PERFORMANCE AUDIT GUIDELINES

FINANCE DEPARTMENT
GOVERNMENT OF ODISHA

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EFFICIENCY AUDIT ORGANISATION

Preface

Internal Audit of Government of Odisha is carried out by the Auditors placed at the disposal of different Government Departments; the cadre of such Auditors being controlled by the Finance Department. The cadre is known as Common Cadre of Auditors (CCA). Whereas the Common Cadre Auditors posted in different Departments take up regularity and compliance audit on behalf of the Administrative Departments, their counterparts in the Finance Department are known as Auditors of Efficiency Audit Organisation (EAO). The wing was created vide Finance Department Resolution No. 49767/F., dated the 24th December 1962 with the objective of taking up performance audit of any office as a whole or some particular problem in a group of offices and suggest improvement in methods and rectifications of any defective procedure or practice leading to wastage of public money or leakage of Government revenue. The assessment of efficiency in performance is fundamental basis of this audit.

The EAO conducts special audit when requisitioned by different departments and also undertakes efficiency audit/performance audit of schemes/programmes pertaining to different

departments. While preparation of Audit Manual for the CCA is under process, which will guide regularity and compliance audit; attempts have been made to prescribe guidelines for improvement in conducting performance audit where the requirement is of a different nature. While preparing these guidelines, the fundamental principles of performance audit have been substantially borrowed from Implementation Guidelines of Performance Audit prescribed by International Organization of Supreme Audit Institutions (INTOSAI) and guidelines prescribed by the C & AG of India for use in Indian Audit and Accounts Department.

These guidelines will supplement the guidelines prescribed/to be prescribed for conducting regularity and compliance audit and will be used for performance evaluation of schemes/programmes implemented by a department or a group of departments.

(Shri U. N. Behera, IAS)
Additional Chief Secretary

Fundamental principles of performance audit

- Performance audit is an assessment of efficiency and effectiveness of the programmes, with due regard to economy;
- Addresses the issues of inputs, processes, outputs (products) and outcomes(impact);
- Apart from the question whether the things are being done the right way, it also addresses the question of whether the right things are being done, in other words, it also focuses on *what is not being done* rather than only on *what is being done*;
- Performance audit also addresses the issues of *equity* and *ethics*, which impacts one or more of the core concerns of economy, efficiency and effectiveness and include, apart from others, integrity in preparation of performance reports;
- Distinction between regularity and performance audit should always be kept in mind;
- Performance audit is undertaken with the objective of improving performance of public sector programmes and, therefore, an assessment of the expected impact-qualitative and quantitative-on the programme must be made before undertaking the audit;
- The subjects selected for performance audit could be a programme, segments of a programme - including the processes, procedures and systems, an entity itself or parts of an entity, etc.;

- The subjects of performance audit could be financial, non-financial or public interest and governance issues;
- The subjects selected for performance audit should include cutting edge issues that form the core of governance and sunrise issues in the light of policy shifts;
- Performance audit can be carried out *posteriori* or concurrently;
- Performance audit may use many techniques used in programme evaluation;
- While the performance audit may and should assess the implementation of the policy through one or more programmes, the scope of audit should be limited to assessing the impact of the implementation of policy and the policy *per se* should not be questioned;
- Performance audit conducted in time, when there is scope for remedial measures is encouraged; and
- Performance audit being knowledge-based exercise, in which conclusions emerge from interpretations, calls for special skills, knowledge and competence of the audit personnel.

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CHAPTER I

1. Introduction:

1.1 In undertaking comprehensive reviews of the working of the projects, programmes, schemes, organizations, entities,etc.,in terms of their goals and objectives, an audit should be made to see how far the expected results have been achieved from the use of available resources of money, men and material. *This audit is varyingly known as Efficiency-cum-Performance Audit of Economy, Efficiency and Effectiveness (Three Es) Audit or Value for Money Audit.* Performance auditing is an independent assessment or examination of the extent to which an entity, programme or organization operates efficiently and effectively with due regard to the economy.

1.2 This audit envisages a comprehensive review of the project/scheme/programme/activity to ascertain:-

i. the extent to which the physical and financial targets and the intended impact have been achieved ;

ii. how far the social-economic objectives have been realized ;

iii. whether the operations are being conducted economically ;

iv. whether the scheme/programme was implemented with due regard to economy and instances of overpayment, loss, extravagance, available excess or infructuous expenditure attributable to improper planning, delays in execution, overstaffing, overcapitalisation, adoption of unsound policies, etc., were avoided ; and

v. whether the utilization of resources was in accordance with the projected outlays and if not the reasons for deviations.

1.3 In the application of the standard, economy means operation at the lowest possible cost, while efficiency is measured by the output and adherence to the time schedule without unnecessary waste of resources. Effectiveness is achieving programmed objectives and goals. These can be summed up as under:

A. Economy: Economy is *minimizing the cost of resources used for an activity having regard to the appropriate quality*. Economy issues focus on the cost of the input and processes. Economy occurs where equal quality resources are acquired at lower prices, i.e., spending less. The question to be asked by a performance auditor is, do the means chosen represent the most or at least a reasonable economical use of public funds?

B. Efficiency: Efficiency is *the relationship between the output, in terms of goods, services or other results and the resources used to produce them.* Efficiency exists where the use of financial, human, physical and information resources is such that output is maximized for any given set of resource inputs, or input is minimised for any given quantity and quality of output, i.e., spending well.

Auditing efficiency embraces aspects such as whether:

- human, financial and other resources are efficiently used;

- public sector programmes, entitles and activities are efficiently managed, regulated, organised and executed;
- services are delivered in a timely manner; and
- the objectives of public sector programmes are met cost effectively.

C. Effectiveness*: Effectiveness is the extent to which objectives are achieved and relationship between the intended impact and the actual impact of any activity.* Effectiveness addresses the issue of whether the programme/activity has achieved its objectives, i.e., *spending wisely*.

Some of the questions to ask in effective assessment are; *Are the objectives of the policy being met by the means employed, outputs provided and impacts observed? Are the means employed and the results achieved consistent with the objectives of the policy?*

1.4 Performance auditors may come across situations where the inputs stated to have been used and outputs stated to have been derived are not correctly stated. Unless the correctness of inputs and outputs is validated with the help of appropriate audit tests, the evaluation of efficiency may yield incorrect results. It is, therefore, incumbent upon the performance auditors to verify correctness of the reported date of 'inputs' and 'outputs' while applying the test of efficiency. For example, the money stated to have been utilised on a programme might not be used entirely on the programme. Parts of the inputs may have been used on other items, part could be unutilised in the form of deposits, another part could be advances to vendors, etc. Analysis of inputs, particularly the financial inputs with the help of a

**finance inverse tree* may establish the resources actually utilised for the programme. Similarly analysis for other inputs and all outputs may be necessary to carry out an accurate analysis for efficiency.

Features of effectiveness audit :

1.5 In auditing effectiveness, performance audit may, for instance:

- assess whether the objectives of and the means provided (legal, financial, etc.,) for a new- or on-going - public sector programme are proper, consistent, suitable or relevant to the policy;
- assess the effectiveness of public sector programmes and/or individual components, i.e. assess whether objectives are met;
- assess whether the observed direct or indirect social and economic impacts of a policy are due to the policy or to other causes, but only it can be established with evidences;
- identify factors inhibiting satisfactory performance or goal fulfilment;
- assess whether the programme complements, duplicates, overlaps or counteracts other related programmes;
- assess the adequacy of the management control system for measuring, monitoring and reporting a programme's effectiveness; and

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***Finance inverse tree** is a diagrammatic representation of the analysis of utilisation of the resources made available for a programme. It facilitates a comparison of the budgeted resources with the actual utilisation. It also enables to determine the actual utilisation of resource for the programme by segregating the resource stated to have been utilised under the resources that have actually been used for the programme and those that are diverted, kept in deposits, etc.

- identify ways of making programmes work more effectively.

1.6 Performance auditors may find answers to the following two basic questions :

- Are things being done in the right way ?
- Are the right things being done ?

1.7 Performance audit should not confine the objectives to 'what has been done' but should also examine 'what has not been done' to meet the policy objectives. A list of issues in performance audit of public sector programmes are as follows:

Mandate:	• Has management obtained the approval of the competent authority (*e.g.*, legislature) for the programme?
Objectives:	• Has management developed clear objectives? • Have the programme objectives been appropriately determined to fulfil the policy objectives? • Are the objectives specific enough to enable outcome measurement? • Has management set specific targets to accomplish the programme objectives within the scheduled timeframe?

Need:	• Has management identified and evaluated the nature and extent of the need for the programme outputs? • Does the programme continue to make sense in the light of the needs that it was originally set up to meet?
Implementation:	• Has management given proper consideration to alternative means of achieving the programme objectives? • Are the design of the programme and its components, and the level of effort expended, logical in the light of the programme's objectives? • Is the implementation timely?
Direction:	• Does the agency have understandable objectives, plans, targets for levels of service and organisational arrangements? • In short, does everyone understand what they are meant to be doing? One indicator of direction is the extent to which employees clearly understand the service priorities and targets of the current year.

Economy and Efficiency:	• Has management used resources economically and efficiently? • What is the relationship between costs, inputs and outputs? • Do systems procedures and practices promote accountability of programme managers towards economic and efficient use of resources?
Finances:	• Has management monitored, reported and controlled its financial performance and position? • Are resources (budgets) commensurate with the targets and how realistic are the budgetary assumptions? • Are the financial and physical performance reports interlinked to enable an appreciation of the cost of delivery against the estimated cost as well as value for money?
Effectiveness:	• To what extent has the agency achieved intended objectives without any significant unintended adverse impacts? • To what extent have significant intended or unintended, adverse or beneficial consequences occurred?
Acceptance:	• Is the programme outcome meeting the identified needs of its clients or customers?

	• Has management surveyed its clients to identify client expectations and satisfaction?
Responsiveness:	• Does the agency have mechanisms, which enable it to respond appropriately to changing technology, competition, client demand and other environmental characteristics?
Human resources:	• Is there an appropriate policy and practice for the development of human resources?
	• Do human resource practices facilitate development, initiative, commitment, safety and job satisfaction?
Protection of resources	• Is there an appropriate policy for protection of key assets i.e. assets that are crucial to the success and perhaps survival of the agency? Such assets might include key people, sources of supply, intellectual property and machinery.
Monitoring and reporting:	• Are actual results monitored and reported against objectives and targets?
	• Do reporting formats facilitate effective monitoring of the programme management and delivery of outputs?
	• Are the performance reports accurate and free from material misstatements?

	• Is action taken on the basis of the reports?
Accountability relationships:	• Does the programme framework provide for clear accountability relationships?
	• Is the system of programme management/delivery framed to ensure good value for money? Are the controls reliable?
	• Are the systems and procedures as well as the delivery mechanisms transparent?
	• Does the programme planning; execution and delivery fulfil the concept of good corporate governance?
Review:	• Has management established an effective internal audit unit, undertaken appropriate evaluation of programmes (including an analysis of unintended impacts) and established procedures for assuring that it is managing with economy, efficiency and effectiveness?
Equity:	• Are outputs/services made available to intended groups without discrimination? Does everyone have access to the benefits due to them?
	• Has management acted with fairness and impartiality?

Ethics:	• Has management established procedures to ensure that public servants utilise public funds honestly? • Are the highest standards of integrity and devotion to duty ensured through adequate management systems, including a system of review of propriety in programme management? • Are public servants motivated to optimise the outputs and subsequent outcomes of the programme for the beneficiaries?
Transparency:	• Are the systems and procedures used in the management of public programmes transparent and do they promote the concept of accountability and good governance?

Team approach and mission mode :

1.8 Good quality performance audit can be achieved by transforming the audit personnel to a task force. Each performance audit will be taken up as a mission and will be planned and implemented by a dedicated team led by an Audit Officer or an officer of the middle management level. Depending upon the extent of requirement of supervision, the supervisory group officer may lead more than one performance audits at a time. The supervisory officers responsible for performance audits will not generally be shifted until completion of the assignment.

1.9 The performance auditor should comply with ethical principles and code of conduct governing the auditor's

professional behaviour and responsibilities, which include:

- Integrity;
- Objectivity and fairness;
- Confidentiality; and
- Technical standards.

CHAPTER II

2. Strategic planning and selection of subjects

Procedure for strategic planning :

2.1 An in-depth exercise and strategic planning may be carried out for performance audit as 1st step. After setting the strategic goals and objectives, the data on entity contained in budget papers, programme papers, plan documents, annual reports, assembly debates and reports, media concerns, and leads from the past audits, etc., should be analysed on the parameters of risk, materiality, significance, visibility, coverage, etc., to select subjects for performance audits to be carried out over the strategic plan period.

Performance audit of whole or part of programme :

2.2 It is not always necessary to conduct performance audits of the entity or the programme as a whole. The Efficiency Audit Organisation should select a mix of performance audit subjects covering either the programme or activities of the entity comprehensively and the subjects for which the scope and audit objectives are confined only to significant aspects of the programmes or activities. For example, in case of performance audit of hospital, only the maintenance and utilisation of diagnostic equipment or patient care issues could be selected for performance audit. Another example to illustrate performance audits of only specific aspects may be the definition and methodology of selection of target groups in programmes aimed at particular sections of population.

2.3 Where desirable, the subjects of performance audit may be selected cutting across various departments or entities. This will provide a platform for performance audit on a theme or thrust area over a cross-section of

entities, who are entrusted with the responsibility for the programme, activity, etc. Performance Auditors may, quite often, find it necessary to extend the scope of audit to other agencies/departments to assess the effectiveness/ impact of a programme, irrespective of the fact that their allocation of business is in different sectors (health & sanitation, social, economic and service sectors, etc.) or their status may be different (government departments, government funded institutes and government companies, etc.).

Concurrent audits

2.4 While performance audit is mainly a posteriori exercise, there is no bar to conduct performance audit of programmes concurrently, or at the initial stages of the implementation of the programme, in cases where the risk and materiality are perceived as being significant. Concurrent performance audit of long-term on going schemes should be undertaken at appropriate intervals. The programmes on construction of rural roads, safeguards in devolution of resources to Panchayati Raj institutions and urban local bodies, etc. are examples, where performance audit undertaken at the initial stage may provide assurance on the soundness of the design of the programme and include recommendations that may prevent the underperformance. The strategic plan should contain a list of recently introduced programmes and selection of subjects for audit in their initial stage should be made in the light of expected value addition.

Inventory and sources of data/information for strategic planning

2.5 While there can be variety of inputs for strategic planning for performance audits depending upon the entity functions and operations, some of them are listed below :

- Documents of entity: documents on administration and functions of the entity, policy files, annual reports, budget and annual plan documents including the files on them, accounts including voucher level computerisation (VLC) data, minutes of internal meetings, operating manuals/ guidelines, management information systems, programme evaluations and internal audit reports, etc.;
- Legislative interest: legislation, Assembly questions and debates, reports of Public Accounts Committee, Committee on Public Undertakings, Estimates Committee and Departmentally Related Standing Committees and letters from members of Parliament/ Assembly, etc.;
- Academic/Special research: Planning Commission information, independent evaluations on the entity, academic research and similar work done by other Governments, etc.;
- Past audit reports: past financial and performance audits on the entity provide a major source of information and understanding. Follow-up requirements, perceived non-compliance to recommendations, etc., may provide significant inputs;
- Media coverage: both print and electronic media-their systematic documentation on regular basis in transparent manner;
- Websites; and

- Entity interests and specific requests: through formal and informal communication by the entity.

2.6 The strategic plan may contain variety of subjects of performance audits, each requiring different time and resource to implement. Thus, while one performance audit may require say one year to complete with two audit teams, another may require only three months with only one audit team. As a rule, all performance audits – from the stage of implementation planning to the presentation of the report – should be completed within a maximum of 12 months, unless specifically authorised in view of the nature of subjects or nature of entity environment. The strategic plan should clearly demarcate the time frame for each performance audit from the stage of preparation of the audit implementation guidelines to the presentation of report and the resources tentatively expected to be deployed on them.

2.7 The performance audit cycle will consist of the financial year- from April to March of the next year, which will form the basis of the annual operational plan. However, the time schedule for completion of all stages of a selected subject may spread over more than one financial year subject to approval of the Special Secretary/ Secretary, Finance Department.

Entity co-operation

2.8 Entity cooperation and involvement with the process and output and outcome of the performance audits add value to the performance audits in as much as they facilitate smooth conduct of audit by way of unhindered flow of documents and information. More importantly, it secures higher level of assurance on remedial actions on the recommendations included in the performance audits. In view of this, Deputy Secretary/

Joint Secretary, EAO should share the information on the subjects for performance audits emerging from the strategic planning exercise with a request for suggestions, if any, from the Secretary of the department and other departments or agencies, which are concerned with the subject in a significant manner.

Periodic reporting and monitoring

2.9 Since the existing system of presentation of the performance audit reports to the Assembly/ Legislature is to be substituted with presentation of stand-alone volumes throughout the year, it will be necessary to monitor the progression of the various stages of performance audits with help of periodic reports, most appropriately every quarter. In the new system, at any point of time, the 'work in progress' would contain the processes/stages brought forward from the previous year or quarter, the processes/ stages scheduled for the current year/ quarter and the processes/ stages carried forward to the next year/ quarter. The report may contain the status of work in progress indicating the approved time-schedule for each stage of the performance audits in the strategic plan and annual operation plan and their actual status along with explanatory notes.

Annual operational plan

2.10 Deputy Secretary/ Joint Secretary, EAO may prepare an annual operational plan for performance audit covering the period of April to March of the next year. The annual operational plan may consist of various stages in the performance audit process in relation to the subjects for performance audits during the year. The performance audits spanning more than one financial year may be seamlessly carried forward from the previous year.

CHAPTER III

3. Performance audit- plan and implementation:

Planning: a critically important process

3.1 Operational planning of individual performance audits is the most critical process for securing a high standard of audit. While the time spent on the audit planning of the individual subjects may vary from subject to subject, generally about 20-25 *per cent* of the total time provided for the performance audits may be expected to be consumed in the planning stage. A good audit planning will ensure a focussed field work by the audit team and also facilitate monitoring and review of the progress of audit.

3.2 The critical aspects in planning the individual performance audits are: collection of and research on the data and information relating to the criteria, assessment of skill and knowledge required for the conduct of the performance audit and those available internally, defining the gap in the requirement and its availability in-house, plan for bridging the gap through expert advice or appointment of a full time consultant for the duration of audit, assignment of the personnel and other resources and finalising the guidelines along with the audit programme, etc. The guidelines, which in effect, serve a road map for the performance audit, will *inter alia* contain audit criteria, selection of the types of evidence to be collected and evidence gathering techniques, time-frame for the various stages of performance audit, sampling of units and sampling of transactions/ vouchers/ data for an audit test, etc.

3.3 **Understanding the entity and the programme:**

- Collect information about the audited entity and its organisation in order to assess risk and to determine materiality;
- Define the objective and scope of the audit;
- Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of the enquiries to be made later;
- Highlight special problems foreseen when planning the audit;
- Identify staff requirements and a team for the audit;
- Prepare staff assignment and a schedule for the audit; and
- Familiarize the audited entity about the scope, objectives and the assessment criteria.

Understanding the subject

3.4 The first step in planning the individual performance audit is to develop a sound understanding of the subject of audit. Such understanding will help in identifying the key audit issues. An illustrative list of sources of such information is given below:

- Plan, budget documents, vision/mission statements and strategic plan of the entity;
- Enabling legislation;
- Entity organisational chart, programme execution format and accountability relationships;
- Annual reports, performance budget, and accounts, etc.;

- Programme documents-scheme guidelines containing the parameters of the programme;
- Administrative and technical inspection reports within the entity, proceedings of the monitoring meeting, internal audit reports, etc.;
- Evaluation reports and surveys sponsored by the entity, independent evaluation and surveys;
- legislative debates and reports;
- Media reports and articles; and
- Past audits: financial/ regularity and performance audits, follow up on previous audits, etc.

3.5 The audit team will be called upon *to acquire broadly the collective knowledge and understanding of all persons connected with the programme with a view to ensuring that their understanding is matching the sum total of the understanding of all those involved with the subject.*

Presentation by/ discussion with entity

3.6 It may facilitate better understanding of the programme/ subject of conducting the performance audit and request the entity for a discussion or presentation for explaining the different aspects of the programme/ subject and elicit entity co-operation for thorough understanding of the subject, co-operation in facilitating audit by way of unhindered access to documents and information, entity response, confirmation of the facts and figures and finally acceptance and implementation of the recommendations. The entity co-operation and interaction should not be sought merely for the form sake but *should be aimed at securing a high degree of goal matching.*

Setting the audit objectives

3.7 The most important stage in the performance audit process is defining the audit objectives. These are the basic audit questions that performance auditors seek answers to. Audit objectives are usually expressed in terms of questions about performance, i.e., achievement of economy, efficiency and effectiveness of an entity/ programme/ activity under audit. The audit objectives define the nature of the audit, govern its conduct and the performance auditor reaches conclusions in the context of the audit objectives.

3.8 *Since the entire performance audit is built around the audit objectives, it is important to define the audit objectives and sub-objectives without ambiguity, in a precise and objective manner.*

Audit objectives are the pivot of any performance audit around which the entire exercise revolves. Audit objectives and sub-objectives should be stated in complete statement form with reference to the policy and programme objectives or the universally acceptable best practice viz. "Performance audit of (subject) was conducted with a view to assessing whether … … …… *……… ………………(audit objectives and sub-objectives with reference to the programme/entity objectives, further developed in the context of parameters of economy, efficiency and effectiveness of the inputs, process, outputs and outcomes)* have been achieved". Rather than defining the audit objectives in one running sentence, these should be split into several themes and sub-themes consistent with the objectives of the entity/programme, and all considerations connected with economy, efficiency and effectiveness of the programme.

Scope

3.9 The scope is the boundary of audit. Scope narrows down the audit to significant issues that relate to the audit objectives. It determines the extent of examination of the identified key areas. Audit scope generally addresses the following aspects:-

Audit mandate

3.10 The applicable section of the Efficiency Audit Resolution may be stated in the performance audit while defining the scope. Period of entity operations or programme that the audit examination will cover should be specified. No uniform time period of entity operations or a programme, over which the performance audit should be conducted, can be prescribed. The time period of the operations to be audited may vary widely with reference to the type of programmes or subjects undertaken for audit. The time-frame to be covered in audit will apart from the type of the programme, depend upon risk parameters, audit objectives and sufficiency, competence and reasonableness of evidence to be collected, etc. A performance audit with result (output or outcome) oriented approach will require the results to be tested over a reasonable time during which results can be expected. On the other hand a process-oriented approach may require relatively shorter duration of programme management to arrive at conclusions.

3.11 Segments/ locations of the entity to be covered in audit: Often the entity/ programme/ activities under performance audit may be broad. It may be necessary to limit the segments/ locations that the audit will cover and to which the conclusions will apply.

❖ **Structure of audit implementation guidelines**

3.12 The audit implementation guidelines will consist of the following structure being determined by Deputy Secretary/ Joint Secretary, EAO:-

- Title of the performance audit;
- Information on the programme / subject of audit
  - Programme inputs;
  - Programme process and resource flow chart with explanatory note;
  - Execution structure or institutional design;
  - Programme outputs;
  - Expected cost-benefit / input-output as per the programme design;
  - Programme target group (beneficiaries);
  - Performance information system;
  - Performance measures, if any, set in the programme or later by the entity;
  - Evaluation system; and
  - Expected programme objectives and impacts.
- Scope of audit in terms of period of operations to be audited, segment or activities or entities to be audited, etc.;
- Audit objectives and sub-objectives, (reasons for conducting audit) themewise in complete statement (question) form along with the fundamental objectives of economy, efficiency, effectiveness, issues addressed by these objectives either singly or severally, as also the

equity and ethics issues limited to as far as these affect one or more of the economy, efficiency and effectiveness of the programme;

- Criteria to assess if the programme objectives fulfil the policy objectives;
- Impact analysis techniques;
- Audit criteria (one or more) against each audit objective and sub-objective;
- Basis for comparison of the intended impact with the actual impact;
- Programme evaluation techniques to be used in the performance audit;
- Impact evaluation, if possible on the basis of available evidence,i.e.,whether the observed impacts are attributed to the programme or there are other reasons also;
- Audit evidence, including their type {primary and secondary (corroborative) evidence under the categories of documentary, physical, oral or analytical}, source (location) and evidence gathering techniques (direct observation, survey, photographs, interviews, etc.);
- Caution to be exercised with reference to evidence gathered – for each type of evidence – attestation of photocopies and source reference, corroboration of physical and oral evidence, etc.
- Evidence analysis techniques to be used;
- Expected value addition to the programme through performance audit;

- Assignments and responsibilities, data gathering, supervision and data analysis;
- Expert or consultancy services and outsourcing required, if any, along with the explanatory notes;
- Evaluation of internal control system – in the context of audit objectives and examination of lessons learnt and sensitivity to error signals;
- Risk analysis;
- Sampling techniques used or to be used for selection of the units and data;
- Audit test programmes;
- Audit programme including the time-frame;
- Obligation of transparent testing of evidence on the criteria of relevance, competence and sufficiency;
- Recommendations development process and test of recommendations on the internal control parameters;
- Report writing procedures – field audit, discussion papers, audit observation, field audit report and draft report;
- Series of actions/steps expected at each stage for entity involvement and co-operation;
- Entry and exit conferences and minutes thereof – provision for;
- Periodic reporting to the supervisory officer and the Deputy Secretary/ Joint Secretary, EAO;

- Co-ordination structure when different teams conduct audit under the jurisdiction of the same or different authorities;
- Time-schedule, field audit, report writing, forwarding the report to the entity and report approval;
- Working papers and process documentation requirements;
- Mid-term reviews and workshops; and
- Report structure.

Audit engagement process

3.13 Before initiating the audit, the Deputy Secretary/ Joint Secretary, EAO should send an engagement letter to the Secretary of concerned Administrative Department communicating the launch of the audit along with the offices tentatively selected for audit and the time frame for audit and request him/her to issue necessary directions to the functional officers and field units to provide documents and information to the audit team.

Entry conference

3.14 Entry conference affords an opportunity for introduction of the audit team members with the Secretary of Administrative Department and officials of related Heads of Departments. The Audit Officer introduces the audit plan consisting of the audit objectives, approach and time frame besides apprising the Administrative Department regarding data, information and documents that will be required by the audit team. The working procedures for audit may also be established in this meeting. The audit officer may also utilise this occasion to request the Administrative

Department to provide assistance to the team for conduct of audit.

- **Pilot study/preliminary survey**

3.15 It is a good practice, particularly for relatively larger programmes, to conduct a pilot study in one or two representative units of the entity to assist the performance auditor in refining the audit methodology, audit objectives, audit criteria and audit approach.

- **Field audit process**

3.16 The field audit is directed at testing the audit objectives and criteria with help of an audit programme consisting of procedures that include:-

- observing, interviewing and documenting;
- testing and checking; and
- analysing.

- **Developing audit questions**

3.17 Following the audit objectives, audit criteria, evidence required to be gathered and the functions performed by the field units to be audited, the audit team should prepare a list of questions, which they would seek answers to and tentative list of documents and information to be obtained from each unit where the audit would be conducted. It may be necessary, on the basis of the field audit, to refine the list of questions and the documents and information as the situations in the individual field audits may necessitate.

Developing the audit programme

Use of existing data

3.18 It is important for audit staff to investigate the data held by entity management and by other relevant

sources. This may include the information systems used to manage entity programmes/activities and/or the data collected on individual programmes. *The confidence level of audit conclusions is enhanced by testing the available data for correctness and completeness with reference to the basic documents maintained by the entity. The audit team will maintain evidence of tests carried out to ensure correctness of data maintained and furnished by the entity. It is important to maintain a data trail to make sure that the evidence is not tampered with.*

Analysis of results

3.19 Analysis of results from examining a number of instances of entity activity in a particular area will help decide whether entity performance in that area conforms to audit criteria and is generally satisfactory. This will also require the auditor to assess the input-output model designed in the programme and carry out actual output-input analysis to determine the efficiency of the programme. The analysis of results would also call for analysis of impact of the programme against the expected impact.

Case studies

3.20 The case study is a method for learning about a complex issue, based on a comprehensive understanding of the particular instance. The case study involves an extensive description and analysis of the particular issue within the context of the whole area under review.

Surveys

3.21 This is a method of collecting information from members of a population to assess the incidence, distribution and inter-relation of events and conditions. In social sector programmes, credible surveys on pre-determined parameters can *supplement* the audit findings and conclusions, which add value to the performance

audits. The nature of some programmes or activities selected for performance audits could be such that a focussed survey of a limited sample during the planning stage may provide more insight for setting the audit objectives and criteria.

Quantitative analysis

3.22 Where it is not feasible to analyse the entire population, due to any constraints, sampling techniques have to be used. The nature of the population should be examined to decide the most appropriate sampling methodology. *The sample selected and the sampling approach and methodology should be documented and shared with the entity.* The performance audit teams will document the internal control system significant to the audit objectives and carry out tests to arrive at the findings on their adequacy and actual performance.

Lessons learnt and sensitivity to error/risk signals

3.23 Responsiveness of the management to address the known deficiencies in the systems and procedures and being alive to error signals that may affect the economy, efficiency and effectiveness enhances the reliability of the internal control system. Performance Auditors may be required to assess the adequacy of the internal control system to ensure that remedial measures are taken on significant weaknesses in the systems and procedures *pointed out earlier by audit or which had emerged from the feedback system, review, complaints and evaluations, etc.*

Developing findings

3.24 Audit findings are identified by relating audit observations to audit criteria. Audit observations are based on the analysis of information collected during the audit. Audit findings should be developed and evaluated throughout the various phases of performance audit.

3.25 Instances where entity performance exceeds the expected performance (as inferred from the audit criteria) may suggest good management, provided the targets/benchmarks are realistically determined, such cases should also be reported. Some of such instances may warrant a review of the criteria or the performance measures. At appropriate stages in the performance audit cycle, impact analysis may be carried out while developing the audit findings.

Developing recommendations

3.26 All performance audits ought to conclude with well thought-out recommendations. If the dialogue with the entity during the entire process of performance audit has been consistent, constructive and effective, both the EAO and the entity may be required to focus only on the recommendations and their implementation at the close of performance audit. The audit team may identify a cause and effect chain and have the option of reporting the findings at different points in the chain. In this situation, the auditor should highlight the most critical deficiencies in the chain. A good quality performance audit should yield recommendations, which should, in most cases, be acceptable to the entity.

3.27 Recommendations emerge from identification of the 'cause' of audit findings, which ought to be addressed by the entity. Addressing the following questions will assist the performance auditors develop good recommendations:-

- What needs to be done ?
- Why does it need to be done ?
- Where does it need to be done ?
- When does it need to be done ?

- How does it need to be done ?
- Who is to do it ?
- What is the expected impact, if it is done ?
- Are there any potential risks involved with the implementation of the recommendation ?
- Is it practicable to implement the recommendation ?
- Is the recommendation cost-effective ?

3.28 The recommendations are the logical conclusions of the performance audit process and relate to the causes of audit findings. The stage at which the recommendations should be developed and communicated cannot be prescribed uniformly. EAO may decide the stage in the performance audit process when development and communication of the recommendation should take place depending upon the nature of the subject of performance audit and entity environment.

Disagreement with the recommendations

3.29 The impact or value addition through performance audits increases with implementation of the recommendations. The implementation of the recommendations is expeditious if the entity's acceptance is obtained. EAO may secure acceptance of the recommendations by the entity either with help of a discussion paper or as response to the daft performance audit report, the former being a preferred option.

Exit conference

3.30 In audit of all units, the audit team should conclude the audits with an exit conference/ meeting with the Administrative Department. The Deputy Secretary/ Joint

Secretary, EAO should lead the team for EAO side in the exit conference depending upon the level of the field entity. All audit observations must be issued to the entity at least one week before the scheduled exit conference. The exit conference is an opportunity for the entity to discuss the audit findings with the EAO representatives. This also affords opportunity to the Audit Officer/ Group Supervisory Officer to clarify any points of doubt that the entity may like to raise. The minutes of exit conference should be recorded and endorsed to the entity.

Supervision, monitoring and review of Implementation

3.31 The constant supervision over the performance audits will normally be of the group officers, who may present status reports on important issues to EAO at the stages or the end of the periods prescribed in the implementation guidelines on the performance audits and/ or as and when demanded by the Deputy Secretary/ Joint Secretary, EAO.

CHAPTER IV

4. Evidence and documentation

4.1 Audit evidence is the information collected and used to support audit findings. The conclusions and recommendations in the audit report stand on the basis of evidence. Auditing standards prescribe that competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, programme, activity or function under audit. It further prescribes *interalia* that (i) data collection and sampling techniques should be carefully chosen; (ii) the auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation to collect audit evidence and (iii) the evidence should be competent, relevant and reasonable and as direct as possible.

Factors affecting the evidence

4.2 Some factors that may affect the competence, relevance and sufficiency of the evidence are:

- Samples selected are not representative (*sufficiency*);
- Evidence collected relate to an isolated occurrence (*sufficiency, validity*);
- Evidence is incomplete and does not establish a cause and effect relationship(*reliability, sufficiency*);
- Evidence is conflicting (*reliability*);
- Evidence is biased (*reliability*).

Types of evidences

4.3 Evidences are categorised with reference to their type as physical, oral, documentary or analytical.

- *Physical evidence* is obtained by observing: photographs, charts, maps, graphs or other pictorial representations, *etc.* are some examples. It is desirable to corroborate physical evidence, particularly, if it is crucial to any audit findings (linked to the audit objectives). One of the most desirable corroboration of physical evidences is the acceptance of such evidence by the entity.

- *Oral evidence* is the statement in response to audit inquiries or interviews. The statements made can either provide a background or a lead for further examination that may not be available through other forms of audit work or may provide corroborating evidence (*e.g.* beneficiary survey).

- *Documentary evidence* is the most common form of evidence. These could be both internal as well as external, though in most cases, the external evidence is also obtained from the records of the entity. Some examples of the evidence from external sources are tenders filed by vendors, invoices and documents originating from other agencies/ entities etc. Internal documentary evidence originates within the entity. Some examples of internal documentary evidence are accounting and information records, copies of outgoing correspondence, plans, budgets, annual reports and internal audit reports, etc.

- *Analytical evidence* stems from analysis and verification of data, which can involve computations, analysis of rates, trends and patterns, comparisons against standards and benchmarks, *etc.* The analysis and comparisons can be both numerical and non-numerical.

Sources of evidence

4.4 The following are some sources of evidence.

- *Policy statements and legislations* - policy documents, operating guidelines and manuals, administrative orders, etc. along with the background papers leading to their promulgation.
- *Published programme performance data* - budget, accounts, plan documents, performance budgets and reports, programme documents, annual reports and replies or statements placed before legislature.
- *Management reports and reviews* - internal reports and reviews, minutes of meetings, management information chain and information/performance reports, *etc.*
- *Files of the entity on the subject* - provide strong evidence to support audit findings.

Some of the more important files that can provide the desired evidence are:

  - Strategic and operational planning files;
  - Budget files;
  - Management control, monitoring and review files;
  - Internal audit reports, internal and external evaluations; and
  - Complaints and disputes, etc.

- *Databases* - maintained by the entity are important source of audit evidence.

- *External sources* - independent surveys, evaluation, research, *etc.*
- *Departmental sources* – evidence collected in previous audits and during finalisation of strategic plan could provide evidence in many cases.
- *Auditors' observation* – could form an important source of evidence, particularly when supported and corroborated by photograph, video recording, etc. and attested by the representative of the entity. The audit team should record a detailed description of the results of observation.

4.5 Evidence Gathering Techniques

4.5.1 The performance auditors are encouraged to enhance their knowledge of the evidence gathering techniques through in-depth study and training.

Survey

What is the technique?

4.5.2 A survey is a technique for gathering specific information from a group of people or an organization. In this technique, a questionnaire is administered to a group of people representative of the larger population. The responses to the questionnaire are analysed and projected to the whole population.

When to use the technique?

4.5.3 Surveys can be used both at the planning as well as execution phases of performance audit. At the planning phase, surveys can be used to identify issues or the key concerns in an issue. At the execution phase, surveys can provide necessary audit evidence on the issues identified at the planning phase.

4.5.4 Surveys can collect quantitative information in order to estimate output (performance indicators) or evaluate processes in a project, e.g., assess how well a project is being monitored. Surveys may be used to measure the frequency of an identified problem and thus assess the seriousness of the issue. Surveys often seek opinion, which is of use in assessing the beneficiary satisfaction/ quality of service provided in the project.

Steps to using this technique

The survey process would involve the following stages:

4.5.5 Deciding the objective of the survey and its target population: At the start, the reasons for conducting the survey and the information required to be gathered needs to be clarified. For example, while auditing a programme for rural employment generation, we might need to estimate the number of individuals who have been gainfully employed through the programme or their average income level. This information may be required for a district or a region or for the entire State. Accordingly, the target population would be potential beneficiaries in the district, region or State. Alternately we may need to estimate the number of individuals who had got employment through the programme, but have returned to being unemployed. In this case, the target population would be only those who have received employment through the programme.

4.5.6 Deciding the size of the sample and a method of drawing a sample from the target population: For the results of the sample survey to be applicable to the entire target population, the sample size needs to be derived through statistical sampling. The confidence level (usually 95 per cent is adequate), precision that needs to be achieved (expressed as a percentage, a low precision requirement would mean a higher percentage and vice versa), and the estimated population proportion that has the attribute which is being

studied are the required inputs. The sample size can be generated with this knowledge through the use of formula or statistical tables.

4.5.7 Deciding the nature of survey to be done, direct interviewing or through post, telephone, e-mail: After selecting the sample, it is essential to establish contact with the members of the sample to collect the desired information. This could be done through personal interviews, questionnaires sent by post or through e-mail, or interviews on the telephone. Personal interviews will have a better response rate provided that the questionnaire is framed to elicit the best response.

4.5.8 Framing the questionnaire: Questionnaire is the set of structured questions the answers to which are being sought in the survey. Designing the questionnaire is an important element, which determines the success of the survey project. The questionnaire needs to be prefaced by an introduction which speaks of the purpose of the survey, how and why the respondents were selected, how the results will be used, the extent to which anonymity will be preserved, guidance for completing the survey and who to contact to clarify doubts.

4.5.9 A way to test the validity of the response would be to introduce counter-questions within the questionnaire at appropriate stages. This would verify the correctness of the response. If replies to a question and its corresponding counter-question are different, evidently, the response is incorrect. We may reject such responses. To elicit better response to the questionnaire, it could be framed in local language. This would ensure easier comprehension and hence better response. While framing the questions, a focus group could help identify the issues. It could also provide useful information on designing the questions, e.g., use of words, logical flow

of questions, etc. The questionnaire needs to be pre-tested to ensure that the questions are not mis-understood or difficult to answer and that the flow of the questions is logical.

4.5.10 Administering the survey and collecting information: The survey needs to be administered to the chosen sample as per the technique decided on, interviews – direct or through telephone, mail- postal or electronic. A high response rate is critical to the success of the survey and follow-up efforts need to be made to ensure maximum response.

4.5.11 Completed questionnaires need to be checked to ensure that the respondents have answered all the appropriate questions and there are no unexpected answers suggesting that the respondents misinterpreted the questions.

4.5.12 Analysing the results of the survey: Analysing the results of the survey would involve understanding its nature and projecting it to the population. Several qualitative and quantitative techniques can be used to analyse the results of a survey. Small surveys can be analysed manually while for larger surveys software packages can be used. While analysing the results one needs to be aware of the possible bias in the results due to non-response and the sampling error. In addition there could be non-sampling errors due to incorrect answers to questions, either through misunderstanding or through design. While compiling the survey results, there could be incorrect data entry. The surveyor needs to be careful and alert to these problems while analysing the data gathered.

4.5.13 Need for an expert: Use of survey technique in performance audit is relatively new to the department. In addition, the method, especially in large surveys, can be

complex and time-consuming and requires high degree of skills. Using experts for large surveys could be a viable option. Experts can provide the necessary skills and input necessary for the auditor. It is the auditor's responsibility to provide competent, relevant and sufficient evidence.

4.6 Introduction to statistical sampling

4.6.1 Sampling means testing less than 100% of the cases in the population for some characteristic and then drawing a conclusion about that characteristic for the entire population. Traditionally, auditors use 'test check' (or judgmental sampling, non-statistical sampling) approach. This means checking a pre determined proportion of the cases on the basis of the auditor's judgment. This sampling technique can be effective, if properly designed. However, it does not have the ability to measure sampling risk and thus audit conclusions reached becomes rather difficult to defend. For statistical sampling techniques, there is a measurable relationship between the size of the sample and the degree of risk. Statistical sampling procedure uses the laws of probability and provides a measurable degree of sampling risk. In sum, statistical sampling provides greater objectivity in the sample selection and in the audit conclusion.

Attributes and variable sampling

4.6.2 Statistical sampling may be used in different auditing situations. The auditor may wish to estimate how many departures have occurred from the prescribed procedures; or estimate a parameter in the population. Based on whether the audit objective is to determine a qualitative characteristic or a quantitative estimate of the population, the sampling is called an attribute or variable sampling.

4.6.3 Attributes sampling estimates the proportion of items in a population having a certain attribute or characteristic. In an audit situation, attribute sampling could estimate the existence or otherwise of an error. Attribute sampling could be used when drawing assurance that prescribed procedures are being followed properly. For example, attribute sampling may be used to derive assurance that procedures for classification of vouchers have been followed properly. Here, the auditor estimates through attribute sampling the percentage of error (vouchers that have been misclassified) and sets an upper limit of error that he is willing to accept and still be assured that the systems are in place. Variables sampling would estimate a quantity, e.g., the underassessment in a tax circle.

Sampling methods

4.6.4 There are different ways in which a statistical sample can be selected. The most frequently used method is random selection where each item in the population has a equal chance of selection. Simple random sampling ensures that every member of the population has an equal chance of selection. Though simple to administer, the underlying assumption is that the population is homogeneous. In cases, where the population is non-homogeneous, a stratified sampling would be a better option. Here the population is subdivided into homogeneous groups and then a random sampling is done on the groups, ensuring a better representative sample. Each sampling method has its practical use and limitation. The auditor uses his judgment in determining which kind of sampling is best suited to his audit job. It is advisable to take expert advice in judging the most suitable method.

4.6.5 Some random sampling methods that are commonly used are :

- Simple random sampling where each member of the population has an equal chance of selection. This is useful when the population is uniform.
- Stratified random sampling where the population is divided into strata and random sample is drawn from each strata. This is useful when there exists stratification in the data and the method will ensure that members from each strata are represented.
- Systematic sampling where population members at equal intervals get selected. Often it might be easier to draw systematic sample than random sample. This would be particularly useful when cases are ordered by size, type or region. Then by selecting systematically one can ensure that cases having different attributes have been adequately represented.
- Cluster sampling where the population is divided into clusters and members form each cluster are selected randomly. This is useful when the population can be easily divided into clusters.
- Probability proportional to size sampling which is a special case of cluster sampling where clusters are of different sizes; larger clusters have a higher chance of selection. Here larger cases or clusters have a higher chance of selection. It would be useful, if we wish to weight the sample towards larger items.
- Multi-stage sampling, which is sampling through a series of stages. This may combine the various single-stage sampling methods, e.g., simple,

stratified, systematic, cluster sampling, at different stages. With large populations it is often useful to carry out sampling in two or more stages. For example, an audit question could be related to the satisfaction of the beneficiaries in a social intervention programme. The programme could be a nation-wide programme. A multi-stage sampling method could be employed to draw a sample of the beneficiaries:

- sample districts within State
- sample blocks within selected districts
- sample villages within selected blocks
- sample beneficiaries within selected villages

At each stage of sampling a suitable method of selecting the sample could be used.

4.6.6 Once the method of sampling is decided, it is essential to design the actual sample. For simple random sampling, the following process can be followed. For other types of sampling it is advisable to consult experts.

Simple random sampling (Attribute sampling)

4.6.7 This is used when audit desires to estimate an attribute in a population. It is useful for testing internal controls. For example, the auditor may decide that if there are errors above a certain threshold the control systems are inefficient. The attribute, which the auditor is interested here are errors/ aberrations from processes. The basic stages that are involved here are mentioned below:

- Determining the sample size
- Selecting the sample and performing substantive audit tests on the sample

- Projecting the results

(a) Determining the sample size

4.6.8 After defining the target population and the attribute that audit wishes to test, the size of the sample required to be tested need to be determined. This can be done with through an understanding of the following parameters:

- Precision (E): Audit test on the sample will throw up an estimate of the attribute for the population. The true population value of the attribute could be more/ less than this estimate. The gap between the sample estimate and the actual population is the precision. The auditor has to decide the precision he desires to provide in his estimates.
- The confidence level or the level of assurance that audit needs to provide is to be defined. Confidence level states how certain the auditor is, that the actual population measure is within the sample estimate and its associated precision level. In case of performance audit, this level can be taken at 95 per cent.
- The occurrence rate (p) or population proportion which is the proportion of items in the population having the attribute that audit wishes to test. This is based on the judgment of the auditor.

4.6.9 The required sample size can be calculated using the formula given at Para: (c)

The sample size would be larger, higher the confidence level and precision required. Also if the occurrence rate in the population becomes larger the size of the sample would increase. In case of variables sampling, where the estimate of a quantity is required, sample size becomes a

function of the standard deviation in the population rather than the occurrence rate.

(b) Selecting the sample and performing substantive audit tests on the sample

4.6.10 The sample could be selected using random number tables or through computers. Auditing software, e.g., IDEA is an efficient tool for sample selection. Once the sample is selected, identified audit tests are to be applied on the sample. The proportion of the sample having the attribute that is under test is determined through audit.

(c) Projecting the results

4.6.11 The test results are to be projected to the population. Using the same formula given below, the precision can be calculated at the desired confidence level and sample size. Loading the precision on the sample value the upper estimate for the population can be made.

4.6.12 In the example of testing internal controls, this estimate is the maximum error/ aberration that is expected at the given confidence level. In case this estimate is less than the threshold of error/ aberration that the auditor can tolerate, the auditor can place assurance on the controls. When the estimate is higher than the tolerable error/ aberration, the auditor cannot derive assurance from the controls. The auditor may, in such situations reduce the assurance he derives from the controls and increase the assurance required from substantive tests.

To calculate sample size for attribute sampling (simple random sampling)

$$\text{Sample size (n)} = \frac{Z^2\, p\,(1-p)}{E^2}$$

Where, Z = score associated with confidence level

E = precision

And p = proportion (occurrence rate in the population)

Z score values:

Confidence level	Z score values
80 %	1.28
85 %	1.44
90 %	1.65
95 %	1.96
99 %	2.58

Benchmarking

What is the technique?

4.6.13 Benchmarking is a process for measuring an organization's performance or process against such organizations that consistently distinguish themselves in the same categories of performance. In the context of performance audits, benchmarking helps identify opportunities of achieving better economy, efficiency and effectiveness. Benchmarking can be done with other external organizations or with internal units of the same organization having different levels of performance.

Internal benchmarking can be used efficiently in performance audit. For example, processes and performances of a district in a project can be benchmarked against a high performing district to efficiently highlight problems and their causes.

When to use the technique?

4.6.14 Benchmarking can be of use both during the planning and execution phase of performance audit. In the planning phase, benchmarking can be an important tool while setting the audit criteria.

4.6.15 In the execution phase benchmarking allows for more penetrating cause-effect analysis. Comparing detailed processes of the auditee with its benchmarking partner will reveal the gaps and areas of mismatch. This can provide a good insight into the cause of problems faced by the auditee and the possible effects. In this manner it helps in substantiating audit findings and conclusions and reinforces audit recommendations with greater credibility.

Steps to using this technique

4.6.16 The benchmarking process will involve the following stages:

- *Deciding the aspects of performance or process that will be benchmarked*: The areas that are chosen for benchmarking will depend on the audit objectives. Key performance parameters and critical processes of the organization will be natural choices for benchmarking especially when they do not meet the expectations.
- *Deciding the type of comparison and benchmarking partners*: The type of comparison that can be done will depend on the information in

the auditee that is available, its reliability and appropriateness. Alongside the possible benchmarking partners the availability of comparators in the partners need to be assessed. It will be a good practice to discuss the choice of partner and comparators used with the auditee organization to improve the acceptability of the benchmarking study with the organization.

- *Collect data:* In case the data required for benchmarking is not readily available, it could be collected independently by audit through surveys, interviews, sampling. Where data is available, their reliability needs to be checked and specific information required collected and compiled to suit the study requirements.
- *Determine the performance gap*: Assessment of the auditee's indicators with the identified comparators will reveal the gap between the two. The divergence, its reason, and effect need to be analyzed.
- *Framing conclusions and recommendations for betterment*: On the basis of the audit findings, recommendations may be framed. It could suggest a restructuring of processes in line with the best practices revealed by the comparator and highlight the benefits that are likely to be associated with the change.

Strengths and concerns of the technique

4.6.17 *Strengths*: Benchmarking can be an effective tool for performance audit as:

- It stimulates an objective review of processes, practices, and systems.

- It provides objective data on methods of operation.
- It identifies better ways of operating.
- It supports recommendations for making changes
- It presents a target for improvement in the audited organizations .

4.6.18 *Concerns*: Some concerns while using benchmarking are:

- Benchmarking requires high degree of skill
- The acceptability of the findings of benchmarking with the auditees is an area, which will require attention.

Focus groups

What is the technique?

4.6.19 A focus group is a qualitative research technique. It is a selection of some individuals brought together to discuss specific issues in an informal setting. Selected participants are related to the issue in a certain way. The reactions of the group are used to explore attitudes, beliefs, perceptions, and problems or to search for causes of problems and their solution.

4.6.20 Performance audit seeks to understand causes and effects of problems to achievement of economy, efficiency or effectiveness in a programme; it also attempts to assess the impact of the programmes on people. Focus groups provide a means to obtain a broad understanding of these issues by obtaining the opinion, perception of individuals actually associated with the activity being examined.

4.6.21 Focus groups used in audit generally involve 6 to 12 participants. They could be the staff of the auditee or beneficiaries of a programme. The focus group discusses issues under the direction of a facilitator who will lead the group and stimulate the discussion without influencing the opinion of participants. A typical focus group session can last from 90 to 180 minutes.

When to use the technique?

4.6.22 Focus groups can be used both during the planning and execution stages of performance audit. During planning phase, focus groups can be used to define and prioritise the main issues of the study, generate new ideas, define problems to be explored more clearly, especially when the audit field is relatively new or complex. Focus groups can be of help in planning other data collection approaches. Language used by participants in a focus group can guide the design of survey questionnaires. Focus groups can also be used to review questionnaires prior to their use to ensure that the respondents understand the questions and interpret them in a similar fashion.

4.6.23 In the execution phase, focus groups can be used to validate findings from other sources, analyse causes, look for solutions, or assess the impact of the activity. In cases where an operation or activity is under-performing but the reasons are unclear, focus groups can explain the under-performance and give an idea of solution. In this, the focus group also provides a mechanism in framing audit recommendations. Focus groups can be useful in determining the quality of service provided in a programme. Focus group of beneficiaries of a programme will give an insight into its effectiveness.

4.6.24 Evidence obtained from focus groups alone is rarely sufficient. It is used in combination/ collaboration with other evidence.

Steps to using this technique

- *Selecting a facilitator*: A facilitator ensures that all participants feel at ease, actively contribute to the discussion and the discussion does not stray from the key issues. A facilitator could be an auditor or an external specialist having experience in conducting focus groups and analysing the results.

- *Determining the number of focus groups*: The number of focus groups that may be required will depend on the sub-groups in the population and the strength of evidence required. For example, when using focus groups to obtain feedback on a Government programme, views of different affected groups would need to be considered.

- *Deciding the participants of the focus groups*: Participants of a focus group need to discuss a problem together. It is important to consider that the composition does not inhibit the participants.

- *A topic guide*: The auditor needs to prepare a detailed agenda of issues, which the focus group is expected to discuss. This acts as a guide for the discussion. A timetable for issues to be discussed and how long the focus groups should spend on each would also be tentatively set out in the topic guide. The topic guide acts as an aid to the facilitator. In a practical situation the facilitator may not go by the exact schedule or agenda set out in the focus group.

- *Conducting the focus group*: The facilitator needs to keep the discussions in the focus group relevant to the issue/ objective of the discussion. To this end the facilitator will use a mix of open-ended questions to stimulate discussions, loaded questions to guide the discussion, or specific questions on issues to derive a more focused answer.

- *Recording the results of a focus group*: A video or audio recording of a focus group could be used for recording the discussions. Minutes of the meeting could be taken. There could be hidden observers who would observe the group without the participant's knowledge. The facilitator can also invite the participants to record their comments.

- *Analysing the results of a focus group*: Techniques of qualitative data analysis are used to analyse the results of a focus group. After preparing a transcript of the discussion, a content analysis could be done to understand the importance of each issue. The views of the participants need to be put in context and interpreted carefully.

Strengths and concerns of the technique

4.6.25 *Strength*: Focus group allows an issue to be discussed in depth. Opinions and ideas that will not be available otherwise but are important for the study can be obtained by the technique. Different perspectives of the issue are revealed. Respondents in individual interviews may not express opinions freely but in a group situation, the individuals may be more open. Further focus groups can be arranged more quickly and

at a lower cost than if persons were interviewed individually.

4.6.26 *Concerns*: The members of the focus group are not selected statistically. As such their opinion may not be representative and the results of the focus group cannot be projected on the population at large. Also focus group is a social situation, there can be pressure on individual participants to conform to group opinions. The evidence gathered through a focus group can at best be indicative and needs to be backed up by other evidence to support an audit finding.

Interviews

What is the technique?

4.6.27 An interview is a question-answer session to elicit specific information. Interviews could be structured or individual (un-structured). Structured interviews aim to gather the same information from many people. Questions in a structured interview have specific wording and are asked in a set order. Data from structured interviews can be quantified. An individual interview is more exploratory in nature. Here, the interviewer can change direction of the interview, probe on certain issues. Interviews can have open ended or closed questions. Open-ended questions allow greater freedom to explore issues. They cannot provide quantitative evidence but can provide explanations, impressions and opinions.

4.6.28 Interviews can be held telephonically or more commonly face-to-face.

When to use the technique?

4.6.29 Interviews can be used both in the planning and execution phases. In the planning stage, individual interviews help to obtain opinion and ideas that can

identify the potential key issues in the auditee and thus help in focusing the audit. Interviews also provide clue to other possible evidence sources and the availability of documents in the entity.

4.6.30 In the execution phase, individual interviews can be used to obtain opinions and ideas that relate to the audit objectives. Interviews can be used to corroborate evidence used from other sources. Interviews can also be used to explore possible recommendations. Structured interviews are often a part of surveys.

Steps to using this technique

- *Preparing the questions:* The issues that are to be explored need to be listed comprehensively. There could be a mix of open-ended and closed questions. It is important to determine the minimum data that the interviewer wants to obtain.

- *Determining the interviewees*: Individuals to be interviewed will have to be chosen carefully. In case of a survey using a structured questionnaire, the interviewees will be selected statistically. In an individual interview, the choice is a matter of judgment. In case individual interviewees vary widely in terms of geographical locations, culture, or social milieu, due consideration should be given to these factors to ensure a meaningful response.

- *Conducting and recording the results*: While conducting the interview, the interviewer should be careful to obtain information on the pre-determined questions. The interviewer requires skill to keep the discussion on track and obtain the minimum data expected to be collected

through the process. Video-audio recording of interviews is an efficient way of recording the results. However, permission of the interviewee needs to be taken beforehand. Notes of the interview can be kept and the main points emerging from the interview can be confirmed later with the interviewee. In case of complex interviews there could be two interviewers, an expert and an auditor. This could help in recording as well as dealing with complex/ controversial issues.

- *Analysing the results*: Qualitative analysis techniques, example content analysis can be used for analysing the results of individual interviews. The individual opinions and views need to be put in context and analysed.

Strengths and concerns of the technique

4.6.31 Individual interviews though forming an important data collecting technique in performance audit, suffer from several weaknesses.

- *Strength*: Individual interviews are flexible and can be used to probe perceptions and opinions. New areas, unexpected issues can be unearthed through individual interviews. This broadens the audit perspective.

- *Concerns*: Interviews often suffer from problems of confirming what is said. This reduces their value as evidence. Interviews generally are weak evidence and need to be corroborated through information from other independent sources such as documents, observations or structured interviews. Individual interviews often have problem in maintaining focus. The interview

could stray from the main issue or go into unnecessary details. The interviewee could be taking a guess at the answer. The questions may not have been formulated properly resulting in misunderstanding by the interviewee.

Case studies

What is the technique?

4.6.32 Case study is the examination of a selection of incidents, events, transactions or items in order to understand or examine a programme or activity. It is an indepth study of individual cases to explore the audit issues.

When to use the technique?

4.6.33 Case studies can be used in the planning and execution stages of performance audit. While designing the study, case studies can help to develop key questions to be focused on later in the main study.

4.6.34 In the full study, case studies provide a thorough examination of specific cases and can identify reasons for bad performance of an activity. Selecting cases that have performed well along with similar cases where performance was poor and comparing them can identify reasons for poor performance. Case studies can also highlight good practices or be used to demonstrate impact of a specific action or event.

Steps to using this technique

4.6.35 While using case studies during the examination phase, the following steps need to be followed:

- *Deciding the issue to be studied*: The specific question to be studied using the performance measure (criteria) to enable answering the question need to be defined.

- *Selecting areas to be studied*: Cases to be studied are not selected statistically but judgmentally. The rationale of choice should be clear and defensible. For example when case studies are used for a before after analysis, similar cases before the intervention and after the intervention could be chosen.

- *Conducting the case study*: Case study is an indepth examination of a particular case. Techniques used in performance audit are also used in conducting case studies. Documentary records of the auditee could be studied, interviews and focus groups could be conducted, and direct observation may be made to study the issue.

- *Analysing the results*: Qualitative and quantitative techniques of performance audit investigation are used to analyse the evidence gathered from the study and generate findings.

Strengths and concerns of the technique

- *Strength*: Examining a small selection of cases is cheaper than studying a larger representative sample. Larger topics can be easily addressed through case studies. The results from the cases can be more accurate as greater indepth investigation is possible. Case studies make it easier to determine problems, their cause and effect, alongside good practices and can thus produce pragmatic recommendations.

- *Concerns*: Case studies involve judgment in selection. Thus it is open to bias. While the finding from the individual case may be sustainable, it is difficult to determine whether

the issue highlighted is a generic problem or an aberration.

4.7 **Evidence analysis**

4.7.1 Evidence gathered in the context of audit objectives should be analysed and tested against the audit criteria transparently to arrive at audit observations, conclusions and recommendations.

4.7.2 Sound evidence analysis consists, among others, of the following important characteristics:

- *it should be logical and self-sustaining*;
- *the conclusions and interpretations should be convincing*;
- *it should support the audit observations; and*
- *provides basis of arguments against the best possible counter argument.*

No technique for evidence analysis can be universally applicable. The analysis may be in the form of 'cause-and-effect studies', 'before-and-after studies', 'process studies' or 'comparative studies', *etc*. Some evidence analysis techniques are as follows:

Quantitative data analysis

4.7.3 The major techniques used in quantitative data analysis are indicated below along with a brief of when to use these techniques.

Measures of central tendency

4.7.4 Often quantitative information regarding a variable is collected in performance audit. For example the levels of pollution in the environment over a period of time, or benefits provided to beneficiaries in different states under a social intervention programme. These

variables will have a distribution. Distribution of a variable is the set of all possible values it can take together with the frequencies of occurrence. Distributions can be represented graphically. Distributions can tell a great deal about the phenomenon to be examined. Some distributions like normal distribution, has been studied extensively. If data conforms to a standard distribution type, immediately one knows a great deal about the probabilities of various data values occurring. Computer programmes can be used to generate distributions to which the data conforms automatically, which help in examining the variable.

4.7.5 To summarize information of the variable,

- The data can be presented in tables or can be represented diagrammatically through bar charts, line curves, histograms, etc.
- A single number can be determined which will summarize the variable. This is called a descriptive statistics.
- The entire data distribution can be presented.

4.7.6 Measures of central tendency form a class of descriptive statistics each member of which characterizes in some sense, the typical value of the variable – the central location of the distribution. The purpose of each measure is to compress information about a whole distribution into a single number. The common measures of central tendency are mean, median, and mode.

What is the technique?

*4.7.*7 *Mean:* Arithmetic average is calculated by summing the observations and dividing the sum by the number of observations. Mean is strongly influenced by the presence of extreme values, which may give a

distorted view of the central tendency. It is not a good choice when the underlying data distribution is strongly asymmetric.

4.7.8 *Median:* Median is the middle value of the observations, having equal number of observations above and below it. Median is a resistant measure and is not affected by extreme values greatly. Hence in case of median, unlike mean, one need not look for a symmetric data distribution before application.

4.7.9 *Mode:* Mode is the observation, which is most commonly seen. We simply count the number of times a certain observation is made and the most frequent of them is the mode. It is the most common value of a variable.

When to use the technique?

4.7.10 Measures of central tendency are most commonly used when the typical value of a variable is required. In the context of performance audit, this variable could be a performance indicator. For example while auditing maintenance of stores in an organization, audit may want to know the average age of equipments in the store. If the average age of the equipments is high, it may be an indicator that store management is not up to the mark. This can be done by using measures of central tendency once the age of all equipments in the store is known. To apply the technique, complete numerical data regarding the variable must be available. The strength of the technique will depend on the correctness and completeness of data collected. The nature of the underlying distribution directs which method of central tendency, will be suitable. In the above example, if the distribution is uniform, i.e., there is little variation in the age of the equipments; mean will be a good measure. However if the distribution is skewed, e.g., there are one

or two items in the stores which are unusually old, the mean will be unnaturally high and can lead to wrong conclusions. Here the median will be a better measure for average age of the equipment.

Data spread

4.7.11 Data spread refers to the extent of variation among cases – sometimes variables cluster closely together and sometimes they spread out widely. Techniques of studying data spread focuses on the extent of this variation.

What is the technique?

4.7.12 ***Range:*** Range is a commonly used and easily understood measure of spread of a variable. Range is the difference between the largest and the smallest observations in the distribution. As it is solely based on extreme values, it is very sensitive to outliers. The range is zero when there is no variation. There is no upper limit of the range, which depends on the data being studied.

4.7.13 ***Inter quartile range:*** Inter quartile range is the difference between two points in a distribution that bracket the middle 50 per cent of the cases. These two points are called first and third quartiles and in effect, cut the upper and lower 25 per cent of the cases. The more closely the cases are bunched together, the smaller will be the inter quartile range. For no variation at all the inter quartile range would be zero. The technique leaves out extreme cases and thus addresses the problem of outliers. Even if there are errant very high or low values the inter quartile range will not be affected.

4.7.14 ***Standard deviation:*** Standard deviation is the square root of the average of squares of deviations of each case from the mean. When there is no deviation, its value is zero. With knowledge of distribution of data,

standard deviation can also act as a measure of the proportion of cases falling in the deviation measure from the mean.

- For a normal curve, 95 per cent of the data will lie between $\pm$ 2 times the standard deviation.
- For a single mode, symmetric (not necessarily normal) curve, at least 80 per cent of the data will lie between $\pm$ 2 times the standard deviation.
- For an irregular shape curve, at least 75 per cent of the data will lie between $\pm$ 2 times the standard deviation.

When to use the technique?

4.7.15 Performance study questions may often be aimed at the spread of data. For example, in a social intervention programme, one may need to determine the variation among states in beneficiary levels. Study of spread of data is also important when the study question focuses on the measures of central tendency. While the central tendency measure addresses the basic question, knowledge of spread will indicate the extent of variation from it. This might indicate problem cases where the central tendency of the data collected matches with the performance indicators.

An example of determining central tendency and data spread in a distribution.

4.7.16 *Problem:* Audit is studying the store management in an organization. One question that audit is trying to answer is whether the age of the equipments in the store is inordinately high. For the purpose, it is necessary to know the average age of the equipments and their spread. It will be required to determine the central tendency and data spread of the age distribution.

4.7.17 *Audit analysis:* In the aforesaid store, the age of equipments could be distributed as below. Four different distributions A, B, C, D are shown in the table. The measures of central tendency, and data spread have been worked out. For distribution A we see that median (17.5 months) is a good measure while mode (2.5 months) might give misleading conclusions. For a symmetrical distribution, e.g., B, the mean, median and mode are the same. The range here does not offer very definite information. However, the inter quartile range and standard deviation offer a clearer picture of the dispersion of the data from the mean. The central tendency measure and spread together gives a fair picture of the actual distribution and enable audit to form conclusions.

Measures of central tendency and data spread

Age of equipment	**Distribution (Number of equipments)**			
	A	**B**	**C**	**D**
Less than 5 months	250	100	175	172
5 –10 months	225	150	200	173
10-15 months	200	200	225	174
15-20 months	175	325	200	187
20-25 months	150	200	175	174
25-30 months	125	150	150	172
30-35 months	100	100	100	173
Total	**1225**	**1225**	**1225**	**1225**

Mean	**14.64**	**17.5**	**15.97**	**17.51**
Median	**17.5**	**17.5**	**17.5**	**17.5**
Mode	**2.5**	**17.5**	**12.5**	**17.5**
Range	**30**	**30**	**30**	**30**
Inter quartile range	**15**	**10**	**15**	**20**
Standard deviation	**9.5**	**8.3**	**9.21**	**9.93**

Regression analysis

What is the technique?

4.7.18 Regression analysis assesses the degree to which two variables X and Y are associated or co-related. The analysis determines the degree of change in Y if X changes. For this purpose, information on both variables is collected in a limited number of cases. Often, scatter plots of the data is made using the variables as the two axes. The scatter plots may indicate a relationship between the variables. One form of regression analysis is two variable linear analysis. Here the assumption is that there exists a linear relationship between the two variables X and Y. The challenge is to determine the 'line of best fit' and use the equation to define the relationship between X and Y.

4.7.19 Multi-variate regression analysis assesses the influence of a number of variables on a dependent variable. A multi-variate regression analysis often relates to real situations where there are a large number of variables influencing the variable under study. Regression analysis provides an understanding of the

change in the variable under study on account of changes in the other influencing variables.

When to use the technique?

4.7.20 Performance audit often explores the causal relationships between variables to determine the causes of audit findings or identify reasons for problems. Regression analysis provides an analytical tool for it. Some of the situations where regression analysis can be used is given below:

- *Test a relationship:* A programme under audit may have assumed a relation between two variables. For example, in a public distribution system, entitlement for rations (Y) is linked to income level of the beneficiary (X). People having an income level lower than a certain cut-off margin are eligible. A definite relationship between Y and X exists. Performance audit may test whether this relationship is being respected by gathering information of both the variables and using the regression analysis technique to check their relationship.

- *Identify unusual values*: When the bulk of the data falls in a pattern after using a regression analysis, leaving a few outliers, these might indicate deficiencies or problem cases. Thus, regression analysis can be used to identify problem areas.

- *Identify causal relationships between variables*: Regression is an efficient technique for identifying the causes of observed situations and thus aid in framing proper recommendations. For example, there could be very few underprivileged students going in for higher education. This could

be the observed situation in an audit. The causes could be:

- Lower awareness of higher education opportunities
- Lower attainment hence cannot attain required standards for higher education.
- Perception that higher education does not have real, tangible benefits.
- Economic, social conditions that do not encourage higher education.

Regression analysis can be done to identify the dominant cause for the observed phenomenon of less underprivileged students in higher education.

- *Make projections*: Regression analysis provides a relationship between variables. Once the relationship has been determined on the basis of limited data collected during audit, it can be used to project the relationship on a wider scale. It can also be used to make projections for the future based on an observed relationship held in the past.

Concerns

4.7.21 Regression analysis requires a high degree of skill. Existence of a relationship between two variables may be coincidental and may not indicate a causal relationship at all. Also the direction of the relationship may be misinterpreted. Hence the technique needs to be used with care. It is advisable to employ experts for carrying out regression analysis once the parameters are identified and data collected.

Using ratios for comparison

What is the technique?

4.7.22 A ratio compares one quantity with another. Such comparisons include parts being compared with the whole (e.g., how many purchase cases have failed to comply with the procedure), two items being compared (e.g., compare the technical and administrative staff in an organization), or changes in an item compared with the original (change in tax collections of a commodity over a period of time).

When to use the technique?

4.7.23 Ratios are used extensively in performance audit. It is handy, easy to understand and apply and can be used to sum up an audit finding. Some analyses where ratios can be used are:

- To compare the actual findings with the expected values. The values could be that of the performance indicator.
- To place an audit finding in context. The finding of a study of purchase mechanism in an organization may show that 20 purchases were made without following the laid down procedures. When this is looked at in the context of the total number of purchases, (could be 20purchases were wrong out of 100, ratio 1:5 or 20 purchases were wrong in 10,000; ratio 1: 500) the seriousness of the finding can be understood.
- To observe a change in a variable over time.

Concerns

- While calculating ratios, the base should be carefully chosen. For example an auditor observes that 5 *per cent* of the payments were made by incorrectly dated cheques. However, only 10 *per cent* of the payments were made by cheques. In that case, the percentage of error would be 50 instead of 5.
- The cases being compared should be legitimately comparable.
- When a ratio is used care should be taken that the base or denominator is always in the same unit of measurement as the numerator.

Qualitative data analysis

4.7.24 Some techniques of qualitative data analysis are indicated below with a brief of when these techniques would be useful.

Coding the data

What is the technique?

4.7.25 Qualitative data can be interpreted and analyzed using this technique. The technique comprises identifying themes within the data, generating coding categories on the basis of identifying themes, coding the data into these categories and analyzing and drawing conclusions from them. The process will follow the following stages:

- Search the data to identify categories or codes
- Identify the links between the categories thus reducing their number and overlap between categories

- Analyze these categories and interpret them to form the basis for audit conclusions

4.7.26 A useful way of coding the data would be to try to slot them in terms of conditions, actions, intervening factors, or consequences.

When to use the technique?

4.7.27 The technique can be used whenever a large amount of qualitative data is available which requires analyzing. This can be used at the planning stage to help identify the programme objectives and describe the programme activities. It is of great use at the examination phase when it can help summarize audit conclusions from qualitative findings. The technique can also be used for summarizing findings from evidence obtained through various sources.

Concerns

- Formulating codes can be a difficult and time-consuming exercise.
- Using coding and abstraction can be very time-consuming and tedious owing to the huge quantities of data that usually need to be analyzed. Also it requires expertise in coding the material correctly.

Qualitative data matrices

What is the technique?

4.7.28 Data matrices structure qualitative data in a matrix format making it possible to highlight and derive conclusions. It can also be used to identify causal links between data. For example, in a social intervention programme, the awareness of the scheme, the number of beneficiaries covered, the efficiency of the service, can

be read off against the geographical region (districts within a state, or all the states), occupation of the beneficiaries, etc. This would help identify which regions are problem areas on what parameter.

4.7.29 The following steps are to be followed in designing a data matrix:

- Identify the dimensions of a subject that is to be assessed and place them of the row (horizontal axis). These could be the questions to be addressed in the performance audit study.
- Identify what is to be used to assess the dimensions and list them along the column (vertical axis). These could be the results of interviews, focus groups observations, etc.
- Search the evidence gathered to find contributions to each box within the matrix.

When to use the technique?

4.7.30 The technique can be particularly useful while drawing inferences from a large amount of qualitative data. It could also be used to advantage when comparing information relating to different geographical areas or obtained through different techniques.

Programme logic model

What is the technique?

4.7.31 A programme logic model is a schematic representation of the life cycle of the programme. It displays the logical flow of the programme design from the mandate given by the legislative direction to the likely results achieved. Programme logic model helps focus attention on programme outputs and outcomes in

relation to objectives and hence is a useful tool for results-oriented auditing.

4.7.32 The logic of the model follows the stages:

- *Objectives*:
  - Legislative direction (Aim): the broad mandate
  - Objectives: the translation of the mandate into well-formed objectives and programme instruments designed to achieve the objectives
  - Targets: Well defined physical goals to achieve the objectives
- *Inputs:* Resources (e.g., human, financial, equipment, material, facilities, information, etc.), which are to be transformed by, programme instruments into outputs.
- *Processes*: The planning, organization and implementation of the programme operations to produce the outputs. This would also involve monitoring and control.
- *Outputs*: The results achieved by the programme operations. These are an analysis of how far the targets set have been achieved through the processes employed. Outputs are within the control of the programme manager, it is internal to the programme.
- *Outcome*: The broad effects of the programme outputs and are expected to meet the programme objectives and aim. Outcomes are influenced also by factors other than the programme. Also a programme though achieving the outputs may not

achieve the intended outcome. At times the programme may also produce un-intended outcomes.

When to use the technique?

4.7.33 Programme logic models are of great use during the planning stage in performance audit as it helps in understanding the entity, identifying key results and operations and assessing results of a programme based on its objectives. It is of immense use in results oriented performance audit. A well-designed programme model displays all of the programme elements necessary to audit efficiency and effectiveness.

Flow charts

What is the technique?

4.7.34 Flow charts are useful in understanding the processes, especially complex processes involved in an activity performed by an organization. A flow chart of a work process will highlight the individual activities involved in the operation and thus help pinpoint gaps, bottlenecks, delays and problems as well as opportunities for improvement. An internal control chart, for example can show the controls built into a system and can help to identify weak points in the chain.

When to use the technique?

4.7.35 A flow chart of processes or controls is useful at the planning as well as the execution stages specially when studying complex processes. It is an important analysis technique for 'systems based auditing'. In the planning stage of performance audit, flow charts often provide understanding of the organizational structure, decision points and control mechanisms. Flow charts could also be used in reports for providing a simple and clear representation of a complex process.

Transparent test of evidence

4.8 *The Deputy Secretary/ Joint Secretary, EAO may ensure that the evidence gathered for carrying out the audit tests against the criteria leading to audit findings stand the test of their sustainability assured by the standards of their competence, relevance and sufficiency (reasonableness).* The grounds on which the *Deputy Secretary/ Joint Secretary, EAO* is satisfied about fulfilment of these attributes of the quality of evidence should be recorded in the working papers.

Documentation

4.9 *Meticulous documentation of the evidence* supports the audit conclusions and confirms that the audit was carried out in accordance with relevant guidelines of performance audit. Proper documentation of evidence is also one of the important measures of quality assurance. Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant findings and conclusions. Adequate documentation is important for several reasons. It will:

- confirm and support the auditors opinion and report;
- increase the efficiency and effectiveness of audit;
- serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;

- serve as evidence of the auditor's compliance with Auditing Standards;
- facilitate planning and supervision;
- help the auditor's professional development;
- help to ensure that the delegated work has been satisfactorily performed; and
- provide evidence of work done for future reference.

4.10 The content and arrangement of the working papers reflect the degree of proficiency, experience and knowledge. Documentation is a vital aspect of maintaining professionally acceptable standards of auditing for the following reasons.

- It provides an adequate and defensible basis for audit opinions expressed in the reports;
- Audit findings can be explained better to the Legislative/Parliamentary Committees;
- It provides link between successive audits;
- It provides a basis for quality assurance reviews; and
- It facilitates the process of approval of the performance audit report by the competent authority.

Characteristics of good quality working papers

4.11 All relevant documents and information collected and generated during a performance audit constitute the working papers. They include the documents recording the audit planning including the audit objectives, determination of criteria including the process of their determination, field audit and evidence gathering

procedures, evidence analysis, the nature, timing and the extent of audit procedures performed and the process of arriving at the results of the audit tests *i.e.,* audit findings and conclusions. *Ideally the working papers should consist of three sections – each linked to the other: planning; execution and reporting.*

4.12 Working papers also serve as a connecting link between the fieldwork and the audit report. These should, therefore, be complete and appropriately detailed to provide a clear trail of the audit. The confidentiality of the working papers should be maintained and they should be retained for a period sufficient to meet the professional, legislative and legal requirements.

4.13 Some of the broad characteristics that working papers should have are set out below:

Completeness and accuracy:	Provide support to audit conclusions and recommendations.
Clarity and conciseness:	Self-contained in the sense that anyone using them should be able to understand the entire audit process without need for any supplementary examination.
Ease of preparation:	While the audit teams will be called upon to collect large volumes of working papers, to the extent they can use the entity prepared documents and reports, pre-printed standard audit stationery and automatically generated standard working paper

	formats, the time and effort may be optimised.
Legibility and neatness:	Applies particularly to photocopies.
Relevance:	Working papers should be restricted to matters, which are important, pertinent and useful for the purpose.
Ease of review:	The working papers should contain cross-references to the audit memoranda, discussion papers, audit observation, field audit report and performance audit report, as the case may be, to enable EAO to link the working papers to audit conclusions and recommendations.
Organisation and ease of reference:	The working papers may contain an omnibus, easy to follow, index with proper narration for all volumes in an audit summary file and an index for each of the working paper files.

Quality assurance in evidence gathering, analysis and working papers

4.14 Quality assurance of evidence is ensured by compliance to these guidelines generally and through the following:

- Evidence gathering linked to audit criteria and audit objectives;
- Compliance to the performance audit guidelines particularly with reference to the quality of competence, relevance and reasonableness of evidence;
- transparent test of evidence on the standard of competence, relevance and sufficiency for each audit conclusion;
- transparent sample selection with the help of appropriate sampling technique;
- application of appropriate sample gathering technique; and
- supervision, peer review and technical inspection.

4.15 Quality assurance of documentation/working papers is ensured through:

- compliance with Auditing Standards;
- compliance with these guidelines;
- report approval process – verification of the evidence by the top officials with reference to the audit conclusion; and
- peer review and technical inspection of the performance audit process and procedures.

CHAPTER V

5. Reporting process

5.1 This chapter attempts to guide the performance audit teams through the process of the development of the final report.

Characteristics of good report

5.2 The following points need to be *emphasised* in regard to performance audit reports:

- The audit report should be *complete i.e.* all pertinent information required to satisfy the audit objective, including the information relating to the scope, criteria, evidence, conclusions and recommendations should be available in the report;
- The obligation for the audit report to be *accurate* implies that the evidence prescribed is true and the conclusions are correctly portrayed;
- The *objectivity* of audit report is ensured through fair conclusions and balanced content and tone;
- The audit report is *convincing* if the results of audit are presented *persuasively* and the conclusions and recommendations followed logically from the facts presented;
- The report should be *clear*, which signifies that it should be easy to read and understand;
- The report should be *concise*, which requires that the report should be of optimum size, no longer than necessary to convey the audit opinion and conclusions;

- A report is *balanced* if it does not focus on criticism alone but contains fair assessment or evaluation, which would mean that *good performance should also be reported*;
- *Consistency* of the report is secured by ensuring that it does not contain contradictory findings or conclusions in similar contexts or the conclusions on the same segment in different sections or parts of the report are not incompatible;
- The report is *constructive* if it manifests a remedial approach rather than a critical approach and includes appropriate recommendations;
- The report adds value to the entity, if it is *timely;* and
- The *acquiescence* to the report, including of the audit conclusions and recommendations grows with display of entity cooperation, entity responses, audit methodology, audit criteria and evidence, etc. within the performance audit reports.

Focussed reporting

5.3 While writing the various reports, it is important to keep the final report in mind. *Thus, all forms of reports (discussion papers, audit observations and draft field audit report) leading to the finalisation of the draft audit report should be focussed on the final output* and therefore, should be complete and self-sustaining, as far as possible.

Reporting process

5.4 The reporting process begins with discussion papers, navigates through the stages of audit

observations, field audit report and ultimately to the draft performance audit report and the final report.

Exit conference/interview

5.5 Audit observations form the basis of the formal exit conference/ interview with the entity chief at the conclusion of the audit of each field unit. It assists the entity in *Reporting process* providing its comments for consideration in preparing the field audit report or the draft performance audit report, as the case may be. *Ideally the audit observations should contain the bulk of the information, findings, conclusions and recommendations and they may differ from the field audit report or draft performance audit report, only to the extent warranted by the entity response.*

Field audit report

5.6 In cases where the performance audit is conducted across several field units of the entity, EAO may determine if it will assist in development of the draft performance audit report by way of ensuring acceptance of the audit findings and conclusions as well as other facts and figures by the head of each unit audited, in so far as they relate to the particular field unit. However, since the audit is conducted in a multilayered and sometimes variously controlled environment, EAO may determine the level of units to whom the field audit reports are to be issued.

Draft performance audit report

5.7 Draft performance audit report is to be prepared by EAO upon conclusion of the field audit of the controlling unit of the entity (for example the ministry) and all field units selected for audit. *The draft performance audit report provides the first opportunity to the EAO as well as to the entity to view the full context of audit findings.*

The draft performance audit report should be prepared exactly similar in form and content as the final report with the exception that the entity may expect details to enable it to provide a response. The purpose of preparation of the draft report is to seek formal response of the entity-in-chief (secretary of the Administrative Department).

Forwarding of the draft report

5.8 The Deputy Secretary/ Joint Secretary, EAO may forward the draft performance audit report to the Administrative Department which should contain the following:

- subject of the performance audit and reference to previous dialogues;
- gist of major audit findings and recommendations along with the risks and materiality of the issues;
- invitation to a formal discussion and presentation of the audit findings and conclusions; and
- the expected value additions to the programme management, if the recommendations are implemented.

Response of the entity

5.9 It is important that the entity is persuaded to provide written response to the draft performance audit report. This may be achieved through correspondence, personal meetings and presentation of the draft audit report. *EAO is encouraged to facilitate a formal presentation of the draft performance audit report before the secretary of the Department and his team.*

Final report

5.10 On approval of the report, the EAO may obtain approval of the report from Secretary of Finance Department after which the report stands cleared for submission to Administrative Department.

Structure of the report

5.11 The performance audit report should be presented as per the following structure:

- *Title*: the subject of the performance audit,

- *Introduction:* consisting of a brief description of the subject of study, information on programme/activity/institution, its objectives, inputs, implementation structure, expected outputs and outcome, *etc.* The introduction should be brief, yet sufficient to enable the reader understand the context of the programme;

- *Scope of audit:* scope of performance audit in terms of the period of the programme covered in audit and segments of the programme audited should be set out precisely;

- *Audit objectives:* are the pivots of the performance audit, which set out the reason for undertaking the audit. The entire exercise of performance audit is built around the audit objectives. These should, therefore, be stated in simple and clear terms. *It is useful to set out the audit objectives and sub-objectives within each audit objective in the form of complete statement/question*;

- *Audit criteria:* to arrive at the audit findings and conclusions with reference to each audit

objective and sub-objective which should be stated with appropriate explanations;

- *Audit methodology:* used for data collection/evidence gathering and testing may be stated in brief. This adds to the acceptability of the audit findings and forms a statement for transparency of the audit procedure;

- *Audit findings:* in respect of economy, efficiency and effectiveness should be presented in a logical manner, preferably in the same order as the statement of the audit objectives. *Conclusions, recommendations and impact (outcome) analysis:* with reference to each audit objective should be stated, preferably immediately following the audit findings. The completeness of the report enhances if recommendation(s) with respect to each conclusion is/are kept together with the conclusions. Distinctiveness between the conclusions and recommendations may be achieved through formatting techniques;

- *Recommendations:* while recommendations may be included at various places in the report in different contexts, all major recommendations should be presented together, immediately after the highlights, preferably, in a box or highlighted print. Ideally all matters of facts/ figures/ evidence, audit findings and conclusions included in the report should have been accepted by the entity by the time the final report is prepared.

- *Graph, charts, diagrams, photographs, etc.*: The EAO is encouraged to illustrate the audit findings with the use of graphs and charts and improve the

visibility of the analysis and findings. Photographs can be used as evidence where they are able to corroborate evidence.

- *Glossary of terms:* explaining all technical and uncommon terms used in the report that need to be explained.

Published by Finance Department, Government of Odisha
Printed at Odisha Government Press, Madhupatna, Cuttack-753 010