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ANSA-EAP



CITIZEN PARTICIPATORY AUDIT

# LEARNING GUIDEBOOK

PERFORMANCE AUDIT: AN OVERVIEW

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## Monitoring and Follow up

### SESSION OVERVIEW

This session provides best practice guidance on conducting a monitoring and feedback of the audit report. The tools used to document the monitoring and validation will also be introduced.

### LEARNING OBJECTIVE

At the end of this session, the participants will be able to explain follow-up audit, in particular its importance, scope and procedures.

## SUGGESTED ACTIVITIES/SLES

- Lecture-discussion
- Exercise

## MATERIALS/EQUIPMENT

- PowerPoint slides
- Overhead projector
- Computer

## TIMEFRAME

The session will run for 30 minutes

## METHODOLOGY

- Interactive discussion with the aid of PowerPoint presentation
- Group Exercise

## CONTENT/GUIDES FOR INSTRUCTOR/FACILITATOR

### What is monitoring/follow-up?

Follow-up refers to the situation where the auditor examines the corrective actions the audited agency has taken on the performance audit report. It is undertaken to provide a moderate level of assurance on the extent and adequacy of corrective action taken by the agency to address the shortcomings identified. In some cases, this might also include providing a moderate level of assurance on whether the steps being taken are actually making a difference.

Corrective actions taken to implement audit recommendations enable the agency to improve the effectiveness and efficiency of their operations. An effective monitoring system not only ensures the prompt and proper resolution of audit observations and recommendations and the implementation of corrective action, but also ensures that a complete record of actions taken on observations and recommendations is maintained.

### Objectives

The primary objective of performance audit is to improve public sector administration and accountability via the implementation of recommendations. The effective and timely implementation of report recommendations will be facilitated by a follow-up process.

The purposes of follow-up are:

- 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 the government and the legislature – following up may be valuable in guiding the actions of the legislature;
- Evaluation of SAI's performance – following up activity provides a basis for assessing and evaluating SAI's performance; and
- Creating incentives for learning and development – following up activities may contribute to better knowledge and improved practice within the SAI.

### Planning for Follow-up Activity

Planning is as important for the follow-up activity as it is for the audit.

#### 1. What to follow-up

The priority of follow-up tasks should be considered in the context of the overall audit strategy as determined by the annual strategic planning process. Follow-up processes would

generally be undertaken where the impacts of follow-up activity are expected to outweigh the costs. Such impacts could include both increasing the probability of implementation of original recommendations and deriving new impacts.

Follow-up audits are not done when the audit was small, or if it referred to a one-time event or to an abolished program. Even in these cases, there may be scope for follow-up activity to test whether general principles recommended in the audit have been implemented by the agency. Smaller audits may also warrant specific follow-up action when they reveal significant issues for further review by the President and legislature or when audit recommendations are likely to lead to significant benefits.

#### 2. Scope of follow-up

Define what aspects of the original audit will be followed up. Resources should be focused primarily on the more significant recommendations and projected impacts, but it should still be broad-ranging enough to evaluate the audit's overall impact. The audit plan should describe the extent of the follow-up proposed.

The scope should be determined based on an assessment of:

- The continuing applicability of the original conclusions;

- Management's statements about corrective action; and
- The amount of reliance that can be placed on the work of others or other related work

In the case of cross-audit follow-up, the auditor will have to decide whether it is more appropriate to consider responses by a sample of the original auditees or to determine whether the audit has achieved a wider public sector impact by reviewing whether recommendations have been implemented in other agencies.

### 3. Cross-audit follow-up

Where there are a number of audits in a particular agency, audits with similar topics or audits which have other significant similarities, which are being considered for a follow-up audit, consideration should be given to the conduct of a cross-audit follow-up.

Cross-audit follow up activity involves a review of several audits across one agency or of several audits (with a similar theme) across several agencies.

The plans for the conduct of such follow-ups should follow the normal planning process as outlined in the planning sessions. Specific cross-audit activity will need to be given due consideration in the strategic audit planning process.

### 4. Scheduling Follow-up

The main decision to be made about follow-up activity is whether a desk-based follow-up (reviewing documents, reviewing responses to audit report, plus telephone calls and correspondence with auditee) will reveal a need for further field work. In many cases, an appropriate pattern would be:

- Year 1 – desk study on audit impact
- Year 2 – follow-up audit, including fieldwork
- Year 3 – further desk study on responses and actions taken by auditees

Precise timing of follow-up activity will depend on the availability of audit staff and other priorities to an annual schedule should be the aim.

### 5. Conduct of Follow-up

Follow-up activity should be directed to encouraging implementation of recommendations, rather than finding examples of lack of action.

#### Sources of Information

Various sources of information are available to assist auditors to follow up on recommendations made. These include, but need not be restricted to:

- Financial statement audits;
- The annual report and program performance statements of the audited body;
- Consideration of agency's own follow-up mechanisms;
- Reviews conducted by the agency and other bodies; and
- Follow-up action with the agency. This may include discussions with, and/or visits to the agency to assure the auditor that action has been implemented.

One effective way of proceeding is to forward at the start of a follow-up, a request to the agency to confirm the status of action on each recommendation. The information provided then forms a useful starting point for the conduct of document examination and interviews. Internal audit reviews and evaluations may also be useful.

### Recording Results

Results from the follow-up should be recorded properly. Actions taken on each recommendation are recorded according to a 'status of action' category that best describes the actions taken. The reasons for the lack of action or non-completion of action on any recommendations should be documented and further action considered on significant recommendations that have not been acted upon.

Auditee's rejection of a recommendation does not mean the recommendation should not be followed up. Assuming the agency has taken no action, the status should be entered as, 'Action not initiated, no intention to act'. If audit recommendation has been considered and rejected by the President or the legislature, then the recommendation would be, 'Recommendation not accepted by the President/legislature', And no further follow-up action would be necessary.

The follow-up audit work plan may not call for all recommendations to be followed up. In this case, the entry 'No further follow-up action' can be made.

### Assessment of VFM/PA impacts

Assessing the action taken on findings and recommendations and assessing the impact of the audit will help to measure the effectiveness of the performance audit undertaken.

An impact is any outcome, positive or negative, intended or unintended, that has resulted from action taken as a result of findings documented in a report or the implementation of recommendations contained in a report. Impacts include examples of improved economy, efficiency, effectiveness, quality of service, planning, control and management, and accountability.

Impacts may be qualitative such as resolution of issues identified or the fulfilment of criteria established during the

course of audit or quantifiable and result in resource savings. In identifying impacts, offsetting costs which are associated with achieving the impacts should be estimated to show the 'net' benefits. Significant impacts should be validated with the agency or relevant bodies where possible.

Even if the impact is reasonably attributable to the audit, to measure the impact, in terms of peso savings or better service to the customer, for example, could take considerable examination. The key factor remains whether the audit recommendations have been carried out, and this may be the only measurable indicator of impact. Where possible, other factors describing the overall impact of the audit should also be described.

#### Termination of follow-up activity

Action on recommendations usually occurs in the first three years and that, thereafter, only a few recommendations are implemented. Recommendations are generally 'closed' after three years unless there is evidence that future corrective action will be taken.

Follow-up activity will reveal that the original program has changed significantly. The plan for conducting the remainder of the follow-up should be reviewed in the light of findings to date. In particular, the value of proceeding with the follow-up, or the need to conduct an audit which would overtake the follow-up should be considered. If necessary, an amendment to the audit plan should be submitted.

## 6. Procedures in conducting a follow-up

Follow-up activities may be broken down into three areas:

- **Casual.** This is the most basic form of follow-up and may be satisfied by review of the process owner's/client's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical findings.
- **Limited.** Limited follow-up typically involves more process owner/client interaction. This may include actually verifying procedures or transactions and in most cases, is not accomplished through memos or telephone conversations with the process owner/client.
- **Detailed.** Detailed follow-up is usually more time-consuming and can include substantial process owner/client involvement. Verifying procedures and audit trails as well as substantiating account balances and computerized records are examples. The more critical review findings usually require detailed follow-up.

Follow-up scheduling can begin when corrective action is confirmed by acceptance of an audit recommendation or when management elects to accept the risk of not implementing the recommendation. Based on the risk and exposure involved, as well as the degree of difficulty in achieving the recommended action, follow-up activity should

be scheduled to monitor the situation or confirm completion of the changes that were planned. These same factors establish whether a simple telephone call would suffice or whether further review procedures would be required.

General procedures in conducting a detailed follow-up:

- Analyze the response of the unit involved and verify if it is aligned with the strategy previously agreed upon.
- Assess action taken against recommendation
- Seek evidence to verify implementation of the action and seek clarification if necessary.
- In case the response of the process owner/client is different from the recommendation, assess if the response is effectively mitigating the risk and is more efficient than the recommendation.
- In case the response of the management is different from the recommendation and is assessed to be ineffective or inefficient, reiterate recommendations and evaluate management response to said reiteration.
- In case management decided not to act on issues raised or elected to accept the risks, prepare a Management Acceptance of Risk.
- Prepare to communicate results of the follow up procedures.

### Documentation and reporting

It is the role of the auditor to determine that the audited agencies take corrective actions. To have a basis for monitoring, the auditor requests management to accomplish the Agency Action Plan and Status of Implementation (form upon receipt of the audit report. It is a form that combines both an action plan of the agency on the audit observations and recommendations and status of implementation of the recommendations. Upon receipt of the AAPSI, the auditor has to validate the status of the agency action plan and document these using the Action Plan Monitoring Tool (see Annex B). This form is accomplished by the Audit Team Leader and approved by the Supervisor.

Within 30 days from validation, the auditor should submit the APMT to the Cluster/Regional Director.



## SUMMARY

This session has provided guidance specifically related to conducting follow-up audits. To achieve the purpose of performance audit, there is a need to adopt a consistent and systematic approach in making a follow-up of the performance audit reports.

**Exercise:** Require two groups to present their experiences in conducting follow-up activities and how they can improve, based on their learning.

## REFERENCES

ISSAI 3000

Integrated Results and Risk-based Audit Manual

Value for Money / Performance Auditing

COA Memorandum No. 2014-002 dated March 18, 2014

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For more information, you may visit the following websites:

[www.coa.gov.ph](http://www.coa.gov.ph)

[www.i-kwenta.com](http://www.i-kwenta.com)

[www.ansa-eap.net](http://www.ansa-eap.net)

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