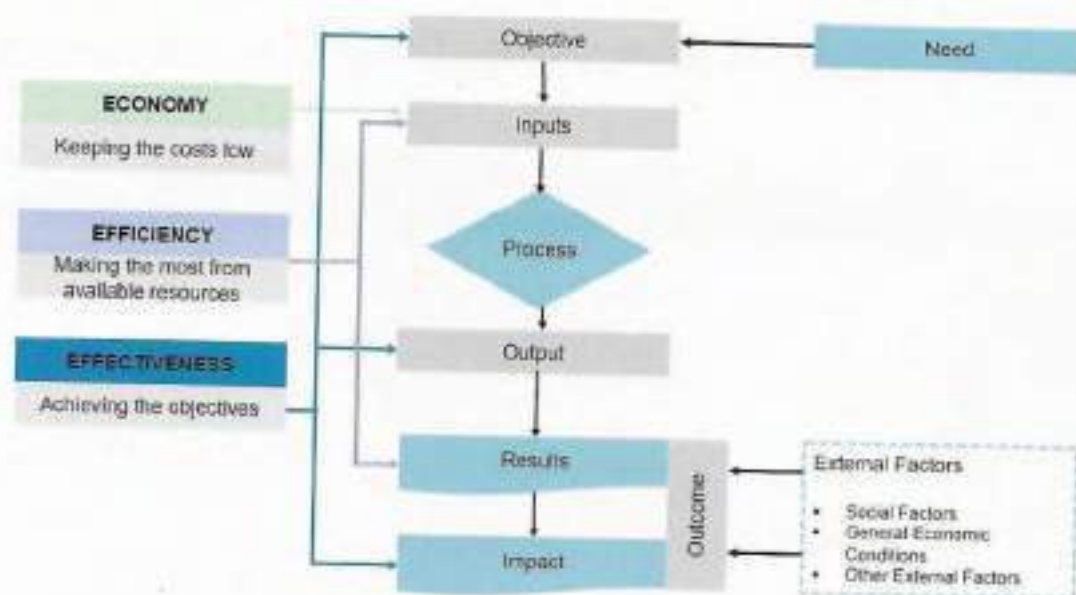
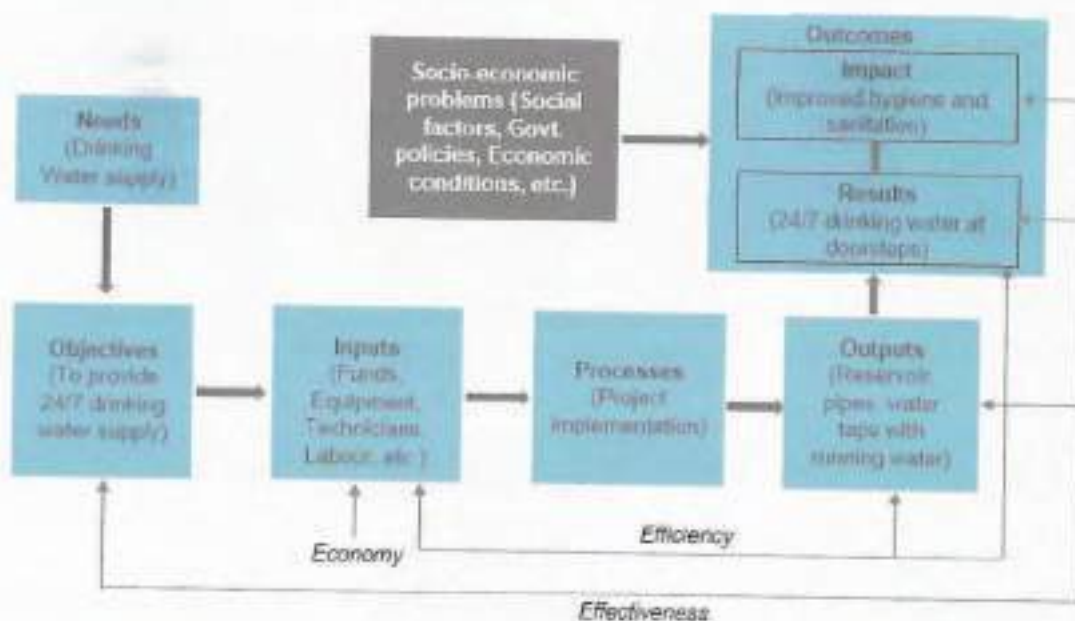


Figure 3: Example of Programme Logic Model – Drinking Water Supply



2.5 Applying the Concepts of Three Es in Performance Auditing

A basic understanding of the concepts of economy, efficiency and effectiveness in public administration forms the foundation for performance auditing. The concepts clarify what from

a performance perspective can be problems or weaknesses that may be addressed by performance audits. Examples of different focuses of performance audits linked to three E's are provided in the box below.

Table 2: Examples of applying concept of three Es in Performance Audit (PA) are provided in the box below:

Sectors	Examples of different focuses of Performance Audits		
	ECONOMY	EFFICIENCY	EFFECTIVENESS
Assessment of outcome of District Hospitals in State Government	Check whether medicine, equipment's and other materials were procured at the right time, right quantity and at right pricing?	<p>Verify Bed Occupancy Rate (BOR) to ensure whether the available infrastructure and processes are adequate for delivery of health services.</p> <p>Check whether State Government has prescribed standard norms or adopted IPHS norms for provision of OPD and IPD services?</p> <p>Check whether State Government had performed any assessment for Manpower, equipment's and infrastructure based on current level of patient load?</p>	<p>Whether medicine of desired use and quantity were delivered as intended and utilised before the expiry date?</p> <p>Check whether prescribed OPD / IPD services are provided as per rules, regulation and guidelines are provided?</p>
Food Safety	Expenses incurred on lab testing;	Utilisation of resources such as proper utilisation of samples;	Increased quality of food inspection

Table 3: Example of sample Questions for applying the concept of three Es in PA (Implementation of Food Safety and Standards Act in State Government)

Example: Application of concepts of three Es in case of Implementation of Food Safety and Standards Act in State Government

Economy – Keeping the cost of food sample testing and delivery charges low

An audit of the food safety based on economy may ask the following questions:

- ▶ Has the food department checked the charges of lab testing before sending the samples?
- ▶ Has proper delivery of food sample ensured before sending food for sample testing?
- ▶ Has delivery service procured at lowest cost?
- ▶ Is expenditure within budget?

Efficiency – Making the food quality effective

An audit of food safety based on efficiency may ask the following questions:

- ▶ Whether the food have been properly tested?
- ▶ Whether the same or similar output in terms of quality could have been achieved with fewer tests?
- ▶ Is the department getting the most output, in terms of sample testing from the inputs and actions?
- ▶ Could the same output have been achieved with less input?

Effectiveness - Achieving the stipulated aims or objectives

An audit of the food safety based on effectiveness may ask the following questions:

- ▶ Does the collection of samples meet the intentions expressed in goals and objectives?
 - ▶ Do the sample test provided specific results as expected?
- Is the achieved outcome in terms of the quality of food significantly affected by no. of sample test conducted?

Note: Different perspectives may be used in the same audit. In assessing efficiency, the auditor must consider whether the resources have been acquired and used economically and ask whether the resources employed have been acquired economically and used efficiently. The auditor must choose a focus in the audit and cover some of the most important aspects, given the context and their understanding of the problems in the area.

2.6 International Standards on Performance Audit

The International Standard of Supreme Audit Institutions (ISSAI) for Performance Auditing developed by the INTOSAI aims to promote independent and effective auditing and provide basis for development of a country's own professional approach in accordance with their

mandates and with national laws and regulations. The Standards on performance Audit issued by INTOSAI as shown below:

Table 4: International Standards on Performance Audit

Particulars	Name of the Standard	Endorsed year	Purpose
ISSAI 100	Fundamental Principles of Public Sector Auditing	2019	Inter alia provides with the framework for public-sector auditing
ISSAI 300	Performance Audit Principles	2019	Performance Audit Principles consists of three sections. a) establishes the framework for performance auditing and for reference to the relevant ISSAIs. b) general principles for performance audit engagements that the auditor should consider prior to commencement and throughout the audit process. c) principles of relevance to the main stages of the audit process itself.
ISSAI 3000	Performance Audit Standard	2019	The authoritative standard for performance auditing that must be used in conjunction with ISSAI 100 and ISSAI 300
GUID 3910	Central Concepts for Performance Auditing	2019	Largely based on concepts of ISSAI 3000 - implementation guidelines for performance auditing with further details regarding the audit objective, the selection of audit topics and the audit process.
GUID 3920	The Performance Auditing Process	2019	The guideline is structured according to the different phases in the performance audit process.

Particulars	Name of the Standard	Endorsed year	Purpose
			Planning the audit – how to select audit topics and design the audit.
			Conducting the audit to obtain sufficient and appropriate evidence to support the auditor's findings and conclusions.
			Reporting – the format of the report, the report contents and its distribution, follow-up of previous findings and recommendations in performance audit reports, to identify and document the impact of the audit and the progress made in addressing the problems.

2.7 Other Concepts in Performance Auditing

The concept of performance auditing can also be extended to include additional 3 E's. These are:

2.7.1: Environment

While conducting performance auditing, the auditors must also focus on its environmental sustainability and evaluate the long run impacts of the activity on the environment. Sustainable development is defined as development that meets the needs of the present generations without compromising the ability of the future generation to meet their own needs. The auditors must assess whether appropriate consideration and due regard has been given to the effects resource utilisation may exert on the environment.

2.7.2: Equity

Equity, in the context of performance auditing, refers to the extent to which resources and services have been distributed fairly, equitably, and impartially. Incorporating equity as a measure, will address distributional aspects, as well as facilitate the intent to ensure the inclusion of all communities, beneficiaries, genders, disabilities, ethnicity, caste, religion in any projects, programmes, etc. Moreover, public policies of protection and social development play a critical role in building equity. Equity issues can be included in performance audit as an additional 'E' or as an effectiveness issue where it is an explicit policy goal or programme

objective. Equity assessment may include, for example, equality of access to services, distributional impacts, and impact on regional disparities. If equity is compromised, so would be the effectiveness of the program.

2.7.3: Ethics

Ethics are moral principles that govern a person's behaviour. In the context of performance auditing, ethics concerns the degree to which the public officials responsible for managing the utilisation of resources conduct their tasks with honesty and integrity and conform to moral duty and obligation. Ethics in managing public funds is a significant aspect of public accountability and any violation of ethical standards negatively affects the outcome and effectiveness of the programme under review. Moreover, ethical breakdowns can be very costly, for e.g., an unethical employee could falsify company records or engage in other inappropriate actions harming the program/scheme, governing body, public etc.

2.8 Approach of Performance Auditing

As per ISSAI 3000, there are three types of audit approach which auditor can select to perform Performance Audit:

- ▶ **Result - oriented:** A result-oriented approach assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended. It can be used most easily when there is a clear statement of desired outcomes or outputs (e.g., in the law or a strategy decided upon by the responsible parties for e.g.
- ▶ **Problem - oriented:** A problem-oriented approach examines, verifies, and analyses the causes of problems or deviations from audit criteria. A problem-oriented approach deals primarily with problem verification and problem analysis. It has its starting point in a problem or a "known" deviation from what should or could be.
- ▶ **System - oriented:** A system-oriented approach examines the proper functioning of auditee's systems. Frequently, elementary principles of good management will be helpful in examining the conditions for efficiency or effectiveness even when there is a lack of a clear consensus on a problem or when outcomes or outputs are not clearly stated.

For detailed guidance on audit approach to be used in performance audit – please refer **section 5.5 – Deciding Audit Approach and Methods.**

2.9 Audit Life Cycle

A performance audit assignment passes primarily through four phases, these are:

Audit Planning: In this phase, an auditor performs selection of topic for performance audit. Planning is necessary to obtain sufficient, relevant, and competent evidence in an efficient and timely manner.

Audit Execution: The execution phase of a performance audit involves execution of an audit

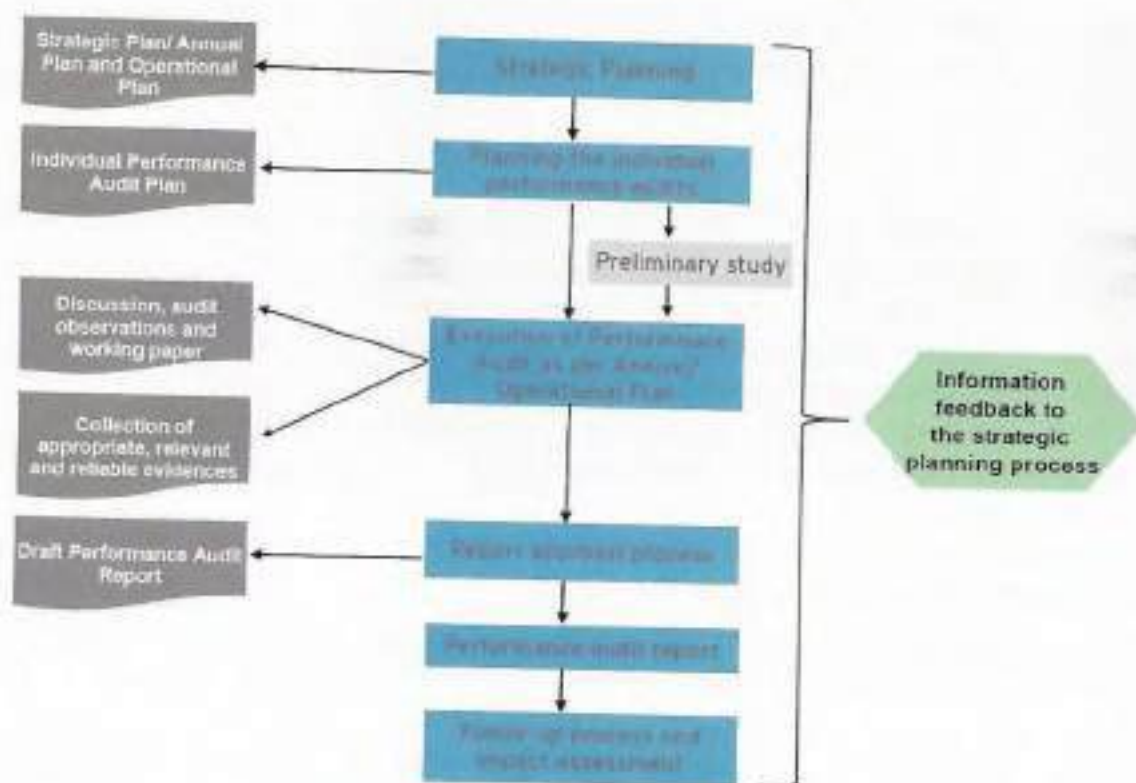
programme in accordance with developed audit plan including collection of sufficient relevant and reliable evidence, quantitative and qualitative analysis, formulation of audit findings, conclusions, and recommendations.

Audit Reporting: Upon completion of a performance audit, a report is prepared for consideration by the audit agency and other users. Throughout each stage of a performance audit the emphasis should be on the production of balanced report which should have value added impact to the society.

Audit Follow-Up: Follow-up procedures should identify and document performance audit impact and the progress of the agency in implementing audit recommendations. Follow-up audit is vital to provide feedback to the auditee agency and other stakeholders on performance audit effectiveness in bringing improvements in public sector management.

A detailed exposition of these phases will appear under relevant chapters dealing with each of these phases.

Figure 4: Following diagram represents the stages in performance audit life cycle.



Chapter 3: General Principles of Performance Auditing

Throughout the manual, the ISSAI principles, standards, and guidance on performance audit have been provided. However, the auditors are still expected at least to have knowledge and understanding of the international standard on performance audit frameworks including governance, risk management and capable of exercising professional judgment. The officials of Directorate of Audit (DoA) may download the international standard, principles, and guidance on performance audit from ISSAI official website¹.

Some essential concepts auditors must embrace as fundamental performance auditing principles are as under:

3.1 Independence and Ethics

Requirement according to ISSAI 3000:

The auditor shall comply with the Audit Institutions procedures for independence and ethics, which in turn shall comply with the related ISSAIs on independence and ethics (*ISSAI 3000/21*).

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

Independence and ethics are important to enable auditors conduct auditing without yielding to any undue pressure, nor dispense any favour or resort to any unethical means that would compromise free and fair conduct of audit. Particularly, for a performance audit, an auditor and the team should have independence to make key decisions, such as:

- ▶ identifying and deciding on an audit topic.
- ▶ establishing the audit objective.
- ▶ identifying the applicable criteria.
- ▶ determining the methodological approach to the audit.
- ▶ assessing audit evidence and forming conclusions.
- ▶ discussing audit criteria and findings with the auditee entity.
- ▶ assessing the positions of various stakeholders; and
- ▶ writing a fair and balanced report.

¹ <http://www.issai.org/>

Figure 5: Six major threats to independence during a performance audit (GUID 3910/14)

Self Interest	• The threat that a financial or other personal interest will inappropriately influence an auditor's judgment or behaviour.
Bias or Advocacy	• The Threat that an auditor will, as a result of political, ideological, social or other convictions, take a position that is not objective.
Familiarity	• The threat that personal relationships with family, friends, etc. in the audited agency will cause the auditor to take a position that is not objective.
Intimidation or undue influence	• The threat that external influences or pressures will impact an auditor's ability to make independent and objective judgements.
Self Review	• The threat that an auditor or audit organisation that has provided services to the audited agency will use that experience to affect its conclusions.
Auditee Participation	• The threat that results from an auditor crossing the line from being an external auditor to being a part of the internal management structure of the audited agency.

Table 5: Control mechanisms that can safeguard against threats to independence

- ▶ Involve another person to review work done or advise as necessary, without compromising independence.
- ▶ Consult a third party, such as a committee of independent directors, a professional regulatory body, or professional colleague.
- ▶ Rotate personnel to performance audits of different entities after a few years, to encounter the familiarity threat.
- ▶ Ensure that all individuals working on an audit confirm their independence before commencing work on the audit and consider their independence throughout the audit.
- ▶ Remove a person from the audit when that person's financial interest, relationships, or activities create a threat to independence.

Ethics are the moral principles of an individual that include integrity, professional competence, and due care, professional behaviour, and confidentiality.

There is need to consider written declarations from personnel to confirm compliance with the Directorate of Audit (DoA)'s ethical requirements; and putting procedures in place for personnel to report breaches of ethical requirements. Following are the components of ethics:

Integrity: To act honestly, reliably, in good faith and in the public interest. The Directorate of Audit (DoA) should have policies and procedures in place that:

- ▶ Emphasise, demonstrate, support, and promote integrity.
- ▶ Ensure the internal environment is conducive for staff to raise ethical breaches; and
- ▶ Ensure responses to integrity breaches are taken in a timely and adequate manner

Professional competence: To acquire and maintain knowledge and skills appropriate for the role, and act in accordance with applicable standards and with due care. Directorate of Audit (DoA) need to adopt policies and procedures to ensure performance audits and related tasks are conducted by staff that have the appropriate knowledge, skills, and abilities to successfully conduct their work. Such policies and procedures can include:

- ▶ Putting in place competence-based recruitment and human resources practices
- ▶ Assigning work teams that collectively possess the expertise required for each assignment.
- ▶ Providing staff with appropriate training, support and supervision.
- ▶ Providing tools to enhance knowledge and information sharing, and encourage staff to
- ▶ Use these tools; and
- ▶ Addressing challenges arising from changes in the public sector environment

Professional behaviour: To comply with applicable laws, regulations, and conventions, and avoid any conduct that may discredit the image of Directorate of Audit (DoA). The officials of Directorate of Audit (DoA) should be aware of the standards of professional behaviour expected by its internal and external stakeholders, as defined by the laws, regulations, and conventions of the society in which they operate, and conduct business accordingly and in line with its mandate.

To promote the highest standards of professional behaviour and to identify activities that are inconsistent with that standard, Directorate of Audit (DoA) must provide direction on expected behaviour and implement controls to monitor, identify and resolve deviations from it.

Confidentiality and transparency: Directorate of Audit (DoA) should have policies and procedures in place to ensure that it balances the **confidentiality** of audit-related and other information obtained during a performance audit with the need for **transparency** and accountability. The Directorate of Audit (DoA) should also have an adequate system in place for maintaining confidentiality as needed, especially about sensitive data.

Figure 6: Examples of what can be done and what can be avoided to maintain professional ethics:



3.2 Intended Users and Responsible Parties

Requirement according to ISSAI 3000:

The auditor shall explicitly identify the intended users and the responsible parties of the audit and throughout the audit consider the implication of these roles to conduct the audit accordingly (ISSAI 3000/25).

The three parties in public-sector audits are the auditor, responsible party and intended users. They may assume distinct characteristics in performance auditing.

The responsible party may refer to those responsible for the subject matter, for providing the auditor with information, and for addressing the recommendations. In performance audits, this role may be shared by individuals or organisation

The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, executive, government agencies, third parties concerned by the audit report, and the public can all be intended users. It is also important to consider the needs and interests of the intended users and responsible parties. By doing so the auditor can ensure that the audit report is most useful and understandable to these entities

3.3 Subject Matter

Requirement according to ISSAI 3000:

The auditor shall identify the subject matter of a performance audit (ISSAI 3000/29).

The subject matter relates to the question "what is audited" and is defined in the audit scope. The subject matter of a performance audit may be specific programmes, undertakings, systems, entities, or funds and may comprise activities (with their outputs, outcomes, and impacts) or existing situations, including causes and consequences. The audit scope is the boundary of the audit and is directly tied to the audit objectives. The audit scope defines the subject matter that the auditor will assess and report on, the documents or records to be examined, the period reviewed, and the locations that will be included.

Performance auditing examines whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money.

3.4 Confidence and Assurance

Requirement according to ISSAI 3000:

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

According to GUID 3910/27, reliable and valid information requires that the conclusions on the subject matter are logically linked to the audit objective(s) and criteria and are supported

by sufficient and appropriate evidence. It is important for the auditor to make the links clear between the audit objectives, criteria, and findings based on solid evidence. This is done by being clear on how findings, criteria and conclusions were developed in a balanced and reasonable manner and why the combinations of findings and criteria result in a certain overall conclusion or set of conclusions. The assurance provided to the intended user must be communicated transparently.

The Auditors taking up performance auditing must be able to provide certain degree of confidence to the intended users and responsible parties of the value addition from the performance audit undertaken. Further, the auditor must provide assurance of the outcome of the audit undertaken.

Assurance can be conveyed in separate ways. Some examples of how this can be done include, but are not limited to, the following:

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

3.5 Skills

Requirement according to ISSAI 3000:

Ensure that the audit team has collectively the necessary professional competence to perform the audit (ISSAI 3000/63).

Performance auditing requires a wide range of skills and disciplines, including: a) research design, b) social sciences, c) scientific investigation/evaluation methods and the experience needed to apply such knowledge, d) good knowledge of organisational management, e) knowledge of government organisations, programmes, and functions, f) personal qualities including integrity, creativity, judgment, analytical skills, team work, g) ability to communicate clearly and effectively, orally and in writing; and h) special skills depending on the nature of the specific audit (e.g. statistics, information technology (IT), engineering) or expert knowledge of the subject matter concerned.

Use of External Experts

Experts are often used in performance auditing to complement the skills set of the audit team and to improve the quality of the audit. An expert, if needed, is a person or firm possessing unique skills, knowledge, and experience in a particular field other than auditing. Before using experts, the Directorate of Audit (DoA) needs to ensure that the expert has the necessary competence required for the purposes of the audit, and that the experts is informed about the conditions and ethics required. The expert must be well informed about rules of confidentiality

and to be free from conflict of Interest, in any manner.

Useful expertise for performance auditing team members, project managers or outside experts

- ▶ Research Design
- ▶ Scientific evaluation methods
- ▶ Social sciences
- ▶ Specialised knowledge on the topic of audit such as information technology, cyberspace, and engineering and
- ▶ Legal

3.6 Supervision

Requirement according to ISSAI 3000:

Ensure that the work of the audit staff at each level and audit phase is properly supervised during the audit process. (ISSAI 3000/66)

Supervision is essential for the audit team and individual members to ensure that audit objectives are met, and the quality of the audit work is maintained. The team leader shall maintain supervision over the audit team and ensure sufficient guidance and direction is provided to the auditors so that focus on audit objectives is not lost and applicable audit methodologies are followed. Likewise, the Directorate of Audit (DoA) shall maintain desired level of supervision over the performance of respective auditors. Following are some of the key aspects of Supervision:

- ▶ Ensuring that all the team members fully understand audit objective(s) and questions
- ▶ Ensuring that audit procedures are adequate and appropriately carried out
- ▶ Ensuring that audit evidence is relevant, reliable sufficient and documented
- ▶ Ensuring national/ International auditing standards are followed
- ▶ Identifying matters that require external experts' involvement
- ▶ Providing hand-on support in solving issues
- ▶ Reviewing and approving the audit work

3.7 Professional judgment and scepticism

Requirement according to ISSAI 3000:

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

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

The auditor shall maintain a high standard of professional behaviour (ISSAI 3000/75).

The auditor shall be willing to innovate throughout the audit process (ISSAI 3000/77)

Performance audits require significant judgment and interpretation because audit evidence for this type of audit is more persuasive than conclusive in nature. **Professional judgment** refers to the application of collective knowledge, skills, and experience to the audit process.

Auditors should always exhibit professionalism through compliance of relevant laws, regulations, and professional obligations, and avoid any conduct that would bring disrepute to the Internal Audit profession.

Some examples of how you can apply professional judgement during performance audits include:

- ▶ Deciding what to audit
- ▶ Determining the required level of understanding of the subject matter.
- ▶ Determining the nature, timing and extent of audit procedures and methodology
- ▶ Revise risk assessment because of identified material or significant in-consistent information
- ▶ Evaluate the reliability of data to be used during the audit
- ▶ Evaluating whether sufficient and appropriate audit evidence has been obtained; and
- ▶ Corroborate testimonial or evidence from a single source with secondary source of evidence
- ▶ Determining the recommendations to be made, as appropriate, to address root causes of the problems identified

Professional Judgement and scepticism need to be applied throughout a performance audit which includes:

- 1) Preparation of audit questions that are neutral and objective
- 2) Selecting appropriate scope and methodologies
- 3) Interviewing officials
- 4) Assessment of audit evidence gathered
- 5) Observations in official report

3.8 Quality Control

Requirement according to ISSAI 3000:

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

Quality control is a system of policies and procedures put in place by an SAI to ensure that the audit reports are appropriate, balanced, fair, add value, and are following ISSAIs. Quality control should be present in all phases of the audit process: planning, execution, reporting, and follow-up. Such policies and procedures should be set by the head of the SAI, who retains overall responsibility for the system of quality control (ISSAI 140).

Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced, and fair reports that add value and answer the audit questions. Maintaining quality control is mainly to ensure that audits are conducted at a consistently higher standard through providing direction, supervision, and review of the audit process.

Figure 7: Key elements of quality control for performance auditing



Performance audit is a process in which the audit team gathers a large amount of audit specific information and exercises a high degree of professional judgement. This must be considered in quality control. The need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams should be seen as part of quality management. This may entail applying quality control procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received from quality control.

Measures that safeguard the quality of the audit process and the audit report will be effective if they can ensure that the audit provides a balanced and unbiased view, adds value, considers all relevant viewpoints, and satisfactorily addresses the audit questions. An effective Quality control system will also have mechanisms to consider the audit team's perspectives ensuring that audit teams are open to feedback received from the quality control and assurance system.

3.9 Materiality

Requirement according to ISSAI 3000:

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

Materiality can be defined as the relative importance (or significance) of a matter within the context in which it is being considered. In addition to monetary value, materiality includes issues of social and political significance, compliance, transparency, governance, and accountability. It is important for the auditor to keep in mind that materiality can vary over time and can depend on the perspective of the intended users and responsible parties.

Important considerations before decisions related to materiality when selecting audit topics:

- Signs or risks to economy, efficiency and/or effectiveness.
- Financial significance, socially and/or politically.
- Maximisation of expected impact.
- Auditability; and
- Allowed scope

Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much value addition as possible. Materiality is an important consideration for different aspects of the performance audit such as:

- (i) Defining the objective
- (ii) Audit criteria
- (iii) Evaluating the audit evidence
- (iv) Creating documentation and,
- (v) Managing the risks of producing inappropriate or low-impact audit findings or audit reports.

3.10 Documentation

Requirement according to ISSAI 3000:

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

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

Adequate documentation is important to provide a clear understanding of the audit work carried out, to enable an experienced auditor with no prior knowledge of the audit to understand the nature, timing, scope, and results of the audit work performed, and the audit evidence obtained to support the audit findings, conclusions and recommendations, and the

Documents to be maintained as part of audit documentation includes:

- An index for the information included in the file
- Key communications and decisions
- Statement of independence for auditors
- Audit plan, scope, and methodology
- Audit meetings with audited entity
- Interview records
- Audited entity's audit policies and procedures
- Records of file reviews, observations, or inspections
- Answers to questionnaires
- Documentation of key stakeholders and auditee's review of draft reports
- Final report

reasoning behind all significant matters that required the exercise of professional judgment.

It is important for the auditor to prepare the audit documentation in a timely manner, keep it up to date throughout the course of the audit, and complete the documentation, to the extent possible, before the audit report is issued.

Understandability from audit documentation

- ▶ Nature, timing, and extent of audit procedures
- ▶ Findings of the audit work and evidence obtained
- ▶ Significant matters that arose during the audit
- ▶ Conclusion reached from significant matters
- ▶ Key decisions in reaching those conclusions

Chapter 4: Performance Audit Strategic Planning

This chapter provide guidance on preparation of performance audit strategic plan and annual audit planning. Performance audit strategic plan is being divided in two parts:

Part A – Approach & methodology for preparation of strategic plan/annual performance audit plan for initial 2 years; and

Part B - Preparation of strategic plan/annual performance audit plan using risk-based approach (RBA).

Requirement according to ISSAI 3000:

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

The auditor shall select topics that are significant and auditable, and consistent with the mandate. (ISSAI 3000/90)

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

Requirement according to GUID 3920: Selecting an audit topic for Performance Audit as part of the strategic planning process.

4.1 Strategic Plan/ Annual Performance Audit Plan

Directorate of Audit (DoA) shall carry out strategic planning in Performance Audit as per the guidelines provided in this manual. The ultimate output arrived with this process is getting a list of potential audit topics on which performance audit to be carried out in the next 2 years.

The Directorate of Audit (DoA) shall primarily be responsible for preparation of Strategic Plan and Annual Performance Audit Plan.

The objectives of Strategic planning in terms of Performance Audit are as follows:

- ▶ Provide basis to give strategic direction for future audit coverage.
- ▶ Identify and select audits with the potential to improve public sector accountability and administration.
- ▶ Prepare an operational plan that can be achieved with expected/available resources.
- ▶ Understand entity risks and consider the same while selecting audit topics; and
- ▶ Provide a basis for accountability of Directorate of Audit (DoA).

The strategic plans of performance audit shall be updated annually and should aim to:

- ▶ Ensure that the programme coverage broadly reflects extent of audit
- ▶ Establish an adequate cycle of performance audit coverage

- ▶ Deliver a range of performance studies within defined timelines, expected quality and within agreed budgets.

4.1.1: Approach & methodology for preparation of strategic plan/annual performance audit plan for initial 5 years

DOA has adopted the Performance Audit by the notifications as defined under section 1.1 of this manual. Performance Audit being relatively new area for audit for the officials and DOA with other types of Audits. Hence for the ease of adaptability initially a relatively simple policy direction for strategic performance audit planning is established. The intent behind the same is to provide guidance to conduct a small number of performance audits during the initial first 5 years and then gradually move to more systematic approach i.e., selection of audit topics using Risk Based Approach, i.e., selection of audit topics using Risk Based Approach which is defined in section 4.2.2: **Preparation of Strategic Plan/Annual Performance Audit plan using Risk Based Audit (RBA)**. This would rank potential topics against qualitative aspects to determine whether the topics are significant.

Step 1 – Preparation of guideline by Directorate of Audit

The Directorate of Audit shall plan the topics to be selected for performance audit in the Strategic Audit Plan during initial five years. The guideline shall indicate the factors, mechanism, structure, and formats to be followed for preparation of performance audit strategic plan and correspondingly, annual performance audit annual plan.

The analysis of potential topics shall be performed considering risk, nature, size, and other factors for each program/ scheme/ activity. Following are some of the illustrative factors can be considered for evaluation of audit topics:

- ▶ Financial or budgetary amounts that are substantial, or any significant changes in the state budget in terms of Scheme for e.g., in case the Widow Pension fund budget has been doubled in span of two years.
- ▶ Scheme/ program/ activity where targets or KPIs were under-achieved or not achieved.
- ▶ Areas traditionally prone to risk (e.g., IT systems, procurement, technology, environmental issues, and health for e.g., Health Infrastructure enhancement during Covid and Post Covid.)
- ▶ New or urgent activities or when changes in conditions (e.g., requirements and demands) are involved.
- ▶ Cases highlighted by Financial Attest Audit or any other audits in terms of managing program/scheme/activity. For e.g., In the scheme of UDD "Housing for all", various Urban Local Bodies (ULB) that the expenditure was overbooked by spending the specific grants for the payment of salary to the staffs of ULBS
- ▶ Reports of the Central Government, Niti Aayog, State Planning which indicates the parameters or the indicators of the State, which considerably pushed down in Rank.
- ▶ Any request from an Administrative Department (AD)

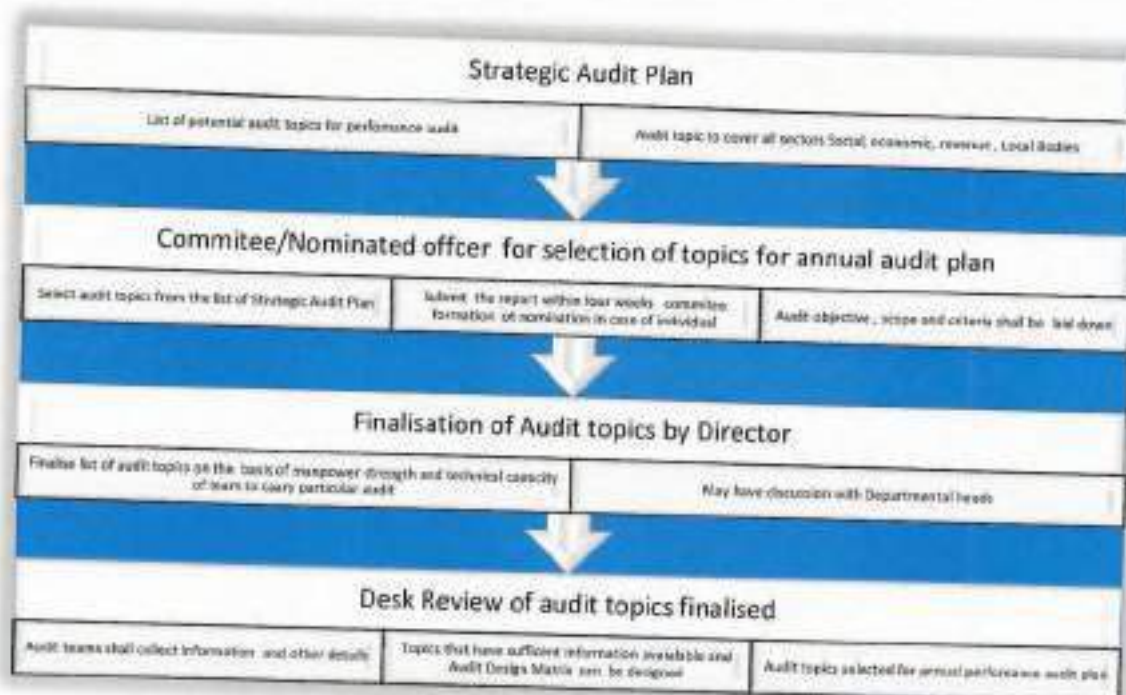
Step 2 - Selection of the Audit Topic

The Directorate of Audit (DoA) shall lay down a list of topics in the Strategic Audit Plan, during the preparation of Annual Integrated Audit plan, Directorate of Audit (DoA) shall select audit topics from the list of Strategic Audit Plan. An annual audit plan shall include Performance Audit as per the audit personnel and officer's strength with the technical capacity of the officers to conduct audits.

The following are the steps to select the Performance audit topic.

- ▶ The Director, Directorate of Audit (DoA) shall form a committee/authorise a senior official to suggest the tentative performance audit topics based on audit topics laid down in the Strategic Audit Plan. The list of potential audit topics shall include the summary and following details also to have a bird-eye view
 - ❖ Audit Objective
 - ❖ Scope of audit
 - ❖ Audit Criteria within 04 weeks of formation of committee/ nomination of senior official.
- ▶ The Director Audit (DoA) shall finalize at least three to five audit topics from the list of audit topics as laid down in report. The audit topics for performance audit shall be finalized by the Director within next 04 weeks. DOA may discuss with Departmental heads on the topics that may be selected for Annual audit plan of forthcoming audit calendar year (July to June).
- ▶ Director would select teams for an elaborate desk review for all the audit topics selected, this shall be completed within next 4-6 Weeks (depending on the availability of the records or data for the entity/scheme/activity).
- ▶ Based on desk review, the Director, DoA shall finalize the topics of Performance audit with Audit Objectives and Scope of audit including the time for each of the audits and the auditee units.
- ▶ Finally, the Director of Audit (DoA) shall approve the Annual Performance Audit Plan. The plan shall be sent for review to the Finance Department, with deemed approval in one month, until the Finance Department.

Note: The complete audit planning cycle should begin at least in January to February for next audit calendar year (July to June). In the month of January and February topics shall be selected and in the next month the Director, DoA to finalise the potential list of audit topics (i.e., February and March). The audit teams shall review these topics by the end of April and DOA shall finalise the Annual Performance Audit plan within a week to finalise Integrated Audit plan.



Performance Audit on the directions of authorities and request of administrative departments

- ❖ **Direction of State Level Audit Committee:** State Level Audit Committee may direct Finance Department to conduct Performance Audit for any scheme or process or activity.
- ❖ **Request by Administrative Department:** Administrative Department (AD) may request Finance Department to conduct Performance Audit of any scheme or process or activity.
- ❖ **Direction of Finance Department:** Finance Department taking cognizance Suo motto may at direct the Directorate of Audit for conduct of Performance Audit of any scheme or process or activity and accordingly.

In all the above cases the Finance Department shall issue an appropriate order / directions for performance audit to the Directorate of Audit either to conduct immediately or include in annual audit plan

Annual Operational Plan: The annual operational plan shall consist of various stages in the PA process based on subjects. In the stand-alone report system, reports staggered throughout the year rather than finalising all at once. In such a case, the performance audit shall be carried forward in the next financial year. The performance audit has various stages, and each stage may take considerable time based on the extent of audit, the geographic area covered, number

of units to be audited, number of years, sample size, complexity of the audit, collection of audit evidence by survey/Focus group etc.

The steps of performance audit and the tentative timelines is being depicted in the diagram below:

Performance Audit Manual – Volume I, Government of Uttarakhand

Steps of Performance audit	Expected timeline
Finalisation of Audit topic for annual audit plan	Four to five months
Desk review by audit parties	three weeks to four weeks
Pilot Study for the topic to design Audit Design Matrix and Question and Subquestions	four to six weeks
Entry Conference with the HOD	initial week of beginning of audit
Audit execution- Collection of evidences on the basis of ADM	Eight to twelve weeks may be more in case of sample size is bigger or exercise such as survey is undertaken
Audit finding and preparation of audit finding matrix with cause effect criteria exit meeting with auditee	four weeks to six weeks
Audit finding with recommendations and finalisation of draft audit report	three weeks to four weeks
Exit conference with HOD and replies of the HOD on the draft audit report	Two weeks - four weeks Maximum time six week
Preparation of Final audit report by audit team and supervisor jointly	two week
Approval of final audit report by expert committee	within two weeks of submission to Committee
Issuance of final audit report to Administrative Department, Department Finance Department	within one week of approval



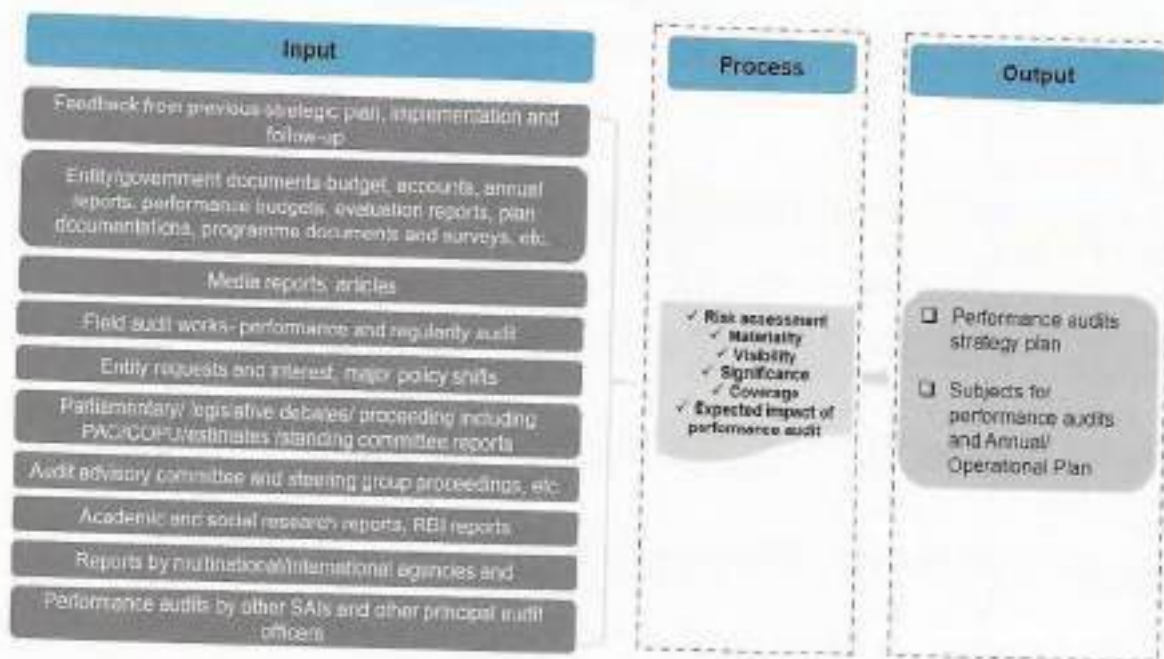
4.1.2: Preparation of Strategic Plan/Annual Performance Audit plan using Risk based Approach (RBA)

The strategic plan shall generally cover several years and guide to the auditor in selection of topics, programmes, themes for audit. Consequently, performance audit selection decisions must be taken through risk-based approach by the Directorate of Audit (DoA).

The strategic planning process will be achieved by:

- ▶ Environmental scanning relevant to performance audits
- ▶ Constantly reviewing the wider performance audit areas for relevance
- ▶ Facilitating a wider consultation process to obtain inputs from relevant stakeholders in government
- ▶ Maintain planning methodology for risk analysis and reporting.
- ▶ Identifying internal and external subject matter experts

Figure 8: Following figure represents the various ways of getting information, steps for processing the information received and output from the entire process:



Following the formal approval of Strategic Audit Plan by Directorate of Audit (DoA), the process of preparing the annual audit plan is the responsibility of Performance Audit Division at Directorate of Audit (DoA). Annual audit plan is an exercise of balance between the audit priorities and the resource availability. One of the important components of audit plan is the selection of specific subjects for performance audits to be undertaken during the year.

One key component of the performance audit plan would typically include subjects relating to specific areas or sectors in Directorate of Audit (DoA)'s audit jurisdiction. The Directorate of Audit (DoA) shall also ensure that quality of performance audit does not suffer because of undertaking too many audits, thus number of performance audit shall be limited. Therefore, consultation with other stakeholders may be obtained and given due regard while selecting topics for performance audit at the time of preparation and finalization of audit plans.

Following are the steps that should be followed in preparation of the Annual Performance Audit Plan

4.1.2.1: Section of Audit Topics

4.1.2.2: Preparation and Approval of the Annual and Quarterly Audit Plan

4.1.2.1: Selection of Audit Topic

The selection of audit topics shall be through conducting adequate risk assessment of all available audit topics, by analysing problems and considering materiality. Risks are the likelihood and impact of an event with the potential to affect the achievement of an organisation's objectives. Materiality relates not only to financial aspects, but also social and/or

political ones, such as the number of people affected by a law or reform, transparency, and good governance.

In this step, the audit topic is selected. The selection process is necessary because the number of programs and schemes to be audited is very vast and given the limited resources. There should be proper consultation process (internal and external) which should form the basis of performance audit topic selection and should lead to establish deep understanding on government's policies and priorities. This should involve appropriate stakeholders in government. Following diagram depicts the steps involved in topic selection:

Figure 9: Risk Based Performance Audit Topic Selection

Step 1: Identification of Possible Audit Topics

The first step in the risk-based performance audit topic selection process is deciding what to audit. The aim is to select audit topics that are significant, auditable and can provide benefit to the audited entity or the public.

Performance audit topics should be selected based on the risk assessment and significance of the topic, focusing on the results of applying public policies. The selection process should aim to maximise the impact of the audit while covering audit capacities.

The auditors need to conduct some research to identify risks and problems and to understand the topics. The selection of audit topics is part of the overall planning. The following sections identify several tools that facilitate identification of topics for performance audit:

a) Area watching

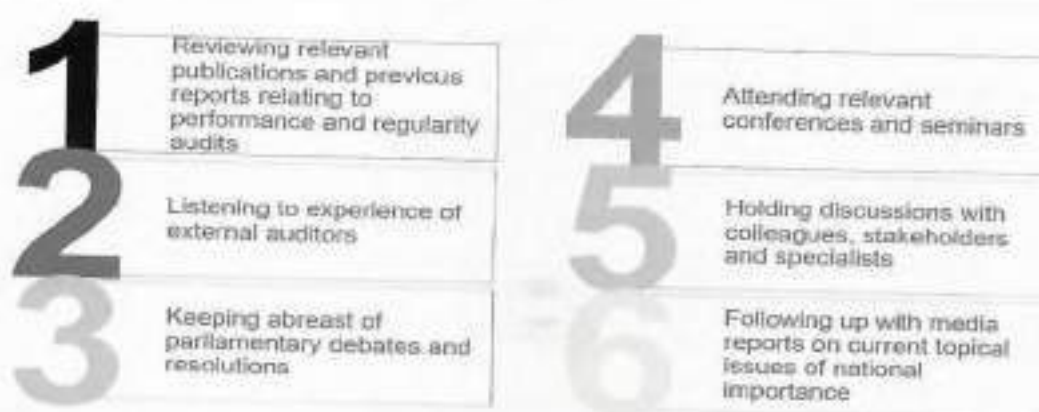
Identification of Possible Audit Topics	Compilation of Inputs	Processing of Inputs	Output
Area watching	Size and nature of expenditures or revenues	Evaluation of possible audit criteria	Risk ranking through risk assessment template
Scanning of public sector environment	Government news, budget, papers etc.		
General surveys	Significant changes to the budget	Prioritising audit topics	Short summary on selected audit topics
Internal discussions and assessments within DoA	Trend in entity's performance		
Considerations to the views of citizens	Comparative or performance indicators		
External stakeholders	Potential risks to the program or organisation		
	Significant observations from financial audit		
	Priorities of Legislature		
	Priorities of Government		

This is also known as environmental scanning and horizon scanning. It involves recording and monitoring key issues in the public sector/Government entities in the State. It is carried out by reading relevant publications, newspaper articles, broadcast news, social media and previous reports relating to performance and compliance audits, experience of regularity auditors, attending conferences and seminars, discussions with colleagues, stakeholders, and specialists, as per media reports. Area watching should be a continuous process that helps to provide a better understanding.

SAIs monitor the media (for example to identify concerns that the public or commentators are raising about public services. It is important for you to consider a wide range of media so that you can detect issues that may only affect certain segments of the population).

For example, A new file will be opened whenever an important project, scheme or programme is announced by government and that file will contain policy notes, implementation guidelines and other relevant details on the schemes, project, or programme. The team shall also maintain the file containing newspaper and magazine clipping on the scheme, project, or programme.

Figure 10: Research initiative for performance audit:



b) Scanning of public sector environment

The public sector environment should be scanned throughout the year and relevant sources of information should be inspected. The following list of information that may be inspected:

- ▶ read relevant publications and previous reports relating to performance, financial and compliance audits.
- ▶ annual reports of audited entities.
- ▶ state budgets and guidelines.
- ▶ review transcripts of parliamentary debates.
- ▶ attend conferences and seminars.
- ▶ new policies or welfare schemes launched by the government.
- ▶ listen to the experience of other auditors.
- ▶ legislation and legislative speeches.
- ▶ have discussions with colleagues, stakeholders and specialists.

- ▶ media including news, articles, concerns raised by the public.
- ▶ the international community's sustainable development goals (SDGs).
- ▶ global developments, such as themes identified by INTOSAI and
- ▶ other public policy documents (for example, ministerial strategy papers, white papers).

c) General surveys

In addition, further information is required for audit program. This can be obtained through periodic on-going examinations of the audit field, in the period of every three to four years. This is described as general survey work.

General surveys may cover a whole entity, a group of related activities or major projects or programmes of expenditure or receipts. The general survey is aimed at providing an understanding of the organisation's objectives, its main activities and the level and nature of resources used in carrying out its functions. Information is assembled and evaluated on the background, objectives, activities, plans, resources, procedures and controls in the entities or areas concerned. The aim is to:

- ▶ Identify and review those areas absorbing significant level of resources.
- ▶ Identify potential risks to achieving good value for money.
- ▶ Highlight areas for continuing audit attention.
- ▶ Propose areas or subjects for inclusion in the performance audit programme.

Table below summarises the information required background information covering the following: and the approach to general survey work. This can act as a checklist of the required

- ▶ Background environment and information on the entity.
- ▶ Significant legislative authority.
- ▶ Objectives of audited entity.
- ▶ Organisational arrangements.
- ▶ Accountability relationships.
- ▶ Activities carried out.
- ▶ Nature and level of resources used.
- ▶ Procedures and control systems in place.
- ▶ Other relevant information or evidence.

Refer **Annexure 01** for General Survey Key contents.

d) Internal discussions and assessments within Directorate of Audit (DoA)

Internal discussions to debate and assesses the risks associated with possible topics should take place within the Directorate of Audit (DoA). Directorate of Audit (DoA) should engage with staff and their key officials to identify possible audit topics. Operational divisions are obliged to share the requested information on topics/issues such as:

- ▶ Name of the programme/project/organisation/activity
- ▶ Potential auditee/s
- ▶ Year of commencement

- ▶ Financial source – Centre/CSS/State
- ▶ Nature and brief description of activity/Scheme
- ▶ Location and geographical coverage (number of districts)
- ▶ 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.)

e) Considerations to the views of citizens

The perspective of the citizen that is related to the performance of the audited entity should be considered where appropriate. It is important to consider the interests of citizens on performance audits. Citizens are the source of ideas for performance auditing, a source of demand for performance auditing and users of performance audit reports. Directorate of Audit (DoA) should maintain relevant information outlining views of the public on certain operations of government organisations or programmes.

f) External stakeholders

Relationships should be built with external stakeholders and frequent interaction should take place to identify and discuss possible topics. Inputs on topics may be obtained from relevant role players in government, subject experts, and the department's auditors. Non-government organisations can be a useful source of ideas. They may have conducted their own research through surveys and case studies and may have a range of relevant contacts.

Step 2: Compilation of Inputs

Directorate of Audit (DoA) shall compile all the inputs received from the previous step and shall indicate its preference or recommend the broad risk areas for selection of topics. In compiling the topics, Directorate of Audit (DoA) should consider preliminary issues such as:

- ▶ Size and nature of expenditures or revenues.
- ▶ Government views, budgets, etc.
- ▶ Financial/or budgetary amounts that are substantial, or significant changes to the budget.
- ▶ Trends in schemes and program.
- ▶ Comparative indicators of performance for similar program running in other state.
- ▶ Potential risks to the program.
- ▶ Significant observations from financial audits.
- ▶ Priorities of Legislation.
- ▶ Priorities of Government.
- ▶ Matters of public interest.
- ▶ Complexity of operations.

- Organisation structures that are complex, with possible confusion about responsibilities.

Step 3: Processing of Inputs

a) Evaluation of possible parameters to be considered for selection of audit topic

Performance Audit topics shall be evaluated in all aspects to determine whether the topics are significant. The Directorate of Audit (DoA) shall also decide the weightage to be applied to each topic proposed. The parameters shall broadly classify into four heads ~~areas~~ i.e., 1. Internal Assessment, 2. External Assessment, 3. Specific Matters and 4. Materiality. That covers the criteria as specified in the previous step can be evaluated to obtain overall score on each topic. This will help in prioritising the topic of performance audit with limited resources. The following table represent the illustrative parameters, which can be considered while evaluating the topics.

Table 6: Evaluation of possible parameters based on four heads

No.	Area	Question	Description
1.1	Internal assessment	Are there areas of such high-risk nature/great importance that it needs to be audited frequently?	Identify areas where frequent audits are necessary due to the high-risk nature/great importance of the topic and determine the potential improvement that the audit could have on the government and, as a result on the public.
1.2		Has the specific entity been recently performance audited for the topic?	Determine whether the topic or the entity to be audited has featured in earlier audit reports. The longer the period since the topic/entity was last addressed in an audit, the higher the potential impact.
1.3		Is internal evidence indicating deficiencies at the entity available to the performance auditor?	To substantiate the relevance of the topic, determine whether internal evidence, such as findings from previous audit reports and MIS reports is available to confirm that shortcomings exist at the entity.
2.1	External Assessment	Does the topic have an economic and/or social impact, and does it affect a large section of society?	Establish whether the topic has: <ul style="list-style-type: none"> ▶ A positive impact on the reputation/status of the Directorate of Audit (DoA). ▶ A special interest at legislatures. ▶ An impact on a large section of the public. ▶ A social impact. ▶ An economic impact; and/or ▶ Stakeholders' interest.
2.2		Does the topic relate to cross cutting areas across different	Determine whether the topic shares issues across the different areas and levels of

No.	Area	Question	Description
		spheres of government?	government. If yes, the impact will be higher and hence the priority for audit will be high.
2.3		Does the legislative body or the public have a special interest on this topic?	Verify whether information on the topic will be to the advantage of legislative body or the community.
2.4		Are there known problems on this topic or is performance low?	Where working effectiveness is not satisfactory, determine whether there are recognised problems in the area covered by the topic.
3.1	Specific Matters	Does audit team have required competency and expertise to complete audit?	Determine if audit team has sufficient skills and competency in the subject matter. Lower the skills level lower will be the priority for audit.
3.2		Has the availability of the information or auditable data been considered?	Ascertain whether information and data/records will be available for audit. Lower the availability of information, lower will be the assigned score.
4.1.	Materiality	Was or is major public investment or public expenditure involved?	Establish whether the government has invested substantially in the topic or whether the topic has entailed considerable cost.
4.2.		Is the topic important to government/the public/the audited entity (national priority) and does it involve a critical area?	<p>The auditor's consideration of materiality is a matter of professional judgement and is affected by the auditor's perception of the common information needs of the intended users. As per GUID 3910 qualitative factors that can be considered while assigning score, are:</p> <ul style="list-style-type: none"> ► Whether a finding is the result of an intentional act (fraud) or is unintentional. ► Whether a particular aspect of the programme or entity is significant about the nature, visibility and sensitivity of the programme or audited entity. ► Whether the health or safety of citizens is affected. ► Whether a finding relates to transparency or accountability.

b) Prioritising audit topics

The Directorate of Audit (DoA) shall after evaluation of possible parameters, prioritize the audit topics. Each topic identified should be assessed and all parameters included in the assessment should be measured/scored in a scoring matrix. The total scores should be indicative of the priority of the performance audit. The following table shows the scoring matrix to categories possible performance audit topics.

A note on risk element in topic selection: The element of risk has been inbuilt in the selection process, while assignment scores. E.g., while assigning score for “internal assessment” for question: “Are there areas of such high-risk nature/great importance that it needs to be audited frequently?”, a topic will get higher score if it was previously audited 5 years ago or before that and a topic will get lower score if it was audited in the last year.

Table 7: Illustrative list of prioritisations of audit topics

Table: Scoring matrix to categories possible performance audit topics									
Proposed Topics		Topic 1		Topic 2		Topic 3		Topic 4	
Particulars		Comment	Score	Comment	Score	Comment	Score	Comment	Score
Measurement									
1. Internal Assessment (Weightage 20%)									
1.1 Topic previously audited									
1.2 Entity previously audited (Performance Audit)									
1.3 Internal evidence that deficiencies exists									
1.4 Audit opinion as per latest Financial Audit report									
1.5 Significant financial irregularities in audit by AG/C&AG									
Score (sum total of above scores)			0		0		0		0
Weighting (score obtained / (total no. of question x 3)* overall weightage)									
*Maximum marks for a measurement criteria is 3			0		0		0		0
2. External Assessment (Weightage 30%)									
2.1 Impact									
- Positive Reputation Impact for the DoA									
- Impact on Large Section of the society									
- Audit may have a social impact									
- Audit may have a economic impact									
2.2 Cross cutting at departments or spheres of government									
2.3 Legislative body or public have special interest									
2.4 Known problem exist at the auditee or performance is low									
Score (sum total of above scores)			0		0		0		0
Weighting (score obtained / (total no. of question x 3)* overall weightage)			0		0		0		0
3. Specific Matters (Weightage 20%)									
3.1 Audit team competency									
3.2 Availability of information of auditable data									
Score (sum total of above scores)			0		0		0		0
Weighting (score obtained / (total no. of question x 3)* overall weightage)			0		0		0		0
Outcome (Ranking in accordance with weighted score)									
4. Materiality (Weightage 30%)									
4.1 Public investment									
4.2 Importance of topic to Govt/public									
Score (sum total of above scores)			0		0		0		0
Weighting (score obtained / (total no. of question x 3)* overall weightage)			0		0		0		0
Overall Score (sum total of all the scores i.e. 1+2+3+4)			0		0		0		0
Overall Outcome (sum total of all the Outcomes i.e. 1+2+3+4)			0		0		0		0
Outcome (Ranking in accordance with weighted score)									

Table 8: Illustrative scoring criteria for each risk parameter

Scoring Criteria			
1. Entity Assessment			
1.1 Topic Previously Audited	Score	1.2 Entity Previously Audited	Score
5 year or longer or never	3	5 year or longer	3
2-4 years	2	2-4 years	2
1 year	1	1 year	1
1.3 Internal Evidence that deficiencies exists	Score	1.4 Audit opinion as per latest Financial Attest Audit	
Yes - Previously reported by the DoA in Audit Report	3	Adverse	3
Yes - Previously reported by the DoA in Management Letter	2	Disclaimer/Qualified	2
No	1	Clean	1
1.5 Significant financial irregularities in audit by AG/C&AG	Score		
Observation related to Fraud, Embezzlement and Misappropriation of Assets	3		
Significant financial observations	2		
Operational or non-significant financial observations	1		
2. External Assessment			
2.1 Impact - Positive Reputation Impact for the DoA	Score	2.1 Impact - Impact on Large Section of the society	Score
High	3	High	3
Medium	2	Medium	2
Low	1	Low	1
2.1 Impact - Audit may have a social impact	Score	2.1 Impact - Audit may have an economic impact	Score
High	3	High	3
Medium	2	Medium	2
Low	1	Low	1
2.2 Cross cutting at departments or spheres of govt.	Score	2.3 Legislative body or public have special interest	Score
High	3	High	3
Medium	2	Medium	2
Low	1	Low	1
2.4 Known problem exist at the auditee or performance is low	Score		
High	3		
Medium	2		
Low	1		
3. Specific Matters			
3.1 Audit team competency	Score	3.2 Availability of information of auditable data	Score
High	3	Yes - In Existing Format	1
Medium	2	Yes - Data need to be processed	2
Low	1	No	3
4. Materiality			
4.1 Public investment	Score	4.2 Importance of Topic	Score
High (above XX%)	3	High	3
Medium (Between YY% and XX%)	2	Medium	2
Below YY%	1	Low	1
Justification for XX% and YY% used			

Note: Directorate of Audit (DoA) may add additional criteria and/or change weightage of the criteria.

Please refer Annexure no 2 for example of prioritisation of audit topics

Step 4: Output

a) Short summary on selected audit topics

Once the topics are prioritized, they shall be included in the Annual Audit Plan together with a simple short summary of the possible audit topics using a standard template for senior staffs of performance audit division of Directorate of Audit (DoA). This short summary will help senior staffs in review of each option to see which ones fit with their strategic priorities.

Table 9: Example for short summary for each possible audit topic

Title	Waste management
Context	Solid waste management is a vital quality-of-life and health issue for citizens. The government is spending an increasing amount on it, often dealing with private sector providers.
Rationale	The Government has recently awarded a large contract for the next five years to a company that has performed poorly in other public service contracts and is in a weak financial position.
Risk ranking	A (Overall Score 7.2)
What audit could achieve	The audit would look of whether the ministry is getting good value from its contracts with private sector suppliers, with important lessons for the future. For example, we would determine whether the ministry is using provisions within the contracts to penalise the service providers for poor performance. Early intervention might also lead to improve health outcomes for citizens.
Key risks	<ul style="list-style-type: none"> ✓ Our audit may be seen as coming too early in the life of the new contract. ✓ Our in-house expert on commercial contracting is shortly due to go on a one-year secondment so will not be available to assist with the audit. ✓ We already have two audits planned at the ministry, so they may feel that the audit burden is too high. ✓ We will need to find a convincing international comparator against which we can benchmark performance. ✓ When assessing performance, it may be challenging to estimate what would be a 'fair' price for the services, as the ministry has never provided the services in-house. As mentioned above, we would need to find a suitable international comparator. ✓ When estimating the cost to public health of service failure, we will need to provide strong evidence of a direct causal link between poor waste management and national disease levels. We need to be very alert for other factors that may contribute to increased incidence of disease.
Public Accounts Committee/Parliamentary Interests	Parliament is very interested in the topic. Several members of parliament have mentioned in recent debates that the current system is poor, and they frequently get complaints from their constituents about poor customer service and failure to carry out vital repairs.
Type if output	Performance Audit
Indicative Man – Days	180 man-days

Audit Party Members	Mr. Rahul Nair, (Waste Management Expert) – In charge Mr. Abhishek Verma (Solid Waste Management Expert) – Team member Mr. Om Prakash Kumar (Engineer) - Team member Mr. Ashu Rawat (Financial Expert) – Team member
Indicative timeline for reporting	Audit report will be provided by June 30, XXXX

b) Selection of auditable units

After short summary, audit team needs to identify the auditable units i.e., selection of department/offices which are implementing the selected topic. For this, audit team needs to perform analysis of financial statements, operational efficiency, and effectiveness of the implementation mechanism through illustrative list of risk identification of parameters. The department/office will be selected based on score obtained (high to low). The audit team also need to apply professional scepticism while evaluating the department/office to be audited.

Category	Overall score
A	Topics with score 70 or more
B	Topics with score 40 to 70
C	Topics with score less than 40

Table 10: Illustrative list of risk identification parameters

S. No	Risk Parameters	Score	Remarks
1	Fraud, Embezzlement, Abscondment detected as per last year Financial Attest Audit report/ Internal Audit Report. / Accountant General (AG) Audit Report.	20	
2	Audit opinion issued in the last audit report (audit conducted by Directorate of Audit (DoA)/ Accountant General (AG) or another external agency) a) For Qualified Opinion b) For Adverse Opinion c) For Disclaimer Opinion	10 20 15	
3	Negative news being circulated in media pertaining to organization.	10	
4	Recovery of pending audit observation (of Financial Attest		

S. No	Risk Parameters	Score	Remarks
	Audit, Internal Audit and Accountant General (Audit): >90% 60-90% 30-60% 0- 30%	3 5 7 10	
5	Observation related to non-compliances with respect to various Legal and Statutory Act, Laws, Orders, and circulars	10	
6	Observation related to misappropriation with respect to safeguarding of assets as per latest Internal Audit/ Financial Attest Audit/ AG Audit report	7	
7	Observation related to non-submission of Utilization Certificate (UCs) and Violation of rules and regulation of the Scheme/ Project/ Program to Nodal Agency as per latest Financial Attest Audit, Internal Audit and Accountant General (Audit) Reports and any other external agency report)	10	
	Observation for delay in submission of Utilization Certificate (UCs).	5	
8	Significant observation highlighted in IT Audit conducted by Directorate of Audit (DoA)/ Significant observation in relation to internal controls highlighted in audit report (as per latest Financial Attest Audit, Internal Audit and Accountant General (AG) Audit Reports and any other external agency report	20	
9	Extent of use of technology driven system in relation to management		

S. No	Risk Parameters	Score	Remarks
	of activities of the program/ schemes/ project	10	
	No use partial processes are automated	05	
	Overall Score		XX

4.1.2.2 Preparation and Approval of the Performance Audit Plan

I. Conduct of Preliminary Study

Once a topic has been selected for performance audit, the audit team may need to conduct a preliminary study to understand the context of the audit topic and estimate the resources required for conduct of audit. The preliminary study aims to explain why the audit should be carried out and provide sufficient justification to proceed with executing the performance audit. The preliminary study is also known as assessing auditability or pre study.

It is important to develop a sound understanding of the audit topic, as well as its context and possible impacts, to facilitate the identification of significant audit issues and to fulfil assigned audit responsibilities. Performance audit is a learning process involving adaptation of methodology as part of the audit itself. (ISSAI 3000/100)

Desk review and collection of Data (During the Audit Planning Stage)

Collecting data takes place during both the pre and main study of an audit. The primary role of data collection in the pre-study is to gather sufficient information to assess alternative audit problems. A wide variety of procedures and techniques can be used to gather necessary information. These may include:

- ▶ Review of policies, directives etc.
- ▶ Review of Government entity budget allocation vs budget spent reports.
- ▶ Review of Government Entity Website
- ▶ Review of various reports/KPIs/ Management Information System (MIS) of the entity as whole and Scheme and program Walk through the major systems and control procedures.
- ▶ Assessment of risks facing the entity.
- ▶ Consultation with advisors and outside organizations to identify best practices and opportunities for improvement.
- ▶ Previous audits and studies conducted by Accountant General (AG).
- ▶ The Other external sources that may be consulted are.
- ▶ Studies by government, professional or interest groups.
- ▶ Information held by similar Government entities
- ▶ Research held by academics or research organizations

- ▶ Similar works undertaken by other government agencies and non-governmental organizations.
- ▶ Media coverage.

By Preliminary study, auditor will consider the significant risks to sound financial management and the potential audit objectives, approaches, and methodologies. It can also help determine whether the audit is realistic and likely to be useful. It is important to note that it is perfectly acceptable to abort a study at this stage if there are valid reasons to do so. These reasons should be clearly articulated in the preliminary study. The Audit Plan shall define the audit work to be carried out - the audit scope, objective and methodology, the resources to be employed and the key milestones to be achieved.

II. Preparation of Annual Performance Audit Plan

After conducting preliminary study, The Directorate of Audit (DoA) shall prepare an annual audit plan supported by all the basic details (i.e., topic selected, key highlights from brief study, budget allocation, geography, implementable audit units). The annual audit plan shall be sent to Finance Department and shall be considered as deemed approved in case no comments are received from Finance Department within the period of one month.

4.3 Communicate the Audit Plan to Audit Unit and Audit Team

Post approval of Annual Performance Audit Plan, all the audit parties and audit units will be intimated about the dates of audit through Intimation Letter (Refer **Annexure –3 for format of Intimation letter**) via auto generated emails/notifications, at least one month prior to planned audit start date. The audit team should maintain effective and proper communication with the audit unit/entities and other relevant stakeholders in the agency. This will enable achieving effective and efficient audits of annual planned activities and programmes.

Chapter 5: Planning Individual Performance Audit

This chapter contains the requirements for planning the individual performance audit. The purpose of these requirements is to establish the overall approach for the auditor to apply when planning the individual audit assignment.

Requirements according to ISSAI 3000:

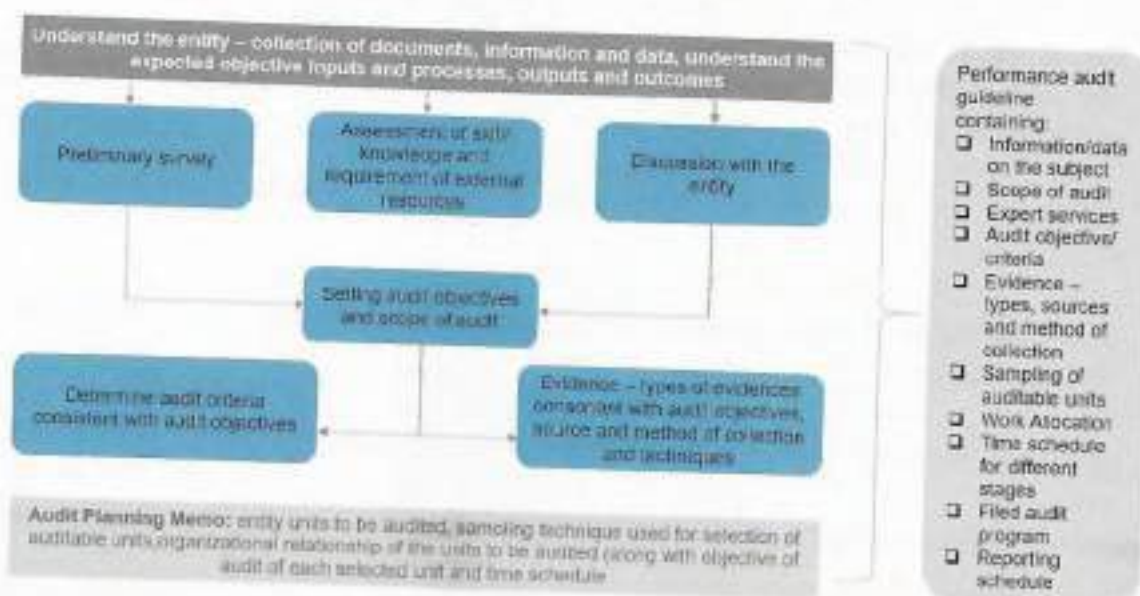
- ▶ The auditor shall plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective, and timely manner and in accordance with the
- ▶ The auditor shall elaborate the audit objective(s) in sufficient detail to be clear about the questions that will be answered and to allow logical development of the audit design. (ISSAI 3000/36)
- ▶ If the audit objective(s) is formulated as audit questions and broken down into sub-questions, then the auditor shall ensure that they are thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall subject matter. (ISSAI 3000/37)
- ▶ The auditor shall establish suitable audit criteria, which correspond to the audit objectives and audit questions and are related to the principles of economy, efficiency and/or effectiveness.
- ▶ The auditor shall plan the audit in a manner that contributes to high-quality audit that will be carried out in an economical, efficient, effective, and timely manner, and in accordance with the principles of good project management. (ISSAI 3000/96)
- ▶ The auditor shall acquire substantive and methodological knowledge during the planning phase. (ISSAI 3000/98)
- ▶ During planning, the auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence that respond to the audit objective(s). (ISSAI 3000/101)
- ▶ The auditor shall submit the audit plan to the audit supervisor and senior management for approval. (ISSAI 3000/104)
- ▶ The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete findings, conclusions, and recommendations, providing unbalanced information or failing to add value. (ISSAI 3000/52)

The auditors shall design the audit in a manner that contributes to a high-quality audit that will

be carried out in an economical, efficient, effective, and timely manner. The auditor shall consider the needs and interests of the intended users, including the responsible parties when planning the individual audit. The needs and interests of the users could influence the selection of audit objectives and the types of analysis conducted by the audit team. By considering the needs and interests of the intended users, the auditor can ensure that the audit report is useful and understandable.

It is important that the auditor remains independent and focuses on acting in the interest of the citizens.

Figure 11: Steps and activities planning individual performance audit:



5.1 Understanding the Scheme/Program/ Activity

The auditors shall develop a sound understanding of the subject matter ('what is audited'), and of risks and challenges in the area to allow the development of more specific audit objectives and relevant audit criteria. This information will help the auditor to decide on the most relevant approach to the audit. Understanding the Scheme/Program/ Activity is the starting point for planning individual performance audit. This knowledge would include an understanding of:

- ▶ Vision, Mission of the Scheme/Program/ Activity.
- ▶ Objectives of the Scheme/Program/ Activity related to the audit activity.
- ▶ Performance Indicators, result framework of the Scheme/Program/ Activity
- ▶ Process and procedure adopted by auditee for management of Scheme/Program/ Activity
- ▶ Internal and external environment of the agency and the stakeholders.
- ▶ External constraints affecting programme delivery.

Understand the auditee: The purpose of understanding the entity is to allow the auditor to develop objectives and scope of the audit and to assist with the next planning component, which is the development of audit criteria.

The auditor should review the auditee's historical performance over the last 3 to 5 years 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 auditee's views on priorities.
- ▶ historical performance providing clues to auditee's philosophies on trade-off between long and short term objectives.
- ▶ how auditee measures and monitors performance.

The following can be the sources for understanding the Scheme/Program/ Activity:

- ▶ **Documents of the Scheme/Program/ Activity:** make notes for key program features, performance framework, scope and outreach, geographical coverage, key terms, and conditions for payments/ reimbursements etc.
- ▶ **Legislative documents:** Act and Rules program or project guidelines issued by State Government.
- ▶ **Policy documents:** documents/reports of government ministries and cabinet orders and circulars, Ministry of Finance, etc.
- ▶ **Academic journals, research publications and consultancy reports:** independent evaluations on the Scheme/Program/ Activity, academic and research journals, and similar publication works done by national and international agencies.
- ▶ **Past audits:** past financial and performance audits on the entity provide a major source of information and understanding. Follow-up requirements, perceived non-compliance to recommendations and increased risk and materiality may also provide significant inputs.
- ▶ **Media coverage:** media coverage on the agency, project/programme and on the dealing officials, if any, and

5.2 Pilot study to assess auditability

A pilot study is an important step to consider if conducting an audit is relevant and cost-effective? The auditor may have to consider, for instance, whether there are criteria available or whether the information or evidence required is likely to be available. In fact, it is a testing of availability of information and the feasibility of the methods proposed and does not involve any audit testing at this stage. This study should normally be carried out in a fairly short period.

In some cases, the result of pre study may necessitate more intense field audit and in others, the result may lead the Directorate of Audit (DoA) to either defer the audit or abandon it for

one or more reasons. Some illustrative findings of the preliminary study could be specific skills and more time required for finalisation of the guidelines, higher risk perception, the subject being difficult from the auditability angle, sensitive subject from one or other points.

ISSAI 3000/35: The auditor shall set a clearly defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness

The pilot study should identify, as far as possible, the fundamental VFM issues which are to be examined in the full study. Post conducting preliminary study, a detailed Annual Audit Plan for Performance Audit need to be prepared covering score sheet of the topic selected, short summary for the topic and preliminary report. Thereafter, Annual Performance Audit Plan together with supporting documents will be submitted to Director, Directorate of Audit (DoA) for approval.

By using the preliminary study, the auditor can cover all aspects of the organisation, activity, programmes, and systems to acquire a working knowledge of the entity, as shown in the illustrative list below:

Entity's Process	For an Activity	Program/ Scheme
<ul style="list-style-type: none"><input type="checkbox"/> The entity's charter, objective, policies and obligations,<input type="checkbox"/> Organogram and roles and responsibilities<input type="checkbox"/> Budgetary allocations and expenditure levels<input type="checkbox"/> Process manual and guidelines etc.	<ul style="list-style-type: none"><input type="checkbox"/> Background and factors influencing the activity<input type="checkbox"/> Type and nature of the activity<input type="checkbox"/> Person responsible for the activity<input type="checkbox"/> Policies and guidelines pertaining to the activity	<ul style="list-style-type: none"><input type="checkbox"/> Its purpose and objectives<input type="checkbox"/> Cost and duration of program<input type="checkbox"/> The inter-relationship between the entities responsible for the program<input type="checkbox"/> Policies and procedures for accomplishing the program.

5.3 Develop Specific Audit Objectives and Questions

1. Audit Objectives

ISSAI 3000/35: The auditor shall set a clearly defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness.

The audit objective(s) can be thought of as the overall audit question concerning the subject matter (for instance a government programme or activity) to which the auditor seeks an answer. The audit objective therefore needs to be framed in a way that allows a clear conclusion. The audit objective(s) can be expressed in the form of one overall audit objective which is then broken down into more detailed/specific sub-questions.

The audit objective(s) should be designed to maximise the benefits and impacts from the audit, incorporate the concept of materiality, and seek to evaluate economy, efficiency, and effectiveness of the audit topic, of one overall audit question which is then broken down into

more detailed/specific sub-questions.

You can think of the audit objective(s) as being a neutral statement of the goal(s) for the audit. It provides the basis for developing audit questions (discussed later in this chapter). Because of this, you need to consider the following factors when developing your objectives:

- ▶ Are your objectives framed in a way that allows you to come to a clear and unambiguous conclusion?
- ▶ Do your objectives provide sufficient information to the audited entities and stakeholders for them to easily understand why you are conducting the audit, the audit's focus, and the audit's goal? Are the audit objectives framed in clear and simple terms?
- ▶ Are your objectives clear and specific, feasible, fair, and objective, policy neutral and measurable?
- ▶ Do your objectives account for potential deficiencies in performance and, if so, is this documented?
- ▶ Do your objectives allow you to consider the inclusiveness of audit topic?

For example: The objective of the Performance Audit of District Hospital to check quality of outcomes of medical and patient facility is to assess whether:

- ▶ Policy framework was robust enough to improve the quality of healthcare.
- ▶ Adequate provisions for line services such as out-patient services, in-patient services, emergency services, maternity services, etc. were made and these services were delivered in an efficient and effective manner.
- ▶ Efficient support services with regards to diagnostic services, maintenance of equipment, storage of drugs, dietary services, laundry services, etc. were present in hospitals.
- ▶ Hospitals had adequate resources viz., human, drugs, consumables, equipment, etc. as per prescribed norms and these resources were utilised efficiently and effectively.
- ▶ Norms and practices for hygiene, infection control, employee and patient safety were followed within the premises of hospitals.

The objectives should be limited in numbers, ideally three to five, to provide appropriate focus to the audit. They must be defined in a way that will allow the audit team to ascertain the impact as well as the nature of the audit, govern its conduct and at the end of the audit to conclude against each of the objectives. The audit objectives therefore need to be framed in a way that allows a clear and unambiguous conclusion. The audit objectives can be expressed in the form of one overall audit question which is then broken down into more detailed/specific sub-questions.

It is important to note that the audit objectives shall be based on rational and adequate considerations. In determining the audit objectives, the auditor must establish where the greatest problems or risks are, and where the audit can add most value. To help define appropriate audit objectives the auditor can conduct interviews with major stakeholders and experts and analyse potential problems from various viewpoints. (Detailed guide on how to

conduct interview is given under Annexure 14 of this document)

Table 11: Example for Audit objective for some audit topic

Title	Objective
Performance Audit on Efficacy of implementation of 74th Constitutional Amendment Act (CAA) for ULBs in the State Government	<p>The objectives for Performance Audit are to assess:</p> <ul style="list-style-type: none"> ▶ Whether provisions of 74th CAA have been adequately covered in State legislations? ▶ Whether ULBs were empowered by the State Government to discharge their functions effectively through the creation of appropriately designed institutions/institutional mechanisms and the functioning thereof? ▶ Whether ULBs have access and powers to raise financial resources commensurate with their functions? ▶ Whether ULBs have powers to mobilise and incentivise human resources commensurate with their functions?
Performance Audit of District Hospital Outcomes of medical and patient facilities quality	<p>The objectives for Performance Audit were to assess whether:</p> <ul style="list-style-type: none"> ▶ Policy framework was robust enough to improve the quality of healthcare. ▶ Adequate provisions for line services such as out-patient services, in-patient services, emergency services, maternity services, etc. were made and these services were delivered in an efficient and effective manner. ▶ Efficient support services with regards to diagnostic services, maintenance of equipment, storage of drugs, dietary services, laundry services, etc. were present in hospitals. ▶ Hospitals had adequate resources viz., human, drugs, consumables, equipment, etc. as per prescribed norms and these resources were utilised efficiently and effectively. ▶ Norms and practices for hygiene, infection control, employee and patient safety were followed within the premises of hospitals.
Performance Audit of 'Contract Management in Road Works'	<p>The objectives for Performance Audit were to assess whether:</p> <ul style="list-style-type: none"> ▶ Planning for road works was comprehensive and sanction of works was based on prescribed technical and financial norms/standards. ▶ Tendering and contract management was fair, transparent, and competitive, and consistent with prevailing best practices in the sector. ▶ Contract variations and payments were managed

	efficiently as per provisions of the agreements and financial rules.
	► Prescribed quality control norms and timelines were adhered to; and
	► There existed a sound management information system for effective planning, monitoring and decision making at all levels in the department.

Reference is taken from Performance audit conducted by C&AG for the topics (i) Efficacy of implementation of 74th Constitutional Amendment Act for ULBs in State Government (ii) Performance Audit on 'District Hospital Outcomes' in State Government (iii) Contract Management in Road Works'.

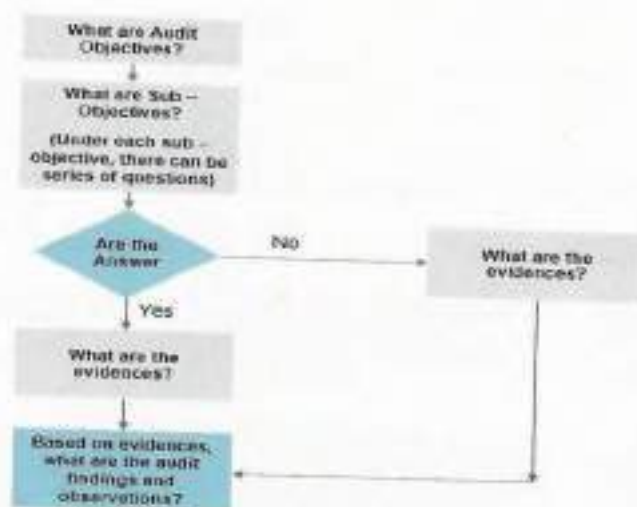
2. Audit Questions

The problem Statement is overall audit question whereas audit questions are more precise, sub-questions which allows the development of Audit Design Matrix (ADM). The Audit Question aim is to cover the audit objective by specific audit questions. There are four types of audit question which auditors can use in designing Audit Design Matrix (ADM).

Descriptive Question	These are the basic facts and information	What is mechanism in place to ensure neediest gets the Grant
Descriptive Question	These are the basic facts and information	What is mechanism in place to ensure neediest gets the Grant
Comparative Question	To examine one or two matters on or more dependent variable	To what extent the programs has achieved its goals and objectives?
Analytical /Impact Question	To examine on the effects of the program, with present and previous status	What economic changes have occurred in State after providing aid and assistance to local resident of post Disaster Assistance?
Prospective Question	To examine the possible effects of future policies	What will be the improvement in education system if a distribution of scholarship system will be implemented?

The last level audit questions should result in a 'yes' or 'no' answer. Breaking down of audit objectives into audit sub-objectives, level 1 questions and level 2 questions should result in at least 2 questions at each level. If not, then the validity of the question and the possibility of its incorporation with some other questions at any level should be considered.

Figure 12: Link between the audit question and evidence to be collected and the audit conclusions



Examples of setting Audit Objective and Audit Questions

Audit objective: To determine "whether capital procurement managed by any department is being managed to provide best value for money and in accordance with industry best practices".

Question: Does the department manage capital procurement so that it provides best value for money and is in accordance with industry best practices?

Sub-Question: 'If not, what is the impact? If the impact is significant, what are the causes? What may be done to address these causes?'

Audit objective: "to assess whether the procedures established to manage the programme would ensure that government policy was followed".

What is not stated is that if the auditor finds that these procedures do not ensure that government policy is followed then they will recommend changes to the procedures to achieve this end.

The audit objective consists of two main parts,

- ▶ what is being reviewed and
- ▶ what is being used as a benchmark.

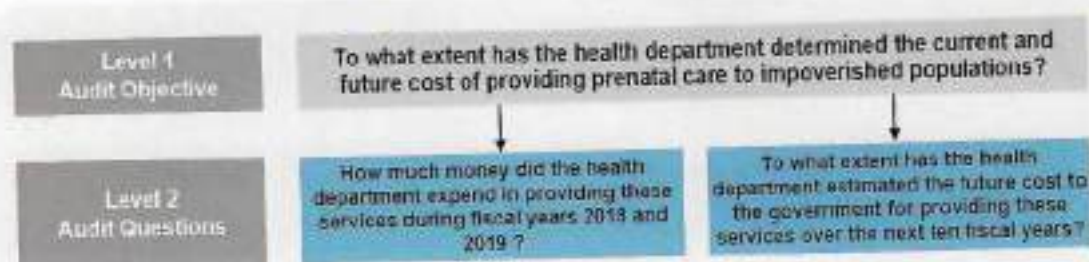
In the example above 'the program' is being reviewed, the 'government policy' is the performance benchmark.

Generally, the audit team needs to consider the following series of questions to develop good recommendations:

- ▶ What needs to be done?
- ▶ Why does it need to be done?

- Where does it need to be done?
- Who is responsible for doing it?
- What are the expected effects of the recommendations?
- Could implementation of the proposed recommendations have negative effects elsewhere?

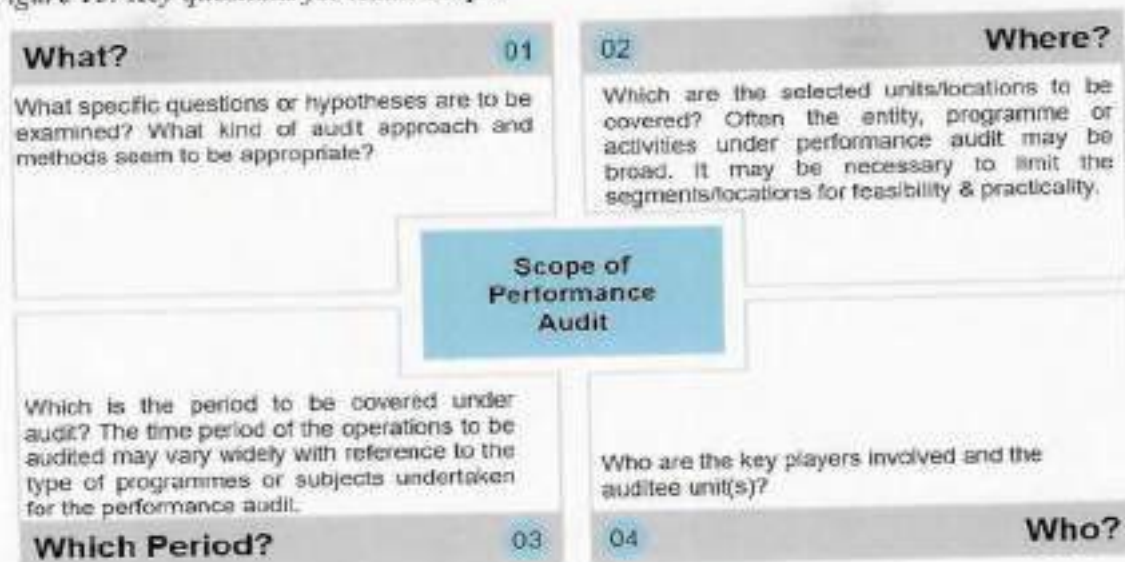
Pyramid Approach: Auditor can use pyramid approach to prepare audit objective and questions. The purpose of this tool is to break the audit objective into several more detailed questions to form a pyramid. This allows to consider all dimensions of audit questions.



5.4 Determine the Audit Scope

The scope of the audit defines the boundaries of the activity being reviewed and tends to narrow the ambit of the audit from the broad audit objective. It addresses things such as specific questions to be asked, the type of study to be conducted and the character of the investigation. The scope of an audit is determined by answering the following questions.

Figure 13: Key questions for Audit Scope



Based on answering the aforesaid questions, period of entity operations or programme that the audit examination will cover should be specified. The period of the operations to be audited may vary widely with reference to the type of programmes or subjects undertaken for audit, complexity of the topic, geographic dispersion segments/locations of the entity to be covered

in audit.

Examples of Audit objective and scope

District Hospital

Audit Objective: To determine by Audit of District Hospital outcomes in State Government covering the period from 2014 to 19. To assess the outcome-based quality of medical services and patient care provided in the District Hospitals as per IPHS Standards.

Scope of Audit: The scope of audit includes 06 District Hospital out of 18 District Hospital in 04 district to detailed audit scrutiny and to evaluate the outcome, status, and standards of delivery of healthcare services to the population of the district for the period from 2014 to 19. Districts were selected by adopting Simple Random Sampling without Replacement Method for detailed audit scrutiny and to evaluate the outcome, status, and standards of delivery of healthcare services to the population of the district for the period 2014-19. (Where and what period)

To ensure the variations/coverage in the data recorded on monthly basis, different months of the five-year audit period was covered. For this, each year was divided into four quarters and the middle month of each quarter was selected for capturing the data for indicators reported at monthly frequency. Following this, to capture weekly frequency, the first week was picked up for the selected months to maintain consistency.

Physical inspection of various facilities to be test checked hospitals; and conducting surveys like the patient satisfaction survey. The key players for audit are Secretary-In-Charge, Department of Medical Health, and Family Welfare, CMO, CMS of the units

Higher Education

Audit Objective: The objective Audit of outcome of Higher Education Department with their related inputs and outputs in terms of 12th Five-year Plan.

- ▶ The Higher Education system led to increased employability and progress to higher studies for students of higher educational institutions.
- ▶ The Higher Education system led to betterment of society through effective teaching/learning processes and high quality research.
- ▶ Equitable Access to Quality Higher Education was ensured for all.

Scope of Audit: This performance audit is for the period from 2014-15 to 2018-19. The audit included examination of aspects such as student progression, access, equity, quality, and governance of higher education in state universities and constituent and affiliated colleges. 02 out of 06 state universities providing education in general streams (Science/Arts/Commerce) were selected by simple random sampling method.

The audit out of 06 Universities in State Government in general streams and 02 Universities were selected Kumaon University, Sri Dev Suman University. Kumaon University had total universe of 40 colleges out of which 04 were selected as a sample, Sri Dev Suman University had 75 college affiliated out of which 8 colleges were selected affiliated to these two selected universities were selected by simple random sampling method.

DMRC

Audit Objective: Assess implementation of the project in terms of economy, efficiency, and effectiveness due to public interest in the project, growing transport requirement of Delhi, substantial cost involved, and delay in completion of the project.

Scope of Audit: The Performance Audit covered planning, implementation, monitoring and operations and maintenance of completed corridors and outcome of the activities of Phase-III projects for the period since its commencement from April 2011 to March 2020.

Audit methodology will include interaction with DMRC officials, physical inspection of project sites, and photographic evidence collection. IIT, Delhi shall be Technical Consultant to review the technical aspects of civil works, signalling and telecom, rolling stock, heating, ventilation and air conditioning and electrical works executed by DMRC during implementation of Phase-III.

A total of 93 contracts were selected using stratified random sampling methodology. The Audit coverage in terms of number of contracts was 36 percent and was 53 percent in terms of monetary value of the Phase-III project. These contracts are over Rs 5 Crore.

Scope may be geographic, excluding some physical areas, where an activity is widely distributed. Scope is also time-related, and the auditor should specify a time-period to be covered. The scope statement may also narrow the focus of the audit by specifying, for example, that the audit will only consider issues of effectiveness or compliance. In some cases, where a performance audit has been requested, the scope may be extremely narrow.

For example, there have been credible allegations about corrupt procurement practices in an agency and the Directorate of Audit (DoA) may be asked to conduct an audit to provide assurance that the allegations are groundless, or action needs to be taken. The scope of such an audit would be restricted to procurement practices and may be further restricted to compliance with required procedures and the accuracy of financial reporting.

It is a good practice to discuss the audit scope with the auditee entity at the earliest opportunity. In some cases, it may also prove useful to explicitly clarify what is not intended to be covered by the audit. This may help reduce misconceptions or false expectations.

5.5 Determine the Audit Criteria

Audit criteria will define based on the undertaking, services, programme, or operation. It will be based on policies, laws, pre-defined targets, professional standards, public opinion etc. Criteria may reflect things such as things should be according to laws, regulations, or objectives; expected criteria, fulfilment of sound principles and best practice.

Figure 14: Characteristics of audit criteria

1	2	3	4	5	6
Reliability	Objectivity	Usefulness	Testable	Complete	Relevant
Reliable criteria result in consistent conclusions when used for assessment in the same circumstances	Objective criteria are free from any bias of the auditor or management	Useful criteria result in findings and conclusions that meet users' information need.	Testable criteria result in finding possible to identify what procedure and evidence are needed to provide an answer.	Completeness refer to the development of all significant criteria appropriate to assessing the performance in the given circumstance	Relevance means criteria shall contribute to conclusion that assist decision making and linked to audit questions.

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 operations. For e.g., "Every year all vacant post should be fulfilled before the approval of the programme. "The canal should irrigate 5000 hectares of land in all season".

Setting audit criteria: The audit criteria must be set objectively. The process requires rational consideration and sound judgment. The auditors must for instance (ISSAI 3000/Appendix 2):

- ▶ Have a general understanding of the area to be audited and be familiar with relevant legal and other documents as well as recent studies and audits in the area.
- ▶ Have good knowledge of the legal basis of the government program or activity to be audited and the goals and objectives set by the legislature or the government.
- ▶ Have reasonably good understanding of the expectations of the major stakeholders, and be aware of basic expert knowledge; and
- ▶ Have a general knowledge of practices and experience in other relevant or similar government programs

Table 12: Criteria and corresponding audit questions:

Audit Questions	Criteria
<p>To what extent the outcome of based health services and patient service in State Government</p>	<p>Guidelines on health care services issued by Government of India and State Government in C&AG reports. The sources of audit criteria were Indian Public Health Standards (IPHS) for District Hospitals.</p> <ul style="list-style-type: none"> ▶ Maternal and New-born Health (MNH) toolkit; National Quality Assurance Standards for Public Health Facilities 2017 issued by Government of India. ▶ Assessor's Guidebook for Quality Assurance in District Hospitals (Vol I & II) 2013; Framework for Implementation of National Health Mission (NHM) 2012-17. ▶ Drugs and Cosmetic Rules, 1945. ▶ LaQshya guidelines.
<p>To ascertain whether the State Government has empowered ULBs through the creation of a robust institutional framework as well as transfer of functions, funds, and functionaries under 74th Amendment Constitutional amendment act</p>	<ul style="list-style-type: none"> (i) 74th Constitutional Amendment Act, 1992. (ii) Municipalities Corporation Act, 1959 and Municipalities Act 1916 (iii) Laws and By-laws framed by Urban Local Bodies. (iv) General Financial and Accounts Rules. (v) Various notifications, orders, and circulars issued by UDD and Urban Development Department (vi) Central and State Finance Commissions Reports
<p>To review that planning, implementation, monitoring and operations and maintenance of completed corridors and outcome of the activities of Phase-III projects for the period since its commencement from April 2011 to March 2020 had economy, efficiency and effectiveness</p>	<ul style="list-style-type: none"> (i) Agenda and Minutes of meetings of the Board of Directors and other sub committees. (ii) Schedule of Powers; Detailed Project Reports. (iii) Applicable General Financial Rules; (iv) Guidelines issued by the Central Vigilance Commission. (v) Directions and guidelines issued by the Administrative Ministry. (vi) Policies, standards, directives, and guidelines of the DMRC. (vii) Annual Reports of the DMRC, and of the Administrative Ministry.

Audit Questions	Criteria
	(viii) General Conditions of Contracts and Special Conditions of Contracts. (ix) National Urban Transport Policy, 2006; and (x) Annual Sankalp Reports issued by DMRC.
To review the planning, financial management, execution, monitoring, and evaluation of the selected projects pertaining to AIBP	<ul style="list-style-type: none"> ▶ AIBP guidelines. ▶ Guidelines issued by Central Water Commission (CWC) for preparation of Detailed Project Reports (DPRs). ▶ Project-wise Memorandum of Understanding (MoU) between the State and Central government. ▶ PWD Manual/ Procurement Rules, Delegation of Power, PMKYS Guideline
Was land acquisition for NOIDA was legally acquired, pricing and allotments was as per procedure and transparent and oversight control of the Government and Internal Control by NODIA for acquisition and allotment of land	<ul style="list-style-type: none"> ▶ Provisions of the Regional Plan (RP)-2021 of NCRPB, Sub-Regional Plan (SRP)-2021 of GoUP, MP-2021 and 2031 of NOIDA to assess legitimate development purposes of various land acquisitions. ▶ Policies Guidelines/instructions from GoUP and the Board/CEO of NOIDA for costing of properties and fixing of premium/reserve price for allotment. ▶ Work procedure of NOIDA for execution of development works and its accounting to assess whether development cost was recovered through the costing of land. ▶ Property allotment policies, procedures and terms and conditions of brochures of schemes were examined with respect to provisions of the Industrial and Service Sector Investment Policy, 2004, Infrastructure & Industrial Investment Policy, 2012, and Uttar Pradesh Information Technology Policies, 2004 and 2012. ▶ Government orders issued by IIDD, resolutions as per the Board's agenda and minutes, administrative and annual reports, and physical & financial progress

Audit Questions	Criteria
	reports to evaluate the performance of NOIDA regarding land acquisition and allotment of properties
To what extent has the agricultural management agency established processes to ensure that assistance payments are properly awarded?	The agency's policies require that processes be established to determine the eligibility of potential payment recipients and recoup any monies erroneously awarded.
Evaluate the system of tendering and contract management of road works by the department.	<ul style="list-style-type: none"> ▶ Financial Handbook volume V, ▶ Public Works Account Rules (Financial Handbook volume-VI), ▶ Budget Manual and Treasury Rules, Departmental Rules, ▶ Procurement rules, Regulations and Manual, ▶ PWD Model Bidding Document, PWD Schedule of Rates, ▶ Government Orders/E-in-C circulars issued from time to time, ▶ Best practices followed in Central Public Works Department, ▶ National Highways Authority of India, MORTH norms, ▶ Pradhan Mantri Gram Sadak Yojna and best practices drawn from other States.

Sources of criteria

- ▶ Related legislation which governs the operations of the auditee entity.
- ▶ Government policies and directions relevant to the auditee entity.
- ▶ Entity operating and procedure manuals.
- ▶ Entity policies, standards, directives and guidelines.
- ▶ Related plan and project documents.
- ▶ Financial reports of the entity including the expenditure and budget documents.
- ▶ Criteria used previously in similar audits.
- ▶ Standards used by international bodies.
- ▶ Literature on the subject matter.
- ▶ Past performance reports if any.
- ▶ Performance standards set by the auditee.
- ▶ Independent expert advice and know-how through interviews with relevant officials; and
- ▶ Criteria used or developed by professional organizations and standard setting bodies.

Moreover, relevant criteria arising from laws or regulations carry the force of law. Policies and procedures of the agency are, by definition, accepted by the agency.

For example, in an audit of teacher absenteeism, a criterion might be *'teachers should attend school in accordance with their conditions of employment'*.

In framing audit objectives as questions, the audit criteria are included in the question. For example, *'are teachers attending school in accordance with their conditions of employment?'* Audit procedures should then be developed to allow the auditor to answer this question with confidence.

Finally, it is a good practice in performance auditing for the auditors to share the audit criteria with the Head of Office (Ho)/ Head of Department (HoD) and obtain their agreement at the stage of planning.

5.6 Deciding Audit Approach and Methods

1. Audit Approach

Audit Planning consists of developing a detailed approach for the expected nature, timing, and extent of the audit. Performance auditing generally follows one of three approaches or combination thereof in examining the performance of the auditee entity, viz.

System-oriented approach Examines the proper functioning of management systems, especially financial management systems; 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 demand. Frequent 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?

Result-oriented approach Assesses whether the outcome objectives or goal objectives have been achieved as intended. The auditor would review that the system will being audited such as planning, conducting, checking, and monitoring of activity etc. This would involve different audit techniques like observation, interviews discussion and examination of documents. Frequent questions under this approach are:

- ▶ How does government programme work?
- ▶ How does it produce the result?
- ▶ What are the process and procedures to execute the programme?
- ▶ Are the resources managed and utilized economically and efficiently?

Problem-oriented approach Examines, verifies, and analyses the causes of problems or deviations from criteria. Usually, the audit begins with problem indicators such as shortcomings in service, complaints, rising costs etc. Auditors try to link the different problems to each other and attempt to test the probable causes of the problem with using techniques such as Interview, focus group discussion, observation, and document review.

No uniform audit approach can be prescribed that is applicable to all types of subjects of

performance audits. Selection of approach also determines methods and means used for conducting the audit. In determining the audit approach, it is important to identify probable types and sources of evidence and how the audit team will gather this information for the previously determined audit criteria.

Table 13: Examples of audit questions each approach wise:

	RESULT ORIENTED APPROACH	PROBLEM ORIENTED APPROACH	SYSTEM-ORIENTED APPROACH
QUESTIONS	What is the performance or what results have been achieved, and have the requirements or the objectives been met?	Do the stated problems really exist and, if so, how can they be understood and what are the causes?	What conditions must be met to ensure the economy, efficiency and effectiveness of the system?
EXAMPLES			
1.	Are the goals and objectives of the government program met?	Why are the services not delivered on time?	Does the tax system work efficiently?
2.	Do the means chosen represent economical use of public funds?	What causes the rapid increase in costs?	Do the social security programs function efficiently?

2. Audit Method

An important part of planning how to conduct audit is to determine the methods to be used to gather and analyse data. The audit objectives, audit questions, audit scope, and the audit criteria are the factors guiding what evidence is needed and the methods most appropriate to obtain that evidence. Some of the methods, which are used in conducting performance audits include:

Direct observation and physical inspections

Evidence obtained through direct observation and physical inspection is known as physical evidence. This method is considered far more reliable than indirect evidence provided by the audited entities.

Table 14: Examples of direct observations and physical inspections

Maintenance of government owned facilities by a contractor	Conduct site visits to relevant properties to physically inspect the buildings based on criteria established in the contract. Take photographs and document the condition you observe.
Procedures for customs inspections at airports	Visit relevant airports and observe how customs inspections are being conducted. Record your observations so that you can compare what you observe to the audit entity's procedures for conducting inspections. This may help you determine whether inspections are being conducted according to the specified procedures and the level of resources that are required to conduct such inspections. You could also consider during your observations whether there are ways for the audited entity to be more efficient in the way they conduct their inspections.
Approval for large	Review relevant files to check for the signatures and credentials

purchases equipment	of the approving officials in accordance with legal requirements. You could also use this type of information as part of a broader review to help you determine whether the guidance and training for approving officials is sufficient to ensure they comply with legal requirements or to determine whether the audited entity has sufficient internal controls in place to ensure the law is followed.
Chemical hazards in food	Observe controls in place at border inspection sites to inspect food to determine whether states are effectively complying with food safety policies by conducting the appropriate physical checks of imported products of animal and non-animal origins and with what resources.

Analysis of procedures

The auditor shall assess the appropriateness of the procedures, the volume of resources and the accountability relationships highlighted, if any, in the programme guidelines. Procedures would be tested against the criteria or a desirable control model for completeness, relevance against the legislation and administrative instructions, internal consistency, practicability, and compliance. It consists of review of the systems in place for planning, conducting, checking, and monitoring the activity being audited. This would entail examination of documents such as budgets, financial reports, programme guidelines, annual or other plans, procedure manuals, delegations, and reporting requirements.

Case Studies

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

Use of existing data

The existing data held by the auditee can be very useful and relevant for the internal audit team to test for correctness and completeness with reference to the basic documents maintained by them. The internal audit team will maintain evidence of tests carried out to ensure correctness of data maintained and furnished by the entity.

Surveys

Conducting of survey is another method of obtaining insight into an agency's activities, including the outputs and outcomes and their quality. This is a method of collecting information from members of a population to assess the incidence, distribution and interrelation of events and conditions. In social sector programmes, credible surveys on predetermined parameters can supplement the audit findings and conclusions, which add value to the performance audits. The nature of some programmes or activities selected for performance audits could be such

that a focussed survey of a limited sample during the planning stage may provide more insight for setting the audit objectives and criteria. However, the results of survey alone cannot be the primary evidence for audit findings. Surveys can be used as corroborative evidence for audit findings established with the help of primary evidence.

Analysis of results

Analysis of results from examining several instances of entity activity in a particular area will help decide if entity's performance in that area conforms to audit criteria. This will also require the auditor to assess the input-output model designed in the programme and carry out actual input-output analysis to determine the efficiency of the programme. Analysis of results may also entail analysis of impact of the programme against the expected impact.

Quantitative analysis

Quantitative Analysis involves examination of data available in any form, like earnings, revenue, market share or data relating to programme implementation like details of beneficiaries, etc. The auditor shall analyse auditee entities' data to illustrate or corroborate a statement. Mathematical, economical, computational, and statistical analyses are some of the quantitative techniques which can be used by the auditors while analysing complex data of the auditee entity. The quantitative analysis can provide trends, explanation for a particular behaviour and other results.

When there is high volume of data and information associated with a programme or entity, sampling techniques may be used. The nature of the population should be examined to decide the most appropriate sampling methodology. The sample selected, and the sampling approach and methodology should be documented and shared with the entity.

When selecting an audit sample, specific audit objectives and the attributes of the population from which the sample is to be drawn should be considered. In determining the sample size, it should be considered whether sampling risk would be reduced to an acceptable low level. The sample items are to be selected to have a reasonable expectation that all sampling units in the population have an equal chance of selection. The extrapolation of audit findings based on substantive testing of audit sample to the whole audit universe must be considered keeping in view, homogeneity of the population, audit objectives and the analytical tools applied.

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

It is important for the auditor to establish an appropriate strategy for the audit by combining study designs, methods, and techniques in the audit to suit the context, objectives, questions, criteria and the auditor's skills and resources, as well as the availability of data. Different types

of audit evidence can be obtained by using different methods of collecting data, as listed in the table below:

Table 15: Link between types of audit evidence and different methods

Audit Evidence	Methods of data collection
Testimonial evidence	<ul style="list-style-type: none">▶ Interviews▶ Surveys, questionnaires▶ Focus groups▶ Reference groups
Documentary evidence	<ul style="list-style-type: none">▶ Document review▶ File reviews▶ Using existing statistics▶ Using existing databases
Physical evidence	<ul style="list-style-type: none">▶ Observation of people▶ Inspection of objects or processes▶ Experiments, e.g., level of Computer Data Security
Analytical evidence	<ul style="list-style-type: none">▶ Quantitative data collection methods.▶ Regression analysis,▶ Computations, comparisons, separation of information into components, and▶ Rational arguments

5.7 Managing Risk during Audit Design

Requirement according to ISSAI 3000:

The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value. (ISSAI 3000/52).

Risk identification and assessment

Following points needs to be considered in addressing risk identification and assessment:

- (i) Sufficiency of skills and knowledge of the audit team
- (ii) Whether timelines for audit are achievable and whether resources to perform audit will be sufficient.
- (iii) Sensitivity of audit topic
- (iv) Complexity of audit subject matter
- (v) Threats to independence of audit team members
- (vi) Risk related to auditee integrity
- (vii) Whether data is accessible and reliable

5.8 Developing Audit Design Matrix

Audit design matrix assures to establish the link in desired results and audit scope, objective(s), criteria, and methods. It provides the collective understanding of the audit's design, based on audit approach get finalised. While the matrix is initially prepared during the design phase, as the audit work progresses it is being reviewed and updated, as and when required.

The main goals of the design matrix are to:

- ▶ document and formalise the audit approach.
- ▶ present a summary overview of the audit design.
- ▶ identify and document the 'why, what, and how' of the work by establishing a clear relationship between the audit's scope, objectives and methodology.
- ▶ link the work performed to its expected results; and
- ▶ facilitate stakeholder interaction, audit supervision and review.

Table 16: Sample of Audit Design Matrix

Audit Design Matrix						
Issue / Problem Statements: 3-5 sentence define the issue						
Audit researchable Question	Criteria	Required Information	Sources of Information	Scope of data collection procedure analysis	Limitations	What the analysis will conclude

Having determined audit questions that require answers, the auditor is also expected to append to the audit design matrix, the procedure to find answers to audit questions. It also highlights the data collection and analysis method as well as the type and sources of evidence required to support audit opinion/findings with reference to the defined audit objectives.

Table 17: Example of an Audit Design Matrix for Performance Audit of Community Managed Schools

Audit Design Matrix						
Issue / Problem Statements 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".						
Audit	Criteri	Required	Sources of	Scope of	Limitation	What

researchable Question	a	Information	Information	data collection procedures analysis	s	the analysis will conclude
1. To what extent did the program achieve its goals and objectives of Community Managed School						
1.1 What are the goals and the objectives of the program						
1.2 What are the KPIs of the Program						
1.3 What are the accomplishment of the Program so far						
1.4 What are the problems encountered by the Directorate of School Education						
1.4.1 To what extent the problem affects the program?						
1.4.2 To what extent the DOSE addressed the issues and the problem						

2 To what extent the program ensures that the funds are utilised as per the laid down criteria

2.1 What are the criteria and procedure for selection of students, funds spent on the education

Table 18: Example of an Audit Design Matrix for Performance Audit of District Hospitals in Uttarakhand

Audit Design Matrix						
Issue / Problem Statements To determine by PA of District Hospitals in State Government period 2014-19, to assess the outcome-based quality of medical services and patient care provided in the District Hospitals as per IPHS Standards.						
Audit researchable Question	Criteria	Required Information	Sources of Information	Scope of data collection procedure analysis	Limitations	What the analysis will conclude
1. To what extent did the district hospitals achieve quality in terms of medical facilities in indoor patients?						
1.1 What are the						

guidelines
for the
number of
doctors,
nurses
/specialist
doctors in
terms of
District
hospital with
no of Beds?

1.1.1 Are
doctors and
nurses as per
the
guidelines in
the District
Hospitals?

1.1.2 What
are the
reasons for
shortage of
the specialist
doctors and
nurses?

1.1.3 Cases
of referral in
case of non-
availability
of specialist
in case of
emergency
patients?

1.2 Has
drugs and
medical
equipment's
which are
essential to
be in District
Hospitals?
Are

adequately
provisioned?

1.2.1

Identify the
drugs and
medical
equipment's
which are
essential to
be in District
Hospital for
indoor
patients.

1.2.2

Examine the
essential
drugs stock,
in case of
shortage or
expired in
District
Hospital.

1.2.3

Examine the
medical
infrastructur
e in the
district
hospital in
terms of
non-
availability
of essential
medical
equipment's

1.3 Are the
medical
equipment's

idle with
the reason
for the same
1.3.1 What is
the condition
of medical
equipment's
in terms of
non-
operation

The Audit Design Matrix is to be suitably updated throughout planning, examination, and reporting phases to ensure that all identified audit issues are covered. Once the examination phase is over, the audit team shall suitably link Audit Design Matrix to the Audit Findings Matrix as discussed in Chapter 6.

5.9 Communication with Internal stakeholders and Auditee

Communication with internal stakeholders and auditee throughout the initial and ongoing design processes is key aspect of designing a sound audit plan. The audit plan needs to be developed in concurrence with internal stakeholders and submitted to senior officials for approval. Audit team, supervisor and internal stakeholders should collectively discuss and reach agreement on the audit plan, as documented in the design matrix to ensure all parties agree on the approach and accept the audit risks that may exist because the audit plan has not yet been tested.

Design is a continuous process; therefore, it is important that regular meetings are conducted with senior officials to inform them of audit progress and the use of assigned resources. This will allow senior officials to guide any necessary changes to the audit plan and continuously ensure that assigned resources are adequate to successfully conduct the audit.

5.10 Communication with External stakeholders

Requirement according to ISSAI 3000:

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

The auditor shall take care to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI.

(ISSAI 3000/55 and ISSAI 3000/59).

When designing an audit, it is important to communicate with external stakeholders also which include the audited entities, the legislature and other relevant government offices and when appropriate.

It is important to engage the audited entities early to discuss the audit subject matter, objective(s), criteria, audit questions and information needed, along with the time to be audited and the government activities, organisations and/or programmes to be included. Following benefits can be achieved through communication with external stakeholders:

- 1) Discussing these key aspects will provide a clear picture of what the audit is about and why it is being performed, what the result might be, and how the audit will affect the audited entities.
- 2) It creates a basis for exchanging views, avoiding misunderstandings, and facilitating the audit process.
- 3) It helps establish a constructive process for interacting with the audited entities that is essential to performing an effective audit.

While communication with the media generally occurs after an audit report is issued, audit team may need to be prepared during the design phase to respond to media enquiries or even develop a strategy for engaging the media as needs dictate, such as when the audit topic is controversial or high-profile. For ongoing work, it is generally appropriate to share information with the media only about: the audit objective(s), scope, and methodology; the source of the work; and the expected completion date. Audit details or potential findings are usually not shared with the media until work is completed and the audit report is issued.

5.11 Audit Planning Memo (APM)

After determining audit objectives/questions, designing audit scope & criteria, and deciding audit approach and methodology, the next step is to compile all the information in one single document i.e., audit planning memo (APM), it consists, detailed audit programmes explaining the procedures to be followed by the audit team to implement the chosen audit approach and methodology.

The audit planning memo provides a basis for regular monitoring of progress of audit. It helps audit team members to understand what is required from them. It facilitates redistribution of audit work in the event of changes in the composition of audit team.

The contents of the audit planning memo should include the followings:

- ▶ Background information
- ▶ Acts rules and policies
- ▶ Objectives and target
- ▶ Financial review
- ▶ Operational status of project/programme
- ▶ Segment operational model
- ▶ Audit objective

- ▶ Audit question and sub questions cope of audit
- ▶ Approach and methodology of audit
- ▶ Audit Criteria
- ▶ Audit Design Matrix
- ▶ Personnel engagement estimated working man-days of engaged manpower by level/skill or type.
- ▶ Detailed time and work schedule.

Audit Programmes: The audit programme/working documents should describe the nature, timing, and extent of audit procedures to implement the desired audit plan. The audit programme essentially translates the audit plan into detailed audit procedures to satisfy detailed audit objectives. It could be integrated with audit plan. The audit programme should be revised as necessary during the audit. The 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 programme sites, or recipient household during the field work
- ▶ Based on the professional proficiency of the collective staff, the audit may require special skills such as electronic data processing, engineering, legal, or another specialist.
- ▶ When and in what sequence various audit procedures be performed during the engagement.
- ▶ What type of recommendations and What level of detail will be expected to get the result from the engagement?

Chapter 6: Audit Execution

The main purpose of an audit is to execute the audit programme by conducting the audit in an efficient and effective manner to achieve the audit objectives and criteria and, at the end, producing a high-quality report.

The objective of conducting a performance audit is to obtain competent, relevant, and reasonable evidence to support the findings and conclusions of the audit. The main activities of this audit phase are:

- a) development of field work to gather evidence.
- b) analysis of collected data.
- c) preparation of findings matrix

Once a decision has been made to conduct an audit, the auditor shall develop a detailed audit programme/plan to specify how the audit criteria would be tested and identify possible means of collecting appropriate evidence against each audit criterion. The auditor then develops tests to confirm whether these sub-criteria or control objectives have been met.

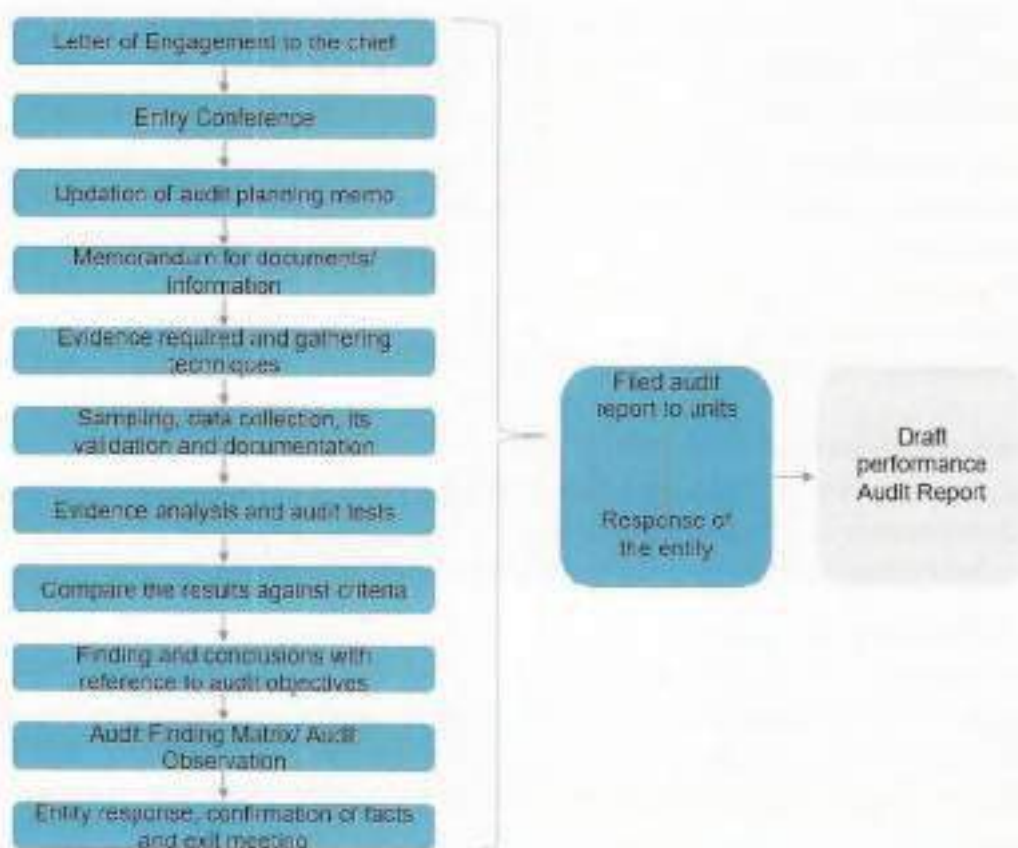
The main activities of this phase are:

- ▶ The fieldwork to collect data; and
- ▶ Analysis of the collected data that results in evidence. In practice, data collection and data analysis are not disassociated activities. Except for the surveys, generally data are collected, interpreted, and analysed simultaneously.

This examination phase deals with audit findings and evidence, techniques and information about data collection and data analysis, evaluate the sufficiency and appropriateness of audit evidence, and the findings matrix. Before completing the examination phase, the audit team must ensure that there is sufficient reliable and relevant evidence to conclude. Audit Parties in field shall collect the evidence that are verifiable, competent, and reliable to analyse the criteria based on Audit Design Matrix (on its questions and sub questions). This chapter contains the practices and procedures to be followed by the auditor during the implementation and will answer the following questions:

- ▶ How do you determine the sufficiency and appropriateness of evidence?
- ▶ How do you gather information for a performance audit?
- ▶ How do you analyse information?
- ▶ How do you document and safeguard information?

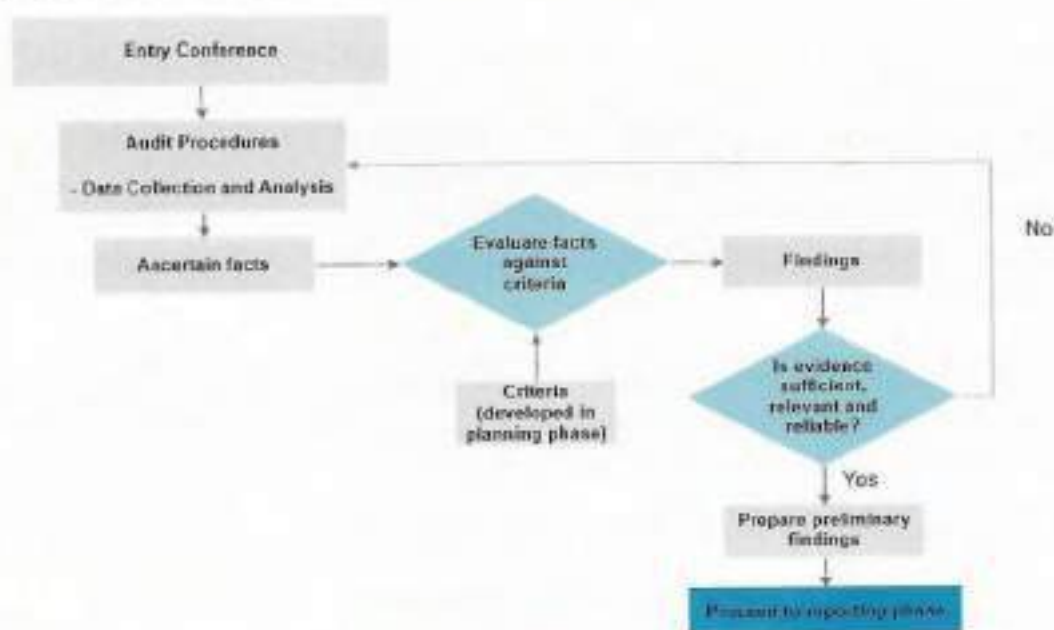
Figure 15: Following figures shows key activities under audit execution stage:



6.1 Field Audit Process

The field audit process begins with a formal intimation to the auditee agency of an intent to carry out performance audit of an entity. This formal intimation is communicated through an Engagement Letter to the audit unit/agency. It shall then be followed by an entry meeting between the audit team and the audit unit officials. The process shall then entail auditor's efforts made to collect, interpret and analyse data in relation to stated audit objectives and evaluating them against the pre-determined criteria. The steps involved in field audit process are shown in the below.

Figure 16: Field Audit Process:



6.2 Entry Conference at the Departmental level and Entry Meeting at audit unit

Entry Conference at the Head of Department level

As performance audit covers various units covering a range of not less than three years, hence first the entry conference shall be held at HOD level,

Entry conference at the commencement of performance audit is to be held with Head of the department concerned by at least Supervisory authority with the complete audit team(s). Wherever, more than one department/agency is involved, representation from such agencies/departments the major department shall be the Nodal department.

The purpose of this conference is to inform the entity about the areas to be audited along with audit objectives, the audit approach, and the timeframe within which the audit is expected to be carried out. Audit criteria/parameters/norms against which performance audit will be benchmarked should be also discussed.

A protocol for conduct of audit is to be set up during this conference including nomination of liaison officers, production of records, arranging joint inspections, authentication of audit evidence including photographs etc, issuing of audit observations, time for replies to be received and other arrangements.

This conference also gives the opportunity to discuss the concerns of the audited entity on the subject matter. The entry conference should be followed by preparing minutes of the proceedings which should be shared with the audited entity and acknowledgement requested.

Entry Meeting at the Audit Unit level

The purpose of the entry meeting is to establish effective communications between the audit team and the audit unit at the beginning itself. The entry conference meeting will be held among the audit team members, audit unit's head and key officials of the audit unit being audited. During the entry conference meeting the audit coordinator from audit unit shall be identified. The entry conference meeting will facilitate to build a good relationship between the audit team and official of the audit unit and. Following are the main points which shall be discussed in the entry conference meeting.

Before executing audit plan, auditor should communicate audit objectives, scope, and audit questions to the auditee by organizing entry meeting. The Entry meeting Agenda may include

- ▶ Introduction with team
- ▶ Audit Scope and Objectives
- ▶ Audit Plan
- ▶ Schedule of Audit
- ▶ Auditee units covered
- ▶ Initial requirements of Documents
- ▶ Initial Audit Design Matrix to understand the auditee

Refer **Annexure 4** for format of Entry Meeting.

6.3 Updating of Audit Planning Memo

Based on the entry meeting, in case any new/revised information comes out then the audit planning Memo prepared by the audit team at the audit planning stage shall be reviewed and updated to effectively conduct performance audit.

6.4 Work Distribution amongst Team Members

Based on the understanding about the department, the audit team leader shall divide the audit work among the team members and according to the work distribution they should proceed with the performance audit.

Refer **Annexure 5** for format of Audit Work Distribution.

6.5 Field Work

The fieldwork consists of collecting data and information set out in the audit planning. All fieldwork should be planned from the perspective of acquiring evidence to support the findings in accordance with the final report (ISSAI 3000/4.2). The type of data to be collected and sources of such data will depend on methodological strategy and established criteria.

Data Collection and Analysis

Data collection may be performed once, at repeated intervals or through continuous measurements. Information may be gathered based on physical evidence, documents (including written statements), oral testimonies (interviews), or by other means depending on the objectives of the audit.

The types of data to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance, and reasonableness. In addition to data material provided by the audit unit, the auditors may also produce certain data (its own source material) with the aid of questionnaires, surveys, and direct observation.

For efficient and effective performance auditing, it is desirable for the auditors to prepare checklist to enable collection of information comprehensively, although it is not practically possible to develop an exhaustive checklist. Thus, the auditor needs to continue improving the existing checklist so that points missed, if any, are included in the checklist.

Moreover, **illustrative checklists** for conducting performance audits based on the 3 Es of performance auditing are given as **Annexure 6-8** in this manual. These checklists are not exhaustive and are for reference purpose only. The auditors must prepare their own checklist for conducting performance audits.

Further, it is important to distinguish between the following components in the information gathering process:

- ▶ Records in the form of documents, files, etc.
- ▶ Questions formulated to be answered by the audit team.
- ▶ Data-collection techniques needed to answer the questions set (study of documentation, meetings, questionnaires, interviews, etc.).
- ▶ Audit programmes, i.e., the type of investigation that is needed for data-collection (such as sampling, case studies, secondary analysis, inquiries, 'before- and after analysis', comparable evaluations, etc.).
- ▶ Quantitative and qualitative analysis applied to the data collected (for deeper analysis of the information collected).

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

1. Audit Techniques

This refers to methods/techniques used by the auditor to gather evidence. Examples include (among others) documentation review, interviews, questionnaires, data analysis and physical observation.

a. Direct observation and physical inspections

Evidence obtained through direct observation and physical inspection is known as physical evidence. This method is considered far more reliable than indirect evidence provided by the audited entities. This is a technique for qualitative data collection that uses the senses to understand certain aspects of reality. It's not only about to see and hear, but also to examine facts or phenomena. It helps to identify and obtain evidence about situations over which individuals have no conscience, but that guide their behaviour. This method is mainly used to gain insight into, and understanding of, the way an operation is run; to obtain the views of staff in the field and discuss and test ideas. The text box below presents some tips and hints about direct observation

- ▶ Prepare a direct observation guide.
- ▶ Establish rapport with people.
- ▶ Choose the right period and time to conduct the direct observation.
- ▶ Select only activities or phenomenon representative and relevant for audit objectives.

- Emphasise that the objective of direct observation is to get the understanding on the work process, not to evaluate individual performance; and
- Try not to disturb the normal flow of work or people's behaviour.

Table 19: Examples of direct observations and physical inspections

Maintenance of government owned facilities by a contractor	Conduct site visits to relevant properties to physically inspect the buildings based on criteria established in the contract. Take photographs and document the condition you observe.
Procedures for customs Inspections at airports	Visit relevant airports and observe how customs inspections are being conducted. Record your observations so that you can compare what you observe to the audit entity's procedures for conducting inspections. This may help you determine whether inspections are being conducted according to the specified procedures and the level of resources that are required to conduct such inspections. You could also consider during your observations whether there are ways for the audited entity to be more efficient in the way they conduct their inspections.
Chemical hazards in food	Examine whether department are effectively complying with food safety policies by conducting the appropriate physical checks at food preparation, storage, and distribution sites.

b. Analysis

The auditor shall assess the appropriateness of the procedures, the volume of resources and the accountability relationships highlighted, if any, in the programme guidelines. Procedures would be tested against the criteria or a desirable control model for completeness, relevance against the legislation and administrative instructions, internal consistency, practicability, and compliance. It consists of review of the systems in place for planning, conducting, checking, and monitoring the activity being audited. This would entail examination of documents such as budgets, financial reports, programme guidelines, annual or other plans, procedure manuals, delegations, and reporting requirements.

c. Case Studies

A case study is a descriptive, exploratory, or explanatory analysis of an entity, scheme, or a programme. It is a method for learning about a complex issue, based on a comprehensive understanding of the instance. It involves an extensive description and analysis of the issue within the context of the whole area under review. The Case studies are used to gather qualitative information. The following box provide guidance on use of case studies:

- ▶ They can be used to supplement questionnaires for example: analysis of municipalities that have received more resources, a case study on at least one municipality state (or city) per region is better to obtain a good idea of situation in the State.
- ▶ Typical case – location with characteristics. This could make it easier to understand the situation in other places
- ▶ Good example and bad example – choose two similar locations: one with good performance and other with substandard performance. The idea is understood why there are differences on performance in similar locations.
- ▶ Places where the services are being implemented for some time. It will be easier to see the results.
- ▶ Places with many complaints about the quality of the service delivered.

d. Use of existing data

For most audits, the audited entities are the primary source of relevant documentary evidence. The audited entities documents that provide evidence to answer your audit questions. This documentation could be either qualitative or quantitative. Examples include:

- ▶ policies, guidance and organisational charts.
- ▶ contracts, invoices, accounting information and budgetary data.
- ▶ quantitative data about the performance of the topic being audited; and
- ▶ research or studies related to the audit topic

The existing data held by the auditee can be especially useful and relevant for the performance audit team to test for correctness and completeness with reference to the basic documents maintained by them. The performance audit team will maintain evidence of tests carried out to ensure correctness of data maintained and furnished by the entity.

e. Third-party sources

Relevant third-party organisations – such as auditee, experts, civil society organisations, contractors, professional organisations, research organisations or other government entities – which are not the primary subject of the audit, can also be useful sources for documentary evidence. For example, a research organisation may have conducted a relevant study about the audit topic.

f. File reviews

File reviews involve reviewing many similar types of documentary records, such as personnel files or contracts, to extract information. File reviews need to be structured and systematic to allow for the issues or questions to be addressed across files.

g. Web Source

Audit teams will often use web-based sources to obtain information. Sources may include the

websites of government agencies, legislative bodies, trade associations or media outlets. Such as those related to trade journals or newspapers – may be authentic but not necessarily authoritative or reliable.

h. Computer-processed data

Audit teams frequently obtain computer-processed data as a source of documentary evidence, such as data extracts from databases or software applications, data kept in spreadsheets, data collected from forms and surveys on web portals.

i. Surveys

Conducting of survey is another method of obtaining insight into an agency's activities, including the outputs and outcomes and their quality. This is a method of collecting information from members of a population to assess the incidence, distribution and interrelation of events and conditions. In social sector programmes, credible surveys on predetermined parameters can supplement the audit findings and conclusions, which add value to the performance audits. The nature of some programmes or activities selected for performance audits could be such that a focussed survey of a limited sample during the planning stage may provide more insight for setting the audit objectives and criteria. However, the results of survey alone cannot be the primary evidence for audit findings. Surveys can be used as corroborative evidence for audit findings established with the help of primary evidence.

j. Seminars and Hearings

Seminars might be used for acquiring knowledge on a specialised area; discussing problems, observations, and possible measures; gathering arguments for and against different views and perspectives. The purpose of hearings is mostly to invite or call for interested parties and experts to give their views on a particular area to be audited.

k. Benchmarking

The aim of benchmarking is to determine, through comparisons with performance or good practice elsewhere, whether there is scope for better performance. Comparisons can be made with other branches or units within the entity or with other relevant external organisations at home or abroad. The aim is to determine whether, by comparison with good practice elsewhere, there is scope for doing things better. This technique can help to identify opportunities to improve efficiency and make savings.

High-level comparisons can be made with other auditee unit / best practices in other state carrying out the same function. Example: schools, hospitals or administrative units or offices throughout the country.

Performance benchmarking uses a range of measures and indicators to compare performance.

Areas covered include productivity, unit costs and quality of service. Examples: pupil-teacher ratios, patients treated by hospitals, job placements achieved, and unit cost of training provided.

l. Analysis of Result

Analysis of results from examining several instances of entity activity in a particular area will help decide if entity's performance in that area conforms to audit criteria. This will also require the auditor to assess the input-output model designed in the programme and carry out actual input-output analysis to determine the efficiency of the programme. Analysis of results may also entail analysis of impact of the programme against the expected impact.

m. Quantitative analysis

Quantitative Analysis involves examination of data available in any form, like earnings, revenue, market share types of audit evidence can be obtained by using different methods of collecting data, as listed in the table below: Quantitative analysis ranges from simple (for example, calculating an average) to complex (for example, statistical modelling) methods. In performance auditing, quantitative analysis can help cover important patterns and relationships in data and identify areas that need attention or improvement.

Statistical analysis is the science of uncovering patterns and trends in data. It can range from simple descriptive statistics to complex analysis like regression analysis) that requires sophisticated techniques and software. Descriptive statistics in performance audits, summarise and describe distributions in the data you have collected in a meaningful way, such as in analysing the audited entities' achievement of performance targets by site or income distribution in a population.

Table 20: Example of statistical analysis methods:

Concept	Definition	When to Use
Mean	The sum of a set of values divided by the number of values; also known as average.	Useful when data points are symmetrically distributed. Use caution if you have data points that are extreme outliers — that is, unusual when compared to the rest of your data.
Median	The middle value when the values are arranged in order of size; the 50th percentile.	Useful when extreme scores or outliers may distort the mean.
Mode	The most frequent value of a set of values.	Useful when you are looking for the most common category, popular option or typical value.
Range	The difference between the highest and the lowest observation.	Useful to complement the mean and median to discuss how data points are distributed.

Concept	Definition	When to Use
Variance	Quantifies the extent to which elements of a population are spread out from each other; average of the squared distance between the single observation and the mean value.	Useful to complement the mean as a measurement on how scores are distributed.
Standard Deviation	Measure of the dispersion or spread in the data; the square-root of the variance.	Useful to complement the mean as a measurement of how data points are distributed; use caution if the data have significant outliers.

Most audits involve some type of analysis to understand or explain what has been observed. In fact, analysing quantitative and qualitative data is a crucial step in all performance audits. When analysing information collected, it is recommended that the auditor focus on the audit question and objective. Almost all audits include different forms of document analysis. Depending on the number of documents and criteria that are analysed, the analysis can vary in detail. The final stage in the data analysis involves combining the results from several types of sources.

2. Audit Procedures

Audit Procedures are the steps performed to get all the information regarding the quality of the information provided, which enable them to achieve Audit objectives with proper verification of Audit evidence referred in Para 6.6. Audit procedures refer to the action steps taken systematically and reasonably to execute an audit technique.

Example of an Audit Procedure

Name of the project: Road rehabilitation and maintenance project

Audit objective: To determine if the need for the project was properly established to ensure that the desired results were achieved at an appropriate cost.

Criterion: A formal project needs-definition should be carried out prior to commencement of the project.

Audit technique: Documentation review

Audit procedures:

- ▶ Review the project needs-definition segment of the project appraisal report.
- ▶ Obtain information to verify whether survey of users was conducted, traffic volume statistics were collected and anticipated growth in traffic determined.
- ▶ If verification at Step 2 above is positive, determine whether the data was gathered and reported in a systematic manner supported by appropriate methods.
- ▶ Conclude whether the criterion has been met.

- ▶ Note any exceptions.

3. Daily Diary

The audit team members shall maintain the record of their daily working in the daily diary. During audit, each audit team member is required to keep an account of work done by them. Such a diary shall be kept date wise and should include the following:

- ▶ Name of auditor(s)
- ▶ Name of audit unit
- ▶ Audit Team number
- ▶ Number of working days allotted
- ▶ Date of commencement of audit
- ▶ Period of audit
- ▶ Date of allocation of work
- ▶ Number of hours worked on audit (work allocation wise)
- ▶ Area of work allocated by audit team leader
- ▶ Progress made during the day.
- ▶ Work completion date and time
- ▶ Basic assumptions and calculations used by auditors
- ▶ Any other matter which auditor seems necessary to include in daily diary

The audit team leader shall review the daily diary of team members and provide appropriate comments.

Refer **Annexure 8** for format of Daily Diary.

6.6 Audit Evidence

Ultimately, the product of data collection and analysis exercise for the auditors shall be obtaining sufficient and appropriate audit evidence to establish auditor's findings and reach audit conclusions to fulfil the audit objectives and questions.

Requirement for evidence gathering according to ISSAI 3000:

The auditor shall obtain sufficient and appropriate audit evidence to establish audit findings, reach conclusions in response to the audit objective(s) and audit questions and issue recommendations when relevant and allowed by the SAI's mandate. (ISSAI 3000/106)

The standards for performance audits require that the auditor retain a record of the work in working papers, have procedures for their preparation, and support the findings and conclusions in the report through evidence. Evidence should also be sufficient for the auditor to form an opinion.

When the audit evidence is obtained, the auditor must assess whether the evidence is sufficient and appropriate. Based on this assessment, the auditor must decide if more or different evidence are needed.

In performance audits, evidence is rarely conclusive (yes/no or right/wrong). Audit evidence is persuasive (*'points towards the conclusion that...'*). When working in areas where evidence is persuasive rather than conclusive, it is also important that the auditor seeks information from different sources, since organisations, individuals in an organisation, experts, and interested parties will have different perspectives and arguments to put forward.

Evidence gathered during a performance audit may be qualitative in nature and require extensive use of professional judgement. Accordingly, the auditor would ordinarily seek corroborating evidence from different sources or of a different nature in making assessments and forming assertive conclusions.

"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 (more reliable source as compared to a person who is biased and has only partial knowledge.)

Sufficiency of evidence:

Sufficiency is a measure of the quantity of the evidence you use to support findings and conclusions related to your audit objective(s) and questions.

Appropriateness of evidence:

- ▶ **Relevant evidence** is logical and important to issue that is being addressed. For example, the auditors' generated evidence, such as recalculation working, is usually considered to be the audit evidence of the highest quality. This is due to it is considered the most reliable as this type of evidence is the auditors' working.



- ▶ **Valid evidence** is based on valid reasoning and accuracy of information. For example, information obtained from the website of a political party may not be a valid source of evidence because the source of the information could be biased.
- ▶ **Reliable evidence** means results are consistent when information is measured or tested and must be verifiable or supported. For example, quantitative data that you obtain from an information system may not be reliable if you find that users do not enter the data into the system consistently or check it with errors.

Sufficient and appropriate evidence

- ▶ **Evidence is sufficient and appropriate** when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives.
- ▶ **Evidence is not sufficient or appropriate when:**
 - a. using the evidence carries an unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion,
 - b. the evidence has significant limitations, given the audit objectives and intended use of the evidence, or
 - c. the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions. The auditor may not use such evidence as support for findings and conclusions.

When planning the audit, the auditor shall identify the probable nature, sources and availability of audit evidence required. Other factors such as the availability of other audit reports or studies and the cost of obtaining such audit evidence may also be considered.

Further, all the relevant evidence shall also be uploaded and shall be maintained in the repository.

Auditor must determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives. Professional judgment assists the auditor in determining the sufficiency and appropriateness of evidence (see also Professional judgment and scepticism in Interpreting, summarising, or analysing evidence that is used in the process of determining the sufficiency and appropriateness of evidence).

Where appropriate, the auditor may use Sufficient and appropriate evidence

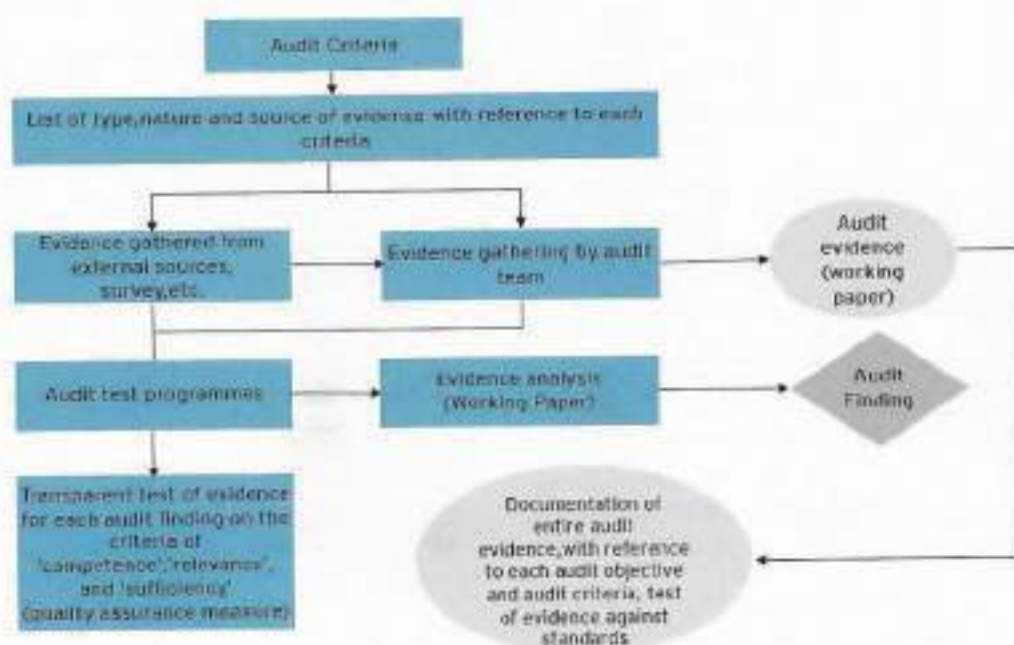
- a) Evidence is sufficient and appropriate if it provides a reasonable basis for supporting the findings or conclusions.
- b) Evidence is not sufficient or appropriate when:
 - ▶ Using the evidence carries an unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion,
 - ▶ The evidence has significant limitations, given the audit objectives and
 - ▶ Intended use of the evidence, or
 - ▶ The evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions.

- ▶ The auditor may not use such evidence as support for findings and conclusion statistical methods to analyse and interpret evidence to assess its sufficiency.

Evidential Process

- ▶ Determine the characteristics of data required.
- ▶ Collect data relevant to the audit objectives.
- ▶ Collect data to carry out tests against audit criteria linked to the audit objectives.
- ▶ Collect data (evidence) which is sufficient and persuasive to logically support the analysis, audit findings, conclusions, and recommendations; and
- ▶ Apply the standard of evidence, where direct cause and effect relationship cannot be established, to build a successful case on the balance of probabilities.

Figure 17: Evidential Process:



Characteristics of Performance Audit Evidence

In performance audit terms, audit evidence concerns the facts or information used:

- ▶ to conclude whether an auditee had carried out appropriate actions to conform to operational principles, policies, or standards for using resources effectively, efficiently, and economically; and
- ▶ to demonstrate to a third party that the auditor's findings are credible and defensible.

Table 21: Auditors need to be aware of potential problems or weaknesses with performance audit evidence. Potential problems include:

S. No.	Potential Problem	Potential Problem Impact on			
		Relevance	Reliability	Validity	Sufficiency
1	Evidence is based on a single source		√	√	√
2	Oral evidence is not supportable by documentation or observation		√		
3	Evidence is time-sensitive, i.e., outdated and does not reflect changes	√			
4	Evidence is too expensive to obtain relative to benefits	√			√
5	The source of evidence has a vested interest in outcome		√		
6	Samples collected are not representative	√		√	√
7	Evidence may be related to an isolated occurrence			√	√
8	Evidence is incomplete, i.e., does not demonstrate a cause or effect		√		√
9	Evidence is conflicting		√		

Types of Evidence

Evidence can be categorised with reference to their type as physical, oral, documentary, or analytical.

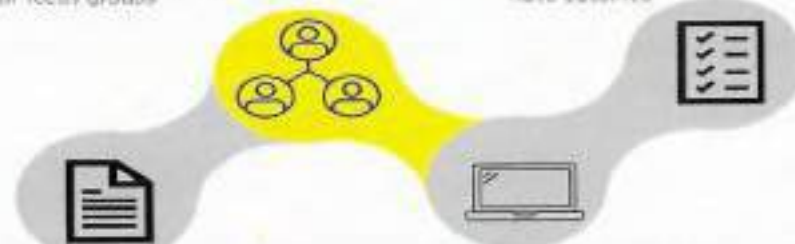
Figure 18: Types of Audit Evidence:

Oral or Testimonial Evidence

Obtained through analysis of information that is provided by an individual(s) in verbal or written form through methods such as interviews, surveys or focus groups

Analytical Evidence

Built by auditors who apply various analytical processes such as comparisons or computations and analytical reasoning to the other types of information that they have obtained



Documentary Evidence

Obtained through analysis of already existing information that an auditor may obtain from the audited entity or a third party, such as contracts, invoices, database extracts, memoranda or management information on performance

Physical Evidence

Obtained Through analysis of information produced by an auditor's direct inspection or observation of people, property or events. This evidence may then be documented in summary memos, photographs, videos, drawings, charts, maps or physical samples

- ▶ **Physical evidence** is obtained through observation, photographs, charts, maps, graphs, or other pictorial representations, etc. It is desirable to corroborate physical evidence, particularly if it is crucial to any audit findings (linked to the audit objectives) with other types of evidence.
- ▶ **Oral or testimonial evidence** is the statement in response to audit inquiries or interviews. The statements made can either provide a background or a lead for further examination that may not be available through other forms of audit work or may provide corroborating evidence (e.g., beneficiary survey). The statements can be by the employees of the entity, beneficiaries, experts, and consultants contacted to provide corroborative evidence, etc. It will be essential to corroborate the oral evidence if the oral evidence is itself to be used as primary evidence rather than simply as a background or lead for further examination. The corroboration of oral evidence could be:
 - ▶ By written confirmation by the person interviewed.
 - ▶ By weight of multiple independent sources disclosing same facts.
 - ▶ By checking the records later; or
 - ▶ By entrusting the collection of evidence to independent organisations of repute.
- ▶ **Documentary evidence** in physical or electronic form is the most common form of audit evidence. These could be both internal as well as external.
 - ▶ Some examples of internal documentary evidence are accounting and information records, copies of outgoing correspondence, plans, budgets, annual reports, and Performance Audit Reports, etc.
 - ▶ Some examples, of the evidence from external sources are documents originating from other entities (viz. notes or reports of other Ministries or departments, incoming correspondence, external evaluations, and surveys). Internal documentary evidence originates within the entity. In most cases, the external evidence is also obtained from the records of the entity.
 - ▶ Reliability, relevance, and sufficiency of documentary evidence should be assessed in relation to the objectives of the audit.

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

Different types of audit evidence can be linked to different methods for collecting data, as listed in the box below.

Audit Evidence	Methods of data collection
Testimonial evidence	<ul style="list-style-type: none">▶ Interviews▶ Surveys, questionnaires▶ Focus groups▶ Reference groups
Documentary evidence	<ul style="list-style-type: none">▶ Document review▶ File reviews▶ Using existing statistics▶ Using existing databases
Physical evidence	<ul style="list-style-type: none">▶ Observation of people▶ Inspection of objects or processes
Analytical evidence	<ul style="list-style-type: none">▶ Experiments, e.g., level of Computer Data Security▶ Quantitative data collection methods.▶ Regression analysis,▶ Computations, comparisons, separation of information into components, and▶ Rational arguments

There are different types and sources of evidence that the auditor may use. Each type of evidence has its own strengths and weaknesses. The following contrasts are useful in assessing the appropriateness of evidence:

- ▶ **Documentary evidence** is more reliable than oral evidence, but the reliability varies depending on the source and purpose of the document.
- ▶ **Testimonial evidence** that is corroborated in writing is more reliable than oral evidence alone.
- ▶ **Evidence based on many interviews** together is more reliable than evidence based on a single or a few interviews.
- ▶ **Testimonial evidence** obtained under conditions in which people may speak freely is more reliable than evidence obtained when people may feel intimidated.
- ▶ **Evidence obtained from a knowledgeable, credible, and unbiased third party** is more reliable than evidence obtained from the auditee entity or others who have a direct interest in the auditee entity.
- ▶ Evidence obtained where **internal control is effective** is more reliable than evidence obtained where internal control is weak or non-existent.

- ▶ Evidence obtained through the **auditor's direct observation, computation, and inspection** is more reliable than evidence obtained indirectly.
- ▶ **Original documents** are more reliable than copied documents.

Sources of Evidence

Sources of evidence may vary from case to case. Following are some illustrative sources of important evidence:

- ▶ **Policy statements and legislations:** Policy documents, operating guidelines and manuals, administrative orders, etc. along with the background papers leading to their promulgation.
- ▶ **Published programme performance data:** Budget, accounts including outputs, plan documents, performance budgets and reports, programme documents, annual reports and replies or statements placed before Parliament and legislature.
- ▶ **Internal reports and reviews:** Internal reports and reviews, minutes of meetings and information/performance reports, etc.
- ▶ **Files of the entity on the subject:** Files provide strong evidence to support audit findings. It may not be possible to examine all files of the entity due to time constraint. The selection of the files for examination will be guided by the audit objectives or the purpose of the investigation. Depending upon the subject of performance audit, the audit team may examine a sample selected at random. Some of the more important files that can provide the desired evidence are:
 - ▶ Strategic and operational planning files.
 - ▶ Budget files.
 - ▶ Entity control, monitoring, and review files.
 - ▶ Internal audit reports, internal and external evaluations.
 - ▶ Complaints and disputes, etc.
 - ▶ Databases maintained by the entity.
 - ▶ evidence; and
 - ▶ External sources - independent surveys, evaluation, research, etc.
- ▶ **Website of auditee entities, the regulators, and other related entities:** It should be ensured that the website from which the audit evidence is being taken is reliable and updated. The source of such information should be shared with auditee entity and suitably depicted in the audit report.
- ▶ **Physical verification/inspection:** Auditors may make an assessment based on the nature of the subject of performance audit and the audit objectives as to whether physical verification/inspection is required to achieve the audit objective and document the results of their assessment. Some of the measures to transform the observed evidence into competent evidence could be joint inspection in which the result of such inspection is certified by the representative of the entity holding responsible position, outsourcing the physical observation to an agency, and supplementing the observed results with photograph, etc. attested by the representative of the entity.

6.7 Audit Findings Matrix

It is desirable for an audit team to prepare an Audit Findings Matrix where an auditor can record all the information, data, and evidence gathered during the audit. The audit findings can be elaborated *vis-à-vis* good practices and the potential audit recommendation along with the expected benefits in case the recommendation is already implemented. It is meant to provide a link between the audit objectives, criteria, the audit observation, and the recommendations emerging therefrom.

Table 22: Sample of Audit Findings Matrix

Audit Objectives/Sub-objectives: To ascertain the existence and/or adequacy of policy and institutional framework in ensuring effective management of road maintenance works, and implementation thereof							
Findings: Some divisions have not followed the existing policies and frameworks							
Situation Found vis-à-vis audit question	Criteria	Evidence and analysis	Causes	Effects	Good Practices	Recommendations	Expected Benefits

Audit findings are arrived at by comparing the evidence to the criteria. These are based on the analysis of information collected during the audit. Further analysis of the nature and magnitude of the issue will lead to the development of audit observations. These observations should be based on objectives, rationality and project-specific standards and criteria. Audit conclusions should be developed and evaluated throughout the audit. Potential conclusions identified in the planning stage.

Further, the performance team must determine whether the deficiency is an isolated instance or represents a generic or systemic problem. Such audit observations may also require the application of significant judgement and interpretation in answering the audit questions, since audit evidence may be persuasive, which points towards the conclusion, rather than conclusive, which is right or wrong in nature.

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

6.8 Issuance of Audit Finding Memorandum

During the audit analysis and evaluation, audit team might come across various issues/findings (Refer Audit Finding Matrix) for which a clarification is required from the audit unit. Such information may be asked by issuing Initial Memorandum.

An Initial Memorandum is designed to bring together findings and conclusions for a specific area of audit, which is self-contained (including the sources and types of evidence used) and logical. The audit team member or the team leader may determine findings on the audit question and sub question or develop with the help of issuance of an assessment paper.

Initial Memorandum created by team member shall be reviewed and approved by team leader before sharing it to the audit unit. Memorandum shall be approved or rejected by the team leader only once and the Memorandum created by team leader shall be sent directly to audit unit. There could be following scenarios:

- ▶ **If Memorandum is approved by the Audit Team Leader:** The Memorandum shall be sent to the audit unit for seeking response. The auditor is required to evaluate the response provided by the audit unit on each Memorandum and accordingly take necessary actions. Following are the two outcomes of a Memorandum:
 - ▶ **Resolved Memorandum-** In case audit unit provides a response, which is satisfactory as per the auditor, then Memorandum shall be resolved.
 - ▶ **Un-resolved Memorandum-**
 - ▶ In case audit unit fails to provide response within stipulated time, then Memorandum shall be treated as un-resolved and shall be converted to Final Memorandum which will form part of Draft Performance Audit Report.
 - ▶ In case audit unit provides a response, which is not satisfactory as per the auditor, then Memorandum shall be treated as un-resolved and shall be converted into Final memorandum which will form part of Draft Performance Audit Report.
- ▶ **If Memorandum is not approved by the audit team leader:** It shall be sent to the audit team member again along with the comments (reason for rejection) for necessary corrections, and the same will be rectified by the audit team member accordingly.

Refer Annexure-10 for format of Audit Finding Memorandum

Audit Findings

Requirement according to ISSAI 3000:

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

Audit findings are the evidence gathered by the auditor during the field work, will be used to answer audit questions. Audit findings are the discrepancy between the actual situation and the criterion. The findings contain the following attributes: criterion (what should be), condition (what is), cause (why is there a deviation from norms or criteria) and effect (what are the consequences of the situation found).

In developing a finding, it should be ensured that finding:

- (1) Is consistent with the evidence on which it is based.
- (2) Answers the audit question.
- (3) Helps organise the information collected
- (4) Helps organising and analysis of information to determine what it all means.

The Audit Finding matrix is carried out in following manner:

Step 1 is setting the audit criteria, which is done in the planning phase. (Criterion)

Step 2 is gathering of evidence and assessing whether these are sufficient and appropriate. (Condition)

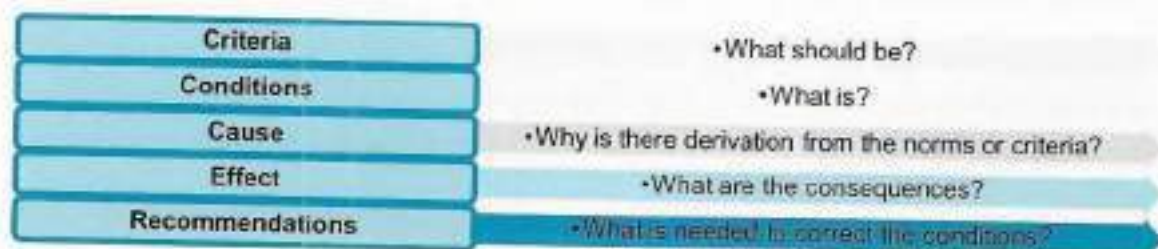
Step 3 is where the auditor uses the evidence to answer the audit objective(s) and audit questions.

Step 4 is once the auditor has identified a deviation between 'what should be' and 'what is', auditor is advised to determine, where possible, why the deviation occurred (cause) and what the consequences (effects) of this are Cause and effect.

Step 5 is the auditor will reach a conclusion based on the findings. Formulating conclusions may require a significant measure of the auditor's professional judgment and interpretation to answer the audit questions and objective(s). It is necessary to consider the context and all relevant arguments, and different perspectives before conclusions can be drawn. (Audit observation and Recommendations).

Analysing Evidence and Developing Findings and Recommendations

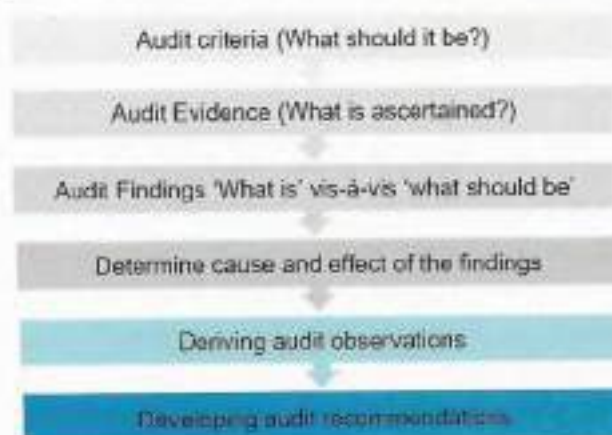
Figure 19: Attributes of a finding:



Audit findings are based on the identification of performance gaps such as where controls are deficient or ineffective in mitigating risks. Audit findings have often been regarded as containing the elements of criteria, condition, effect, and cause when problems are found. However, the elements needed for a finding depend entirely on the objectives of the audit.

Thus, a finding or set of finding is complete to the extent that the audit objectives are satisfied. The elements of a finding contain the following:

Figure 20: Developing Recommendations and Conclusions:



Criteria

Criteria are standards against which the adequacy of performance is assessed. They represent a reasonable and informed person's expectations of 'what should be'. When they are compared with what exists, audit findings are generated. Failing to meet the criteria would indicate that improvements could be made. Where possible, it is a good idea to identify the nature of such improvements or even how they might be achieved.

Under the Performance Audit of District Hospital (DH) for patient and medical facilities improvement in last five years was audited as per IPHS, a DH should provide at least specialist in-patient services pertaining to following General Medicine, General Surgery, Paediatrics, Ophthalmology, Orthopaedics Ear Nose & Throat, Psychiatry, Accident and trauma ward, Physiotherapy, Dialysis. As per IPHS Criteria 14 medicines were in category of essential medicine for District Hospital for Indoor patients were required.

Condition

Conditions are what the auditor finds because of his review. It should be compared to the criteria to assess if the condition falls short of the criteria.

Auditor Observed that:

- ▶ All the DHs audited failed to provide Accident & Trauma; and Psychiatry services during 2014-19.
- ▶ Dialysis service was not available in any of the test checked DHs except Udham Singh Nagar's
- ▶ Whereas Burn ward was available only in Chamoli and Udham Singh Nagar during 2014-19.

Audit observed that in range of period of 30 days to 150 days were out of stock. Vitamin-K (except JH Chamoli) were not available in any of the test checked DHs/JHs during the sampled months. Digoxin (used to treat Cardiac arrest and superficial bleeding) was available in only DH Almora in one out of five sampled months

Effect

Effect is an impact of the gap or result of an event i.e., the consequences of the condition falling short of the criteria. The effect of a finding may be quantifiable in many cases such as making an estimation of the cost of expensive processes, expensive inputs, or unproductive facilities. Additionally, the effect of inefficient processes, for example, idle resources or poor management, may become apparent in terms of time delays or wasted physical and other resources. Qualitative effects as evidenced by a lack of control, poor decisions, or lack of concern for service to taxpayers may also be significant. The effect should demonstrate the need for corrective action. The effect can also have occurred in the past, be occurring now or possibly in the future.

The audit scrutiny of IPD services revealed non-availability of IPD services such as Psychiatry; Accident and Trauma; and Dialysis services and shortage of essential medicine indicated that either the quality of treatment was compromised due to non-availability or the patients were compelled to buy these drugs from outside, leading to additional expenditure by the patient. Hence in one or more parameters test checked DHs, were not able to attain the outcome indicators of patient facilities.

Cause

Causes are reasons for occurrence of the gap/event. Identifying the cause provides information on accountability relationships and provides the means to initiate improvements. Some causes may be of a nature, which are beyond the control of auditee such as natural calamities like floods or unanticipated realignment of currencies leading to some distortions in comparing actual with budget.

The shortage of specialist Doctor cause was due to shortage of doctors got compounded owing to deputation of specialist doctors and Medical Officers to other hospitals/temporary attachment for special services and because of study leave/long leave availed by doctors without any alternative arrangements being put in to run the services. The medicines were procured centrally by DGHS, the indent issued by DH and medicine received from the Central store had,

Determining cause and effect

The **cause** is the factor or factors responsible for the difference between the evidence and the criteria and may also serve as a basis for recommendations for corrective actions. For example, poorly designed policies, procedures, or criteria, inconsistent, incomplete, or incorrect implementation, or factors beyond the control of auditee. Also, ascribing poor evidence to

inadequate planning may be insufficient. What was the reason for inadequate planning? Was it misplaced priorities?

Something else? If you do not believe the cause is reasonable or credible, then you may want to explain your concerns to the audited entities and hold further discussions.

The **Effect** can be determined by following methods:

- 1) Comparing the actual situation to the ideal condition, had the criteria been met.
- 2) Identifying effect as either what has already occurred, or a likely future impact based on logical reasoning.
- 3) Positive or negative effect based on achieving or not achieving economy, efficiency and/or effectiveness.

Direct cause-and-effect relationship: for example, Issuance of medicine by central store less than by demanded by the DH lead to shortage of medicines in DH:

- ▶ Reverse cause-and-effect relationship: for example, poor examination results could be due to poor attendance.
- ▶ Coincidence: for example, there may be a relationship between the quality of healthcare in a local authority and examination results in that same area, but it is difficult to know whether one causes the other.

Audit criteria and evidence

This evidence assessment process consists of combining information from the different types of data sources to gain information and knowledge about the actual conditions. Which means information from interviews may be combined with analysis of statistical records; information from case studies may be combined with information from surveys; and some information may come from field studies in one province while other information refers to another province. Combining this information is like completing a jigsaw puzzle, where the pieces are the different elements of information and analysis.

If there is a deviation between the criteria and the evidence identified, or the audited entity is not acting consistent with the criteria to which you are assessing them, then the next step after this assessment is to analyse and confirm causes – that is, why there is a deviation from the criteria. This could lead to a potential recommendation.

Sometimes, the lack of information about your audit objective(s) or questions can be a finding in itself. For the same audit question related to the sufficiency of training for customs inspectors, if you find the audited entity does not collect information about whether customs inspectors that took the audited entity's customs inspection training believe the training prepared them for their jobs, then this could indicate the audited entity may need to collect this information so that it can make more-informed decisions about the training.

Example on the Elements of a Finding:

Project Need Identification			
Criteria	Condition	Cause	Effect
Radiology Services - IPHS 2012 prescribe adequate availability for radiology services for the district hospitals (e.g.: X-ray, Ultrasonography and CT scan, etc.) – Note 1	Full range of prescribed radiology services was not available in the test checked hospitals.	Absence of radiology services in the district hospitals was mainly due to non-availability of required radiology equipment and/or due to need of full time skilled human resources.	The absence of full range of radiology services, therefore, impacted the efficiency and appropriateness of the level of care to be offered in district hospitals as per IPHS
Decision making under PWD department - The decision making in the need definition process should be based on objective and rational approach.	Selection of projects is done based on best judgement of the PWD. The needs identification is not based on specific procedures.	The PWD does not maintain detailed information on roads to identify/prioritize the projects.	More beneficial and essential road projects might not have been selected.

Note1: Reference were taken from C&AG Performance Audit Reports issued on topic i.e. (i) Performance Audit on 'District Hospital Outcomes' in State Government.

Assessing audit evidence

While the nature of audit and the information collected will help you determine the most appropriate way to assess audit evidence, there are several techniques to assess your evidence which are mentioned as follows:

Grouping and labelling evidence

In this method the information is grouped and labelled to identify logical categories. Grouping helps you identify ways in which information collected from different sources may be connected. After analysing the relationship between the information in a group, you can then label each group with a heading: either a phrase or a sentence that expresses this relationship as a main theme. Your audit documentation can be used to help you populate this information.

For example, for information collected to answer an audit question related to the sufficiency the quality of OPD Service in district hospital will require the data from hospital of the total patient registered for OPD, Survey of the patient, Total time taken by an OPD patient.

Using visual displays and linkages

Another technique is to use visual displays to make connections within and across audit questions. Options include a mind map, a fishbone chart, or an organisational chart.

Mind Map

A mind map helps visualise and display all the information related to a specific topic or question.



For example, for an audit question related to the sufficiency of training for customs inspectors, you could use the topic of training curriculum as the central anchor or idea and use each surrounding box to display one of the topics the curriculum covers.

Fishbone Chart

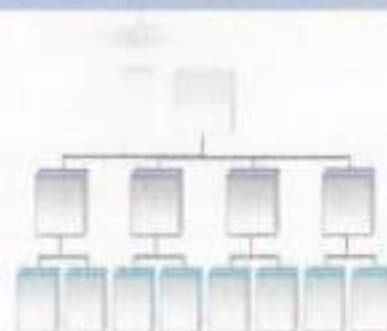
It can be used to graphically identify and organise possible causes of a problem so that you can develop recommendations aimed at the root cause.



For example under the quality check of in house patient services graphical representation can be made for evaluation of through Outcome Indicators viz. Bed Occupancy Rate (BOR), Bed Turnover Rate (BTR), Discharge Rate (DR), Referral Out Rate (ROR), , in terms of the district hospital to the average of the State

Organisational Chart

An organisational chart can help you display how each piece of evidence is related to the others. In case of Performance Audit of implementation of Solid Waste Management ULB through ULBs had shown that at each level of governance there were serious lapses.



For example: The Urban Development Department (UDD) failed to lay down mechanism of monitoring as well as they were not able to communicate the mechanism to ULBs. Consequently, the ULBs were operating disposal facilities without valid authorisation from UK SPCB and necessary environmental clearance. The above lapses indicate lack of basic monitoring by ULBs and district/State level authorities to ensure compliance to statutory requirements and posed a serious threat to the environment besides leading to health hazards.

Professional Review

These are models in which experts examine the matter in hand and make judgments based on their subjective perceptions about the standards which are appropriate. There are three categories:

1. Art Criticism: this is a “connoisseur” approach in which the expert would critically appraise the subject in the traditional way critics work. Such an expert is unlikely to exist within an audit team but could be seconded or contracted for the period of the audit. Such an approach could be tried for the effectiveness of Government publications, museums, and art galleries and horticultural displays.

2. Accreditation: this relies on prior expertise and knowledge of selected experts to examine the subject and determine whether, subjectively, minimal standards are met. For e.g., a performance audit of development of Infrastructure project an expert from IIT Roorkee is hired as a technical expert to check and guide the team regarding technical parameters which have been laid down as audit criteria

3. Content Analysis: Content analysis is a set of communication analysis techniques that aims to obtain, through systematic and objective procedures of the content’s description, indicators that allow the inference of knowledge. It is used to analyse interviews, focus groups and documents (Bardin – Content Analysis, 1970). There are different kinds of content analysis. The most used is the Categorical analysis. It is done by breaking up the content in different categories. The content analysis can be done on open questions (without pre-defined answers), which gives different views from the respondents, while analysing the answers of a questionnaire.

The content analysis has three phases:

- ▶ Pre-analysis: data are organised and procedures for analysis are established.
- ▶ Material Exploration: the codification, breaking up and enumeration are executed; and
- ▶ Results Treatment is about interpreting the result

Writing on walls

This is a technique where the entire team and its internal stakeholders and supervisor assemble in a room (or gather virtually via Skype or other method), and with the help of a trained facilitator, talk through their audit questions and what evidence they have collected those addresses each of those questions. Teams then visually display the evidence, using sticky notes on a wall or via a computer, so everyone on the team can see the preponderance of evidence and what themes develop from that evidence. Over the course of a few days, the team then discusses the various evidence, often moving around the notes, and developing a visual display of the audit findings. The facilitator plays an important role in asking the team and stakeholders about the supporting details of the evidence, the reasons (causes) for any deficiencies and the effects.

A good writing on walls session includes:

- 1) At least two weeks gap between data collection and holding a writing on wall session so that all documentation is collected and reviewed prior to the session.
- 2) Review of all audit documentation to be familiar with materials and pay particular attention to those you believe may be particularly relevant to your questions.
- 3) Not writing on wall sessions related to findings and recommendations with preconceived notions and be open minded.

Developing conclusions and recommendations

After assessment of your evidence that may lead to audit findings, based on these findings, we may be able to reach at a conclusion and giving recommendations accordingly.

Developing conclusions

Conclusions let you make a short and convincing argument that action is required to address a deficiency or take advantage of an opportunity for improvement and set up the basis for any recommendations. Conclusions also allow you to: present your opinion, anchored in your evidence; clarify and add meaning to the specific findings; and go beyond restating the findings that will be presented in your audit report.

Tips for developing effective conclusions

- | |
|---|
| ▶ Link the conclusions back to the audit objective and explain why the audit is important |
| ▶ Ensure that the conclusions are balanced, highlighting the significance (positive and negative) of the audit findings and the audited entity's progress (if any) in dealing with problems raised. |
| ▶ Make sure that the conclusions flow logically from the audit findings. |
| ▶ Do not merely summarise or restate the findings but explain their significance and why recommendations are needed. |
| ▶ Provides a clear linkage to the recommendations of the report. |

Developing recommendations

Requirement according to ISSAI 3000:

The auditor shall provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit, whenever relevant and allowed by the SAI's mandate. (ISSAI 3000/126).

Recommendations to correct deficiencies and other findings identified during the audit. It is helpful to show the linkage between your audit findings and recommendations by using consistent keywords and phrases. The features of a good recommendation can be represented by the acronym SMART: Specific, Measurable, Attributable, Relevant and Time-bound. In some circumstances, discussions with the audited entity can help the team to determine the 'Time-bound' piece of SMART or timeframes for implementation.

Recommendations can be based on the following:

- ▶ Directed at resolving the causes of weaknesses or problems identified.
- ▶ Practical.
- ▶ Value-added.
- ▶ Well-founded and flow logically from the findings and conclusions.
- ▶ Phrased to avoid truisms or simply inverting the audit criteria or conclusions.
- ▶ Neither too general nor too detailed.

Tips for developing better recommendations	
▶	Think early in the audit process about potential recommendations and ask what can be done to improve performance.
▶	Write recommendations in such a way that audited entity can evaluate whether they have been implemented.
▶	Discuss recommendations with the audited entity to identify the necessary changes and practical ways of implementing them. This will lead to realistic implementation of the recommendations.

6.9 Exit Meeting

- a. Exit meeting at the auditee unit
- b. Exit meeting with the Departmental head with consolidated Audit report

Exit meeting at the auditee unit

Once the audit team complete the audit execution auditee it would interact with audit unit for discussion on the conclusion drawn on the audit findings (Refer 6.8 - Audit Finding Matrix section). The audit team leader together with other team member is responsible for scheduling the exit conference meeting with the audit unit's head or his/her authorised representative prior to last date of fieldwork to provide an opportunity to them for any providing clarification on audit findings. The purpose of the exit conference meeting is:

- ▶ To Inform the head of the audit unit about the audit findings and reporting process.
- ▶ To obtain auditee response on audit observation
- ▶ To provide reasons for acceptance or rejection of responses received on the Memorandum.
- ▶ To provide adequate guidance about corrective actions to be taken against each Memorandum and provide guidance about their rights and available remedies.
- ▶ To apprise audit unit that in case of non-submission or reply to the Initial Memorandum, the same shall be converted into Final memorandum and included in the performance audit report.

Points to be discussed in exit meeting:

- ▶ Observations and findings of performance audit on each issue, matter, segment, and comments of the audit unit thereon.

- ▶ Reasons for acceptance or rejection of those comments.
- ▶ Shortcomings/lapses in accounts and suggestion of performance audit thereon.
- ▶ Remedial action/follow-up action to be taken by the audit unit.
- ▶ Suggestion for improvement in the accounting, financial management and general performance of the audit unit.

One audit team member should be assigned to document all discussion during the meeting. The audit team should prepare and circulate minutes of the meeting to the audit unit personnel who were present during the meeting. The minutes of such exit meeting should be prepared and shared with the audited entity and acknowledgement requested.

Audit meeting of Consolidated audit report

The performance audit should be concluded with an exit conference with the Head of Department/Government concerned. Wherever, more than one department/agency is involved, representation from such agencies/departments should also be invited for the exit conference.

The draft Audit report including the responses of the audited entity must be issued before the holding of the exit conference. The Supervisory authority with the complete audit team should lead the exit conference. All audit findings, conclusions and recommendations are to be discussed and as far as possible direct responses of the audited entity are to be solicited and recorded. It is also a platform to arrive at an agreement with audited entity about audit conclusions and recommendations. It will also allow the audit team to clarify any point of doubt that the entity may like to raise. The minutes of exit conference should be recorded and endorsed to the entity with a request to acknowledge the minutes within two weeks stating that in case of non-receipt of acknowledgement within stipulated period, it will be presumed that the reporting process audited entity concurs with the minutes. In case, head of the audited entity does not respond to audit's request for holding exit conference, DOA should try to convince the head of the entity to hold the conference. In case, the exit conference could not be held even after pursuance, this fact should be recorded in the report. In case of exit conference is not held and DOA has pursued the matter. The same shall be reported to the finance department and concerned administrative department after 04 weeks of date proposed for exit conference and the report shall be finalised and released for the Department and Administrative Department.

Refer **Annexure II** for format of Exit Meeting.

Chapter 7: Audit Reporting

The audit report is the most important component of the entire audit process. Upon completion of a performance audit assignment, the audit team shall prepare an audit report containing audit observations and conclusions in an appropriate format which is objective, complete, accurate, constructive, and concise, easy to read and understand, free from ambiguity, and supported with sufficient, competent, relevant, and independent evidence.

Draft report containing preliminary audit conclusions prepared at the end of the conducting phase and further developed into an audit report, based on feedback received from the audited

entity to the preliminary audit conclusions. The audit report must contain executive summary, audit scope and methodology, audit findings, conclusions, and recommendations. The report must be complete, accurate, objective, convincing, constructive, clear, concise, and timely. It should also be reader friendly, well structured, contain unambiguous language and add value to the stakeholder.

The purpose is to provide an opportunity for the audited entities to:

- ▶ Review and correct factual errors, when appropriate based on supporting evidence provided to the Directorate of Audit (DoA).
- ▶ Get comments and views from the audited entity on the drafted descriptive chapters, audit findings, conclusions and recommendations.
- ▶ Comment on the feasibility of drafted recommendations; and
- ▶ Provide additional information to the auditors to take into consideration to modify draft based on additional information provided.

All comments received need to be carefully considered. Where responses provide new information, Directorate of Audit (DoA) official shall assess this and be modify the draft report. All disagreements must be analysed for the final report to be balanced and fair.

When the audited entities' comments are insufficient to address the findings, inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditor is advised to evaluate the validity of the comments.

If the Directorate of Audit (DoA) officials disagree with significant comments, the same may be explained with the reasons for disagreement in a working paper. Conversely, the auditor will analyse, can modify the report as necessary if the comments are considered valid and supported with sufficient and appropriate evidence.

The purpose of an audit report is to:

- ▶ Communicate the results of audits to the intended users.
- ▶ Make the results less susceptible to misunderstanding.
- ▶ Make the results available to the public to create transparency, unless specifically restricted by legislation; and
- ▶ Facilitate follow-up to determine whether appropriate corrective actions have been taken.

This following section requirements for reporting performance audits:

The process for preparation and submission of the performance audit report has been summarised in the below steps:



Preparation of Draft Performance Audit Report

Exit Conference with the HOD

Minutes of Exit Conference



Following are the indicative timelines for reporting:

Table 23: Indicative timeline for reporting

Action	Timeframe
Submission of Initial Memorandum to auditee	As and when finding observed. No memorandum will be issued on closing meeting date.
Response to the Initial Memorandum by audit unit	3 working days from the date of issue of Memorandum and in case the audit duration for a unit is less than 3 days than all efforts should be made by the unit to submit responses during the audit duration only. Week
Conversion of Initial Memorandum into Final Memorandum	Within 03 days of reply of auditee in case of no reply to the final memorandum i.e., Audit Finding matrix shall be finalised by 10 th day of the issuance of Initial Memorandum
Exit meeting	Immediately on completion of performance audit of the unit with Audit finding matrix or Initial memorandum Exit meeting of two to three audit units if audit units agree can be conducted together at the either of auditee place
Review and Issue of Audit design matrix of each unit separately by team leader to supervisor	Within 07 working days from the date of exit meeting
Consolidation of Draft Performance Audit Report	Within 02 Weeks of closing of last unit by the audit party, in case more than one date from the closure of last audit party concludes
Review of Draft Performance Audit report by Supervisory Authority	Within a week of submission of Consolidated Draft report is finalised by audit party(s)
Exit conference with the HOD on Draft Performance audit report	Within 04 weeks of submission of report, in case No exit report is conducted even after request to HoD, the DOA shall start the

Action	Timeframe
	finalisation of audit report after the first date of proposed exit conference
Review and Issue of Final Performance Audit report by team leader to supervisor	Within 14 working days from the date of minutes finalisation an acknowledgment of auditee department of exit conference. In case the acknowledgment is not received, within 21 days of correspondence of minutes
Review, approve or reject the Performance Audit report by supervisor	Within 5 working days from the date of receipt of report from team leader
Re-submission of Performance Audit report by team leader in case returned by supervisor	Within 3 working days from the date of receipt of report from the supervisor
Meeting of Expert committee	Within 02 weeks of submission of final performance audit report from Supervisor
Re-submission of Performance Audit report in case returned by expert committee	14 days from the return of the report by the expert committee
Issuance of the Final Performance Audit report to the audit unit	Within 07 working days from the date of approval by expert committee

7.1 Conversion of Initial Memorandum to Audit finding matrix

Conversion or Dropping of Memorandum

At the first step in reporting stage, auditor need to finalise the initial memorandum to conclude on the status of audit finding. Following are the steps involved in finalisation of initial memorandum:

Step 1: Analysis of auditee's responses on audit findings, where the auditee disagrees with the audit findings and recommendations, the reasons for such disagreement shall be fully analysed.

Step 2: In case auditee's response is sufficient to justify the observation, those memoranda will be dropped there and then only. Thereafter, auditor will prepare a comprehensive list of finalised memoranda and submit the same to team leader for final review.

Step 3: Audit team leader will review all the finalised memorandum and provide inputs to the team members for any modification/update.

Step 4: After making changes in line with team leader's review, all the finalised memorandums will then become part of Draft Performance Audit Report.

7.2 Preparation of Performance Audit Report

Based on finalised audit memorandum, audit team leader will prepare a draft performance audit report, taking necessary guidance from senior officials from Directorate of Audit (DoA). The draft report shall be prepared in a consolidated manner and sent to the departmental head with a request of conducting exit conference within 02 weeks of submission of Draft report with reply on the recommendation and observations.

In case the Head of department fails to provide the time for exit conference within stipulated period a reminder shall be sent. In case no exit conference is held within four weeks the DOA shall start the process of finalisation of Final performance audit report.

The draft audit report is to be prepared upon conclusion of the field audit of the auditee unit and all field units selected for audit. The purpose of preparation of the draft report is to seek formal response of the auditee unit on performance audit of the selected topic. A reference to the auditing standards followed for conduct of audit should suitably be made in the draft report.

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

Final Performance Audit Report

After incorporating the replies of audited entity and as per the minutes of the exit conference and modifications suggested by the supervisory officer of DOA the draft final report should be prepared within 14 days of finalisation and acknowledgement of minutes or in case acknowledgement being not received the report shall be finalised within 21 days of issuance of minutes for the review of report by the expert committee and approval for issuance of final performance audit report to the administrative department, Finance Department and other stakeholders.

The final report shall be prepared in a consolidated manner and send to the department with a request to provide an action taken report within three months of issuance of audit report

A reference to the auditing standards followed for conduct of audit should suitably be made in the final report.

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

7.2.1 Attributes of a Performance Audit Report

Performance audit report aim to improve knowledge and highlighting the improvements needed in the audit unit. In a performance audit, the auditor reports on the economy, efficiency and effectiveness on the resources acquired and used within objectives.

To achieve the objectives, a performance audit report must be objective, concise, timely and persuasive. As the performance audit aims is to bring about improved procedures and structures, it must establish its credibility by accurately reflecting the audit findings, presenting logical conclusions, and making meaningful, practical, and relevant recommendations.

Objective

Objective means that the presentation of the report is balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner. The report should be fair and not misleading and should place the audit results in perspective. This means presenting the audit results impartially and guarding against the tendency to exaggerate or overemphasize deficient performance. Interpretations should be based on insight and understanding of facts and conditions.

Comprehensive

Requirements according to ISSAI 3000:

It is important to be comprehensive in that you include all the information and arguments needed to address the audit objective and audit questions in the report. At the same time, the report must be sufficiently detailed to provide an understanding of the subject matter and the audit findings and conclusions. (ISSAI 3000/117)

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.

Concise

An audit is often the result of many hundreds of hours work and involves perhaps thousands of pages of working papers and audit evidence. The role of the author of the report is to distil this material into as concise a report as possible. The auditor should also go through the report carefully and test every point to see if they are all necessary. This test is simple; if this point was left out would the report be less effective in meeting its objectives?

Convincing

Requirements according to ISSAI 3000:

The report also needs to present the audit findings persuasively, address all arguments relevant to the discussion and be accurate. Accuracy requires that the audit evidence presented, and the audit findings and conclusions, are presented in a neutral, fact-based manner. (ISSAI 3000/118)

An audit report shall be convincing to the reader in such way that it leads to the conclusions and recommendation(s). A convincing audit report is logically structured and present a clear relationship between the audit objective(s) and/or audit questions, audit criteria, audit findings, conclusions, and recommendations. Most importantly, the report has sufficient and appropriate evidence to support the findings, conclusions, and recommendations (if applicable) about the audit objective(s).

Timely

An audit report should be drafted as quickly as possible after the completion of the audit field work. The process should commence during the fieldwork and finishing it should be a matter of urgency once the auditor has gathered all the required information. A performance audit report needs to be issued in a timely manner to make the information available for use by Head of Office (HoO)/ Head of Department (HoD), government, the legislature, and other interested parties.

Reader Friendly

Information in an audit report should be simple and clear manner, using language that is understood by all their stakeholders. While specific communication styles and preferences may vary between different countries and cultures, aim to always keep the tone of your report professional and neutral. Performance audit reports are clear, concise, logical, and focused on the topic area. Reports are likely to have the greatest impact on a wide audience when they are reader friendly. An effective structure enables the report to grab the reader's attention, convey the purposes of the audit, communicate complex issues, and provide clear interpretation of the results. Another way to be reader-friendly is to include graphics or visuals throughout the report.

Points to remember for a reader friendly audit report

✓ Use short rather than long sentences
✓ Use simple sentence construction
✓ Use headings to break up the text
✓ Use more examples
✓ Use pictures, illustrations, charts, graphs, maps etc.
✓ Avoid technical jargon and complex, rarely used words.
✓ Avoid use of cross-referencing and acronyms.

Balanced Reporting

The work underpinning performance audit reporting must be fair and support the overall findings, conclusions, and recommendations to maximise impact.

Where an auditor does feel it is possible to make a positive comment about some aspect of the management of an activity, this statement should be supported by evidence. In public administration it is rare to find that all aspects of auditee's operations of a particular activity or programme is working well. Equally, it is rare to find that all aspects need to be improved. Where auditors find areas of good practice, they should acknowledge this positively while focussing attention on developing recommendations to strengthen areas requiring improvement. Balanced reporting can be achieved by following methods provided as under:

✓ Present findings in neutral terms, avoiding biased information or language that can generate defensiveness or opposition from the audited entity.
✓ Put different perspective and viewpoints on the matter.
✓ Include positive as well as negative points. Give credit if it is due.
✓ Facts must not be suppressed, and minor shortcomings should not be exaggerated.

7.2.2 Contents of a Performance Audit Report

The performance audit report should meet standards of language, format, style, and structure prescribed by the Directorate of Audit (DoA) and as generally followed. It may also have comments on implementation of government policies. The final performance audit report should incorporate replies of the auditee with further comments from the auditors, if required. Salient features of the performance audit report, as prescribed by INTOSAI, are as under:

Requirements according to ISSAI 3000:

- ▶ The auditor shall provide audit reports, which are a) comprehensive, b) convincing, c) timely, d) reader friendly, and e) balanced. (ISSAI 3000/116)
- ▶ The auditor shall identify the audit criteria and their sources in the audit report. (ISSAI 3000/122)
- ▶ The auditor shall ensure that the findings clearly conclude against the audit objective(s) and/or questions or explain why this was not possible. (ISSAI 3000/124)

The form and content of performance audit reports generally consist of the following:

- ▶ **Title** - The report should have an appropriate title to distinguish it from other reports and should clearly communicate the topic.
- ▶ **Table of Contents**: A good table of contents clearly displays the structure of the report, allowing readers to easily find the sections in which they are interested
- ▶ **Executive summary**: The executive summary is a short chapter designed to provide a quick synopsis of the main points and key messages of the report. Typically, an executive summary includes an explanation on why the audit was carried out, brief information about the audit and the audited entities, the audit objective and questions, the scope, the methodology, the key findings, the conclusions, and the recommendations
- ▶ **Introduction**: The introduction of the report provides the context of the performance audit,

helping the reader to understand the audit. The introduction does not need to be overly long and detailed. For

- ▶ **Audit Scope/ Objective:** The audit scope and approach are key to the reader understanding what to expect from the report, and thereby what use can be made of the results and conclusions and the degree of reliance to be placed thereon: a description of audit objectives and the scope. Report users need this information to understand the purpose of audit, the nature and extent of the audit work performed
- ▶ **Audit Methodology of Data Gathering and Analysis:** A description of the audit methodology used for addressing audit objective(s) should be included in the report. Therefore, in concise form audit methodology and approach, sources of data, and any limitation to the data used, data gathering, and analysis methods use should be mentioned. Detailed information can then be included in appendices, if necessary.
- ▶ **Addressee** - The report should be addressed to the Head of Office (HoO)/ Head of Department (HoD) depending on the type of report. If the performance audit report was conducted upon instruction of other agencies, a copy of the report shall be addressed to such agency.
- ▶ **Audit Limitation** - Any limitation to the audit should be disclosed to users of the audit report.
- ▶ **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, 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.
- ▶ **Conclusions** - The logical inferences about the subject matter based on the auditors' findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence. The conclusions in the report will form the basis of the recommendations
- ▶ **Recommendations** - The report should recommend actions to correct deficiencies and improve programs and operations when the potential for improvement in is substantiated by the reported findings and conclusions. They should be practicable, add value and address the audit objective and questions
- ▶ **Auditee's response** - The report should include auditee's response to the auditor's findings, conclusions, and recommendations. Auditee should comment on the acceptability or otherwise of each recommendation.
- ▶ **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.
- ▶ Below table shows one such method:

Heading	Page
Summary and recommendations	7
Background	7

Conclusion	8
Summary findings	8
Recommendations	10
Summary of entity response	10
Key messages from entities	11
Audit findings	13
1. Background	14
2. Description about the work	21
3. Performance monitoring and reporting	54
Appendices	69
Appendix 1	70
Appendix 2	71
Appendix 3	73
Appendix 4	75

Performance Audit Report Template:

S. No.	Description	Example
1.	Title of the audit report	Mention in the cover page
2.	Title Sheet	Mention details of the audit, viz. title of the report, Audit Report Reference, Name of the auditee unit/division/entity, audit period, audit duration, audit team members, and audit team leader.
3.	Table of contents of the report	Mentions the structure of the report, allowing users to easily find the sections in which they are interested.
4.	Executive Summary	Includes brief information about the audit, the methodology, the significant audit findings, the conclusions, and the recommendations.
5.	Introduction of the auditee entity	Background, policy, major programmes, budget, and expenses should be mentioned.
6.	Audit objective, scope, and methodology	Objective: ascertaining economy, efficiency, and effectiveness in the operation and management of the entity. Scope: audit coverage of period and areas. Methodology: literature review, interview, analyses of data, documentary review, field visits, etc.

S. No.	Description	Example
7.	Limitations	Unavailability of the documents, inability to use any necessary audit technique due to different reason.
8.	Audit criteria and sources	State audit criteria developed and its sources. Audit criteria are not always readily available in performance auditing. In such cases, the audit team needs to develop the criteria and discuss them with the audited entities.
9.	Audit Findings	Each audit question analyses with the criteria, condition, cause, consequence, and recommendations.
10.	Auditee response	Summaries of response provided by the Auditee on each audit findings.
11.	Audit conclusions	Based on the audit findings and auditee response thereon, auditor should provide opinion about 3Es.
12.	Audit recommendations	Should include summaries of audit recommendations under different audit findings and conclusions.
13.	Annexures and Appendices	Long table, complex data, analysis, organisation structure, copies of documentary evidence, etc.
14.	Acronyms and abbreviations	Provide a glossary of terms and a list of abbreviations to avoid using unfamiliar abbreviations and technical terms.

Refer **Annexure 12** of this manual for format of the Performance Audit Report.

Well drafted performance audit report includes:

- ▶ Rational and practical report structure.
- ▶ Make audit findings specific, measurable, attributable, relevant and issue report according to framework.
- ▶ Ensuring report is comprehensive, convincing, timely, reader friendly and balanced.
- ▶ Report is prepared using international standards and evidence supports the findings and conclusions.

- ▶ Providing sufficient time to obtain and consider comments from the audited entity and relevant third parties.

7.3 Review, Approval, and Issuance of Performance Audit Report

The process flow for the submission, review, approval, and issuance of a Performance Audit Report is explained below:

Audit Team Member

Following are the tasks of audit team members:

- ▶ Audit team member initially conducts desk review and a pilot study
- ▶ Assist team leader in preparation of audit objective, scope, and audit criteria
- ▶ Develop audit question and sub questions and Audit Design matrix
- ▶ Preparation of audit planning memorandum
- ▶ Issue initial memorandum for further data or information to the auditee after review by team leader
- ▶ Assist team leader to prepare audit finding matrix
- ▶ To collect the audit evidence as per principle of sufficiency, competency, and reliability
- ▶ Assist in finalising the audit memorandum.
- ▶ Assist preparation draft audit report
- ▶ Assist in finalization of the Performance Audit report

Audit Team Leader

Following are the tasks of audit team members:

- ▶ Provide guidance to team members in desk review and a pilot study
- ▶ Finalize the audit objective, scope, and audit criteria
- ▶ Review audit questions, sub questions
- ▶ Provide guidance to team members in preparation of audit planning memorandum
- ▶ Review and finalisation of audit finding matrix
- ▶ Review the collected evidence and initial memorandum's
- ▶ Review and finalise the audit memorandum.
- ▶ Preparation draft audit report and submit the same to senior officials, Directorate of Audit (DoA) for review
- ▶ Finalization of the Performance Audit report based on feedbacks from senior officials from Directorate of Audit (DoA).

Supervisor

The respective supervisor (Deputy director) shall review the draft performance audit report submitted by the audit team leader. The supervisor shall either approve the report or return it to the team leader for incorporating any changes, if required. Rejection or approval of the draft performance audit report submitted by team leader shall be done only once by the supervisor. After approval of the draft audit report, supervisor shall submit the same to expert committee for review and approval.

Following are the illustrative task of the supervisor:

- ▶ Coordinate the Entry and Exit conference report with the Department
- ▶ Review the draft performance audit report and provide feedbacks
- ▶ Review the audit objective and scope, audit criteria, question, and sub questions
- ▶ Review audit finding matrix, and audit evidence as per principle of sufficiency, competency reliability.
- ▶ Discuss audit observations with team leader and team before exit meeting.
- ▶ Perform on filed review of work performed.
- ▶ Provide necessary guidance to all the team members as and when required.

Expert Committee for Quality Assessment

Expert Committees for "Quality Assessment" are constituted for review and finalization of Internal Audit Reports. The objective of these Expert Committees is to do the quality assessment of the Draft Performance Audit Reports prepared by the audit team and reviewed by the Supervisory Officer.

The above expert committee shall review the draft Performance Audit Report submitted by the supervisors. Meeting of expert committee shall be scheduled regularly based on the number of draft performance audit reports submitted by the supervisors. If the expert committee finds any mistake/deficiency in the draft audit report than the same would be returned to the concerned audit team for correction and resubmission. The following are the indicative timelines for reporting:

7.4 Publishing of report and communicating results

Requirements according to ISSAI 3000:

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

Distributing audit reports widely can promote the credibility of the audit function. Therefore, audit reports need to be distributed to the audited entities, to the executive and/or the legislature, and to other responsible parties. The reports also need to be made accessible to other

stakeholders and the public directly and through the media, except for reports that contain sensitive or classified information. (ISSAI 3000/134)

Performance Audit Report shall be published and communicate when performance audit report finalized, the committee shall approve the performance audit report and recommend for the issuance of the final Performance Audit Report. Thereafter, with the approval of the Director Audit the final performance audit report shall be published and communicated to the audit unit along with a copy to concerned Head of Department for compliance and necessary action.

Chapter 8: Audit Follow-up and Monitoring

It is the responsibility of Directorate of Audit (DOA) to monitor and follow up with the audit units regarding compliance of outstanding paras. The Directorate of Audit (DOA) shall verify whether audit unit has taken necessary action for compliance of the observations or implemented the recommendation made in the audit report or have not taken any action.

Requirements according to ISSAI 3000:

- ▶ The auditor shall follow up, as appropriate, on previous audit findings and recommendations and report to the legislature, if possible, on the conclusions and impacts of all relevant corrective actions (ISSAI 3000/136).
- ▶ The auditor shall focus the follow-up on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period (ISSAI 3000/139).

A primary objective of audit is to improve public sector performance and accountability through the implementation of audit recommendations. The effective and timely implementation of recommendations will be facilitated by a follow-up process; where auditors monitor if recommendations have been implemented by the audited entity.

ISSAI 3000/5.5 states that follow-up is the assessment of whether weaknesses identified in the audit have been corrected by the audited entity (ISSAI 3000/5.5). It may include the following elements:

- ▶ a timely review of the action taken by the auditee on the recommendations made by the Directorate of Audit (DOA)
- ▶ an evaluation of the adequacy of the action in achieving performance improvement.
- ▶ an assessment of any problem that may have arisen in relation to implementation.
- ▶ an assessment of the impacts of the examination.
- ▶ consideration of the need or scope for further audit work in the same or a related area.

Purpose of follow-up

Follow-up procedures identify and document audit impact and the progress made in implementing audit recommendations (ISSAI 3000/3.1).

Following up on the recommendations of the Directorate of Audit (DOA) and the relevant State Level Audit Committees have made in reports may serve four main purposes: (ISSAI 3000/5.5)

- ▶ Increasing the effectiveness of audit reports – the prime reason for following up audit reports is to increase the probability that recommendations will be implemented.
- ▶ Assisting government in policy making;
- ▶ Evaluation of Department performance - following up activity provides a basis for assessing and evaluating Department performance; and
- ▶ Creating incentives for learning and development - following up activities may contribute to better knowledge and improved practice within the Department.

What to follow

A follow-up is not restricted to the implementation of the audit report recommendations but focuses primarily on whether the audited entity has adequately addressed the problems and issues uncovered by the original audit.

When conducting follow-up of audit reports, the auditor should adopt an unbiased and independent approach. The focus should be to determine whether actions taken on findings and recommendations remedy the underlying conditions, after sufficient time to allow an audited entity to implement the recommendations.

A follow-up audit is a new performance audit, which differs from a regular performance audit in that:

- ▶ a pre-study will usually not be undertaken, as the area and problems are well known from the previous audit.
- ▶ the purpose is first and foremost to follow up on the previous audit report; and
- ▶ the audit objective, criteria, audit questions and scope will usually be based on the previous audit report.

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

If the conclusion of the follow-up activities is that the audited entity has taken sufficient corrective measures and that the situation on the audited area is satisfactory, the case can be closed. However, if it is evident that the audited entity has not taken appropriate measures to correct the findings, or if the measures have not had sufficient effect, a follow-up audit shall be initiated. This will be a new performance audit, which will eventually result in a new performance audit report.

When to follow-up

The admissible period for follow-up activity will depend on the context and nature of audit recommendations. Some recommendations may require a long time for implementation while some may require a short span of time. Generally, recommendations for improvement of systems may take a longer period.

The timing of follow-up, therefore, constitutes a key decision to be taken by everyone in accordance with its policies or mandate.

In-house/Desk review

Initially, it is necessary to collect information on what measures the audited entity has implemented to address the problem, and the status of the situation on the area; whether the action has had the desired effect. The auditors then need to make an assessment on the action taken report submit by the audited entity and check whether the same is sufficient and satisfactory. There are different ways to do so, for example:

- ▶ A formal request to the audited entity, to inform the Directorate of Audit (DoA) in writing, on actions have been taken to address the problems presented in the audit report.
- ▶ Arrange a meeting with the audited entity after a certain time has elapsed to find out what actions have been taken to improve its performance and to check which recommendations have been implemented. The audited entity must present documentation on the corrective measures and their effects; and
- ▶ Additional information can also be obtained from the financial and compliance audits of the entity, and these can also be used more actively to check whether corrective measures are being.

8.1 Audit Monitoring

Monitoring is based on auditee's assertions with respect to the status of implementation. If certain reported observations and recommendations are significant enough that they require immediate action by auditee, the same shall be monitored closely until the observation is corrected, or the recommendation is implemented.

Performance Audit relates recommendation, implementation of schemes, the economy and efficiency of Schemes. Hence the Departmental Committee should discuss the audit findings and recommendations and provide the response to the Directorate of Audit with action taken in terms of recommendations/ results of Performance Audit. Directorate of Audit may highlight the Audit Findings and recommendations at the State Level Audit Committee.

The audit unit are responsible for implementing the audit observations and recommendations that have been made in the performance audit report. The audit unit shall be tasked with the responsibility to:

- ▶ Review all audit findings, recommendations, evaluate their impact on the Department and assign implementation responsibilities to specific personnel.
- ▶ Prepare and submit the compliance report to DoA through Department Audit Review Department as; Committee with details of action taken and compliance done against the observations/recommendations mentioned in the performance audit report within 30 days from the date of receipt of such report.

- ▶ Ensure, where necessary, the availability of adequate resources to implement audit observations and recommendations.
- ▶ Receive and review regular progress reports on progress made in the implementation process.
- ▶ Report regularly on the actions taken to implement audit findings and recommendations.

Table 26: Status of Compliance to Audit Observations

Status	Condition
1. Recommendation is not accepted	This category encompasses two considerations: <ul style="list-style-type: none">• There is no supporting evidence that action has been undertaken.• The action taken does not address the recommendation
2. Recommendation is accepted but no action has been undertaken	The action did not meet the intent of the recommendation, and sufficient evidence was not provided to demonstrate action taken.
3. Recommendation action has been undertaken	The action met the intent of the recommendation, and sufficient evidence was provided to demonstrate action taken, given the significance and complexity of the recommendation, and the time that has elapsed since issue of the audit report.
4. Recommendation is partially accepted by the department	The category encompasses three considerations: <ul style="list-style-type: none">• Action taken was less extensive than recommended. Action either fell short of the intent of the recommendation, or only addressed some of the identified risks.• The entity may have established a process or procedure to address an issue, however, the specific action noted in the recommendation was not complete at the time of assessment.

8.2 Audit Follow-up

Follow up is a process by which auditor evaluates the adequacy, effectiveness and timeliness of actions taken by HoD /Administrative Department or concerned officials of audit unit on reported observations and recommendations made by auditors.

The Head of Department (HOD)/ Administrative Department should send action taken report against each audit observation through Department Audit Review Sub Committee to the Directorate of Audit (DoA) within 30 working days from the date of receipt of Performance Audit Report.

While conducting follow-up, it is important, to adopt an unbiased approach for determining whether the audit unit has taken appropriate actions to address the findings and recommendations. In making this determination, auditor should use the same standards and methods used by the team who conducted the performance audit. Following are the key activities to be performed:

- ▶ Perform follow up with audit unit on action taken report on Audit Findings and recommendations provided in Performance Audit report.
- ▶ Arrange a meeting with the audited entity after a certain period to find out what actions have been taken in response to the audit findings and recommendations. The audit unit need to provide documentation supporting the corrective actions taken and their effects.
- ▶ Make a request to Administrative Department of the audit unit to inform the Directorate of Audit in writing in case of delay in submission of action taken report/ providing responses to audit follow up visits (if any).
- ▶ Provide guidance to audit team members to perform regular follow up with audit unit on responses to audit findings.
- ▶ Carry out a follow-up audit, considering the relevance of the topic and the impact the new audit might achieve. A follow-up audit could also be a way to evaluate situations when a problem remains, even when the recommendations have been implemented.

Directorate of Audit (DOA) shall determine the nature, timing, and extent of follow up based on the following factors:

- ▶ Significance of the reported observation or recommendation.
- ▶ Degree of effort and cost needed to correct the reported condition.
- ▶ Impact that may result in case the corrective is not implemented.
- ▶ Complexity of the corrective action.
- ▶ Time period involved.

Tentative timeline for follow-up procedure regarding compliance of audit paras is provided below:

Table 27: Indicative matrix for reminders

Action	Timeframe
1 st reminder for seeking follow up on recommendations i.e., Action taken report	On completion of four months from the date of issue of Performance Audit Report.
2 nd reminder for seeking follow up on recommendations	Within two months days from the date of first letter of reminder.
3 rd reminder: A Demi -official letter to the administrative department	Within one month from the date of second letter of reminder.
4 th reminder: Name of the Audit Unit should be sent to the finance department along with timely reminders to audit units	Within two months of the date of Demi - official letter.

Through OAMS a follow-up registers which shall consist of the status of Audit findings of Performance Audit Report shall be maintained. Audit observations can be classified into:

- Accepted
- Partially Accepted
- Not Accepted
- Financial Implication on acceptance

Directorate of Audit shall also prepare Quarterly Progress Report which shall consist of number of audit reports and paras pending for compliance.

Process of conducting follow up:

Different methods that may be used specifically to follow-up on findings and recommendations will depend on the procedures and priorities established. Such methods may include the following:

- 1) Meeting with the audited entity after a certain period, to find out what actions have been taken in response to the audit findings and recommendations along with supporting evidence,
- 2) Actions taken or to be taken to address the findings and recommendations presented in the audit report,
- 3) Communication through phone calls or limited field visits to collect information on the actions taken by the audited entity supported by documentation,
- 4) Request financial and/or compliance audit teams to collect information on the actions taken in response to findings and recommendations as part of their audit procedures, and analyse the information and documents received,
- 5) Basis such follow up, status of the implementation of findings and recommendations can be categorised into status as **fully implemented**, **partially implemented**, **not implemented**, **no longer relevant**- when events for which findings and recommendations were noted is no longer appropriate and **could not be verified**- where status could not be determined.

When to conduct follow up:

The priority of follow-up tasks is usually assessed as part of the overall audit strategy. Sufficient time must be allowed to the audited entity to implement appropriate actions. The timing of follow-up constitutes a key decision to be taken in accordance with its policies or mandate. For example, a policy of carrying out follow-up work annually regarding the implementation of audit recommendations. This practice may help in reporting results systematically, but there may well be little evidence of impacts in the first year after publication of the audit report. Whichever reporting period it chooses, a clarity should be there on any inherent limitations of its analysis, and report accordingly.

Measuring impact of the audit:

The Major reasons to follow up on the measure of impact of the audit is to analyse the improvement in public policies and service delivery. Different ways to measure the impact of the implementation of recommendations are as follows:

- **Financial:** Benefits related to reductions in expenses or increases in revenues. For example, the implementation of a recommendation to efficiently maintenance of inventory at Depot of Transport Corporation leads to INR 2400 Lakh reduction in Inventory Cost.

- ▶ **Qualitative and Quantifiable:** Benefits related to improvements in performance that can be quantified. For example, the implementation of a recommendation resulted in Reduction in infant mortality rate from 07% to 03% due to implementation of recommendation of performance audit of District Hospital in State in span of two years.
- ▶ **Qualitative and non-quantifiable:** Benefits related to improvement in performance that cannot be quantified. For example, the implementation of a recommendation resulted in enhanced safety procedures for personnel handling hazardous materials in X-Ray and MRI room in District Hospital.

Inventory of Recommendations

The starting point for follow-up procedures should be a comprehensive inventory of recommendations maintained in appropriate database by DAO in OAMS. The inventory should be maintained audit wise which must consist of all recommendations, with appropriate grading under 'vital or critical', 'significant' and 'important'.

The database should also contain other relevant information viz. the year of audit report, status of acceptance viz. accepted, partially accepted, not accepted, and not replied, nominal implementation reported by the entity and the time of such reporting, risk associated with non-implementation or poor implementation, besides follow-up reviews. This inventory should be maintained as a permanent database, which will assist in performance audit planning in future.

Reporting results of follow up

The results of follow-up efforts may be reported individually, or as a consolidated report which brings together the results of all or portions of your follow-up work. Consolidated follow-up reports may include an analysis of common trends and themes across several reporting areas.

A system can be established to track recommendation status, to compute the percentage of recommendations implemented and to measure the impact of the audit for the stakeholders. The reporting of follow-up must be conducted in accordance with the established procedures whether it is suitable to issue the follow-up audit report to the legislature will depend on how the assessment of the significance of the findings, the conclusions and the impacts of the corrective actions have been taken.

Refer **Annexure 13** for format of Follow-up Register.

8.3 Audit Review Compliance

There shall be three Compliance Committees for compliance of observations/recommendations mentioned in Performance Audit Report as provided below:

- ▶ Departmental Audit Review Sub Committee
- ▶ Departmental Audit Review Committee
- ▶ State Level Audit Review Committee

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For functions, compositions, roles, and responsibilities of Audit Review Compliance Committees refer para 2.4 of Chapter 2 of Internal Audit Manual Vol I. The composition of the above committee may be changed by GoUK from time to time by issuing relevant order or notification.

Unsettled audit observations requiring decision of State level Audit Committee

Only those critical cases after having exhausted all ways and means for settling through normal follow-up process and requiring collective decision and advice should be brought to the notice of the State Level Audit Committee.

Cases to be referred to State Level Audit Committee should be reviewed and forwarded by DOA to Finance Department in the form given below for further submission to the Committee.

The Committee may direct DOA to make a presentation to the Committee on issues remaining unresolved for long period for better understanding and to make informed decision.

Table 28: Report to State Level Audit Committee

Sr No	Name of audited department	Topic of the Performance Audit	Unsettled observation with recommendation	Reasons for non-settlement with requisite documents	Number of reminders on the observation of DOA

8.4 Action Taken Report on Audit Findings and Recommendations

- ▶ The responsibility of timely compliance of audit observation is of the auditee and Head of Department (HoD).
- ▶ The audit unit shall prepare and submit the Action Taken Report to Directorate of Audit (DoA) through the Department Audit Review sub-committee which is headed by the Head of Department along with their recommendations, details of action taken, and compliance done against the audit observations and recommendations mentioned in the performance audit report. The action taken report shall be submitted within 120 days from the date of receipt of performance audit report.

- The response provided in the action taken report submitted by audit units shall be reviewed by the Audit Para Disposal and Settlement Committees. Based on the review of the above reports, such committees shall provide their opinion and recommendation regarding the disposal and settlement of the audit para to the authorized officer.

Refer **Annexure 16** for format of Action Taken Report.

Following steps should be followed for desk review of performance audit reports.

About Performance Audit Reports – the auditee department are required to submit the Action taken Report (ATR) within three months from the issue of Report, specifying the timeframe and responsibility of the stated corrective action through Departmental Audit Subcommittee or Departmental Audit Committee.

In the event the ATR is not submitted within the stipulated timeframe, a reminder should be sent to Department by DOA, where appropriate for necessary actions.

After receiving the ATR, the DOA should assess the acceptability and adequacy of ATR accountability statement and implementation timeframe of recommendations.

Some of the minimum requirements are:

- i) Specific actions are provided for each recommendation
- ii) Whether the corrective actions are specific to the recommendation. The actions must be measurable and accountable while conducting follow-up.
- iii) Whether the corrective actions provided fully address the recommendations or the underlying causes of the audit observation.
- iv) For recommendations involving more than one audited entity, all responsible entities should have their respective corrective actions listed down.
- v) Whether the corrective actions are very technical, and/or requiring approvals from the highest level, and/or involving multiple agencies etc. Such corrective actions should be allocated more time and resources as they will involve more agencies and co-ordinated efforts.
- vi) That the timeframe for corrective actions provided in the ATR is reasonable and practical to implement the recommendation.
- vii) Responsibility of implementing the corrective actions Whether appropriate officials has been identified in the accountability statement to implement the corrective action.

A Desk review - After receiving the ATR, the first desk review should be carried out jointly by the reviewer from one member from the performance audit team who was initially involved in conducting the audit and Seek guidance of DOA officers concerned and directives of Department Heads. Where required and possible, the DOA should invite for making presentation to render objective and effective review of reports.

The progress of the action plan should be assessed as per the ATR and evidences (documentary and pictorial). Where possible, the review team should visit the sites to verify and determine the implementation status and the adequacy of the corrective action.

If the focus of the corrective action is on instituting a system such as a policy document, guideline, manual, procedures, etc., the review team must assess the effectiveness of the corrective action.

The audited entity(ies) could also request for possible extension of the due date for implementation of one or more corrective action. In such a case, the DOA should ascertain the validity of the request and decide accordingly for the possible period of extension

The subsequent desk reviews of performance audits should be carried out by DOA

For functions, compositions, roles, and responsibilities of the above committee, refer to section 2.5 of Chapter 2 of The Uttarakhand Internal Audit Manual 2021, Volume I.