



Australian
Aid 

 ANSA-EAP



CITIZEN PARTICIPATORY AUDIT

LEARNING GUIDEBOOK

PERFORMANCE AUDIT: AN OVERVIEW

PERFORMANCE AUDIT: AN OVERVIEW

Reporting

SESSION OVERVIEW

The audit report is a representation of the result of the audit that we have performed. In the previous sessions, we have discussed the development of the preliminary audit conclusions and presenting them to the management. The next step is to prepare an audit report.

LEARNING OBJECTIVE

At the end of the session, the participants will be able to prepare performance audit report which meets the reporting standards.

SUGGESTED ACTIVITIES/SLES

- Lecture-discussion
- Exercises

MATERIALS/EQUIPMENT

- Powerpoint presentation
- Computer
- Overhead projector
- Marking Pen
- Tape
- Meta cards

TIMEFRAME

60 minutes

METHODOLOGY

- Lecture
- Exercise and group discussion
- Walkthrough of the exercise solution/s

CONTENT/GUIDES FOR INSTRUCTOR/FACILITATOR

Basic Concepts

1. The importance of audit reports

The published final PA report is the product on which the performance of the Commission's PA function is judged by the President, Congress, other oversight agencies and the public at large. Any material errors, particularly in areas contested by the auditees could be potentially damaging to the credibility of a particular report and to COA. It is therefore crucial that a great deal of attention be given to the accuracy, logic and clarity of the report.

A number of points need to be emphasized in regard to PA reports:

- the value of concise and sharply focused reports which draw out the significant issues of public administration;
- the need for well-developed audit findings based on sound evidence;
- the importance of having fewer but meaningful audit findings rather than many related but lower level recommendations;
- the importance of a timely audit; and
- the benefits of sound and well developed audit methodology.

INTOSAI Standards (No. 56) states: "At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, includes only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive."

2. Attributes of a performance audit report

The attributes of a good performance audit report are:

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. One-sided presentations should be avoided (ISSAI 3000/5.2). Facts must not be suppressed, and minor shortcomings must not be exaggerated. Explanations – especially from the audited entity – must always be sought and critically evaluated (ISSAI 3000/5.3). The report may recognize the positive aspects of the audited entity or program if applicable to the audit objectives.

Complete: The report should contain all information and arguments needed to satisfy the audit objectives and promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements (ISSAI 3000/5.2). It also means the report states evidence and findings without omission of significant relevant information related to the audit objectives. Being complete also means clearly stating what was and was not done and explicitly describing data limitations, constraints imposed by restrictions on access to records, or other issues (GAO Government Auditing Standards/Appendix 1/7.02/c).

Accurate: An accurate report is supported by sufficient, appropriate evidence with key facts, figures, and findings being traceable to the audit evidence. Evidence presented should be true and comprehensive and that all findings are correctly portrayed. The need for accuracy is based on the need to assure readers that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report. In addition, inaccurate reports can damage the credibility of the SAI. In other words, a high standard of accuracy requires an effective system of quality assurance (ISSAI 3000/5.2).

Convincing: Basically a performance audit report is making a case for change. No matter how compelling the findings of the audit, it is best to assume that decision-makers will start from a position of being opposed to change. In order for a report to be persuasive the author of the report must consider the point of view of the audience for the report and what will persuade them to take appropriate action to address the findings.

Constructive: constructive means that positive conclusions are presented in the audit report (ISSAI 3000/5.3).

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. The sooner the reports are prepared, the better (PASAI Performance Audit Manual/5.12&5.13).

Clear: The report should be easy to read and understand (as clear as the subject matter permits). Technical terms and unfamiliar abbreviations must be defined. Logical organization of material, and accuracy in stating facts and in drawing conclusions, are essential to clarity and understanding (ISSAI 3000/5.2).

Concise: Being concise means that the report is no longer than necessary to convey and support the message. Extraneous detail detracts from a report, may even conceal the real message, and may confuse or distract the users. Although room exists for considerable judgment in determining the content of reports, those that are fact-based but concise are likely to achieve results (GAO Government Auditing Standards/Appendix 1/7.02/f). It must be stated, however, that advanced studies often require longer reports. One must also have in mind that the performance audit reports are not only written for those who have special knowledge; they are also written for those who need more information to understand the subjects (ISSAI 3000/5.2).

3. Contents of a PA Report

Since circumstances may vary significantly from case to case, no PA will likely be the same. However, to facilitate the work of the auditor, the Commission prescribed certain requirements under COA Memorandum No. 99-021 dated April 7, 1999. These are the following:

a. Executive Summary – this summarizes the contents of the report. Essentially, it includes:

- Introduction
- Areas for improvement wherein recommendations will be followed by the gist of the findings;

- A brief discussion of the Status of Implementation by the Auditee of Previous Audit Recommendations where applicable.

b. Report Proper – this refers to the presentation and discussions of the detailed portions of the report:

- **Introduction**

This portion consists of a brief description of:

- Explanation of what the report is and the rationale for it.
- Statement of the mandate and the objectives of the organization.
- The structure and interrelationships of the activities;
- Profile of the implementors, intended clientele, and actual users;
- The organization, the area/focus or the program, project, activity, system, or function on which the report focuses.
- Profile of physical, financial and human resources as applicable;
- The percentage of accomplishment on the selected area, program, etc., and the reasons for material deviations, if any, from the goals/targets.

- **Objectives, scope and methodology**

- Pursuant to INTOSAI Auditing Standards, paragraph 184, the performance audit report should state clearly the objectives and scope of the audit. It is important that the report describes the objectives and scope of the audit so that the readers can understand the purpose of the audit and properly interpret the results. The scope of the audit is described by identifying the agency or part thereof subject to audit, identifying the matters examined and describing the time period covered by the audit.
- The auditor needs to give particular attention to describing clearly the scope and objectives of the audit where the purpose of the audit or the nature of the PA information is highly specialized or the information could mislead users if taken out of context. Similarly, the auditor should consider whether there is any expressed restriction on the distribution of the audit report or on those entitled to rely on it. If so, this would be mentioned in the audit report.
- Any limitation on the scope of the auditor's work and the reasons therefore should be described in the audit report. A scope limitation occurs, for example, when the auditor is unable to audit key organizational units or systems or to perform necessary audit procedures due to factors beyond the auditor's control. The scope of the audit can also be limited by the inability to identify suitable criteria. The auditor should consider if it is

appropriate to comment in the report on the implications of the lack of suitable criteria for the activity being audited.

• **Findings and Recommendations**

- Noteworthy accomplishments
- Significant adverse audit findings

- The significant adverse audit findings resulting from an evaluation shall be shown in terms of the aspects of effectiveness, efficiency and economy. Each finding shall be headed by an underlined caption or topic sentence which shall contain the gist of the cause and condition and the effect/impact thereof.

- The topic sentence shall be expounded in the support paragraph(s) which include(s) a clear and concise discussion of the condition, criteria, cause and effect.

- On the other hand, each recommendation or set of recommendations shall follow the finding to which it pertains. This portion shall no longer be headed by a topic sentence.

- A direct reporting audit report would describe relevant facts and findings sufficiently to allow readers to understand the basis upon which the auditor's opinion has been formed. This would include a discussion of the underlying facts,

comparisons with suitable criteria and the analysis of differences between what is observed and the audit criteria, including the causes and effects of the differences.

- The report should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions.

- Recommendations, where provided, should be presented in a logical, knowledge-based and rational fashion, and be based on competent and relevant audit findings. They should be practicable, add value and address the audit objective and questions. They should be addressed to the entity(ies) having responsibility and competence for their implementation. In the result-oriented approach, the recommendations are often aimed at eliminating the deviation between the finding and the criteria. In the problem-oriented approach, the cause of a finding forms the basis for the recommendation.

c. Status of Implementation by the Auditee of Previous Audit Recommendations

d. Annexes – these are supplementary schedules and other relevant documents.

2. Writing the report

When the auditor has completed his audit, knows what he wants to write, has organized his report into major sections – such as the background section, the conclusion and evidence section, the recommendation section, and the scope section – then his next step is to organize each into a flow of written language that makes it clear, concise, objective, and easily readable by a third party.

Reader/User of the Audit Report

In many cases, the auditor is more interested in having his/her supervisor approve the report-making it understandable to someone outside the organization. Often, this outside reader is not a technician and yet must read a technical report.

Therefore, the auditor should write to the level of the reading ability of the majority of the public. The writing should be a mixture of medium length paragraphs. . Wherever possible, the active voice should be used. The writer should draw attention to the most important subjects through the use of subheadings

Level of Importance of each Item in the section

The importance of sections is determined by their location in the report. The most important points should be placed first in the section, with the others following order of importance. For example, actual money loss is much more important in terms of significance than possible money loss and should be placed higher in the report.

Sentences and Paragraphs

In writing, strive to achieve the following:

Make sure that:

- Overall report is logically organized.
- Chapter or section headings are properly stated.
- Style of writing matches that of the intended audience.
- Each of the paragraphs contains only one idea; that idea is clearly understood; the idea from one paragraph flows smoothly to the idea in the next in logical order; and each sentence in each paragraph contributes to the main idea in that paragraph.
- Sentences are usually stated in the active voice; action verbs should be close enough to the subject to tell what is being acted upon; avoid too many “it is” and “there are”

constructions; they should not be too long or too short; and the subject and verb agree.

- Use the right words – concrete, not abstract; professional, not jargon or; English, not “Latinized” versions of English, words; verbs as action verbs, not as weak nouns, and common terms, not technical terms.
- Punctuation is appropriate.

Exercise

Instructions:

1. Provide the group with a sample audit report (findings and recommendations only) and require them to edit and rewrite said report.
2. Time allotted –
 - a. Group discussion – 10 minutes
 - b. Rewriting the report – 3 minutes
 - c. Presentation – 2 minutes
 - d. Critiquing – 5 minutes

SUMMARY

In this session we discussed the importance of an audit report and the proper guidelines in its preparation. The emphasis of the PA report is significantly different from the financial audit report. PA reporting puts more emphasis on the 3 E's. Focus of

the report is more on the performance of an activity or program.

REFERENCES

Value for Money / Performance Auditing

ISSAI 3000 – Performance Auditing Standards

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For more information, you may visit the following websites:

www.coa.gov.ph

www.i-kwenta.com

www.ansa-eap.net

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