



Australian
Aid 

 ANSA-EAP



CITIZEN PARTICIPATORY AUDIT
**LEARNING
GUIDEBOOK**
PERFORMANCE AUDIT: AN OVERVIEW

PERFORMANCE AUDIT: AN OVERVIEW

Audit Execution

SESSION OVERVIEW

This session pertains to audit findings and evidence, techniques and tips about data collection and data analysis and the findings matrix.

The main activities of this audit phase are:

- a) Execution of audit tests in order to gather evidence
- b) Evaluation of collected data
- c) Communicating audit results

LEARNING OBJECTIVES

At the end of the session the participants would be able to describe the different processes in the execution of the audit phase.

SUGGESTED ACTIVITIES/SLES

- a) Lecture-discussion
- b) 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

Execution of audit tests

1. Conduct of Entry Conference

The audit team prepares an Entrance Conference Agenda in preparation for the meeting with the agency head and concerned officials to discuss the following:

- Audit objectives
- Scope of audit
- Audit duration
- Audit team composition
- Facilities: Office space, equipment, etc.
- Contact person
- Other requirements

2. Fieldwork

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 intended to support the findings appearing in the final report.

Tips and hints for fieldwork

- Prepare everything that you will need in field during the planning phase.
- Don't forget to:
 - schedule visits, interviews and focus groups;
 - book tickets and hotels;
 - define how will be your transportation in the fieldwork and who will provide it;
 - inform contact telephone numbers to supervisor and other team members;
 - prepare necessary material (copies of questionnaires; interviews, focus groups and direct observation guides; name, address, phone, e-mail of all the persons will you visit in the field);
 - prepare presentation letters.
 - When scheduling field activities (interview, focus group etc.), mind the time required to go from one place to another and probable delays in each activity.
 - Don't rely only in electronic devices (recorders, computers etc.). Make some key notes.
 - Start filling the findings matrix (causes, effects and recommendations) in the field, every time you have an insight for it.
 - Fieldwork is time consuming. Don't expect time to deal with tasks that are waiting for you at the office.
 - Be sure to collect all the material you need. Some information might be hard to collect after the fieldwork.
 - Wear proper clothes. You are representing your office, so, when talking to authorities and managers, don't wear casual clothes (unless you are sure they will wear casual clothes too). On the other hand, if you will talk to beneficiaries (especially people with low level of education), formal clothes might intimidate them and you won't be able to establish rapport and obtain reliable information.

3. Audit Evidence

The information collected and used to support audit findings are called audit evidence. All audit findings and conclusions must be supported by audit evidence.

Collection of evidence may be considered a mechanical task but an important activity and consumes lots of time and effort because the quality of data collected will determine the audit finding. To avoid getting caught up in details and a flood of data, detailed assessments of the need for information must be made both before and during the audit.



Considerations in Collecting Audit Evidence

The reliability of information to be used as audit evidence is influenced by its source and nature and the circumstance under which the evidence is obtained. The following factors influence the reliability and competence of audit evidence:

- a) The reliability of audit evidence is increased when it is obtained from independent sources outside the agency.
- b) The reliability of audit evidence generated internally is increased when the related controls imposed by the agency are effective.
- c) Audit evidence obtained directly is more reliable than audit evidence obtained indirectly or by interference.
- d) Audit evidence obtained in documentary form is more reliable than evidence obtained orally.
- e) Original documents are more reliable than photocopies.
- f) Testimonial evidence obtained under conditions where persons may speak freely is more reliable than evidence obtained under compromising conditions.
- g) Testimonial evidence obtained from someone who is unbiased and has complete knowledge of the area is more reliable than one obtained from someone who is biased or has only partial knowledge.

Relevance and Sufficiency of Audit Evidence

Relevance of evidence requires that the evidence bears a clear and logical relationship to the audit objectives and to the criteria while sufficiency of evidence refers to the quantity of evidence required to come to an opinion on the audit objective and to support an observation.

Factors to Consider in Assessing Sufficiency of Evidence

- the quality of evidence gathered
- the level of materiality or significance of the finding
- the degree of risk associated with coming to an incorrect opinion
- known client sensitivity to an issue
- intended level of audit assurance
- experience gained in previous audits as to the degree of reliability of the auditee's records
- persuasiveness of the audit evidence
- cost of obtaining the evidence relative to the benefits in terms of supporting the finding

Auditors should always remember that the burden of proof of providing sufficient evidence to substantiate an audit finding rests with them. They must use their judgement about what is enough.



Types and Sources of Evidence

Type of Evidence	Sources of Evidence
Physical	<p>This type of evidence can be obtained from the following sources:</p> <ul style="list-style-type: none">• observation of processes, procedures, etc.• site visits to gain personal knowledge of the physical state of work as they are at a point in time• physical verification of assets, etc.
Testimonial	<p>This type of evidence comes from interviews with interested parties. It can be documented in the form of interview notes, recorded conversations in magnetic tapes or corroborated evidence or testimonies from other people that have knowledge of the issue at hand</p>
Documentary	<p>This type of evidence is the most commonly used source of evidence. The following are the sources where documentary evidence can be obtained:</p> <ul style="list-style-type: none">• Manuals• Files• Reports• Instructions• Contracts

Type of Evidence	Sources of Evidence
	<ul style="list-style-type: none"> • Invoices • Vouchers
Analytical	This type of evidence may not be easily available in a ready-made format. Most of this evidence must be developed by the auditor
Electronic	<p>This may include the following:</p> <ul style="list-style-type: none"> • Hardware and network diagrams • Operating systems software • Network and communication software • Time and attendance records • Application programs • Library listings • Flow diagrams, source code and file layouts

Other forms of Audit evidence:

- Those obtained by direct inspection or observation
- Notes of interviews
- Copies of actual documentation
- Confirmation from third parties
- Statistics, comparison, analysis developed by the audit team

Purpose of Gathering Audit Evidence

Gathering relevant and sufficient audit evidence enables the audit team to:

- Develop observations about whether or not performance is consistent with criteria
- Conclude against each audit objective
- Identify opportunities to improve performance
- Support audit recommendations and conclusions

There are several reasons for concentrating particularly on evidence requirements in the examination phase:

- First, credibility depends on the quality of evidence gathered in the audit examination.
- Second, gathering too much or too little evidence could be expensive or risky.
- Third, the timing when audit evidence is obtained should be within a schedule that will allow deeper and fuller probing by the audit team.

Methods of Gathering Evidence

Evidence gathered may be qualitative in nature and requires extensive use of professional judgement. Accordingly, the auditor would ordinarily seek corroborating evidence from different sources in making assessment and forming conclusion. The most common methods or techniques in gathering evidence are the following:

Methods/ Techniques	Explanation
Document review	This evidence may be in physical or electronic form. It may be internal or external to the agency. It includes accounting records, copies of outgoing and incoming correspondence, job descriptions, plans, budgets, internal reports, policies and procedures and minutes of meetings.
Interviews	Interviews can be useful, but it is necessary to identify the right people to provide information and corroborate oral information. Result of interview should be confirmed by other independent sources such as documents, observations, or other interviews. The interview process is like a funnel, with a lot of data going from the top and a much smaller amount of information or evidence coming from the bottom. Some of what are lost are useful and some are not. Here are some points to remember in getting the most of the interview:

Methods/ Techniques	Explanation
	<ul style="list-style-type: none"> • Not everything said by the respondent is heard and understood by the interviewer. • Not everything understood by the interviewer will be remembered and written down. • Not everything recorded will be confirmed by the respondent. • Not everything the respondent believed will be corroborated by independent source
Questionnaires	<p>Questionnaires are lists of detailed questions normally sent to organizations or individuals for their completion and used by the audit team to get a series of responses to the same questions from different sources. While this method can prove very effective for the auditor, if wrongly used, it can prove too much of a burden in both time and resources for the auditee. Ideally, the questionnaires to be used should be pre-tested to evaluate their effectiveness. Use of questionnaire to collect data can be very time consuming. It is therefore necessary to identify the potential respondents, design the questionnaire, await response and follow up non-respondents before analysis of data can start. A realistic timetable should be established so that the job can be completed within the timeframe.</p> <p>There are three (3) basic structures for questions: open, closed or probe questions.</p> <p>Open questions – respondents are asked to reply in the narrative form. Such questions should be restricted as much as possible because they provide qualitative responses and there is less control over the completeness and accuracy of the answers. There is greater tendency not to respond and it is much difficult and time-consuming to process and analyse the responses in a meaningful way.</p> <p>Closed questions are used to establish specific facts or information and are answerable by “yes or no”</p>

Methods/ Techniques	Explanation
	<p>response, or identification of person, time, location, number, etc. They are easier for the respondents to answer and should therefore result in better response rates and make responses more comparable.</p> <p>Probe questions seek additional information or clarification of thinking behind information already supplied. They should be used to explore in detail particular opinions/attitudes.</p> <p>In deciding which type of questions to use, we should consider the following factors:</p> <ul style="list-style-type: none"> • How much do you know about the range of possible answers? • How much time do the respondents have or how much time are they willing to give? • How many respondents will be required to get satisfactory answers?
Analysis of data	The analysis of data involve computations, analysis of ratios, trends and patterns in data obtained from the agency and other relevant sources and comparison with prescribed standards
Physical observation	<p>Direct observation is generally more powerful than evidence from secondary sources. Going to the “field” to observe the audit first hand is effective way to gather evidence. Recording the results of field observation in photos or videos is an efficient way of capturing first hand evidence for later analysis. Photos and observed examples may also have a powerful impact on the reader of the report. Auditors should, however, be aware that people perform differently when they are being observed.</p> <p>Observation usually involves several steps such as selecting, watching and recording objects, events or activities that play a significant part in the administration of government programs. The observed conditions can then be compared with criteria and the consequences can be analysed.</p>
Inspection	Inspection includes physical examination which provides audit evidence regarding existence, but not

Methods/ Techniques	Explanation
	necessarily about the agency's rights and obligations and the valuation of the assets.
Seminars and hearings	Seminars might be used for instance to: acquiring knowledge of a specialist area; discuss problems, observations, and possible measures; air arguments for and against different views and perspectives.
Focus groups, focal groups, reference groups and experts	Focus group is a technique used to collect qualitative data. The source of data is the discussion and interaction among participants of a group brought together to discuss specific topics and issues. Reference groups may be composed of people from within or outside the SAI and are usually made up of experts and specialists.

4. Evaluating Audit Results

Evidence Analysis and its Objectives

Evidence analysis is the validation of the evidence gathered with a view at arriving at fair and credible findings leading to conclusions. Its main objective is to reduce and convert a mass of information into findings and conclusions that are simple and comprehensible, easy to understand, meaningful and credible. Evidence analysis should help an auditor arrive at findings leading to conclusions which have these characteristics.

- Reasonable
- Useful and objective
- Complete

- Measurable
- Acceptable

Elements of Evidence Analysis

Evidence analysis undertaken generally includes the following elements:

1. A detailed examination of observed facts - to determine whether evidence proves or disproves an assumption which the auditor set out to test.
2. A judgement on the results of tests carried out on key systems and controls - to determine whether the deviations from standard are within acceptable limits or indicate weaknesses worth reporting.
3. Relating data from different sources or of different nature - to test if conclusions drawn from one set of

observations hold true in the light of this additional information, which may sometimes be only indirectly related.

4. Link of various aspects of an audit observation in a logical sequence and relationship - to enable findings to be made and conclusions to be drawn.
5. The identification of significant trends - as the auditor may come across several instances, in the course of his detailed review, which when seen together and in relation to each other, point to a significant trend which may merit reporting.
6. Comparisons of various kinds to provide a meaningful perspective to findings and conclusions.
7. Examination of the causes of significant effects - to help management take corrective action.
8. Assessment of the consequences of events
9. Organization of the supporting evidence and argument in a manner which is coherent, brief and effective so that it makes sense to the reader and convinces him of its credibility.





Techniques that can be used to analyze and validate evidence

1. Statistical analysis such as average mean, median and standard deviations
 - To identify the level, spread or shape of the data when this is more important than a single average number;
 - To assess whether sample data is representative of the population;
 - To interpret probability distributions to assess risk

2. Regression analysis - to identify unusual values that do not fit the regular relationship between two things.
3. Discounted cash flow - the expression of streams of money cost and benefits over a period of years in terms of their value in the years of a project's inception.
 - Net Present Value (NVP) which shows the result of subtracting the project cost from the benefit stream, discounting the result on year-by-year basis and summing the result.
 - Internal Rate of Return is the rate of discount at which the project NVP equals zero. It is the rate of return on the outlays involved in the project.
 - Sensitivity Testing involves altering an item in the cost or benefit stream of a project by a given percentage, or by time of its expenditure or receipt so as to determine the impact on the NPV, cost-benefit ratio, or IRR of the whole project.
4. Cost-benefit analysis
 - To compare costs and benefits when both are known or can reasonably be estimated
 - To compare costs of alternatives when benefits can be assumed constant.
5. Financial analysis is comparing the expenditures or the resources utilized (inputs) with the cost of goods and services produced/rendered (outputs).
 - Comparison using rates and ratios
 - To compare actual with expected value

- To observe a change overtime

The analysis of the evidence will now be documented in the working paper supported by the documents gathered.

5. Communicating Audit Results

Audit findings

Audit findings are the evidence gathered during the field work that will be used to answer audit questions. It is the discrepancy between the existing situation and the criterion.

The findings contain the following attributes:

- a) criterion (what should be)
- b) condition (what is)
- c) cause (why is there a deviation from norms or criteria)
- d) effect (what are the consequences of the situation found)

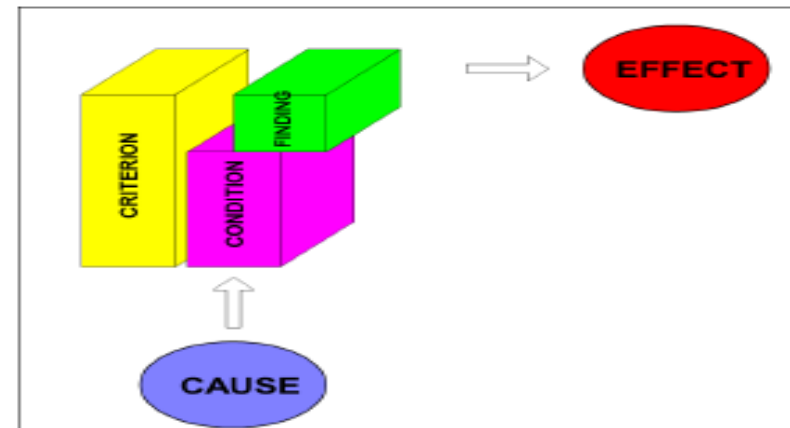
The audit finding occurs when the criterion is compared to the existing situation.

Audit criterion is the performance standard against which the adequacy of performance can be assessed. It can be defined quantitatively or qualitatively. Meeting or exceeding the criteria may indicate the occurrence of good practice. Not reaching the criterion indicates opportunity for performance improvement.

Condition is the existing situation or being done, identified and documented during the audit.

Cause is the reason for the difference between the condition and the criterion. The cause will be the basis for the recommendations. Sometimes causes of the existing situation cannot be identified because such identification would require a sophisticated methodology which would not be within the audit scope.

Effect is the result or consequence of the difference between condition and criterion. The effect indicates the seriousness of the situation encountered and determines the intensity of corrective action.



Source: IDI e-Learning course in Implementing Performance Audit ISSAIs

Audit Findings matrix

The findings and information obtained during the audit, and the conclusions and recommendations are recorded in the findings matrix. It is a useful tool to support and guide the preparation of the audit report. This matrix may also be done before preparing the Audit Observation Memorandum.

Completion of the findings matrix should start during field work, as findings are noted. The clarifications that may be necessary should be collected while still on the field in order to avoid misunderstanding and possible further requests for information, with the consequent waste of effort.

An example of findings matrix template is as follows:

Audit problem: Clearly and objectively express what prompted the audit							
Audit objective (the same stated in the planning audit program matrix). For each audit objective, the items below are repeated.							
Finding					Good Practices	Recommendations	Expected Benefits
Situation found	Criterion	Evidences and analysis	Causes	Effects			
Most relevant findings, identify	Pattern used to determine if the expected	Result of application of the data	May be related to the operation or design of the audit object or may be	Consequences related to causes and to cor- res-	Actions identified that undoubtedly lead to good performance.	They should deal with the causes of the diagnosed problems.	Improvements expected when

<p>d in the field work.</p>	<p>performance of the audited object is satisfactory, exceeds expectation or is unsatisfactory .</p>	<p>analysis methods and its use in the production of evidences. That is, the techniques used to handle the information collected during field work and the results achieved should be indicated.</p>	<p>out of the control or influence of the manager. Identification of the causes requires robust evidences and analysis. Recommendation s should contain the measures required to solve the causes of unsatisfactory performance.</p>	<p>pending findings. It may be a measure of the finding. relevance</p>	<p>Such actions may subsidize the recommendation s</p>	<p>There should be parsimony in the amount of recommendations and solution of the main problems should be prioritized.</p>	<p>implementing the recommendations . The benefits may be quantitative and qualitative. Whenever possible, quantify them.</p>
-----------------------------	--	--	--	--	--	--	---

Source: IDI e-Learning course in Implementing Performance Audit ISSAIs

Documentation

Audit findings are communicated to the agency's management through the issuance of the following documents:

- Audit Observation Memorandum (AOM)
- Notice of Suspension (NS)
- Notice of Disallowance (ND)
- Notice of Charge (NC)

Note that AOM/NS/ND/NCs can be issued at any point in or stage of the audit process.

Exercise 3.1

Instructions:

1. Based on the participants' learning from this session and their experience, require them to simulate (in a role-play) how to carry out the following activities:

- Entrance conference with management
- Interview with the Project Manager
- Inspection of a facility within the office

2. Presentation should be limited to the most relevant activities.
3. Select groups to present
4. Time allotted-
 - Group discussion – 10 minute
 - Presentation – 5 mins

SUMMARY

This session has covered audit finding and its elements, evidence and evidence analysis. It also presented tips and hints for fieldwork, some data collection methods and explanation about how to gather all information obtained during the audit, the conclusions and recommendations in the findings matrix.

REFERENCES

Integrated Results and Risk-Based Audit Manual

ISSAI 3000 – Performance Auditing Standards

IDI e-Learning course on Implementing Performance

Acknowledgements

We take great pleasure in recognizing the following individuals who brought in their knowledge and expertise in developing this Learning Guidebook.

Commission on Audit

- Chairperson Maria Gracia Pulido Tan
- Commissioner Heidi L. Mendoza
- Assistant Commissioner Luz L. Tolentino
- The CPA Project Management Team
 - Dir. Aida Maria A. Talavera
 - Dir. Delia Agatep
 - Dir. Melanie Añonuevo
 - Dir. Leila S. Paras
 - Dir. Ma. Realiza R. Ysmael
 - Maria Ramona Jimenez
 - Aldrin Paul S. Romero

Department of Foreign Affairs and Trade, Australian Embassy

- Mr. Daniel Featherston

Public Financial Management Program implemented by Coffey International Pty., Ltd.

- Mr. Basile Gilbert
- Ms. Virgie Ongkiko

Affiliated Network for Social Accountability in East Asia and the Pacific Foundation, Inc.

- Mr. Redempto Parafina
- Citizen Participatory Audit Project Team
 - Vivien Suerte-Cortez
 - Adelfo Briones
 - Boy Randee Cabaces
 - Adelle Liezl Chua
 - Christine Marie Cruz
 - Shigemi Muramatsu
 - Emerson John Lozanta
 - Imelda Perez

Thank you very much for your valuable contributions.

The Citizen Participatory Audit project is a joint initiative of the Commission on Audit and the Affiliated Network for Social Accountability in East Asia and the Pacific. This is supported by the Department of Foreign Affairs and Trade – Australian Embassy through its Public Financial Management Program implemented by Coffey International Pty. Ltd.

For more information, you may visit the following websites:

www.coa.gov.ph

www.i-kwenta.com

www.ansa-eap.net

WRITTEN BY

Delia Agatep | Adelfo Briones | Shigemi Muramatsu | Imelda Perez
Vivien Suerte-Cortez | Ma. Realiza Ysmael | Aldrin Paul Romero

EDITED BY

Antonette Reyes

PHOTOGRAPHY BY

Adelfo Briones | Arnel Culala | Christine Marie Cruz

DESIGN AND LAYOUT BY

Emerson John Lozanta