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ANSA-EAP



CITIZEN PARTICIPATORY AUDIT

LEARNING GUIDEBOOK

PERFORMANCE AUDIT: AN OVERVIEW

PERFORMANCE AUDIT: AN OVERVIEW

Audit Planning

SESSION OVERVIEW

This session introduces to the participants the different stages and activities to be undertaken in the planning phase like data gathering and risk assessments, with the goal of selecting and prioritizing significant areas to be the focus of performance audit.

The session will also introduce the different templates to ensure that the data gathered and activities undertaken are properly documented.

LEARNING OBJECTIVES

At the end of the session, the participants should be able to:

- Acquire general knowledge on the process on how an area is selected as the focus of performance audit;
- Document the data/information gathered and activities undertaken; and
- Prepare the audit plan and audit program.

SUGGESTED ACTIVITIES/SLES

- Lecture-discussion
- Exercises

MATERIALS/EQUIPMENT

- PowerPoint slides
- Overhead projector
- Computer
- Kraft paper
- Marking pen
- Tape
- One laptop for each group (with installed templates)

TIMEFRAME

The session will run for three (3) hours

METHODOLOGY

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

CONTENT/GUIDES FOR INSTRUCTOR/FACILITATOR

PLANNING PHASE

Strategic planning is the basis for the selection of audit topics. It involves determining the potential audit areas from which the strategic choices are to be made and establishing the selection criteria to be used for these choices (ISSAI 3000/3.2). The selection criteria should consider the added value to the stakeholders, the importance of the problem, and the results of risk analysis.

The following are the activities to be undertaken in selecting focus audit areas as the subject of performance auditing:

1. Identifying agency risks and possible audit areas
2. Assessing significant agency risks and possible audit areas
3. Prioritizing significant audit areas
4. Preparing Audit Plan / Audit Design Matrix
5. Developing Audit Program

I. Identifying agency risks and possible audit areas

The key to an effective planning of an audit is gaining a thorough understanding of the agency. By understanding how the agency operates and how key environmental factors affect its goals, objectives, and strategies, the agency risks and problem areas are better identified.

Professional judgment should be exercised in determining the extent of understanding that is required. The primary consideration is whether sufficient understanding of the agency and its environment has been obtained to be able to identify and assess the risks of not achieving the objectives of the agency's PAPs.

Agency Risks

While gaining sufficient understanding of the agency, the team should take note of the probable agency risks and its impact on the agency. The understanding of the agency risk shall be clear as to cause and effect of the risk once it materializes. The agency risks, which may result in risks of not achieving the objectives of the agency's PAPs, arise when:

- forces in the agency environment could significantly 'change the fundamentals' that drive agency's overall social and/or operating objectives and strategies and, in the extreme, result in failure of the agency's operations.
- operation processes are not clearly defined, are poorly aligned with agency's strategies, goals and objectives, are not performed effectively and efficiently in satisfying public
- prescribed policies and procedures or laws and regulations are not complied with resulting in lower

quality, higher execution costs, lost revenues, unnecessary delays, penalties, fines and so on.

The following are samples of agency risks and the corresponding risk statements:

- a. **Measurement and monitoring** - This risk refers to the failure to identify appropriate metrics and assess performance quality and adherence to the standards as set forth by the agency.
- b. **Resource allocation** - Unavailability and inappropriateness of resource allocation process prohibits the agency's ability to provide value for public.
- c. **Project evaluation** - Failure to evaluate project proposals may result in problems when the project has been approved.
- d. **Public wants** - The agency may not be aware of changing pervasive public needs and wants, e.g. increased demand for faster turnaround on services.
- e. **Client/Public satisfaction** - A lack of focus on the client/public threatens the agency's capacity to meet or exceed the client's/ public's expectations.
- f. **Service delivery** - Faulty or nonperforming services expose the agency to client/public complaints, litigation, and loss of revenues, and agency reputation.

- g. **Public relation** - A decline in client/public confidence threatens the agency's capacity to efficiently raise or collect funds.
- h. **Efficiency** - Inefficient operations threaten the agency's capacity to deliver services at the lowest cost and shortest time possible.
- i. **Natural events / Terror and malicious acts** - This risk refers to the threat to disrupt operation and ability of the agency to sustain operations, provide essential services or recover operating costs or accomplish planned target due to natural events (e.g., fire, earthquake, tornado, terrorist activities or other malicious acts).
- j. **Authority/limit** - Ineffective lines of authority may cause senior management, division heads or employees to do things they should not do or fail to do things they should.

Sources of information

Obtaining the required knowledge about the agency is a continuous cumulative process. It is essential to have sufficient knowledge and understanding of the agency to be audited since failure to understand the "big picture" may result in unproductive audit work or misleading audit observations and conclusions. Some of the sources of information are:

1. Enabling legislations
2. Internal guidelines and operating manuals
3. Agency vision, mission statements, strategic and corporate/operational plans, annual reports
4. Program details, program evaluation, internal audit reports, performance reports, or other related accountability reports
5. Government decisions
6. Conference reports and minutes of meetings
7. Legislative processes and speeches, Presidential statements
8. Description of management information systems
9. Conference reports and minutes of meeting
10. Views of citizens or civil societies; viewpoints from experts in the field
11. Recent audits, reviews, evaluations and inquiries into the agency
12. Media reports (news, articles, concerns raised by the public)
13. Budget estimates, organization charts, policies
14. Medium Term Philippine Development Plan (MTPDP), MTPIP
15. NEDA, Department of Finance
16. Agreements with funding agencies

Tools and techniques for selecting audit topics:

A wide variety of procedures and techniques or tools are used to gather the necessary information for understanding the agency and its environment for the purpose of selecting audit topics. These may include:

1. *Review of information.* Review of relevant information of the agency and its environment which includes policies, directives, performance report and report on plans.
2. *Inquiry of agency management and others within the agency.* Inquiries of management and those responsible for financial reporting and operations enhance understanding of the nature of the agency's operations. Others within the agency with different levels of authority may also be interviewed to obtain additional information or a different perspective.
3. *Analytical procedures on financial and non-financial information.* Analytical procedures performed as risk assessment procedures may include both financial and non-financial information. This will include the analysis of the agency's actual performance against the targeted performance Major Final Outputs in its OPIF.
4. *Observation.* This refers to watching processes or procedures being performed by agency personnel, and observation of facilities.
5. *Inspection* - Examine of records or documents, whether internal or external, in paper or electronic form, or other media.
6. *Area watching* - It entails monitoring key issues in the public sector in order to identify possible audit areas for further scrutiny. It is carried out by reading relevant publications and previous reports relating to performance and compliance audits, listening to the experience of regularity auditors, listening to or reading transcripts of parliamentary debates, attending conferences and seminars, discussions with colleagues, stakeholders and specialists, listening to radio and television broadcasts, and reading newspapers and journals (AFROSAI-E PA Manual/3.3.2).
7. *Consideration of views of citizens* - The perspective of the citizen that is related to the performance of the audited entity should be taken into account where appropriate (ISSAI 3100/2.2). 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. SAs should maintain relevant information outlining views of the public on certain operations of government organisations or programmes (*Appendix to ISSAI 3100/3.3*). (IDI e-Learning on “Implementing Performance Audit ISSAIs”)

Documentation

The understanding of the agency is documented in the Understanding the Agency (UTA) template with the following data:

1. Agency Profile

- a. Mandate – State the relevant law, rule or regulation mandating the purpose of the establishment of the agency.
- b. Operations – Provide a brief description of the agency's procedures and controls in operations and critical agency processes to ensure that objectives are pursued with due regard to economy, efficiency and effectiveness (e.g. planning arrangements, financial controls, management information systems etc.)
- c. Structure - Describe the agency's organizational structure, including branches/OUs, manpower

complement and its relation to other key government agencies,

- d. Objectives and Strategies – State the objectives and strategies of the agency. Evaluate if these objectives and strategies are aligned with the mandate of the agency.
 - e. Key Stakeholders – those who have interest in the agency whose expectations or actions (or inactions) can significantly influence management or affect the agency; entity clients/beneficiaries, oversight agencies
 - f. Key Environmental Factors –describe the environment of the agency and how the operations of the agency are affected/influenced by environmental factors. Examples are: Political Environment (laws, regulations, policies, change in leadership), Social Environment (social developments which may affect the agency), Legal and Regulatory Environment, Technological Environment (changes in information technology)
- #### 2. OPIF/Program Accountability Model – refers to the Organizational Performance Indicator Framework (OPIF) of the agency, if there is any, or the Program Accountability Model developed.

3. Key Performance Indicators - The key results identified and monitored by management, generally few in number, that must be achieved to conclude that a strategy has been implemented successfully. Key performance indicators also refer to the targeted MFO as agreed in their OPIF.
4. Previous Audit Findings – Include significant audit findings from previous audits that may still exist in the agency.
5. Recent Developments/ News – Include any pertinent news or publication about the agency and indicate the possible impact or risk that may arise on the agency.
6. PAPs Review – This is a review of the PAPs by understanding the details, such as the project objective, budget, duration, programs' activities and processes in general, stakeholders, development trends, etc.) It also includes the comparison between the actual and target performance indicators (both financial and non-financial indicators) and evidence of serious waste, inefficiency or ineffectiveness, if any.
7. UTA Summary - is used to document the identified agency risks and its impact on the agency, in relation to the PAPs reviewed.

The information collected enables an assessment to be made for each organization of factors likely to have a material effect on VFM and the ways in which it could be at risk. These may involve:

- the clarity and adequacy of policy and operational objectives
- the adequacy of procedures and controls designed to ensure economy, efficiency and effectiveness in the use of resources
- operations carrying inherently high risk to achieving VFM e.g. new activities or programmes, major or long-term capital projects
- any apparent strengths and weaknesses in management and performance
- the effectiveness of the organization in achieving its objectives. (IDI e-Learning on “Implementing Performance Audit ISSAIs”)



Note: For a workshop, the facilitator requires the participants to fill-out the PAPs Review and UTA Summary portions of the UTA template based on the available information on LGU-Del Maria.

Exercise 2.1 – Understanding the Agency

Instructions:

1. Divide participants into groups.
2. Based on the available information on case problem, accomplish the PAPs Review and UTA Summary portions of the UTA template.
3. From the following lists of risks, customize the risk statements.
 - a. Measurement and monitoring – This risk refers to the failure to identify appropriate metrics and assess performance, quality and adherence to the standards as set forth by the agency.
 - b. Client/Public wants - The agency may not be aware of changing pervasive public needs and wants, e.g. increased demand for faster turnaround on services.
 - c. Client/Public satisfaction - A lack of focus on the client/public threatens the agency's capacity to meet or exceed the client's/ public's expectations.
 - d. Service failure - Faulty or nonperforming services expose the agency to client/public complaints, litigation, and loss of revenues, and agency reputation.
 - e. Public relation - A decline in client/public confidence threatens the agency's capacity to efficiently raise or collect funds.
4. Participants write their answers on Kraft papers or use computer, following the PAPs Review format and UTA Summary format.
5. Require one group to present their outputs and let the rest of the groups give their reactions on the presentations
6. Time allotted:
 - a. Group discussion and preparation of output - 10 minutes
 - b. Presentation – 5 minutes
 - c. Reactions from the participants and facilitator – 5 minutes

II. Assessing significant agency risks and possible audit areas

The next step is to select which of the agency risks that have already been identified in the UTA Summary are considered significant. The selection process is necessary because of the numerous programs and projects of the agency compared to COA's limited resources. The audit topics should be significant and auditable, and should lead to important benefits to the public administration, the audit entity and the general public (ISSAI 3100/2.3). Audit topics should be assessed on the basis of problem and/or risk assessment and its impact and likelihood. The selection process should aim to maximize the expected impact from the audit while taking into account the audit capacities.

Programs and projects designed to have significant social, economic, environmental impact deserve audit attention. Assuming all factors are equal, projects with higher amount funding investment deserve more audit attention. Also, projects and activities that have drawn clear interest by

the public, the legislature or other sectors, deserve priority among a list of projects identified.

Assessment as to impact and likelihood

Assessing agency risk is done by considering the *impact* that the event, action or inaction would have on the agency and the *likelihood* that the event, action or inaction would occur.

In assessing the *impact* on the agency, whether high, moderate or low, the following factors should be considered:

- Potential financial loss or lost opportunity for the agency
- Damage to reputation or relationship with stakeholders or public
- Potential business interruption/ reduction of operations
- Degree of failure to achieve mandate
- Non-compliance with laws, rules, regulations

In assessing the *likelihood* or the probability that the event or action/inaction would occur or the risk is not mitigated, consider the probability/frequency of the risk occurring

over a predefined period say within one year or two years, etc., whether high, moderate or low.

Based on data gathered during workshop, survey, observation, interview, data analysis or other means, the auditor shall determine the overall rating of the risks identified based on the combined risk assessment as to *impact* and *likelihood*.

IMPACT	High	M	H	H
	Moderate	L	M	H
	Low	L	L	M
		Low	Moderate	High
		LIKELIHOOD		

The overall rating of the risks may change as additional information on the agency becomes available.

Documentation

The Agency Risk Identification Matrix (AgRIM) is used to assess the PAPs and agency risks identified in the PAPs Review and UTA Summary, as well as the offices in-charge of the PAPs.

III. Prioritizing significant audit areas

Based on the results of the assessment of the identified various audit areas as to impact and likelihood, the auditor needs to prioritize the selected audit areas using selection factors that include:

1. **Materiality** – As to quantitative factor, consider the budget: total value of government assets, annual expenditure and/or annual revenue of the audit area. The higher the funds used for a program/project, the more the project area is prioritized.

As to qualitative factor, the topic is important to government/the public/ the audited entity (national priority) and it involves a critical area. (IDI e-Learning course on 'Implementing Performance Audit ISSAs')

2. **Possible Impact** –The topic has a powerful effect on enhancing the economy, efficiency and effectiveness of government undertakings. (IDI e-Learning course on 'Implementing Performance Audit ISSAs')

3. **Visibility** – this factor is similar to significance but concerned with the external impact of the program. It is related to the social, economic and environmental aspects of the program/project and the importance of its operations to the government and the public. In considering this factor, some weight would be attached to the impact of an error, weakness, or irregularity on public accountability. It would also have regard to the degree of interest by the legislature and public in the outcome of the audit.
4. **Significance** – will rate highly where the audit project is considered to be of particular importance to the agency and where improvement would have a significant impact on its operations.
6. **Risk to good management** – Evidence of risk to good management includes:
 - Management inaction in response to identified weakness;
 - Adverse comment in the legislature or media;
 - Non-achievement of stated objectives such as revenue raised or clients assisted;
 - High staff turnover;
 - Significant under-spending or overspending;

- Control deficiencies in PAP's processes;
 - Sudden program expansion; or
 - Overlapping or confused responsibility relationships.
7. **Auditability** – relates to the audit team's ability to carry out the audit in accordance with professional standards. This could refer to the availability of technical competence or specialized skill to perform the audit, or the inability to carry out the audit, as in the case of societal outcomes where suitable criteria are not available to assess performance.
 8. **Timeliness** – if it is the right or appropriate time to audit the topic. (IDI e-Learning course on 'Implementing Performance Audit ISSAIs')
 9. **Previous audit coverage** – refers not only to previous COA audits undertaken but also to other independent reviews of the project (like reviews done by the internal audit, external consultants, government committees, or any program evaluation done in the past). The materiality, risk, significance and visibility of a project will also influence the ranking for coverage.

Documentation

The Risk Assessment Tool, a scoring matrix, is used to document the assigned weights expressed in percentages for each selection factor, which when summed up, should equal to 100%. The rating per selection factor that is given to a particular PAP should not exceed the weights assigned to each selection factor. Example: if "materiality" is assigned 20%, the rating that can be given to each PAP for that particular selection factor should not exceed 20%. The auditor may also choose not to give rating to a particular selection factor. Assigning of weights and giving ratings should be discussed among the members of the audit team.

The total rating for each PAP is indicative which among the PAPs are to be prioritized. The prioritized PAPs are listed in Part B of the Tool, which now includes the specific audit focus areas to be the subject of performance audit (e.g. delivery of services, efficiency of operations).



Note: While discussing, the facilitator shows the parts of the Risk Assessment Tool where the risk assessment as well as the prioritized PAPs are documented.

Exercise 2.2

Instructions:

1. Participants are to accomplish the Agency Risk Identification Template (AgRIM).
2. With the use of the Risk Assessment Tool, rate the PAPs based on the assigned weights for each selection factor and get total rating for each of the PAPs. Also, provide justification or the basis for the ratings.
3. Identify the focus audit areas for the prioritized PAPs (with highest ratings) that will be the subject of performance audit.
4. Select one group to present their outputs.
5. Time allotted –
 - Group discussion – 10 minutes
 - Presentation – 7 minutes

Reactions from the rest of the participants and the facilitator – 8 minutes

IV. Preparing the Audit Plan

After undertaking the various steps and activities from gaining understanding of the agency to prioritizing the focus areas, there is a need for a good audit plan. The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner (ISSAI

3000, 3.3). Planning the audit work should be adequate enough so that limited resources are devoted to significant problem areas and to be able to complete the audit work as planned.

Contents of audit plan

The audit planning documents should contain:

1. Background knowledge and information needed to understand the entity to be audited, to allow an assessment of the problem and risk, possible sources of evidence, auditability, and the materiality or significance of the area considered for audit (ISSAI 3100/2.4.1)
2. The audit objective, questions or hypotheses, criteria, scope and period to be covered by the audit, and methodology including techniques to be used for gathering evidence and conducting the audit analysis (ISSAI 3100/2.4.1).
3. An overall activity plan which includes staffing requirements, i.e. sufficient competencies (including the independence of engagement staff), human resources, and possible external expertise required for the audit, an indication of the sound knowledge of the auditors in the subject matter to be audited (ISSAI 3000/2.2); and

4. The estimated cost of the audit, the key project timeframes and milestones, and the main control points of the audit (*ISSAI 3100/2.4.1*).

Updating of templates/tools

Before preparing the audit plan, there may be a need to gather additional data on the focus areas and the need to update the templates. Gathering/updating data, which should be carried out in a fairly short period of time, can be done through various techniques, which include:

- Interviews with management, beneficiaries
- Review of performance report against plans
- Review of management and accountability reports
- Walk through of major systems and control procedures
- Analysis between budget and actual expenditure and results

Sources of information may include:

- recent audit reports, reviews, evaluations, and inquiries
- management critical processes
- latest conference reports and minutes of meetings
- agency websites
- management information systems

Parts of an Audit Plan

The Audit Plan contains, at the minimum, the following:

1. Introduction
2. Specific issue and audit objectives
3. Audit scope and specific questions or hypothesis to be examined
4. Audit criteria
5. Risk assessment
6. Audit approach and methodology
7. Resources
8. Significant dates

Detailed description of the Audit Plan

1. Introduction

It is a brief description or background information of the agency and the audit area/project (which can be taken from the UTA template).

2. Specific issues and audit objectives

The formulation of questions to address the specific issue is critical to the success of the audit, since it will have implications for decisions regarding the types of data to be collected, how collection will be carried out, the analysis that

will be performed and the conclusions that will be reached (PAM Brazil 2010/81). In developing the audit questions, these should be clear and specific, the terms used can be defined and measured, and the possibility to be answered.

The following are examples of basic audit questions/problem.

Problem oriented approach

- **What causes the rapid increase in costs?**
- **Why are the services not delivered on time?**

Results oriented approach

- **Are the services provided of good quality and client-oriented?**
- **Do the means chosen represent economical use of public funds?**
- **Are government programs implemented efficiently?**
- **Are the goals and objectives of the government program met?**

(Source: IDI e-Learning course on “Implementing Performance Audit ISSAIs)

3. Audit objectives

Audit objectives clearly define what the auditor intends to achieve or conclude on at the end of the audit. It should be stated clearly and simply. The auditor may consider the following questions in defining audit objectives (SAI India Practice Guide for Planning Performance Audit/1.5).

- What is the goal of performance audit?
- Why are we conducting performance audit?
- What do we wish to achieve at the end of the performance audit?
- What is the focus of our performance audit: is it outputs, or outcomes, or impact?

The following are examples of audit objectives:

Protecting fish habitat; Report of the Office of the Auditor General of Canada; 2009

The audit objective was to determine whether Fisheries and Oceans Canada and Environment Canada can demonstrate that they are adequately administering and enforcing the Fisheries Act and applying the Habitat policy and the Compliance and Enforcement Policy in order to protect fish habitat from the adverse impact of human activity.

Clinical Waste Management; Report of the Office of the Auditor General of the Republic of Botswana; 2007

The objective of the audit was to assess the efficiency and administrative effectiveness and associated account-ability arrangements in place in relation to clinical waste management.

(Source: IDI e-Learning course on "Implementing Performance Audit ISSAIs)

In short, audit objectives are normally expressed in terms of what questions the audit is expected to answer about the performance of an activity (examples: whether results are achieved in terms of economy or efficiency or effectiveness; whether an organization used appropriate processes to

identify the human resources it needs to achieve its objectives). Audit objectives should be clearly stated so as to avoid unnecessary audit work. All efforts shall be directed towards answering the issue raised in the audit objectives. Further, by having a properly defined audit objective, the appropriate audit conclusion can be reached depending on the findings.

Example:

Audit objective: To determine whether the procurement of dog vaccines was done at the lowest cost with due regard to the appropriate quality.

Audit conclusion based on the findings: The procurement of dog vaccines was done at the lowest cost but without regard to appropriate quality as it was not considered at the time of procurement.

While planning the performance audit and in order to manage audit risk, auditors must assess the risks of fraud occurring if it is significant within the context of the audit objectives and also communicate frauds/irregularities promptly. This could be achieved, among others, by:

- a. Obtaining an understanding of relevant internal control systems and examining whether there are signs of irregularities that hampers performance (Exposure Draft ISSAI 300/29). A good understanding of the internal

control systems will help the auditors to identify major weakness in the system that could lead to irregularities.

- b. Being alert to situations or transactions that could be indicative of illegal acts or abuse (ISSAI 3000/3.3). The audit team should determine the extent to which such acts would affect the audit results and ask for the assistance of specialists in complicated cases.
- c. Verifying whether the entities concerned have taken appropriate actions to address recommendations from previous audits or examinations of relevance for the objectives (Exposure Draft ISSAI 300/29). If serious systems weaknesses have been pointed out in earlier audit reports and if corrective action has not been taken to address these weaknesses, auditors will have to be vigilant to risks of fraud or systems abuse.
- d. Reporting any financial irregularities to the authorities concerned in the course of audit work, where appropriate (ISSAI 3100/26). (IDI, page 124, e-Learning Course on "Implementing Performance Audit ISSAIs")

4. Audit scope and specific questions or hypothesis to be examined

Audit scope is based on the results of the risk assessment. This is critical in establishing the audit boundaries and limitations of the audit. While the audit objective provides the basis for deciding the scope of the audit, the audit scope, on the other

hand, clarifies the extent the audit will be carried out.

Examples:

Which phase of the project will be examined?

Are there limitations in the locations to be covered?

What duration of the project is to be examined?

Are there limitations on the timeframe to be covered?

What will be the sources of information for examination?

Will information from external sources or beneficiaries be obtained, or only internal sources will be analyzed?

The following are examples of scope adapted from various performance audit reports:

- *Managing the expansion of the Academies Programme; Report of the National Audit Office UK; 2011*

This report evaluates the Department's implementation of the programme expansion since May 2010 and the adequacy of its funding and oversight framework across the academics sector (including academics established before May 2010). The expansion is still in an early phase, and there is limited trend data on how

schools have performed academically since joining the expanded programme. We will examine this aspect of academies' performance as part of our future value for money programme. The report does not cover capital funding nor assess in depth the impact of the expansion of local authority finances or services.

- *Management of Consumer Complaints; Report of the Office of the Auditor General of Botswana; 2008*

The audit focused on the activities undertaken by the Consumer Protection Office on managing consumer complaints during the financial years 2003-2006. The Office has 10 stations nationwide but 9 were only operating at the time of the audit. This audit covered 6 stations, representing 66.7% of the total operating stations. Limitations to the audit have been the unavailability of some of the documented information due to the fact that some employees had left the Consumer Protection Office therefore resulting in undocumented information not being available. Consumer complaints data for 2003-2004 financial years was also not available.

- *Protecting fish habitat; Report of the Office of the Auditor General of Canada; 2009*

The audit included the administration of fish habitat

protection and pollution prevention provisions of the Fisheries Act and the two policies (the Habitat Policy and the Compliance and Enforcement Policy) that set out the government's intentions relating to these provisions. The audit included the policies, programs and activities of Fisheries and Oceans Canada and certain arrangements with others that support the administration and enforcement of these provisions. The audit did not focus on the environmental assessments required by the Canadian Environment Assessment Act that may be triggered by ministerial authorizations under the provisions of the Fisheries Act.

(Source: IDI e-Learning course on "Implementing Performance Audit ISSAIs)

As regards specific questions or hypothesis to be examined, after formulating the basic audit question, it should be broken down to specific and testable sub-questions to be answered by the study i.e. the more specific questions concerning "what is" or "why is it" to develop a proper audit design. (ISSAI 3000/Appendix 1)

One technique (used in results-oriented approach) is called "issue analysis" to break the basic audit question down into a number of lower levels (up to three or five levels), more detailed questions. The purpose of this

technique is to clarify the feasibility of concluding against the main audit question.

Another technique (on problem-oriented approach) in breaking down the main problem is the Ishikawa Analysis (or Fishbone Diagram). It is designed from a main problem which is subdivided in its causes and sub causes forming a diagram that looks like a fishbone.

By sorting out the most likely and relevant potential and testable causes or sub-problems, it is possible to develop a proper audit design.

Also in determining the extent and scope of the audit, auditors often need to assess the reliability of internal controls that assist in conducting the business of the audited entity. The extent of that assessment depends on the objectives of the audit. Moreover, they should be alert to situations or transactions that could be indicative of illegal acts or abuse and should determine the extent to which such acts affect the audit findings. (ISSAI 3100/15)

5. Audit criteria

The audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of activities can be assessed or judged against. When criteria are compared with what actually exists, audit findings are generated.

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 motives and 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 a reasonable 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 or activities.

Sources of audit criteria include the following:

- Basic planning documents
- Project reports, financial reports, expenditure reports, budget documents
- Criteria published by other similar audited agencies
- Government policies and directions
- Standards set by international bodies

- Laws, rules and regulations governing the operation of the audited entity
- Decisions made by the legislature or the executive
- Best practice, professional standards, experiences, and values
- Key performance indicators set by the entity or the government
- Past performances
- Independent expert advice and know-how
- criteria used previously in similar audits or by other SAs

Some characteristics of suitable criteria include the following:

1. **Reliability:** Reliable criteria result in consistent conclusions when used by another auditor in the same circumstances.
2. **Objectivity:** Objective criteria are free from any bias of the auditor or management.
3. **Usefulness:** Useful criteria result in findings and conclusions that meet users' information needs.
4. **Understandability:** Understandable criteria are clearly stated and are not subject to significantly different interpretations.
5. **Comparability:** Comparable criteria are consistent with those used in performance audits of other similar agencies or activities and with those used in previous performance audits of the entity being audited.

6. **Completeness:** Completeness refers to the development of all significant criteria appropriate to assessing performance.
7. **Appropriateness:** Appropriate to the overall characteristics of the audited agency.
8. **Acceptability:** Acceptable criteria are those that independent experts in the field, audited entities, legislature, media, and general public are generally agreeable to.
9. **Compatibility:** Criteria should be compatible with the objective and nature of the audited agency.

The following are some examples of audit criteria:

Monitoring water resources; Report of the Office of the Auditor General of Canada; 2010

Audit issue: Environment Canada has not fulfilled its reporting obligations under the Canada Water Act

Criteria: Under the Canada Water Act, Environment Canada is required to prepare an annual report to Parliament on the operations of this Act.

Clinical Waste Management; Report of the Office of the Auditor General of the Republic of Botswana; 2007

Audit issue: Separation of waste

Criteria: The Botswana Clinical Waste Management Code requires that clinical waste be separated from house-hold waste at source.

(Source: IDI e-Learning course on “Implementing Performance Audit ISSAIs)

It is often useful to obtain the input of audited entity management to the development of criteria. Disagreement about criteria can then be identified, discussed, and, perhaps, resolved at an early stage. However, the facts and arguments presented by the audited entity must be weighed against other relevant facts and arguments (*ISSAI 3000*).

6. Risk Assessment. It is the result of the risk assessment conducted in the selection of focus areas.

7. Audit approach and methodology. This refers to either system-oriented approach, results-oriented approach or problem-oriented approach. It also includes the data collection and data analysis audit techniques to be employed in gathering evidence.

System-oriented approach is based on the premise that if the control system is effective, it provides a strong indication that the results will be satisfactory.

Results-oriented approach does not initially examine the control system but looks at the specific outputs and/or outcomes of the activity. This approach is based on the premise that if the result is satisfactory, the risk of there being serious flaws in the design or implementation of the activity or process is minimal.

Problem-oriented approach examines, verifies and analyses the causes of particular problems or deviations from criteria.

8. Resources. This refers to the manpower and specialized skills, materials, equipment, etc. needed in the audit.

9. Significant dates. This refers to the dates when the audit activities are to be conducted.

The following is a sample **Audit Plan**

AUDIT PLAN
Bawas Asong Ulol Program
For the Period _____

A. INTRODUCTION (from the UTA template)

Mandate of the agency
Organizational structure
Program of the Agency – relate to the focus of the audit
Specific project – focus of the audit

B. RESULTS OF RISK ASSESSMENT

The results of the initial preliminary survey in relation to the focus of the audit

C. AUDIT OBJECTIVES and SCOPE

To determine whether the project was ...

The audit shall cover the review and evaluation of the implementation of the Project for the period ...

D. AUDIT APPROACH AND METHODOLOGY

The Audit Team will conduct document analysis, interviews, discussions, site inspection ...

The Audit Program is attached as Annex A.

E. TEAM COMPOSITION

The audit will be conducted by a team composed of the following, pursuant to COA Office Order No. 123 dated June 1, 20XX:

Name	Position	Designation
Ms.	State Auditor V	: Team Supervisor
Mr.	State Auditor IV	: Team Leader
Ms.	State Auditor II	: Team Member
Ms.	CSO Representative	: Team Member
Mr.	CSO Representative	: Team Member

F. SIGNIFICANT DATES

The audit shall be completed within 30 working days from June 15, 20XX to July 31, 20XX. The activities to be undertaken and the corresponding schedule are presented below.

Activities		Dates
A.	PLANNING	
	Entrance conference and briefing	
	Gathering of data/information	
	Revision/updating of audit plan/program	
B.	EXECUTION	
	Gathering, review and analysis of data/information/reports/records	
	Preparation, review, finalization and issuance of Audit Observation Memoranda (AOMs)	
C.	REPORTING	
	Preparation, review, finalization and release of Audit	

	Highlights for management's comment	
	Receipt and evaluation of management's comment	
	Exit Conference	

Appropriate report shall be submitted to the Chairman, through the Assistant Commissioner, X Sector, within one month upon completion of the audit.

Prepared by:
Team Leader

Reviewed by:
Team Supervisor

Approved by:
Director IV

Audit design matrix

The audit design matrix can be prepared in addition to the audit plan. This is a tool for determining what to audit and how. It provides a structure for the basic design components. (INTOSAI PAS *Guideline on designing performance audits: setting the audit questions and criteria/4*). It outlines the requirements and procedures necessary to implement the

audit objectives and to make assessments against the audit criteria. Its main objectives are to (ASOSAI PA Manual/3.8).

- establish a clear relationship between audit objectives, audit methodology and the anticipated fieldwork to be carried out;
- identify and document the procedures to be performed; and
- facilitate supervision and review.

Below is a sample of the Audit Design Matrix

AUDIT DESIGN MATRIX for ABC Flood Control Project Covering the Period _____						
Issue/Problem/Risk Statement: Bakit bumabaha pa kahit may ABC Flood Control Project na?						
Audit Question or Objective	Audit Criteria	Information Required for Criteria (Sources of Information)	Information Required for Condition (Sources of Information)	Audit Scope & Limitations	Methodology including validation of data reliability	What the audit/analysis will likely allow the COA to say
Audit focus: Flood control facility operation						
What question is the team trying to answer?	What are the performance measures to address the audit question/ sub-question?	Identify the sources and information required for the criteria	Identify the sources and information required for the condition	Indicate the extent, boundaries, and limitations of the audit Indicate limitations on: The methodological strategy adopted Access to people and information The quality of information The operating	Identify the data collection techniques and data analysis techniques that will be used and describe the respective procedures	What are the expected results of the work/ audit? (Clarify precisely which conclusions or results may be achieved)

AUDIT DESIGN MATRIX
for ABC Flood Control Project
Covering the Period _____

Issue/Problem/Risk Statement: Bakit bumabaha pa kahit may ABC Flood Control Project na?

Audit Question or Objective	Audit Criteria	Information Required for Criteria (Sources of Information)	Information Required for Condition (Sources of Information)	Audit Scope & Limitations	Methodology including validation of data reliability	What the audit/analysis will likely allow the COA to say
				conditions to perform the work		
What is the purpose/objective of the project?						
What was the extent/frequency of flooding before the project?						
What are the factors affecting the flood?						
What are the levels of flood after the operation of project?						

Prepared by: (Names, positions, designations, signatures of the audit team)

Date:

V. Developing An Audit Program

Developing programs for carrying audits is a key link between the development of audit objectives and the conduct of an audit leading to a defensible report. It serves as:

- A guide for gathering competent, relevant, sufficient evidence during the execution phase of the audit in a cost-effective way
- A framework for assigning work among members of the audit team
- A means of transferring knowledge to junior staff
- Basis for documenting the work done

In developing audit program, it is important that the procedures

- Relate to the audit objectives
- Are clearly stated and include sufficient details to be readily understood by those carrying out the audit
- Are organized in a logical manner so that the conduct of the audit can be made as efficiently as possible

Factors to Consider in Developing an Audit Program

The means of collecting appropriate evidence should be related to each criterion, but must be cost-efficient and cost-effective. Factors to be considered are:

- **Size** - Audit programs generally increase in size and complexity with increases in the size of the audit.
- **Geographic dispersion** - The dispersion and location of sites to be visited will affect the audit program. Detailed procedures may be required to ensure consistency when different personnel conduct the same audit at different locations.
- **Audit environment** - Management's receptiveness to being audited, whether it is the first audit of the area and the sensitivity of the area in the organization will affect the way in which procedures are developed and applied.
- **Components of the systems to be audited**, e.g. its inputs, processing, activities and outputs.

Main Elements of an Audit Program

The important elements of a detailed audit program are:

1. The audit objective and/or the particular key area/line of inquiry (the same as that established in the Audit Plan)
2. Audit criteria for the stated audit objective (the same as that established in the Audit Plan)
3. Types of audit evidence required (for condition and cause)

4. Probable sources of evidence (for condition and cause)
5. Audit techniques for gathering evidence (methods used to gather evidence: review of documents, interviews, questionnaire, data analysis, physical observation)
6. Audit procedures (or action steps) to execute the audit techniques

Audit procedures/techniques in gathering evidence

The auditor designs the audit tests that list the audit procedures to obtain sufficient audit evidence. These audit procedures should be designed in accordance with the nature, extent and timing of our audit and should be relating to the audit objectives. Some of the audit procedures/techniques include physical observation (which may include photography and video), interview, questionnaire, documentary review and data analysis.

The following is a sample Audit Program.

Audit Program					
<p>Name of Project : Bawas Asong Ulol Program Name of Agency: LGU-Del Maria Period Covered: January to June 20XX.</p> <p>Audit Area: Vaccination of dogs in 15 out of 50 Barangays for the year 2013</p> <p>Audit Criteria:</p> <ol style="list-style-type: none"> 1. XXXX; and 2. XXXX <p>Audit Objectives:</p> <p>To determine whether the project was:</p> <ol style="list-style-type: none"> 1. XXXXX; and 2. able to attain its purpose of XXXXX. 					
No.	Audit Procedures	WP Ref.	Audit Period (Working Days)		Person Responsible
			Target	Actual	
Audit Objective No. 1					
1.1	Gather and examine the following documents and take note of: <ul style="list-style-type: none"> • BAC Resolution on the recommendation for award of the project • Notice of Award 		2		Auditor 1

Audit Program

Name of Project : Bawas Asong Ulol Program
 Name of Agency: LGU-Del Maria
 Period Covered: January to June 20XX.

Audit Area: Vaccination of dogs in 15 out of 50 Barangays for the year 2013

Audit Criteria:

1. XXXX; and
2. XXXX

Audit Objectives:

To determine whether the project was:

1. XXXXX; and
2. able to attain its purpose of XXXXX.

No.	Audit Procedures	WP Ref.	Audit Period (Working Days)		Person Responsible
			Target	Actual	
Audit Objective No. 1					
	<ul style="list-style-type: none"> • Notice to Proceed • Contracts • Inspection Reports • Certificate of Completion and Acceptance 				
1.2	Compute for the number of days the project was completed and take note of any delay.		1		Auditor 1
1.3	Design questionnaire, conduct survey, and evaluate results of		5		CSO 1 & 2

Audit Program

Name of Project : Bawas Asong Ulol Program
 Name of Agency: LGU-Del Maria
 Period Covered: January to June 20XX.

Audit Area: Vaccination of dogs in 15 out of 50 Barangays for the year 2013

Audit Criteria:

1. XXXX; and
2. XXXX

Audit Objectives:

To determine whether the project was:

1. XXXXX; and
2. able to attain its purpose of XXXXX.

No.	Audit Procedures	WP Ref.	Audit Period (Working Days)		Person Responsible
			Target	Actual	
Audit Objective No. 1					
	survey to determine				
1.4	Observe		1		Auditor 2, CSO 1 & 2
1.5	For discrepancies noted, request justification from management and additional documents, as necessary.		1		ATL
1.6	Evaluate management justification.		1		Auditor 2
1.7	Prepare conclusion				Auditor 2, CSO 2 and ATL

Audit Program

Name of Project : Bawas Asong Ulol Program
 Name of Agency: LGU-Del Maria
 Period Covered: January to June 20XX.

Audit Area: Vaccination of dogs in 15 out of 50 Barangays for the year 2013

Audit Criteria:

1. XXXX; and
2. XXXX

Audit Objectives:

To determine whether the project was:

1. XXXXX; and
2. able to attain its purpose of XXXXX.

No.	Audit Procedures	WP Ref.	Audit Period (Working Days)		Person Responsible
			Target	Actual	
Audit Objective No. 1					
1.8	Prepare and organize working papers		2		All
1.9	Prepare and issue Audit Observation Memorandum for the deficiencies noted.		2		ATL and Team Supervisor
Audit Objective No. 2					
2.1					

Audit Program

Name of Project : Bawas Asong Ulol Program
 Name of Agency: LGU-Del Maria
 Period Covered: January to June 20XX.

Audit Area: Vaccination of dogs in 15 out of 50 Barangays for the year 2013

Audit Criteria:

1. XXXX; and
2. XXXX

Audit Objectives:

To determine whether the project was:

1. XXXXX; and
2. able to attain its purpose of XXXXX.

No.	Audit Procedures	WP Ref.	Audit Period (Working Days)		Person Responsible
			Target	Actual	
Audit Objective No. 1					
2.2					

Prepared by: Team Leader

Reviewed by: Team Supervisor

Approved by: Cluster/Regional Director

Exercise 2.3 The facilitator requires the participants to prepare Audit Program

SUMMARY

This session looked at the strategic planning process for performance auditing, the different templates/tools providing input to identifying and assessment of audit topics, the criteria in the assessment of possible performance audit topics, the selection factors in prioritizing audit topics, the preparation of audit plan / audit design matrix and audit program. In the next session, the execution phase of the performance audit cycle will be discussed.

REFERENCES

Integrated Results and Risk-Based Audit Manual

International Standards for Supreme Audit Institutions (ISSAI)
3000, 3100

Value for Money / Performance Auditing

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.ansca-eap.net

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