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Prologue

I am pleased to release the Performance Auditing Guidelines applicable to the IA&AD.

These guidelines clearly distinguish between performance audits and financial audits. They have been formulated keeping in mind international best practices, including those in the 5th ASOSAI research project and the exposure draft of INTOSAI implementation guidelines for performance audit. We have revised our Auditing Standards in 2002 and these are now consistent with contemporary best practice standards, in particular with the INTOSAI Auditing Standards. Release of these guidelines is another step in the direction of our endeavour for continuous review of the standards, principles and procedures in consonance with the best practices adopted by other SAIs and those promoted by INTOSAI and ASOSAI.

These guidelines contain comprehensive implementation standards in relation to performance audit within IA&AD and will replace all existing instructions, in so far as they relate to the principles and procedures of performance audit. The salient features of the performance audits undertaken within IA&AD will consist, among others, of strategic planning in pursuit of realisation of the strategic goals and objectives, risk-based planning and selection of subjects and attainment of the ultimate objective of value-addition to the public sector programmes. Supplementary publications on technical matters in relation to performance audit will be issued from time to time.

These guidelines *inter alia* provide for a very high degree of interaction with the auditees. Close interaction with auditees is essential for realising value addition to the public sector programmes through performance audits. The guidelines also aim at strengthening the quality assurance systems and procedures considerably.

While these guidelines will be brought into force immediately, Accountants General and Principal Directors conducting performance audits may send any feedback to improve the guidelines. It is essential that to keep these guidelines current, they will have to be reviewed periodically.

(Vijayendra N. Kaul)
Comptroller & Auditor General of India
May 14, 2004

1. Introduction

Nature of the guidelines

1.1 These guidelines contain a framework for the entire process of performance auditing within SAI India. They provide the best practices that the SAI must follow in planning, implementation, reporting, follow-up processes and quality assurance in all performance audits. They outline consistent principles, objectives, approach, methodology, techniques and procedures for performance audits. These guidelines are based on the existing guidelines of SAI India, ASOSAI Performance Auditing Guidelines and INTOSAI Exposure Draft Implementation Guidelines for Performance Auditing Standards, besides other SAI's best practices and have been developed with the objective of ensuring consistency with the international best practices.

Scope for individual initiative and professional judgement

1.2 While these guidelines are prescriptive in nature, they are not intended to supersede entirely the professional judgement of the SAI management, relevant to the individual sectors of entity operations and within each sector, to the individual subjects. The management within the SAI is expected to apply situation or subject specific adjustments to the provisions set out in these guidelines. *However, Accountants General will be expected to transparently document the rationale of all significant departures from the guidelines and obtain authorisation from SAI top management.* These guidelines provide the minimum standards in planning, implementation, reporting, follow-up procedures and quality assurance that must be met in all performance audits undertaken by SAI India.

SAI India's existing guidelines

1.3 The existing guidelines for performance auditing, hitherto variously termed as 'review' or 'efficiency-cum-performance audit' or 'value for money audit' contained in section III, chapter 8 of Comptroller and Auditor General's Manual of Standing Orders (Audit)-second edition - have been further fine-tuned in the context of the ASOSAI Performance Auditing Guidelines and INTOSAI Exposure Draft Implementation Guidelines for Performance Auditing Standards and contemporary best practices. These guidelines will replace *en-block* section III, chapter 8 of the Manual of Standing Orders (Audit), in the context of performance auditing in SAI India.

Emphasis on practice and procedure

1.4 These guidelines combine the contemporary principles and best practices in the field of performance auditing with the procedures to be followed in the context of the prevailing entity environment in India. Significant emphasis has been placed on the practical steps and procedures with a view to ensuring compliance to the SAI India and INTOSAI Auditing Standards and principles and the procedures in contemporary performance auditing. These guidelines, thus, attempt to provide a link between the modern best practices in performance auditing in the context of the entity environment in the country and corresponding procedures and practices within SAI India.

Need for a separate performance auditing guidelines

1.5 These guidelines are the culmination of the desire within SAI India to consolidate the standards, principles and practices and codify them for uniform application in all performance audits. These guidelines are complete in all respects. The toolkits on techniques for evidence gathering and evidence analysis have been explained briefly in appendices 'D' and 'E'.

Historical perspective of performance auditing in SAI India

1.6 SAI India has been carrying out performance audits over the past 40 years on a variety of subjects across all sectors of public sector programmes in the Central and the state governments. In that sense, these guidelines do not intend to introduce any new practice within the SAI India, but as stated earlier in these guidelines, are intended to consolidate the various instructions and guidelines in a single volume in a structured form and in the process, to also align the performance auditing by SAI India with the INTOSAI and ASOSAI guidelines issued recently and with the SAI best practices globally.

Performance auditing: definition

1.7 SAI India performs its audit functions in harmony with the Auditing Standards promulgated by it, which are consistent with the INTOSAI Auditing Standards. SAI Auditing Standards 4.9 in chapter 1 (corresponding INTOSAI Auditing Standards 1.0.38) defines the scope of audit as under:

“The term ‘Audit’ includes financial audit, regularity audit and performance audit”. It further adds that in pursuance of the constitutional responsibility, the SAI is empowered to decide the nature, scope, extent and quantum of audit to be conducted by it or on its behalf.

1.8 INTOSAI Auditing Standard 1.0.40 defines the performance audit as under:

“Performance audit is concerned with the audit of economy, efficiency and effectiveness and embraces:

- (a) audit of the economy of administrative activities in accordance with sound administrative principles and practices and management policies;
- (b) audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements and procedures followed by audited entities for remedying identified deficiencies; and
- (c) audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity and audit of the actual impact of activities compared with the intended impact.”

1.9 Performance auditing is an independent assessment or examination of the extent to which an entity, programme or organisation operates efficiently and effectively, with due regard to economy.

1.10 In practice, there can be an overlap between regularity and performance auditing and in such cases, classification of a particular audit will depend on the primary purpose of that audit. Regularity audit embraces attestation of financial accountability involving expression of opinion on financial statements, audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations, audit of internal control and internal audit functions and audit of probity and propriety of administrative decisions taken within the audited entity.

Economy

1.11 Economy is *minimising the cost of resources used for an activity, having regard to the appropriate quality*. Economy issues focus on the cost of the inputs and processes. Economy occurs where equal-quality resources are acquired at lower prices *i.e., spending less*.

1.12 Judging economy in itself implies forming an opinion on the resources (human, financial and material) deployed. The central question is to assess whether – given the context – resources have been acquired, upheld and used economically. 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?*

Efficiency

1.13 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 maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output, *i.e., spending well*.

1.14 The main question related to efficiency is whether the resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources. The question refers to the relationship between the quality and quantity of goods and services yielded and the cost of resources used to produce them, in order to achieve the results.

1.15 A finding on efficiency can be formulated by means of a comparison with similar activities, with other periods or with a standard, which the entity has explicitly adopted. Sometimes, standards such as best practices are applicable. Assessments on efficiency might also be based on conditions that are not related to specific standards, *i.e.*, when matters are so complex that there are no standards. In such cases, assessments must be based on the best available information and arguments and in compliance with the analysis carried out in the audit.

1.16 Auditing efficiency embraces aspects such as whether:

- human, financial and other resources are efficiently used;
- public sector programmes, entities 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.

Effectiveness

1.17 Effectiveness is *the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity*. Effectiveness addresses the issue of whether the programme/activity has achieved its objectives *i.e., spending wisely*. When focusing on effectiveness, it is important to distinguish between the immediate outputs or products and the ultimate impacts or outcomes. Effectiveness is achieved, for instance, where there is improved achievement of a programme's objectives. Outcomes are important to the effectiveness of programmes/activities but may be more difficult to measure and assess than the inputs and outputs. Outcomes will often

be influenced by external factors and may require long-term rather than short-term assessment.

1.18 Effectiveness is essentially a goal-attainment concept. It is concerned with the relationship between the objectives set up, outputs provided and objectives met. Some of the questions to ask in effectiveness 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 and – perhaps the most difficult – are the impacts really the results of the policy rather than other circumstances?* The last one may be difficult to establish in most cases and will call for a cautious approach.

1.19 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 are 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 data 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. Similar analysis for other inputs and all outputs may be necessary to carry out an accurate analysis for efficiency.

Cause and effect relationship

1.20 The performance auditor might seek to assess or measure effectiveness by comparing outcomes – or impacts – with the goals set in the policy or programme objectives. This approach is described as ‘goal achievement’ analysis. However, when auditing effectiveness, a rather difficult answer that the performance auditors might be inclined to find is to determine to what extent the instruments used have, in fact, contributed towards the achievement of the policy objectives. Thus, effectiveness audit requires evidence that the outcomes etc, which have been observed, have actually been caused by the action in question rather than by other factors. *Yet, since in most cases it is difficult to establish whether the outcomes are attributed to the programme, this assessment can be made only when sufficient, competent and relevant evidence is established.*

1.21 *Side effects:* A separate aspect of performance auditing is the unintended side effects of the policy and the programme - both favourable and unfavourable. The study of side effects is complicated by the fact that they can be very diverse, since they are not

limited by the policy or programme objectives. One-way of limiting the scope of the investigation is to focus on those side effects, which, in other situations, one tries to avoid, for example, unfavourable environmental effects of economic policy.

Features of effectiveness audit

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

- assess whether the objectives of and the means provided (legal, financial, *etc.*,) for a new – or ongoing – 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 if it can be established with evidence;
- 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
- identify ways of making programmes work more effectively.

Two basic questions

1.23 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?*

1.24 The first question means, broadly speaking, whether policy decisions are being carried out properly. This question is usually associated with a normative perspective, *i.e.*, the performance auditor wants to know whether the executive has observed the rules or the requirements consistent with the programme. Up to this point, performance auditing is mainly concerned with different aspects of the economy or the efficiency of operations.

1.25 The scope for analysis becomes considerably greater by posing the second question, *i.e.*, whether the right things are being done. Another way of putting this

question would be to ask whether the adopted policies have been suitably implemented or whether adequate means have been employed. A performance auditor might, for instance, find a chosen measure ineffective and inconsistent with the policy objectives.

1.26 *However, in the effort to find answer to the second question, adequate caution should be exercised not to go beyond the mandate by trespassing the borderline to the political territory (policy).* In short, while the correctness of the information or inputs that were considered while framing the policy and sufficiency of the programmes and resources to fulfil the policy objectives may be assessed and reported, the policy *per se* is not to be questioned.

Use of traditional financial audit techniques

1.27 There are different ideas where the basis of performance auditing is concerned. Performance auditing promotes public accountability and is an aid to good governance. It also encompasses the concept of traditional regularity audit consisting of financial, compliance and propriety audits. Compliance audits deal with adherence to rules and laws. Propriety refers to the concept of the best practice in management of public sector programmes/activities - public funds should not be misused by the managers for personal benefit and expenditure on programmes should not exceed what the occasion demands. Performance auditors should utilise these techniques in the course of their audit, wherever applicable.

Equity and ethics

1.28 The performance auditor will also be expected to address concerns relating to *equity* and *ethics* while assessing the effectiveness of a programme/activity. *Equity* in the context of programme management relates to fairness and impartiality in use of public funds. *Ethics* in managing public affairs enjoins the qualities of honesty and integrity in personal conduct and devotion to the duty as manager of public funds. *The ethics in management of public funds and affairs extends to the accountability system and accountability relationship for correctness and accuracy of the performance information by the managers.* The ethical issues should be viewed distinctly from the efficiency concept, which is concerned with use of human, financial and other resources to maximise the output. For example, inability of the management to apply the resources for the objective for which these are provided addresses the efficiency parameter, whereas intentional unauthorised siphoning of resources for other purpose or negligent/incorrect performance information may relate to ethical integrity. The performance auditor should be conscious of *equity* and *ethics* issues. It may be a good practice to apply the concept of '*trusteeship*' to the matters in the realm of public affairs in the sense that the managers of public funds and affairs ought to hold the funds and be sensitive and accountable for public good within the policy parameters as *trustees* of public funds.

1.29 *Audit findings on ethics and equity should be included in the performance audit report only when the infringement of the standards of equity and ethics impacts the performance adversely.* Thus, economy, efficiency, effectiveness, equity and ethics are, in effect, *three plus two* issues rather than five issues. Equity and ethics issues in performance audits add value only if the audit findings against these two standards affect one or more of the three i.e. economy, efficiency and effectiveness.

Objectives of performance audit

1.30 *Performance auditing has the objective of improving public sector administration and accountability by adding value through an effective programme of performance audits.* One of the main objectives of performance auditing is to assist the people's representatives in exercising effective legislative control and oversight over the policy objectives and their implementation. In summary, the performance audits may examine and report on:

- the quality of information and advice available to government for the formulation of policy;
- the existence and effectiveness of administrative machinery to inform the government whether programme objectives and targets have been determined with a view to fulfilling policy objectives;
- whether and to what extent, stated programme objectives have been met;
- the economy, efficiency, effectiveness, equity and ethics of the means used to implement a programme/activity;
- the intended and unintended, direct and indirect other impacts of programmes/activities; for example, the environmental impact of government activity, *etc.*; and
- compliance to applicable laws and regulations in the context of the performance audit objectives.

1.31 Performance audits should not confine the objectives to '*what has been done*' but should also examine '*what has not been done*' to meet the policy objectives. Appendix 'C' contains illustrative list of issues in performance audit of public sector programmes.

Performance audit specific in nature

1.32 Given the size, complexity and diversity of entity operations, it is generally not practicable to attempt assessment of the overall performance of departments or entities. Consequently, performance audits are usually directed towards specific functions,

activities, programmes or operations of the entity. *Performance audit findings are not a random assortment of various financial and regularity audit findings but an assessment of either the whole or the part of the programme/subject/function/system.*

Performance audit and programme evaluation

1.33 Performance auditing shares similar approaches and methodologies with programme evaluation but does not generally extend to assessing policy effectiveness or policy alternatives. There are elements of programme evaluation that may be executed within the scope of effectiveness audit. Apart from examining the impact of outputs, an evaluation could include issues such as whether entity planning reflected the programme objectives and whether the objectives were consistent with policy. *While performance auditing does address many issues, which are dealt with in an evaluation, it ought to stop short of questioning the policy or embarking on suggesting policy alternatives.* According to INTOSAI's working group on programme evaluation, auditing and evaluation by SAIs may be divided into the following seven categories:

- *Regularity audit:* Are regulations complied with?
- *Economy audit:* Do the means chosen represent the most economical use of public funds for the given performance?
- *Efficiency audit:* Are the results obtained commensurate with the resources employed?
- *Effectiveness audit:* Are the results consistent with the objectives of the policy?
- *Evaluation of the consistency of the programme with the policy:* Are the means employed for policy implementation consistent with the set objectives?
- *Evaluation of the impact of the policy:* What is the economic and social impact of the policy?
- *Evaluation of the effectiveness of the policy and analysis of causality:* Are the observed results due to the policy, or are there other causes?

The last one is more difficult to assess and the performance auditors should tread on this subject only if they are able to obtain irrefutable evidence in support of their conclusion.

Common types of programme evaluation

1.34 The contemporary common types of programme evaluation techniques used in performance auditing are:

Process evaluation: assesses the extent to which a programme is operating as intended. Typically, it is concerned with the programme activities' conformance to statutory and regulatory requirements, programme design and professional standards or expectations.

Outcome evaluation: assesses the extent to which a programme achieves its outcome-oriented objectives. It focuses on outputs and outcomes (including unintended effects) in order to judge programme effectiveness, but it may also assess programme processes in order to understand how outcomes are produced.

Impact evaluation: assesses the net effect of a programme by comparing programme outcomes with an estimate of what would have happened in the absence of the programme. This form of evaluation is employed when external factors are known to influence the programme's outcomes, in order to isolate the programme's contribution to the achievement of its objectives.

Cost-benefit and cost-effectiveness evaluation are analyses that compare a programme's outputs or outcomes with the costs (resources expended) to produce them. Cost effectiveness analysis assesses the cost of meeting a single goal or objective and can be used to identify the least costly alternative to meet that goal. Cost-benefit analysis aims at identifying and analysing all relevant costs and benefits.

1.35 In the context of scope of programme evaluation as defined by INTOSAI working group, it may be considered one of many possible 'tools' that performance auditing uses. Regardless of whether programme evaluation is defined as a special task or a type of study under the general heading of performance audits, it is an activity of increasing interest and importance, which requires special skills and competence in this area of auditing. Accountants General are encouraged to *employ the tools* of evaluation in the performance audit.

Expected outcome of performance audits

1.36 Performance audits have a dual role. They provide entities and stakeholders with information and assurance about the quality of management of public resources and also assist public sector managers by identifying and promoting better management practices. Performance auditing may, therefore, lead to better accountability, improved economy and efficiency in the acquisition of resources, improved effectiveness in achieving public sector programme objectives, a higher quality in public sector service delivery and

improved management planning and control. Thus, performance audits promote accountability, insights and transparency in governance and deliver credible, objective and reliable information on implementation of policy objectives and contribute to good governance. It is an important responsibility of the SAI management to ensure that through each performance audit one or more of these objectives are met. *The extent of positive impact on the policies and programmes through performance audit is the most important measure of its quality.*

1.37 Performance auditing is a means to an end and not an end by itself. Performance audit should be aimed at adding value to the management by way of reliable, objective and independent information, highlighting the shortcomings in programme planning, implementation, information systems affecting the outputs and outcome specifically and quality of expenditure or management generally. In addition, performance audit reports provide valuable information and independent assessment on programme management and the extent of fulfilment of the policy objectives to the stakeholders (Parliament and state legislature). Thus, good quality performance audit contributes to good governance. All performance audits should, thus, be planned and performed keeping in view the expected outcome. *It is a good practice for SAI management to evaluate the real impact on entity policies and programmes attributed to performance audits.*

1.38 Examples of potential impacts of performance audits are contained in Appendix 'A'.

Performance audit and regularity audit

1.39 The performance auditor should be clear that the objectives, scope, nature of evidence and reporting in performance audits are different from those in the regularity audits. Some of the major distinguishing features of regularity audits and performance audits are as under:

Features	Regularity audit	Performance audit
<i>Scope</i>	<ul style="list-style-type: none"> • Generally covers a financial period (annual, biennium, <i>etc.</i>); • Coverage is for the whole of the entity for the period; and • Time bound - audit to be completed by a stipulated time. 	<ul style="list-style-type: none"> • Covers the subject/programme over a period of time; • Focused only on a part of the entity's activities/programme; and • Coverage is selective
<i>Objectives</i>	<ul style="list-style-type: none"> • Attestation (opinion on) of financial accountability; • Audit of financial systems; • Existence and control for safeguarding of assets; 	<ul style="list-style-type: none"> • Audit of economy, efficiency and effectiveness;

Features	Regularity audit	Performance audit
	<ul style="list-style-type: none"> • Evaluation of financial records; • Audit of propriety of administrative decisions; • Audit of internal control for safeguarding assets and completeness and accuracy of accounts; 	<ul style="list-style-type: none"> • Audit of internal controls that ensures economy, efficiency and effectiveness, ensuring adherence to management policies, timely and reliable financial and management information;
	<ul style="list-style-type: none"> • Limited to financial matters; • Test for assuring compliance to laws, regulations and rules; and 	<ul style="list-style-type: none"> • Extends to non-financial / governance subjects also; • Assessment of compliance to applicable laws and regulations required in <i>the context of audit objectives</i>; and
	<ul style="list-style-type: none"> • Conclusion/opinions generally with reference to standardised requirements. 	<ul style="list-style-type: none"> • Conclusions related to audit objectives set by auditors.
<i>Evidence</i>	<ul style="list-style-type: none"> • Financial statements <i>per se</i>, accounting documents, <i>etc.</i>; • Budgetary assumptions and appropriation authorisations, <i>etc.</i>; • Transaction documents; • Conclusive nature of evidence; 	<ul style="list-style-type: none"> • Variety of forms of evidence; • Quite often qualitative in nature;
	<ul style="list-style-type: none"> • Materiality by amount; 	<ul style="list-style-type: none"> • Persuasive rather than conclusive; • Evidence related to pre-determined audit objectives • Materiality guided more by the nature or by context rather than amount alone.
<i>Academic base</i>	<ul style="list-style-type: none"> • Generally accounting knowledge. 	<ul style="list-style-type: none"> • Always knowledge-based: of laws, social sciences, economics, development studies, public affairs, science and technology, etc.
<i>Approach and methodology</i>	<ul style="list-style-type: none"> • More or less standardised: manual generally forms the entire basis. 	<ul style="list-style-type: none"> • Varies widely from subject to subject; • manual generally serves as basic framework.
<i>Assessment criteria</i>	<ul style="list-style-type: none"> • Standardised (suitable to all audits) with little scope for subjectivity. 	<ul style="list-style-type: none"> • Widely varying and subjective with ample scope for interpretations and assessment criteria support the audit objectives, which are unique to the subject of performance audit.

Features	Regularity audit	Performance audit
<i>Report</i>	<ul style="list-style-type: none"> Opinion on the financial statements; Opinion on compliance to laws, regulations and rules; Generally opinion on financial statements in standardised format; Specific requirement and expectations; and Related to specific financial periods- there is a periodicity of reporting. 	<ul style="list-style-type: none"> Report / conclusions on economy and efficiency with which the resources are acquired and used and the effectiveness with which the objectives are met; Report containing assessment of economy, efficiency and Effectiveness may be presented in variety of forms; Wide-ranging in nature, open to interpretations and subjective judgement; and Generally separate publications on each subject of performance audits as and when conducted.
<i>Overlap</i>	<ul style="list-style-type: none"> Financial audits do not generally include the elements of performance audits. 	<ul style="list-style-type: none"> There can be overlap in the sense that the performance audit may encompass techniques / methodologies applied to financial audit.

Mandate for performance audit

1.40 The mandate of SAI India for audit is derived from the Constitution of India, as established under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service), Act 1971. The mandate of CAG of India for performance audits is governed under Sections 13, 14, 15, 16, 17, 19 and 20, as the case may be, read with Section 23 of this Act. The mandate is further established by practice and convention. SAI India has been carrying out performance audits over the past 40 years relating to the receipts and expenditure of the Union and state governments, government supported autonomous bodies and other public sector undertakings on a variety of subjects.

Skill, knowledge and aptitude

1.41 Performance audit is *knowledge-based* mission. It is, therefore, necessary that the performance auditors possess special aptitude, skill and knowledge. The Auditing Standards of SAI India provide that the audit institution should develop and train the auditors to enable them to perform their tasks effectively and should prepare manuals and other written guidance notes and instructions concerning conduct of audits. The Auditing Standards also provide that the SAI needs to command the range of skills and experience necessary for effective discharge of audit mandate. It is open to the SAI to acquire specialised skills from external sources. Programme for imparting training and skill development for the performance auditors to enhance and re-inforce the understanding of

the principles, methodology and techniques should be accorded high priority. Specialisation of the staff and supervisory officers in performance auditing is a desirable condition. *Thus, good quality performance audit can be achieved by transforming the audit personnel to a cerebral task force.*

Team approach and mission mode

1.42 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 audit at a time. The supervisory officers responsible for performance audits will not generally be shifted until completion of the assignment and the human resource wing will consult their respective technical wing if an occasion for shift arises. Similarly, Accountants General will establish procedures in their offices to ensure that audit personnel are not shifted before completion of the performance audits assigned to them.

Professional behaviour

1.43 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.

1.44 Professional judgement remains the most important ingredient in performance audit work. *It may be desirable that the performance auditor adopts an attitude of professional scepticism throughout the audit, recognising that circumstances may exist that could cause the information relating to performance to be materially mis-stated.*

Reasonable assurance

1.45 A performance audit conducted in accordance with applicable auditing standards provides reasonable assurance as to whether the information relating to performance is free from material misstatement. Reasonable assurance relates to the accumulation of audit evidence necessary for the auditor to conclude whether there are any material misstatements in the information relating to performance. What is 'reasonable' is dependent on the facts of that situation and is to be determined by what evidence could reasonably be expected to be gathered and what conclusions could reasonably be expected to be drawn in the particular situation.

Using the work of an expert or agency

1.46 When using the work performed by an expert, sufficient and appropriate audit evidence should be obtained to ensure that such work is adequate for the purposes of the audit. An expert is a person or firm possessing special skill, knowledge and experience in a particular field other than auditing. Because of the diverse range of activities/subjects to performance auditing, Accountant General may need to obtain audit evidence in the form of reports, opinions, valuations and statements of an expert. Although the performance auditor may use the work of an expert as audit evidence, he/she retains full responsibility for the conclusions in the audit report. *The procurement of the services of the expert or using their work will be as per the general guidelines approved by the SAI headquarters from time to time.*

Performance audit in IT environment and performance audit of IT systems

1.47 While performance audit of IT systems in SAI India is managed and controlled by the specialised IT audit group, the performance auditors may come across large number of cases wherein they will have to conduct audit where data and information systems are entirely or largely maintained in an IT environment. The performance auditors will, therefore, be called upon to develop detailed guidelines for audit in IT environment and seek collaboration with the IT audit wing, where specialised skill and knowledge are required. Appendix 'B' contains some of the more important considerations to be kept in view while auditing in IT environment. These may have to be expanded and developed further, depending upon the entity IT environment and emerging techniques.

General layout of the guidelines manual

1.48 These guidelines are presented in an identical sequence as the process of performance audit. The SAI India has to deal with a variety of subjects of performance audits and conduct audit in diverse entity environments. Besides, the SAI has varied set-up of audit management for the Union Government for civil, defence, railways, communication, revenue and commercial audits as well as in the state governments. It may, therefore, be necessary to adjust the actual process of planning, field audits and consolidation of the performance audits in the context of the entity environment and composition of SAI audit offices.

1.49 SAI management may separately issue a good practice series on technical subjects related to performance audit that need to be elaborated; *viz.* statistical sampling, use of services of expert or consultant, surveys and physical verification/inspection and IT audit tools, *etc.*

Performance audit process

1.50 The first stage in performance auditing is strategic planning *for performance audits*, which requires the development and maintenance of information on the entity that will assist in identifying potential areas for performance audit. Potential topics can then be analysed to form audit strategy documents. Chapter 2 of these guidelines deals with strategic planning. Annual operational plans for performance audits may be formulated in line with the strategic plan.

1.51 Once a subject has been selected, performance audit is initiated by developing a plan with details for the conduct of the audit. Chapter 3 of these guidelines deals with initiating the performance audit.

1.52 The implementation stage of a performance audit is dealt with, in particular, in chapters 4 and 5 of these guidelines and involves:

- development and execution of an audit programme;
- collection and documentation of sufficient, relevant and reliable evidence, including quantitative and qualitative analysis;
- development of audit findings, conclusions and recommendations; and
- development of discussion papers/draft field audit reports and confirmation of audit findings at exit conference.

1.53 Chapter 6 deals with the reporting process from discussion papers to draft performance audit report, forwarding of the draft report to the entity for confirmation, acceptance and comments, if any, procedure for approval of the performance audit report within the SAI and presentation to the Parliament/legislature, *etc.*

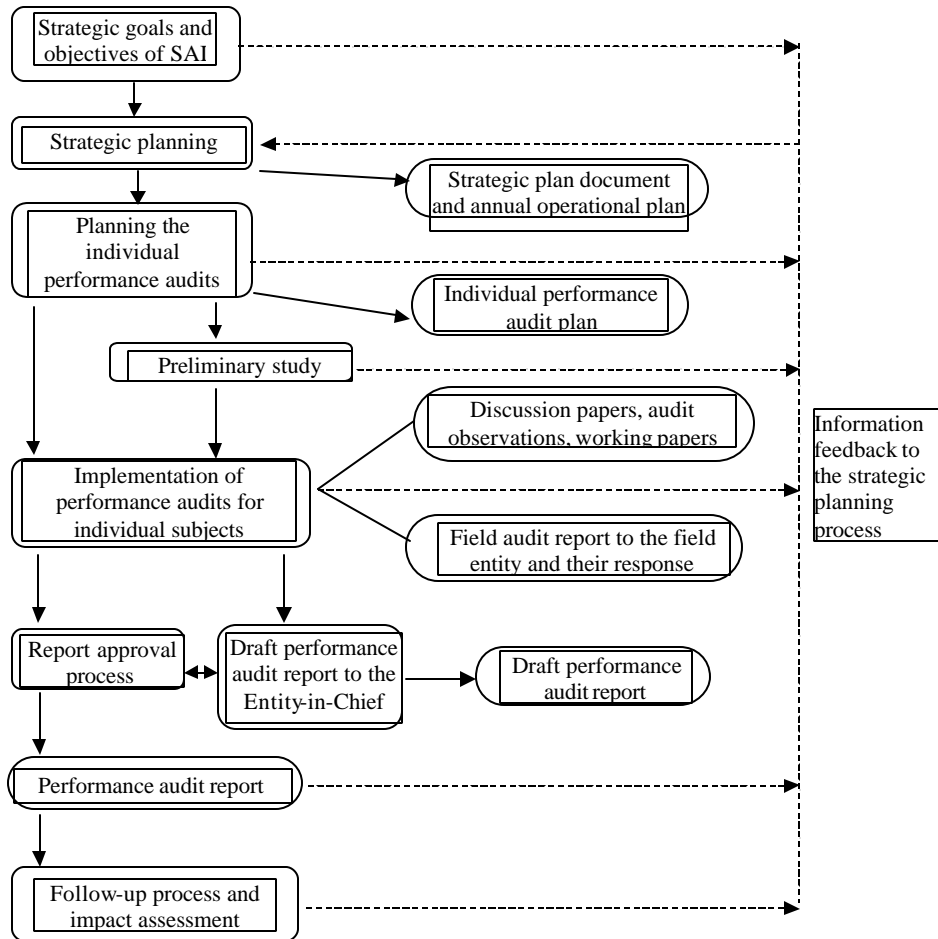
1.54 Throughout each stage of the performance audit, the objective should be on the production of a final report that is balanced and has value added impact. The report-writing process should be viewed as a continuous one of formulating, testing and revising conclusions, if necessary. Therefore, issues such as the expected impact and value of the audit, the likely improvements, better value for money and quality of expenditure resulting from the audit should be considered throughout the audit.

1.55 Chapter 7 contains the supervision, review and quality control procedures, which are crucial for good quality of performance audit. Follow-up procedures should identify and document audit impact and the progress of the agency in implementing audit recommendations. The conduct of follow-up audits is vital to the follow-up process to provide feedback to the SAI, the legislature and the government on performance audit effectiveness in contributing improvements in public sector management. Follow-up

processes are dealt with in chapter 8 of these guidelines. Chapters 9 and 10 contain the quality assurance system and critical issues in performance audits respectively.

Performance audit cycle

1.56 The performance audit process is presented diagrammatically below:



Rectangle depicts process and ellipse depicts documents/ output

Audit management process documentation

1.57 The performance audit teams and management will be expected to be aware of the need and conscious to maintain the highest standard of performance audit output and outcome. With a view to enhancing the quality control measures and quality assurance, it will be required that throughout the performance audit process, from strategic planning to the follow-up procedures, the performance audit team and Accountants General transparently demonstrate conscious application of mind for adherence to the provisions of these guidelines with help of detailed *performance audit process documentation*, in addition to the *performance audit documentation*. The process documentation of conscious decisions will apply, among others, to selection of evidence gathering techniques and sources of evidence to fulfil the audit objectives, evidence analysis techniques, efforts for continuous dialogue with the entity, assessment of skill and knowledge required for performance audit and those available in-house, need for expert/consultancy services, outsourcing, *etc.* In short, the process document will consist of documentation of *performance audit management*, while working papers for performance audit will be in support of audit findings, conclusions and recommendations.

Impact evaluation of performance audits

1.58 With a view to assessing the value addition through performance audits, each Accountant General will be required to set up a system for internal evaluation of the impact of performance audits at the close of each year on governance, in general and on the entity's policies and programme management, in particular. *This will be able to attain a 360° feedback for the performance audit endeavour.* The internal assessment should provide a comparison of the actual impact against the expected outcome anticipated in the strategic plan and in the audit plan for the individual subjects. The evaluation will have to necessarily refer to the strategic goals and objectives set out in the performance audit strategic plan and would need to address the extent of contribution of each performance audit to fulfilling the strategic goals and objectives. The impact estimation and assessment may be in qualitative and/or quantitative terms, including in monetary terms. The impact should be classified in qualitative and quantitative terms. For this purpose, Accountants General may maintain an inventory of recommendations, which are included in the performance audits and follow them up to their implementation, both from the point of nominal count as well as from the point of the quality of implementation.

1.59 Since, however, in all likelihood, there may be a gap between the time when the recommendations are made and when those are actually implemented and further when the follow-up audits are carried out, Accountants General may draw a time-schedule of different stages of the follow-up processes depending upon the size of the programme and carry out performance audit impact analysis with reference to the stages expected to be completed during that year.

2. Strategic planning and selection of subjects

Strategic planning defined

2.1 Strategic planning is the process of determining the long-term goals of the institution and the best approach for attaining them. It consists of strategic goals (mission statement), strategic objectives (more specific and detailed statements) and strategic measures to attain them. In the context of performance audit, the SAI / its field offices may define its long-term mission statement consisting of goals to be achieved through the performance audits, statements of detailed objectives expected to be accomplished through performance audits and the subjects of performance audits to be carried out in pursuance of the strategic goals and objectives. The performance audit strategic plan should not be confused with SAI's overall strategic planning. The strategic planning for performance audit may be dovetailed into the overall strategic planning of the SAI.

Objectives of strategic planning

2.2 While no uniform time-frame for the strategic planning of performance audits can be determined since there could be variation in the requirement for different audit offices in charge of various types entity audits, a reference frame of five years' time-span may be considered for performance audit strategic planning. However, the strategic planning drill may be reviewed every year at the time of preparation of the annual operational plans as a rollover exercise. The annual operational plan in the context of performance audit will be based on the strategic plan and would depict various stages of all performance audits under the captions of brought forward, to be taken up, to be completed and carried forward in a PERT chart for each performance audit, broken into each stage of the performance audit process. This will provide Accountants General an opportunity to review the strategic plan annually; apply adjustments in the light of new developments and gather inputs for the next strategic plan.

2.3 SAI India's Auditing Standards (paragraphs 6.4.7 and 6.4.9, chapter II) state:

'Unless the SAI is equipped to undertake, within a reasonable time-scale, all relevant audits, including performance audits covering the whole of every audited entity operations, criteria are needed for determining the range of audit activities which, within the audit period or cycle will give the maximum practicable assurance regarding performance of public accountability obligations by each audited entity.

Maintenance of a portfolio of data pertaining to the structure, functions and operations of audited entities will assist the SAI in identifying areas of materiality and vulnerability and areas holding potential for improvements in administration.'

2.4 A well-structured strategic planning process, based on a sound rationale, is necessary to ensure that the resources of the SAI are used in the most efficient and effective manner. The objectives of strategic audit planning are to:

- provide a firm basis for the SAI management to give strategic direction for future audit coverage;
- identify and select audits with the potential to improve public sector accountability and administration;
- provide a platform for communication with agencies and the legislature on SAI audit strategies;
- produce a work programme that can be achieved with expected/available resources;
- understand entity risks and take them into account in audit selection; and
- provide a basis for SAI accountability.

Procedure for strategic planning

2.5 All field offices may carry out in-depth exercise for performance audit strategic planning. After setting the strategic goals and objectives, the data on entity contained in budget papers, programme papers, plan documents, annual reports, parliamentary debates and reports, media concerns, research and reports of international agencies, follow-up 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.

SAI top management may conduct brain storming meetings with Accountants General from time to time in respect of audit strategic and annual operational plan and risk assessment to select the subject which addresses the SAI's concerns for high risk programmes and activities.

Performance audit of whole or part of programme

2.6 It is not always necessary to conduct performance audits of the entity or the programme as a whole. Accountants General 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 a 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. The selection of the components or parts of the programme may be guided by the materiality and risk profiles. This will enable the Accountant General to increase the coverage to a large number of relatively more important and contemporary issues, which may be expected to enhance the perceived and actual value addition through performance audits. One of the options could be to conduct performance audits of various components of a large programme or entity in the form of a series, covering a few aspects every year.

2.7 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 (civil, railways, communications, social, economic and service sectors, etc.) or their status may be different (government department, government funded institute and government companies, etc.). Appropriate institutionalised coordination among various wings within SAI and within the offices of Accountants General should be established to identify and conduct such audits.

Selection of governance and people-centric subjects

2.8 While the amount of expenditure or revenue associated with a programme or function is a significant consideration for selection of a subject, SAI may also select topics for performance audit, for which there are either no budgets or these are insignificant, or whose materiality cannot be determined with reference to expenditure, receipts or assets and liabilities only. Yet, the subject or the deficient performance could affect a large or vulnerable section in a significant manner. *Most of these issues may relate to governance or good governance.* Accountants General should be alive to *people-centric* cutting edge issues and select such non-financial subjects also along with the subjects involving significant amounts of money. In such cases, the materiality could be determined with reference to the size of the population that is affected and the risk may be assessed with reference to consequence of deficient performance or non-existent intervention by the entity, expected to address such issues. Some examples of such subjects are system of ensuring quality control and assurance of quality of drugs, prevention of adulteration of food and beverages, quality of information, communication and delivery of social service benefits, etc. *Selection of such subjects for performance audits will demonstrate the sensitivity of SAI to the governance issues and people-centric subjects.*

Concurrent audits and major policy shift issues

2.9 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. Accountants General will be expected to be aware of issues where concurrent performance audit or audit at the initial stages of the programme may be desirable. Examples of the subjects of concurrent performance audit could be ‘retention price scheme for fertilisers’, ‘issue of permanent account numbers by Income Tax Department’, ‘computerisation of post offices’, etc. The programmes on construction of rural roads, safeguards in devolution of resources to panchayati raj institutions and urban local bodies, hedging procedures for external borrowings 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. Such audits demonstrate ability of the SAI to assess the performance and suggest improvements at the initial stages. 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.

2.10 Accountants General and the SAI should be alive to major shifts in the policies and programmes of the entity and the consequential new public sector programmes and select critical cutting-edge subjects for performance audits in the context of policy changes. Performance audits of such sunrise issues are likely to contribute value to the implementation of the policy shifts. The performance audits of such subjects could be undertaken singly or in generic form when they are at the early stage of their implementation. Some examples of such subjects are liberalisation of economy, privatisation, sale of assets, private finance initiative, public- private sector partnership, introduction of structural changes, major changes in industrial or export-import policy, etc.

It will demonstrate the cerebral competence of the SAI if it is able to display an ability for prescience of the policy shifts and more importantly anticipation of the risks to programmes, performance and public interest.

All India and local performance audits

2.11 The strategic plan will delineate the responsibility within the SAI in cases of performance audits to be carried out simultaneously in the Union Government and the state governments or in diverse entity units and field formations, controlled by different field offices of the SAI. From the reporting angle also, the strategic plan document should make it clear as to which reports will be presented to the Parliament and to the state

legislatures, for the parts relating to the particular states. There could be cases, where, though the performance audits may be piloted by one Accountant General, he/she may require the assistance of other Accountants General, who are responsible for audit of the field units of the entity. All management issues in relation to the performance audits should be visualised and addressed in the strategic performance audit plan.

Output of strategic planning

2.12 The key deliverable of the strategic planning process is a document, which is prepared for the SAI management to enable it to assess critically the proposed planning strategy for overall consistency with the SAI's strategic objectives. It will also assist the management to make appropriate resource allocations and an assessment of the strategic planning process.

Working papers for strategic plan

2.13 The strategic plan should be supported by working papers that include:

- a description of the entity and its environment;
- an assessment of the risks to good performance of the entity's programmes and activities;
- a summary of the long-term strategic view of SAI performance audit directions in each entity
- recent SAI audits, recent and proposed inquiries by the legislature and entity evaluations and internal audits;
- a list of potential areas for performance audit; and
- a list of audits proposed for the strategic plan period with the basis for their selection.

Inventory and sources of data/information for strategic planning

2.14 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 the 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.;

- *Parliamentary interest*: legislation, parliamentary 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, *etc.*;
- *Academic/ special research*: Planning Commission information, independent evaluations on the entity, academic research and similar work done by other governments and other SAIs, *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 and increased risk and materiality, *etc.* may provide significant inputs;
- *Media coverage*: both print and electronic media - their systematic documentation on regular basis in a transparent manner;
- *Websites*;
- *Special focus groups*: Audit advisory committee concerns, issues emerging from national or international workshops/seminars, annual and special reports of World Bank, IMF, UN agencies, Reserve Bank of India, reports by special interest groups, NGOs, *etc.*; and
- *Entity interests and specific requests*: through formal and informal communication by the entity.

Accountants General should maintain a directory of sources of data on the entity and their programmes.

Factors guiding the selection of subjects

Risk

2.15 It is important to identify and analyse the risks associated with the entities under audit jurisdiction. Risk is the exposure to the chances of failure or loss. The risk is related to the probability that an event or action will adversely affect the entity. In the context of performance audit, it is the risk to delivery of an activity/scheme/programme of the entity with economy, efficiency and effectiveness. Performance audit provides assurance on performance of the public sector activity/scheme/programme.

2.16 Since all activities of the entities cannot be audited for resource constraints, awareness of entities/ areas that puts the programme or public resources at risk from the point of view of economy, efficiency and effectiveness helps focus audit attention on them. In a broad sense, it provides a framework for assurance in performance auditing.

In analysing risks, following questions should be addressed:

- *What can go wrong?*
- *What is the probability of it going wrong?*
- *What are the consequences?*

2.17 The audit perception of risk to value for money is one of the criteria in selecting an entity or programme for audit and subsequently, for focusing attention on specific areas within the entity or programme.

2.18 Once the subject is chosen, further risk assessment of the audit areas/issues within the topic helps focus on key issues in the individual audit. Some considerations are:

- (a) *Financial materiality* of a topic is the amount of expenditure/ revenue, assets/liabilities involved in the entity/ project/ activity under review;
- (b) *Significance* of a topic is its importance in the context of the organization, programme or subject. A topic will have a high significance if the project or activity it addresses is central to the functioning of the entity;
- (c) *Visibility* of a subject is an assessment of the interest it generates in the general public and of the legislature. While no uniform index of visibility can be prescribed, legislative debates, media reports/articles and subjects of workshops and seminars could serve as an index of visibility;
- (d) *Past performance audits as well as regularity audits* by the SAI could provide an index of significance, materiality and risk of the subjects;
- (e) *Estimated impact* of the performance audit is also a criterion for prioritisation. This could be the impact of improved economy, efficiency and effectiveness of the entity/project/activity which is the subject of performance audit. Impact can be assessed through an understanding of the entity's risk profile and the areas proposed to be addressed by the topic;
- (f) *Coverage* refers not only to previous SAI coverage but also to other independent reviews of the activity. Such reviews may have been conducted by internal audit, external consultants or government committees or the activity could have been subject to programme evaluation. As a general rule, a low ranking would occur when there has been a substantial review of the activity within the past two years. A higher ranking would be warranted where the audit has been requested by the legislature or by the government and the previous performance audit indicated that such a follow-up should occur; and
- (g) *The stage of the programme development* should also be kept in mind when assessing management performance.

Periodic updating of the data/information and risk profile

2.19 The data and information gathered for strategic planning for performance audits and risk profile of the entity/programme should be transparently updated periodically, the periodicity being determined by Accountants General depending upon the changes in the entity environment. While Accountants General may establish procedure for updating the data, it should be incumbent upon the audit officer to update the data in respect of entities at the close of each periodic audits.

Identifying risks

2.20 Following steps need to be conducted for risk analysis of the entity.

- (a) *Inherent risks*: Some entities/ activities are inherently more risky than others. Examples of such entities/ activities could be where a new activity or technology has been introduced, where there are complex laws and regulations, occurrence of unusual events, frequent changes in the scope of the activity, multiplicity of interested parties, a controversial social and political debate surrounding the issue, *etc.* Information that can lead to identification and understanding of these issues would be available in the legislation, parliamentary questions, legislative speeches, entity's plans, annual report, budget, policy files, board minutes, organizational charts, internal guidelines, operating manuals, programme evaluation, internal audit reports, management information systems, recent audit reports, reviews and media reports, *etc.*
- (b) *Control environment risks*: Information required to identify such risks associated with the control environment of the entity can be obtained from the sources mentioned above. In addition, the assessment of the control environment during financial audit could be of great value. The programmes with multiple levels of execution, reporting and accountability relationships may be assessed from the point of view of possible weakness in control environment risks.
- (c) *Risks associated with the stage of development*: It is also essential to keep in view the stage of the entity's programme development while assessing risks. In the development stages, it will be particularly important to examine if the management has set measurable, operational objectives, which clearly identify how the programme will contribute to the organisation's objectives. During programme implementation, it will be important to see whether appropriate performance measures are maintained and analysed to assess performance and whether there is a clear identification of roles and responsibilities for each level of programme. If the programme has been in

place for some time, it will be important to assess whether a formal evaluation has been undertaken to ascertain whether the programme is continuing to meet relevant needs as also the extent to which these needs still exist or are being met by other programmes.

- (d) *Risks assessment as per programme analysis*: Programme risk analysis over various stages of the programme, inputs, processes, etc. can provide a good structure for identifying risks. It can act as a thinking aid while identifying risks to value for money in an entity/programme.

Materiality of the risks

2.21 After identification of the risk factors that operate in the entity/programme, it is important to assess their materiality judged on the intensity of risks and their possible impact. Assessing the intensity can be done on a scale consisting of high, medium and low risks. The effect of these risks on performance also needs to be assessed. The existence, intensity and impact of the risks would need to be considered in tandem while prioritising audit focus.

Other factors guiding the selection and prioritisation of the subjects

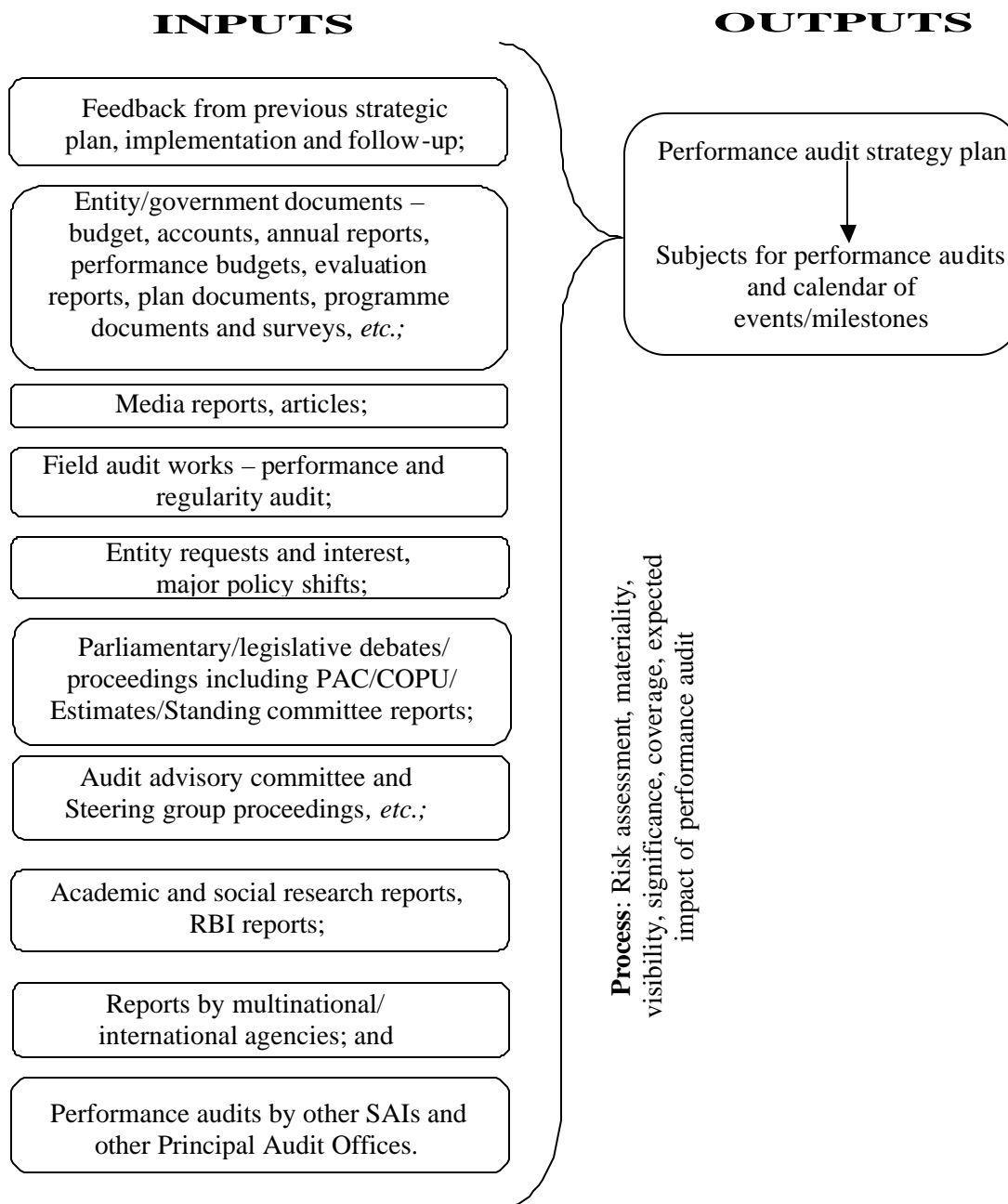
2.22 Assessing risks to achieving value for money forms a key input for the selection of topics for performance audit. However, it is considered along with other criteria, namely, overall estimated audit impact, financial materiality, significance, visibility, previous audit coverage and auditability of the subject to prioritise topics for performance audit.

Prioritisation of the selected subjects

2.23 The strategic planning for performance audit may yield large number of subjects in various sectors for performance audits. Their prioritisation and phasing over the strategic plan period will be necessary in the light of risk and materiality and available SAI resources. Though the selection involves subjective and qualitative judgment, the thumb rule for prioritisation is to be guided by the materiality multiplied by risk parameters. For this purpose, Accountants General may prepare a programme model, which identifies the programmes, projects and activities undertaken by an entity, along with other factors such as programme objectives, expected outputs, outcomes and performance indicators and assign factors of risk and materiality to them. Where the available resources place a constraint on the ability of a Accountant General for carrying out a performance audit of a subject, high in priority and whose postponement may be associated with risk, he/she may examine the possibility of outsourcing works in part or full other than the core audit functions with the approval of SAI top management in accordance with the extant policy within the SAI.

2.24 The strategic planning process is presented diagrammatically below:

Information feedback to the strategic planning process



Sustainable development

2.25 The audit techniques applied to performance audit of subjects relating to sustainable development and environment management are generally similar to those applied to other sectors. However, the audit objectives and approach in such cases may vary significantly. Performance audit of subjects of sustainable developments and environment management may have to be dealt with at three levels. The first relate to the programmes and activities in the context of explicit commitments consequent upon international treaties on environment / sustainable development, while the second relate to other national environmental management programmes. The performance audits of subjects emerging out of these concerns may be carried out as distinct themes. At the third tier, performance audits of all development projects should also address the environmental impact and its management as distinct theme, apart from addressing other audit objectives relating to economy, efficiency and effectiveness. The audit objectives and scope of audits may be defined to include whether environment concerns were adequately acknowledged while formulating the programme, as also to ensure that sufficient and timely steps were taken to address the environment issues economically, efficiently and effectively, particularly those which were incorporated while obtaining environment clearance of the project.

Approval of the strategic plan by SAI top management

2.26 The strategic plan for performance audits, in pursuance of the strategic goals and objectives, prepared by each Accountant General will be approved by SAI top management. The strategic plan document forwarded to the SAI Headquarters should be self-contained and should consist of the following sections:

- (i) *Strategic goals and strategic objectives* set for the office/ SAI to be attained through performance audits over the perspective plan period;
- (ii) *Risk assessment* of all programmes or activities of the entity's operations that are within the audit jurisdiction of the Accountant General;
- (iii) *Executive summary* containing a gist of the strategic plan including categorisation of the types of subjects selected for performance audit viz: financial, non-financial, public interest and governance related subjects, recent policy shift issues, concurrent and prescience subjects, etc;
- (iv) *List of subjects suggested for selection* of performance audits along with a calendar containing milestones from the stage of planning to the final printed report viz. understanding the entity and collection of documents/information, preparation of implementation guidelines for individual performance audits, preliminary survey, detailed audit plan

and audit programme, finalisation of report, dates of receipt of draft reports at the SAI Headquarters, expected date of submission for final approval of the reports by Comptroller and Auditor General of India and printing and presentation to the Parliament/ legislature, etc. over the strategic plan period;

- (v) *Detailed background note* for selection of the subjects and prioritisation with reference to the time-schedule suggested for conduct of performance audits, materiality, significance, visibility, coverage and estimated impact of performance audits applicable to each suggested subject;
- (vi) *Tentative planning of resource and time* and matching of resource required with the available audit resource, identification of the likely gap between the required and available resource, action plan to bridge the gap;
- (vii) *Tentative assessment of the required skill, in-house availability of technical skills and expertise* for the selected performance audits, gap between the requirement and availability in-house, need for the services of experts or consultants;
- (viii) *Comprehensive list of subjects* reckoned for selection, relevant data on financial and physical dimensions along with other relevant information, entity requests or concerns, media reports, legislative debates or proceedings, audit advisory committee recommendations, etc. for each of them;
- (ix) *A directory of data and information* collected by the Accountant General, forming the basis of strategic planning under distinct categories viz: entity sources, media concerns, research and other publications, legislative debates and questions, etc.; and
- (x) Assurance memo on strategic planning in the prescribed format.

2.27 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. Assessment of tentative audit resource for the

performance audits of the suggested subjects will facilitate optimum utilisation of the available audit resource and planning for procurement of services of experts/consultants. Follow-up process will form part of the annual follow-up programmes.

2.28 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. For example, a performance audit requiring nine months' time taken up from October may spill to June of the next year for presentation to the legislature in the Monsoon session.

Stand-alone reports

2.29 Rather than the existing system of presentation of all performance audit reports, which are included in the annual or performance audit volumes of the reports of the Comptroller and Auditor of India generally presented in the budget session, *each performance audit report will, hereafter, be presented to the Parliament/state legislature in stand-alone volumes throughout the year, as per the pre-determined schedule included in the strategic plan document and not in an open ended manner.* Even during any particular session of the Parliament/state legislature, the presentations of the performance audit reports should be scheduled for presentation once or twice every week in a staggered manner, rather than bunching all reports together for presentation. Accountants General will be expected to liaise effectively with the Government and the secretariat of the Parliament and legislature to fulfil this objective. For this purpose, proper coordination among different divisions in the SAI offices may be necessary to ensure staggering of the audit reports. Any exception to the stand-alone report may be made only with authorisation by SAI top management.

Entity cooperation

2.30 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, it may be a good practice to invite and take into account the suggestions by the entity about the subjects of performance audits. Accountants General 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.

2.31 It is a good practice to solicit cooperation and suggestions also from ministries, departments and agencies, which are involved in a significant manner with the programme or the subject of the performance audit. One method could be to invite the top/senior management of such ministries/departments/agencies to the three presentations designed in these guidelines – by the entity for explaining the programme/subject and the two presentations by the Accountant General- the first to explain the audit objectives, criteria, approach, methodology and the tentative audit programme and another while presenting the draft performance audit report, in particular, the audit findings, conclusions and recommendations. Another method could be to formally invite written suggestions from them after explaining the background. Needless to mention, Accountants General will be expected to apprise them of the confidentiality of information, data, findings, etc. as the case may be; particularly of the matters contained in the draft performance audit report.

2.32 Some examples of such cooperation and suggestions could be to invite the representatives of the Planning Commission and Plan Finance Division of the Finance Ministry to the presentations and/or request them to send their suggestions, if the subject of performance audit is a ‘Plan’ programme. If the programme has environmental dimensions, representatives of the Ministry of Environments and Forests could be invited. Similarly, in case of a ‘Non-Plan’ programme or activity, the representatives of the Department of Expenditure and Budget Division of Ministry of Finance could be associated. In case of performance audits of the state government programmes and activities the corresponding departments and agencies may similarly be associated with the process. As no uniform pattern of associating departments and agencies other than the administrative entity can be determined due to the variety of administrative set-up within the entity, Accountants General may determine the departments and agencies to be associated in each case and maintain a record of the considerations based on which the selection is made as part of the process documentation.

Periodic reporting and monitoring

2.33 Since the existing system of presentation of the performance audit reports to the Parliament/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* in a PERT format, indicating the approved time-schedule for each stage of the performance audits in the strategic plan and the annual operational plan and their actual status along with explanatory notes.

Annual operational plan

2.34 Accountants General 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. In the stand-alone report system, staggered throughout the year rather than finalising all of them for presentation in the budget session, while all stages from the implementation guidelines to the presentation of the report to the legislature may be completed for some, for others only one or more of the stages of implementation guidelines, field audit, report approval process and printing and presentation may be completed during the year. The stages scheduled for completion should be presented in the PERT format to facilitate quarterly reporting. The performance audits spread over two or more financial years may be seamlessly carried forward from the previous year.

2.35 While the basis of the annual operational plan will necessarily be the approved perspective plan, this annual exercise will also provide an opportunity to Accountants General to review the risk assessment, include adjustments of the risk and new subjects or orientation in the light of new policy shifts or emerging public interest subjects. The annual performance audit operational plan should be sufficiently detailed and should include under distinct captions the risk parameters assessed as part of the strategic plan, the subjects and the stages of the performance audit process to be accomplished during the year as per the approved strategic plan, review or the risk assessment highlighting new or higher risks, fresh subjects included in the annual operational plan on account of the new risks, including those emerging from the risks associated with the change or introduction of a new policy and additional cutting-edge subjects including public interest subjects. The annual operational plan with adequate explanatory note and an assurance memo in the prescribed format may be sent for approval of the SAI top management not later than the end of January every year.

Assurance of quality in the selection process

2.36 The strategic planning process should demonstrate consistent awareness and practice of a very high standard of work. Quality assurance in strategic planning is enhanced by maintenance of a comprehensive data and information on the entity, transparent application of techniques and tools for selection of subjects and their prioritisation. Quality assurance can be further enhanced through technical inspection and peer review of the quality of strategic planning documentation along with the entire process of performance audit. Strategic planning managed by competent staff with special aptitude and training will further enhance the quality assurance.

3. Performance audit implementation plan

3.1 This chapter contains the procedure to be observed in planning the performance audits selected through the process of strategic planning, dealt with in the previous chapter. Planning consists of developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problems are identified and that the work is completed expeditiously. Planning also assists in proper assignment of work to team members and coordination of work performed by other offices within SAI India and those of the experts. Audit planning should lead to the development of a detailed audit programme that identifies the specific audit tasks to be undertaken.

Planning: a critically important process

3.2 Operational planning of the individual performance audits is the most critical process for securing a high standard of audit. Accountants General should provide sufficient time for collection of data and preparation of detailed guidelines for the performance audit of the selected subjects. A good planning for the performance audit of any subject is almost half the job done and provides an assurance to the SAI top management on the quality 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 by Accountants General.

3.3 The critical aspects in planning the individual performance audits that have to be carefully navigated are: collection of and research on the data and information relating to the subject, scope of audit, preliminary survey and pilot study, setting the audit objectives and 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 audit tests, etc.

3.4 In addition to the planning steps outlined above, Accountants General should also consider:

- determining the suitability of audit criteria;
- determining an efficient and effective approach to conducting the audit;
- relevant accountability relationships;
- remaining mindful of the users of audit reports;
- reviewing the entity's internal audit system; and
- documenting the audit plan in the form of guidelines.

Understanding the programme, the entity and the environment

3.5 The field standards for planning enshrined in the Auditing Standards of SAI India (paragraph 4.1, chapter III) state:

‘The auditor should plan the audit in a manner, which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.’

3.6 The planning steps highlighted in the Auditing Standards (paragraph 4.3, chapter III) are:

- 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 enquiries to be made later;
- Highlight special problems foreseen when planning the audit;
- Prepare staff assignment and a schedule for the audit;
- Identify staff requirements and a team for the audit; and
- Familiarise the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary.

Understanding the subject

3.7 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. While the documents and information required to understand the business of the entity may vary widely depending upon the types of subjects selected for performance audits, 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 organizational chart, programme execution format and accountability relationships,
- Annual reports, performance budget and accounts, *etc.*;
- Programme documents - containing the parameters of the programme - EFC/PIB notes and minutes and Note for Cabinet documents, *etc.*;
- Programme guidelines issued by the entity, administrative and implementation instructions, information feedback/monitoring reports and action thereon and minutes of the meetings on relevant subject, *etc.*;
- 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 evaluations and surveys; publications /reports by the UN agencies, World Bank, *etc.* on the subject;
- Parliamentary/legislative debates and reports;
- Media reports and articles; and
- Past audits: financial/regularity and performance audits, follow-up on previous audits, *etc.*

3.8 To be able to make an assessment of a programme, it is essential that the auditor has a clear understanding of the entire range of the subject of performance audit, consisting of the objectives, inputs, process, information systems and their integrity, expected outputs, criteria, if any determined by the entity and expected outcomes. *In nutshell, 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.*

Understanding the entity environment

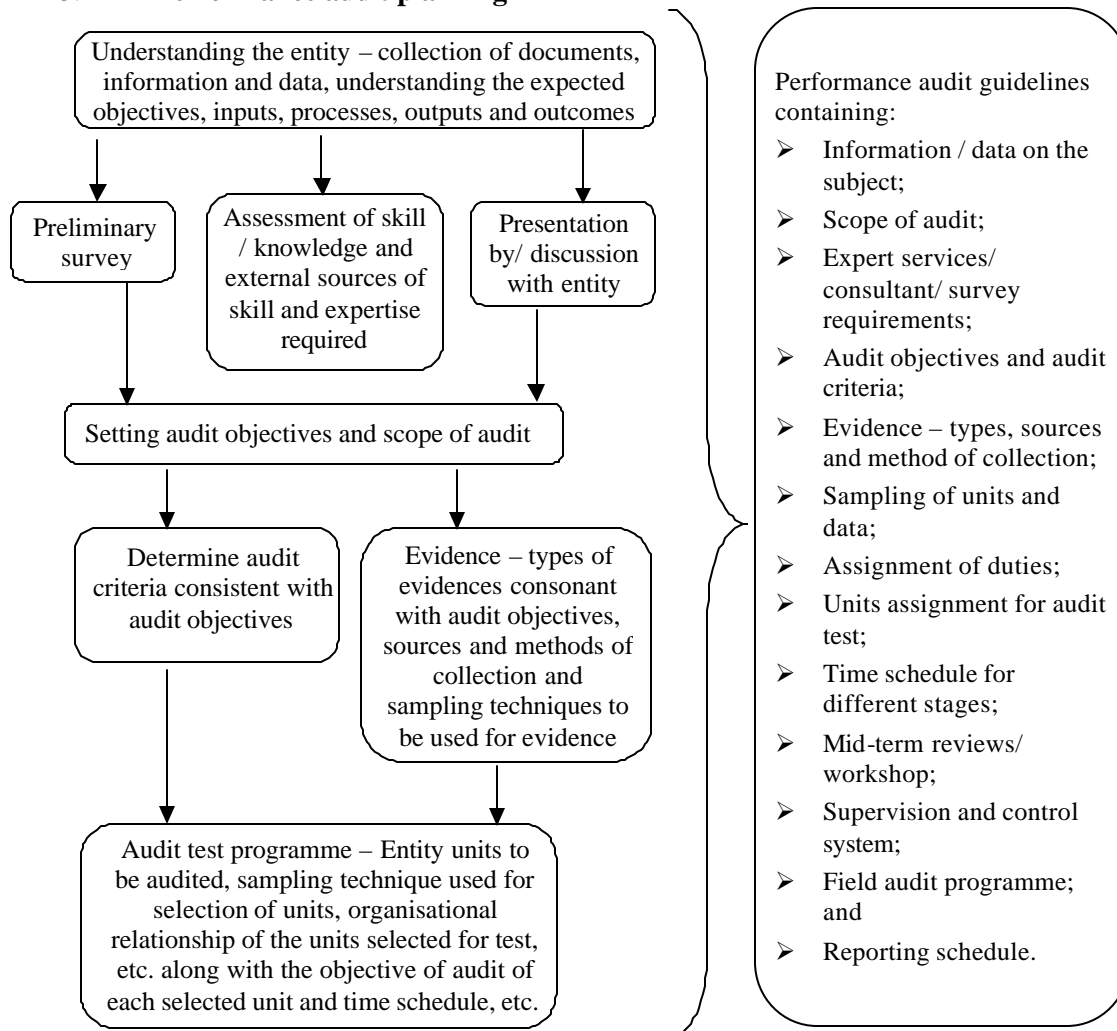
3.9 It is important for the performance auditors to clearly understand the entity environment, legislation, regulations and rules applicable to the entity, structure of the organisation and delineation of duties and responsibilities within it, work and information flow, internal control system and accountability relationships, *etc.*

Presentation by/discussion with entity

3.10 It may facilitate better understanding of the programme/subject if the Accountant General informs the entity of the intent of conducting the performance audit and request

for a discussion or presentation for explaining the different aspects of the programme/ subject. Throughout the performance audit process the Accountant General should demonstrate an ability to elicit entity cooperation for thorough understanding of the subject, cooperation 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 cooperation and interaction should not be sought merely for the form sake *but should be aimed at securing a high degree of goal matching*. The attempts to elicit entity cooperation and response should be indicated in the performance audit report prominently and should be included in the performance audit process documentation.

3.11 Performance audit planning



Risk analysis

3.12 A risk analysis should be carried out with reference to the various parameters of the entity, programme or the subject after a careful study of all relevant documents mentioned above. A good risk perception to the programme or entity's performance will facilitate determining the audit thrust areas, audit objectives and setting the most appropriate audit criteria. It will also assist in selection of appropriate sampling techniques for the units to be audited and for the selection of vouchers/information/data. The risk factors can be attributed to the different forms of inputs, processes, information systems, accountability relationships, outputs and outcomes on the basis of the perceived weakness in the design parameters, organisational structure, information system, transparency, criteria or means adopted for monitoring and review, etc.

Setting the audit objectives

3.13 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, in effect, connect to the very reasons for conducting the audit and should be established early in the audit process to assist in identifying the matters to be audited and reported. 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.

3.14 *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 practices, 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. The audit approach, criteria, test programmes, evidence gathering and evidence analysis leading to audit assessment/conclusions and recommendations will follow logically the audit objectives established by the performance auditors.

3.15 Setting audit objectives early in the performance audit process ensures good quality performance audits by the SAI and, therefore, is one of the most important quality assurance measures. Setting audit objectives:

- helps preclude the perception of prejudged outcomes;
- fosters discipline and precision;
- facilitates clarity;
- helps focused data gathering activities;
- helps establish underlying logic;
- accomplishes intended results;
- demonstrates consistent quality of audit; and
- serves as a measure of quality assurance of performance audit.

Audit objectives to address the performance audit concerns

3.16 While setting the audit objectives and sub-objectives, it will be necessary to indicate in the implementation guidelines the performance audit issues of economy, efficiency and effectiveness that the audit objectives and sub-objectives address, either individually or jointly. The performance auditors are required to address the issues of equity and ethics as explained in chapter 1, *in so far as the equity and ethics issues affect the economy, efficiency and effectiveness. Audit objectives and sub-objectives in relation to the equity and ethics principles should ultimately be correlated to the three main concerns of economy, efficiency and effectiveness.* Where required, adequate explanation of how these issues are addressed in the audit objectives and sub-objectives should be appropriately explained to facilitate quality audit by the audit team.

Expected value addition to the entity/programme

3.17 While it may not be easy to anticipate with precision, the likely impact that the performance audit may achieve, it is necessary for the Accountant General to determine the expected impact on entity performance as a result of performance audit. Determining the expected impact of performance audit early in the process will facilitate setting of appropriate audit objectives and maintaining the quality of the performance audits. At the end of the performance audit, when it may be possible to determine the expected impact precisely, the expectation may be further developed. In fact, in most cases, some of the impacts of the performance audits may already be clear or even realised, if the entity cooperation has been of the desired standard. *Anticipating the expected value due to the performance audits before initiating them will enable the Accountant General assess the*

quality of audit planning and goal / objective-oriented selection of the subjects. As provided elsewhere in these guidelines, Accountants General are to carry out an annual assessment of the impact of the performance audit and report them to the SAI top management. Annual impact assessment exercise will also afford an opportunity to review the degree of precision in determining the expected impact at the time of initiating of the performance audits.

Determining the thrust areas for the performance audit

3.18 A comprehensive knowledge of the subject of performance audit and risk analysis will enable the performance auditors to determine the audit thrust areas and audit approach. The thrust areas may be determined on the basis of risk assessment, materiality and audit objectives. Identification of audit thrust areas will also assist in ensuring that the audit resource is optimally utilised by retaining the focus throughout the audit.

Assignment, external assistance/outsourcing

3.19 Another important stage for the audit management is the selection of team members and assignment of other resources. Accountants General will be expected to have on their roll adequate number of trained and skilled staff for performance audits. They will have to match the skills, knowledge and aptitude required for the subject selected for performance audits and assign the personnel *i.e.*, audit officer as team leader and other team members along with the group supervisory officer for each selected subject.

3.20 Assessment of the required skill and knowledge will also demand that Accountants General assess the gap between the skill, knowledge and competence required for the selected subject of the performance audits and the availability in-house. *The need and the scope of procuring the expert advice and outsourcing may be determined transparently in the light of the established policy and procedures within the SAI and orders of the competent authority may be obtained.*

Scope

3.21 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: The applicable section of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 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.

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. It may be noted that the intended segment/location limitation by SAI in the scope of performance audit is different from audit test programme conducted with help of the sample, where the audit test is carried out on the selected data, performance or information. In the case of the tests carried on the sample drawn from the entire population, the conclusions are extrapolated to the entire population and apply to the entire programme or the entity. But in case of selection of any particular segment only for the performance audit, the conclusions apply only to that particular segment.

Pilot study/preliminary survey

3.22 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 risk analysis, audit objectives, audit criteria, audit approach and audit test programme. In some cases, the result of pilot study may necessitate more intense field audit and in others, the result may lead the Accountant General to either defer the audit or abandon it for one or more reasons. Some illustrative findings of the preliminary study could be: special skills and more time required for finalisation of the guidelines, higher risk perception, the subject being difficult from the auditability angle, sensitive subject from one or other points of views, very low risk or materiality and negligible perceived impact of audit, *etc.*

Criteria for assessment of the programme/entity

3.23 Conclusions with reference to audit objectives should be such as are convincing and acceptable to the entity, in particular and to any reader, in general. The qualities of being convincing and acceptable place a demand on the performance auditors to minimise the subjective elements in drawing conclusions. It will, therefore, be necessary

to determine appropriate criteria in tandem with the audit objectives to arrive at conclusions and recommendations. Determining audit criteria is the second most crucial step after the setting up of the audit objectives in the performance audit planning process. *Performance audit can proceed only after the audit objectives and audit criteria have been set.*

What is a criterion?

3.24 Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of programmes and activities can be assessed. They reflect a normative (*i.e.*, desirable) control model for the subject matter under audit. They represent good practice - a reasonable and informed person's expectation of '*what should be*'.

3.25 When criteria are compared with what actually exists (*what is*) audit findings are generated. Meeting or exceeding the criteria might indicate the 'best practice', but failing to meet the criteria would suggest that improvements could be made. However, in cases of the performance exceeding the criteria uniformly, Accountants General may have to review with a view to reassuring if the criteria consist of significant lower standards.

Characteristics of good criteria

3.26 SAI should be satisfied that suitable criteria have been identified to enable the performance auditors to assess the activities subject to audit and to achieve the audit objectives. Since criteria are crucial to developing audit findings and, therefore, addressing the audit objectives, they should be such as to be generally acceptable. Some characteristics of suitable criteria include:

Reliability: reliable criteria result in consistent conclusions, when used for assessment in the same circumstances;

Objectivity: objective criteria are free from any bias of the auditor or management;

Usefulness: useful criteria result in findings and conclusions that meet users' information need;

Understandability: understandable criteria are clearly stated and are not subject to significantly different interpretations;

Comparability: comparable criteria are consistent with those used in performance audits of other similar agencies or activities and with those used in previous performance audits;

Completeness: completeness refers to the development of all significant criteria appropriate to assessing the performance in the given circumstances; and

Acceptability: acceptable criteria are those to which the audited agency, legislature, experts in the field, media and general public are generally agreeable. *The higher the degree of acceptance of the criteria, the more effective would be the performance audit.*

Role of criteria in performance audit

3.27 Criteria can perform a series of important roles to assist the conduct of a performance audit, as they can:

- form a common basis for communication within the audit team and with Accountant General concerning the nature of the audit and the audit findings;
- form a basis for communication with the entity management in that the audit team will often solicit entity management understanding of and concurrence with the criteria and eventual acceptance of audit findings in the light of those criteria;
- link the audit objectives to the audit test programmes carried out during the implementation phase;
- form a basis for the data collection phase of the audit, provide a basis on which to build procedures for the collection of audit evidence; and
- provide the basis for audit findings, help to add form and structure to audit observations.

3.28 The degree to which criteria are successful in serving these uses is often determined by their level of details and the form they take. General audit criteria are developed during the preliminary study stage. As the preliminary study progresses, these criteria are usually expanded and made more specific. By the end of the preliminary study, the criteria should be sufficiently detailed to give clear guidance for the implementation stage of the audit, particularly in the development of specific audit programme to test the criteria.

3.29 It may be unrealistic to expect that activities, systems or levels of performance relating to economy, efficiency and effectiveness will always fully meet the criteria. *It is important to appreciate that satisfactory performance does not mean perfect performance but is based on what a reasonable person would expect, taking into account entity circumstances.* The general aim would, however, be to attain the highest-level of performance.

Criteria in the context of policy shifts

3.30 Accountants General should note the implications on performance auditing in the light of the emerging shift in the role of both the Union and state governments from a 'provider of services' to a 'facilitator and regulator' and the increasing use of private operators in the public sector. The performance audit focus on the economy, efficiency and effectiveness of public sector activity, may have to be modified to take account of the increasing privatisation and liberalisation of public sector operations. Accountants General will be called upon to devise new approaches, techniques and criteria for the performance audit of programmes that may not be directly funded by governments, but may affect the public at large by way of quality of service, cost and equity of access to information and benefits. In this environment, performance auditing in general and development of criteria, in particular, need to take into account the shift from a 'government-centred' to a more 'people-oriented' approach.

3.31 It is generally useful to obtain entity management input to the development of criteria. Audit criteria would typically be exposed to the entity at the start of the performance audit. *Any disagreement with entity management about criteria should be identified, discussed and, if possible, resolved at an early stage without impacting adversely on audit independence.*

Sources of audit criteria

3.32 Accountants General will need to develop audit criteria with approval of SAI top management that are valid for the nature of the activity under audit. These may include quantitative and/or qualitative measures.

3.33 It should, normally be expected that good quality programme planning and implementation system within the entity would, *inter alia*, include a management information system and a set of explicit or implicit criteria as benchmark for monitoring, review and evaluation of the programme. Where the entity does not include explicit or implicit criteria within the programme or activity, Accountants General will be expected to develop criteria of performance measurements in harmony with the audit objectives. Since, however, the criteria are related to audit objectives; that may extend beyond the statements of programme objectives, Accountants General may have to develop additional set of criteria even in cases where the programmes contain them.

3.34 To avoid the necessity to create criteria from first principles for each audit, the audit team should look into the following sources of existing criteria:

- criteria used previously in similar audits;

- criteria published by other SAIs;
- performance standards used by the entity for the programme / activity to be audited, or previous inquiries by the legislature;
- criteria used by the same entity or other entities within the audit jurisdiction in similar activities or programmes;
- criteria used or developed by professional organisations and standard-setting bodies; and
- general management and subject matter literature, research papers, *etc.*

These sources provide a basis for the development of suitable criteria for the audit, but may require interpretation and modification to ensure their relevance to the entity.

3.35 Criteria must be realistic and take into account the context of the entity. Some key criteria can be traced directly to the entity itself, for example:

- enabling and related legislation;
- entity operating and procedure manuals;
- entity policies, standards, directives and guidelines; and
- entity performance information.

3.36 Performance information, either quantitative measures or qualitative assessments, is fundamental to evaluating economy, efficiency and effectiveness. Criteria relating to satisfactory performance can be derived from the entity's own objectives or from accepted industry and/or government standards of performance.

Practice of setting criteria by the entity

3.37 While criteria assist performance auditors in reaching logical conclusions, the fact whether the entity has a system of setting criteria for concurrent monitoring and evaluation of the programme, actual monitoring against the performance criteria, impact of insufficient or deficient criteria, etc. is itself a matter for examination in performance audits.

3.38 In examining performance information, auditors should:

- consider whether the entity has sufficient and reliable procedures in place to measure and report on performance;

- ascertain whether the performance measures in place are complete, relevant and justified on a cost-benefit basis;
- examine procedures to determine if they relate to the entity's corporate goals; and
- consider whether the performance measures are incorporated into the management decision-making processes, *i.e.*, are they reported and used within the agency.

3.39 These issues draw the performance auditor into a consideration of quantitative and qualitative performance information. Such consideration should be an essential element in all performance audits. *The SAI and Accountants General may influence the entity through performance audit conclusions and recommendations to develop explicit criteria as part of their programme planning, implementation and monitoring system.*

Services of expert for developing criteria

3.40 The services of a consultant or expert of repute in the relevant field may be useful in developing the criteria, particularly on subjects, that are either new or complex. It will also contribute to acceptability and reliability of the criteria by the entity in particular and by the legislature, media and public, in general. *Institutional consultancy, rather than individual consultancy, for developing criteria may enhance the acceptability of the criteria.* Unless otherwise decided in particular cases, Accountants General are encouraged to share the information with the entity that the criteria are determined in consultation with the institute or expert.

Refining the criteria and acceptance by the entity

3.41 While informing the secretary and/or the chief executive officer of the intent to carry out performance audit, the audit objectives and criteria, if already developed could be shared with the entity with a request to communicate acceptance of the criteria. Acceptance of all audit criteria used in performance audit by the entity is a desirable condition and contributes to the effectiveness of performance audit. Yet, there could be occasions when the entity expresses a reservation about the validity of one or more criteria. While it is not mandatory or possible, that entity must always agree with the criteria, Accountants General should make efforts to resolve the disagreements, as far as possible and document their efforts.

Disagreement on criteria

3.42 No uniform approach can be suggested for resolving such disagreements. One method could be across the table discussion with the secretary. Another possible method

could be to request the secretary of the department to suggest alternative performance criteria to those which are not concurred with, which could be examined with reference to the audit objectives that they are to be tested for. In all cases the acceptance by the entity of the criteria and efforts made to resolve the disagreements should be documented. Where, despite the reservation by the entity, the Accountant General is of the opinion that any particular criteria are to be retained, they could do so and record transparent reasons for it in the audit report.

3.43 It may quite often be desirable to refine the audit criteria further with the progress of the performance audit in the initial stages. As and when the criteria have to be refined, it is a good practice to obtain entity acceptance of such refinements of the criteria also.

Detailed guidelines for the performance audit

3.44 The output of the process of planning the performance audits of the selected subject will be a detailed guideline for the performance audit of the selected subject for internal use within the SAI. The guidelines will consist of detailed information on the subject of performance audit along with enclosures consisting of copies of important documents relating to the programme/subject, scope of audit, audit objectives, audit criteria, evidence for each criteria, their source/location, audit test programmes, sampling of units to be audited, time-frame of field audit, objective of audits in each field unit, evidence to be gathered in each unit, tentative evidence gathering techniques and supervision and control system, *etc.* Accountants General will obtain approval of SAI top management, where required, to the guidelines as per the practice prevailing within the SAI.

Structure of audit implementation guidelines

3.45 The audit implementation guidelines will consist of the following structure, their *seriatim* being determined by Accountants General.

- 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) theme-wise 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 fulfill 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 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 cooperation;
- Entry and exit conferences and minutes thereof – provision for;
- Periodic reporting to the supervisory officer and the Accountant General;
- Coordination structure when different teams conduct audit under the jurisdiction of the same or different Accountants General;
- Time-schedule, field audit, report writing, forwarding the report to the entity and SAI headquarters, report approval, printing and presentation to the Parliament/legislature;
- Working papers and process documentation requirements;
- Mid-term reviews and workshops; and
- Report structure.

Note: the audit objectives and sub-objectives and audit examination design may preferably be presented in a matrix form.

Assurance memo

3.46 Audit implementation guidelines provide the framework of performance audit. It is, therefore, necessary to ensure that all processes in the audit implementation guide lines

have been meticulously followed. With a view to providing this assurance, Accountants General may enclose an assurance memo with the implementation guidelines on all selected subjects of performance audits.

Quality assurance in planning the performance audit

3.47 Quality assurance of the planning of the individual performance audit is achieved through:

- compliance to the guidelines and instructions;
- comprehensive data and information of the subject of performance audit;
- transparent assessment of skill, knowledge and competence of audit staff and matching the skill and knowledge required for the performance audit;
- review of the planning by SAI top management; and
- peer review of the entire process of performance audit.

4. Implementing the performance audit plan

4.1 This chapter contains the practices and procedures to be followed by the audit team during the implementation of the performance audit and covers the stage of performance audit after the audit planning up to the stage of developing the audit findings and recommendations. The process of implementation of the performance audit steers through audit engagement, entry conference, development of the audit programme, determination of the audit approach, developing the audit test programme and finally developing audit findings and recommendations.

Audit engagement process

4.2 The communication with the entity is a continuous process. The Accountant General and the audit team will be required to be in communication with the entity at different levels throughout the performance audit cycle. As brought out in the preceding two chapters, the dialogue with the entity begins with the communication of the subject of the performance audit included in the audit strategic plan and inviting suggestions for any subject or segment, which the entity may like the SAI to audit. The process of dialogue is sustained with the request for documents and formal presentation by the entity to assist understanding of the subject during the planning phase of the individual performance audit. *Accountants General are encouraged to make a formal presentation of the performance audit plan to the entity highlighting the scope, audit objectives, audit criteria, test programmes, the duration of audit and the locations where the audit could be conducted, etc.* Before initiating the audit, the Accountant General should send an engagement letter to the secretary/chief executive of the entity, communicating the launch of the audit along with the entity units 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

4.3 Entry conference at the commencement of each field audit serves more than one objective. It affords an opportunity for introduction of the audit team members with the chief of the entity and heads of various divisions. The entry conference affords an opportunity for the audit officer to explain the audit plan as applicable to the entity consisting of the audit objectives, approach and time frame besides apprising the entity of the 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 chief of the entity to provide assistance to the team by way of office accommodation, access to office equipment, etc. It is useful to make a request for the entry conference in the audit engagement letter itself to enable the chief of

the entity to set aside appropriate time on the very first day of the audit and inform his division heads in time. The entry conference should be followed by a brief minutes of the proceedings.

Field audit process

4.4 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

4.5 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.

4.6 There could be many ways to develop and frame audit questions. One of the methods that may guide the performance auditors frame a comprehensive and detailed list of questions is to develop an '*issue analysis*' and a '*study design matrix*'. Issue analysis consists of the main questions, mostly linked to the main audit objectives. The main questions may be broken into sub-questions, the answer to which will satisfy the main questions. The answer to sub-questions may either be satisfying the main question itself or may address sub-questions or audit sub-objectives. Having determined the issues and sub-issues that require answers, the performance auditor may develop a study design matrix, which will provide, at a glance, the procedure to find answers to the issues (questions) and sub-questions.

4.7 For each question/sub-question forming the first column of the matrix, the performance auditor will be called upon to identify the criteria, evidence required, source(s) of evidence, data collection method(s), data analysis method(s) and what can be concluded from the tests, *etc.* in the form of different columns for each row. The Accountant General may consider alternative methods of issue analysis and study design matrix, depending upon the subject of the performance audits, retaining the focus of such analysis in mind and attempt to find answers to them. *Such focused approach will assist*

in ensuring high quality of the performance audits by minimising or eliminating redundant inquiries and testing. An illustrative example of determining the audit questions and the audit approach is given in Annex 4.1. Accountants General are encouraged to improve upon it.

4.8 Entity furnished answers to audit questions are not valid evidence unless they are verified with reference to the basic documents and attested by the audit officer along with the reference to the basic documents forming the basis of attestation. It may facilitate verification and attestation, if the entity is requested to include the source of the basic documents forming the basis of answers.

Developing the audit programme

Focus on criteria

4.9 The first stage for field audits is development of an audit programme. *In developing the audit programme, it is important that the focus is retained throughout the field audit on the criteria, which are also inherently related to the audit objectives.* The focus on criteria enables relevant evidence to be collected on issues, which will maximise the impact of the audit. Therefore, before implementing the field audit, criteria should be clearly stated and should include sufficient details to enable them to be readily understood by those carrying out the audit. They should also be organised in a logical manner so that the audit examination can be conducted as efficiently as possible. Proper understanding of the criteria and its logical presentation along with the types and sources of evidence will assist the audit team to form an efficient method of gathering sufficient evidence without superfluous testing.

Audit programme in the context of audit jurisdictions

4.10 Performance audit programmes need to be customised for each audit. There are varieties of logistical and coordination requirements due to various types of reporting requirement and work jurisdictions within SAI India. For example, an All India performance audit of a Centrally Sponsored Scheme may be coordinated by one of Accountants General but will be carried out simultaneously by him/her for the Union Government and by Accountants General of all states for the implementation of the programme by the state governments. The performance audit reports on Centrally Sponsored Schemes contain audit conclusions and recommendations for the entire country and are presented to the Parliament, while the reports containing conclusions and recommendations pertaining to each state are placed before the state legislatures. In another case, while the performance audits on a subject pertaining to the Union Government only may be coordinated by one of Accountants General for the Union Government, they may require the audits to be conducted by many Accountants General

for contributing inputs for the performance audit through audit of the field units under their audit jurisdiction. Similarly Railways, Defence, Revenue and Commercial Audit wings within SAI India follow procedures governed by their unique audit environment and audit arrangement within SAI India.

4.11 Accountants General responsible for audit of different sectors of entity operations will develop the audit programme as per the entity environment and audit jurisdiction within the SAI and include the coordination and consolidation procedures in the guidelines to ensure high quality of audit and consistency in approach and audit test programmes.

4.12 Some of the factors to be considered when developing the programmes include:

- *size* - audit programmes generally increase in size and complexity (more detailed procedures, questionnaires and checklists) with increases in the scope of the audit and size of the programmes to be audited;
- *geographic* dispersion - the dispersion and location of sites to be visited can markedly affect the audit programme. Detailed procedures may be required to ensure consistency when different personnel are carrying out the same audit at different locations;
- *audit environment* - management receptiveness to being audited and the sensitivity of the area within the entity will affect the way in which procedures are developed and applied;
- *the components of the programme/activity* or the system to be audited, e.g. its inputs, processing activities, outputs and outcomes; and
- whether *broad issues* only have been identified, or *specific criteria* are available for audit examination.

Refinement of criteria

4.13 As pointed out in the previous chapter, once fieldwork is under way, new issues may arise that could warrant reconsideration and revision of the initial criteria.

Audit approaches

4.14 Approach in the context of performance audit is the method and means adopted for analysis of data for deriving audit conclusions. No uniform audit approach can be prescribed that is applicable to all types of subjects of performance audits. Some of the approaches include:

- analysis of procedures;
- use of existing data or evidence provided by the agency;
- analysis of results;
- case studies;
- surveys; and
- quantitative analysis.

Analysis of procedures

4.15 An analysis of procedures applicable to the entity and its units is often a starting point for audit examination. It consists of review of the systems in place for planning, conducting, checking and monitoring the activity being audited. This would involve interviews of persons in-charge of the offices of the entity or of the particular functions and operations and examination of documents such as budgets, financial reports, programme guidelines, annual or other plans, procedure manuals, delegations and reporting requirements, *etc.* The performance auditors should assess the appropriateness of the procedures, action steps, human resource, resource flow structure and accountability relationship provided in the programme guidelines. Procedures would be tested against the criteria or a desirable control model. This would typically mean that procedures would be checked, among other things, for completeness, relevance against the legislation and administrative instructions, internal consistency, practicability and compliance.

Use of existing data

4.16 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. One of the important sources of data could be the data generated from voucher level compilation (VLC). *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

4.17 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

4.18 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

4.19 Another method of obtaining insight into an agency's activities, including the outputs and outcomes and their quality is by the conduct of a survey. This is a method of collecting information from members of a population to assess the incidence, distribution and interrelation 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. *Accountants General may determine whether and what type of survey may contribute to the quality of performance audit.* The decision to conduct survey and selection of the agency will be approved by SAI top management on the proposals initiated by the Accountant General . It may, however, be kept in mind that the results of survey alone cannot be the primary evidence for audit findings. Surveys can be used as corroborative evidence for audit findings established with the help of primary evidence.

Quantitative analysis

4.20 Where practicable, an entire population should be analysed. But in most cases, it may not be possible due to the volume of data and information associated with a programme or entity. 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.* When using either a statistical or a non-statistical sampling approach, the audit team should select an appropriate audit sample, perform audit procedures on the sample and evaluate sample results so as to provide sufficient audit evidence.

4.21 When selecting an audit sample, specific audit objectives and the attributes of the population from which the sample is to be drawn should be taken into account. In

determining the sample size, it should be considered whether sampling risk would be reduced to an acceptably low level. The sample items are to be selected so as to have a reasonable expectation that all sampling units in the population have an equal chance of selection.

4.22 To each item selected, audit procedures appropriate to the particular audit objective should be applied. It should also be considered as to what conditions would constitute an anomaly or error in the context of the audit objectives. The audit team should consider the nature and cause of any errors identified and their possible effect on the particular audit objective and on other areas of the audit.

4.23 *Errors found in the sample should be projected to the population. The auditor should consider the effect of the projected error on the particular audit objective and on other areas of the audit.*

A brief introduction to the quantitative techniques is in appendices ‘D’ and ‘E’.

Flexibility in the audit programme

4.24 In developing an audit programme, it will not be possible to anticipate all contingencies. In the early stages of an audit, there is a need to retain flexibility and to review the audit programme for appropriateness. It is preferable to start with a programme outlining the approach to the audit issues and revise and extend it as the audit develops.

4.25 The Accountant General should provide scope for sharing of all significant refinements in the approach and additional tests and findings, concurrently with other audit teams within the managerial control of the same Accountant General or under different management control within the SAI, when different persons conduct the audit at different locations. *The system of sharing of the significant field audit experience should be documented and reviewed.*

Refining the audit programme

4.26 In the light of the outcomes of the audit process, planning for the next stages of the audit programme can be modified i.e. the interpretations/conclusions arising from one stage of the audit programme can be used to review and modify the next stage.

4.27 The initial audit programme should be refined by developing ‘action lists’ that reorganise the programme by audit activity. For example, for the audit activity ‘interviews’, the audit team would list all criteria/issues that are to be addressed in this way. At the same time, questions for the interviews can be developed from the

criteria/issues. Similarly, a list of audit steps should be established against other activities such as file searches.

4.28 One of the purposes of the preliminary study is to refine the audit programme. Further, it is also advisable to review the programme early in the fieldwork stage of the main audit to ensure it remains appropriate. *However, significant revisions may lead to incompatibility of results from the beginning to the end of the audit.* This needs to be harmonised by the audit team and group supervisory officer against the advantages of significant modification of the programme.

Initiating the performance audit

4.29 The result of this process is that *for every criterion there is at least one audit step* (sometimes several will be necessary; for example, interviews alone rarely provide adequate evidence). As well, *for every audit step there is a relevant issue related to the criterion.*

4.30 It is also likely that the initial audit programme will require revision to take account of external factors. For example, the precise nature of the data held (whether in databases or on files) may not be known, nor the likely difficulty of access. A decision is then necessary on whether to abandon the test, make an interim finding of lack of satisfactory record keeping, or pursue an alternative means of gathering evidence.

4.31 In carrying out planned audit steps additional relevant information, not explicitly covered by the audit programme, may come to light. In this case, the audit team should identify the issues highlighted by the new information.

Level of details in the audit programme

4.32 The level of details of the final audit programme will depend on a number of factors. Some of the factors are:

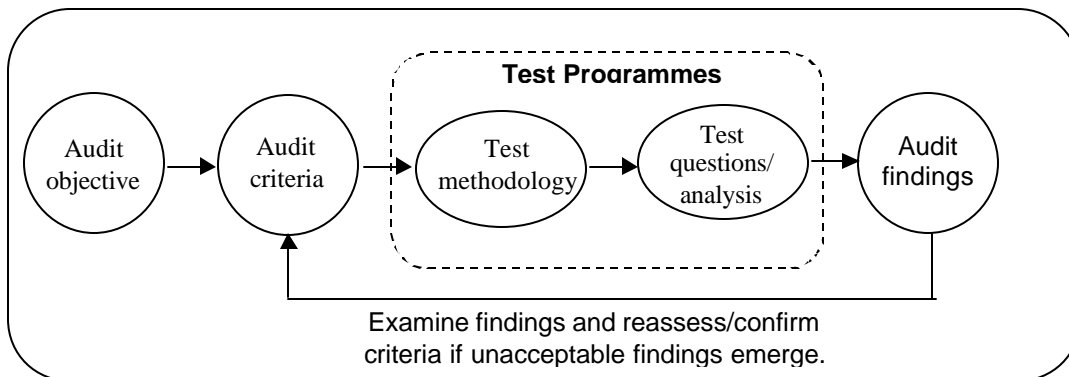
- the complexity of the audit issues to be tested;
- the extent of the audit; for example, a large audit carried out in several locations would need a detailed programme to ensure consistency; and
- the level of the staff carrying out the audit; where junior staff has responsibility for carrying out fieldwork, a more detailed programme would normally be appropriate.

4.33 For multiple-entity audits, the main issue in the programme is whether each audit step needs to be carried out in each unit of the same entity or different entities (state governments). Different requirements for sample sizes may lead to some audit steps being carried out in only certain units or entities and some others to be carried out in all.

Audit test programmes

4.34 Audit test programmes form an integral part of the audit programme. An audit test programme refines audit criteria into a series of procedures and/or activities (tests) to obtain relevant and reliable evidence upon which conclusions may be drawn.

4.35 Audit test programmes are the key link between the development of audit objectives/criteria and the conduct of an audit leading to credible and defensible findings. Audit test programme is illustrated in the following diagram:



4.36 Test programmes should not be prescriptive, but should have the following characteristics:

- *Clear purpose:* The purpose of the test programme should be clearly defined from the outset to show relevance to the audit topic and to effectively focus the audit;
- *Easily understood:* The test programme should be easy to understand, with any jargon and acronyms explained;
- *Sound logic:* A logical link should exist between the objectives of the audit, the audit criteria and the audit test programme;
- *Good layout/design:* Layout and design of the test programme should be kept simple, preferably in a working paper style format for easy referencing;
- *Flexibility:* Test programmes should remain flexible to allow for the introduction of new evidence/criteria and the exclusion of outdated or irrelevant evidence/criteria; and
- *Cost effectiveness:* Test programmes must ultimately be cost effective; that is, the time and resources used on a test programme may not outweigh the likely benefit that such a programme will produce.

Study and evaluation of internal control

4.37 One of the objectives of performance audit is study and evaluation of the internal control that assist the conduct of the business of the entity in an economic, efficient and effective manner, ensuring adherence to the management policies and producing reliable and timely financial management and performance information. The study and evaluation of internal control depends on the objectives of the audit and the degree of reliance intended.

4.38 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. The documentation and tests will form part of the working papers and the audit findings and conclusion will be included in the report.

Lessons learnt and sensitivity to error/risk signals

4.39 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.* The lessons learnt procedure could operate in the context of the programme/subject of performance audit and should take into account similar weaknesses brought out in other programmes within the entity. Similar assessment of sensitivity and dependability of the procedure may be carried out with reference to high-risk error signals or alarms that the management may either generate internally or may be triggered by external source like media, legislative questions and debates and whistleblowers references, etc. *The impact of inefficient or insensitive system may be established with appropriate evidence by linking the audit findings to the inefficient procedures for lessons learnt and insensitivity to the error signals.*

Developing findings

4.40 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. Potential findings identified in the planning stage or during the preliminary study should be followed up in the detailed examination phase of the audit since the auditor, rather than carrying a hindsight audit, is expected to take into account the circumstances prevailing at the time of events, it may be desirable that avoidable and unavoidable causes of findings are segregated.

4.41 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

4.42 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 SAI and the entity may be required to focus only on the recommendations and their implementation, at the close of the performance audit, all or most other related issues already having been established. For developing recommendation, the Accountant General should identify the underlying cause(s) of a finding, as this forms the basis for the recommendation. *The cause is that which, if changed, would prevent similar findings.* 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.

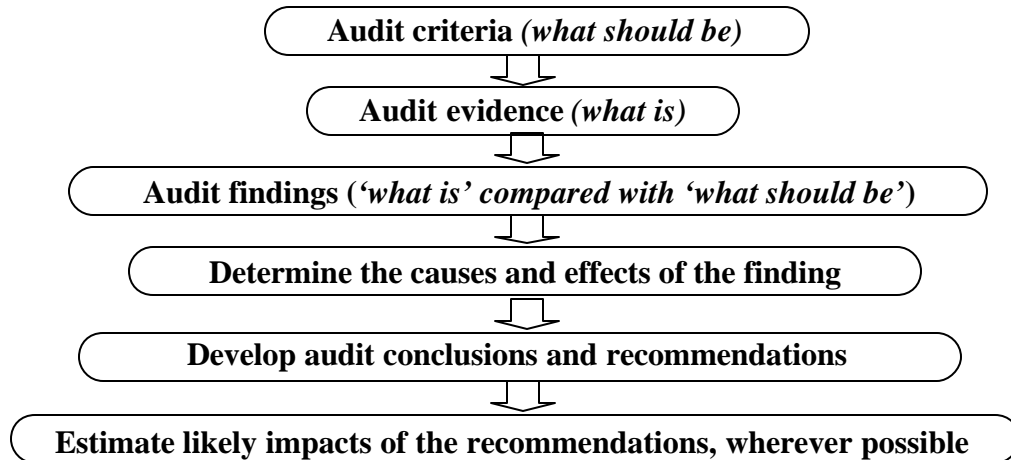
4.43 Recommendations emerge from identification of the 'cause' of audit findings, which ought to be addressed by the entity. Addressing the following questions will assist the performance auditors develop good recommendations:

- 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?

The Accountant General may carry out test of the draft recommendations transparently in the working papers against these questions in a matrix form.

Recommendation development process

4.44 The process of development of the recommendations is illustrated below:



Entity response to the findings and recommendations

4.45 The audit findings can be communicated to the entity, including to the chief of the filed units, as and when these are developed. It will ensure that the matters of facts, figures and most of the findings or conclusions are accepted as the audit proceeds. The entity responses to the audit findings can then be documented and analysed. Where the entity disagrees with the audit findings, the reasons for such disagreement should be fully analysed. *If the audit objectives have been communicated to the entity, audit criteria accepted by it and no disagreement exists on the audit findings, supported by competent, relevant and reasonable evidence, the chances are that the recommendations, which are the actions suggested to remedy the deficiencies, may be acceptable in most cases.*

4.46 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. Accountants General 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. *The cardinal principle, however, is that the recommendation may have to be addressed only to the entity, who is competent to implement them.* Since the recommendations are consequence of the audit findings, the findings can and should be developed, as and when it is possible to do so.

4.47 In case of performance audit involving a single unit of the entity, the recommendations may be developed and communicated as part of the field audit report. In case of performance audits carried out in the central office and its units in the field, the audit findings may be developed during the audit of each unit, to the extent possible and applicable. Upon conclusion of audit of all units, where it is necessary to do so, the recommendation may be developed at the close of the audit and should ideally be communicated to the secretary of the department or head of the entity in the form of a self-contained discussion paper or included in the draft performance audit report intended for entity response and discussion with the entity.

4.48 Recommendations following the result of performance audits have to be argued in a logical manner. They should indicate broadly what issues might be examined by entity management when seeking solutions and should focus on the more significant issues requiring attention.

4.49 Recommendations require careful review to ensure that they are practical and add value. *Accountants General should ensure that the recommendation addresses the objectives of the audit; i.e. economy, efficiency, effectiveness, governance or accountability, as appropriate.* A good test for the audit is to consider what causes of under-performance may be remedied as a result of implementation of the recommendation, how the recommendation would be followed up; how the implementation of the recommendation could be tested; and what specific actions the entity can undertake to implement the recommendation.

Disagreement with the recommendations

4.50. 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. Accountants General may secure acceptance of the recommendations by the entity either with help of a discussion paper or as response to the draft performance audit report, the former being a preferred option. As pointed out earlier, in the modular approach in which entity acceptance is secured for audit objectives, audit criteria, audit findings on the basis of sufficient, competent and relevant evidence, the chances are that the entity will accept most of the recommendations, since these are in logical sequence. While in an ideal situation, all recommendations included in the performance audits should be such as are acceptable to the entity, it may not happen in practice. The ideal condition may not exist due to various factors; some of which may be quality of criteria, evidence and evidence-analysis, difficulty in implementation of the recommendations and attitude of the entity, *etc.* Where there is disagreement on one or more recommendations and it is a considered opinion of the Accountant General that the recommendations would improve the programme management and accountability, it may still retain them in the performance

audit reports, along with the reasons for disagreement by the entity and transparent reasons for recommending them despite reservations by the entity.

Inventory of recommendations

4.51 Since recommendation is the culmination and crux of the performance audit, they should be presented distinctly to enable Accountants General to maintain an inventory of recommendations for all performance audits and carry out follow-up processes to take the performance audit to its logical conclusion.

Communication of audit findings

4.52 There could be various ways of communication with the entity. Requests for information, data or documents and confirmation of facts and figures are usually through issue of audit memoranda. After evaluation of evidence, the audit team may choose either to prepare a self-contained discussion paper on any particular component of the programme, where discussion may, in the opinion of the audit team, be useful. In others, a self-contained audit observation may be issued for response and confirmation of facts and figures. It is necessary to indicate all evidences used for evaluation, including the use of available or derived data, sampling method used, criteria used for testing and analyses made, *etc.* in the discussion paper and audit observation. Discussion papers will also culminate in issue of audit observations.

Audit memoranda, discussion paper, audit observation and field audit report

4.53 Audit memoranda are issued either before start of the field audit or in the initial stage of an audit. Detailed evaluation of audit findings is generally completed during the preparation of discussion papers or audit observation for distinct segments/thrust areas of the audit. It is a good practice to make one comprehensive discussion paper or audit observation on one component or theme rather than splitting them into many for the same theme or sub-theme. While discussion papers are prepared during the course of field audit, audit observations are generally developed and issued towards the later part of each field audit. At the end of audit of each unit a field audit report, termed as local audit report may be issued to the head of that unit for confirmation of facts and figures and response. As far as possible and applicable to the audited unit, the field audit report for that unit should follow the audit objectives. However, the level of field unit at which the field audit report are required to be issued may be determined by Accountants General depending upon the entity environment and the subject of performance audit. This will facilitate progressive development of issues for inclusion in the performance audit report and obviate the need for disagreement on data/evidence used for developing audit

findings as also the need for having to include too much data in the performance audit report.

4.54 *However, some evaluation may extend into the reporting phase, as findings are challenged and further evidence is obtained. It is at this latter stage that a final decision is reached on the findings and recommendations that will be reported.* Once audit findings have been identified, two complementary forms of assessment take place; an assessment of the significance of the findings and the determination of the causes of good performance or under-performance (where it is below the expected).

4.55 The effect of a finding may be quantifiable in many cases. For example, the cost of expensive processes, expensive inputs or unproductive facilities can usually be estimated. Additionally, the effect of inefficient processes, for example idle resources or poor management, may become apparent in terms of time delays or wasted physical and other resources. Qualitative effects, as evidenced by lack of control, poor decisions or lack of concern for service, deficient output, absence of accountability procedures and insufficient information and communication system, etc. may also be significant. The identified effect should demonstrate the need for corrective action. The effect could also have occurred in the past, be occurring now or may possibly occur in the future. *If the effect occurred in the past, the audit finding will add value to programme management only if the situation has not already been remedied to prevent it from recurring.*

Exit conference

4.56 In audit of all units, the audit team should conclude the audits with an exit conference/meeting with the chief officer of that unit. The Group supervisory officer or the Accountant General should lead the team for SAI 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 or two days before the scheduled exit conference. The exit conference is an opportunity for the entity to discuss the audit findings with the SAI 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.

Level of communication

4.57 While the information seeking memos may be issued to the functional heads in the entity, all major communications in relation to the performance audit *viz.* audit observations, field audit report and draft performance audit report must always be addressed to the chief executive officer of the entity (chief officers in case of field units and other entities) and all communications/responses should *be either signed or approved by the chief executive officer, the fact of such approval should be indicated specifically,*

where the responses are signed by any authority subordinate to the chief executive officer. In case of audit of the ministry, while the audit observations may be addressed to the joint secretary with a copy to financial advisor, field audit report and draft performance audit reports must necessarily be addressed to the secretary of the ministry. Distinct from financial or regularity audit where the response and remedial action could be within the jurisdiction of head of a particular division/function, the performance audit addresses the management issues, which can be addressed only by the chief executive.

Supervision, monitoring and review of implementation

4.58 Supervision of the implementation of the performance audit of the selected subjects will ensure that the audit is performed in accordance with the audit plan and the provisions of this manual. It will also ensure that the process is focused on the audit objectives and audit criteria and that the refinement of the criteria and audit programme is carried out as soon as these are required. Concurrent supervision by group officers will fulfil this objective and make sure that their intervention is promptly applied, where necessary.

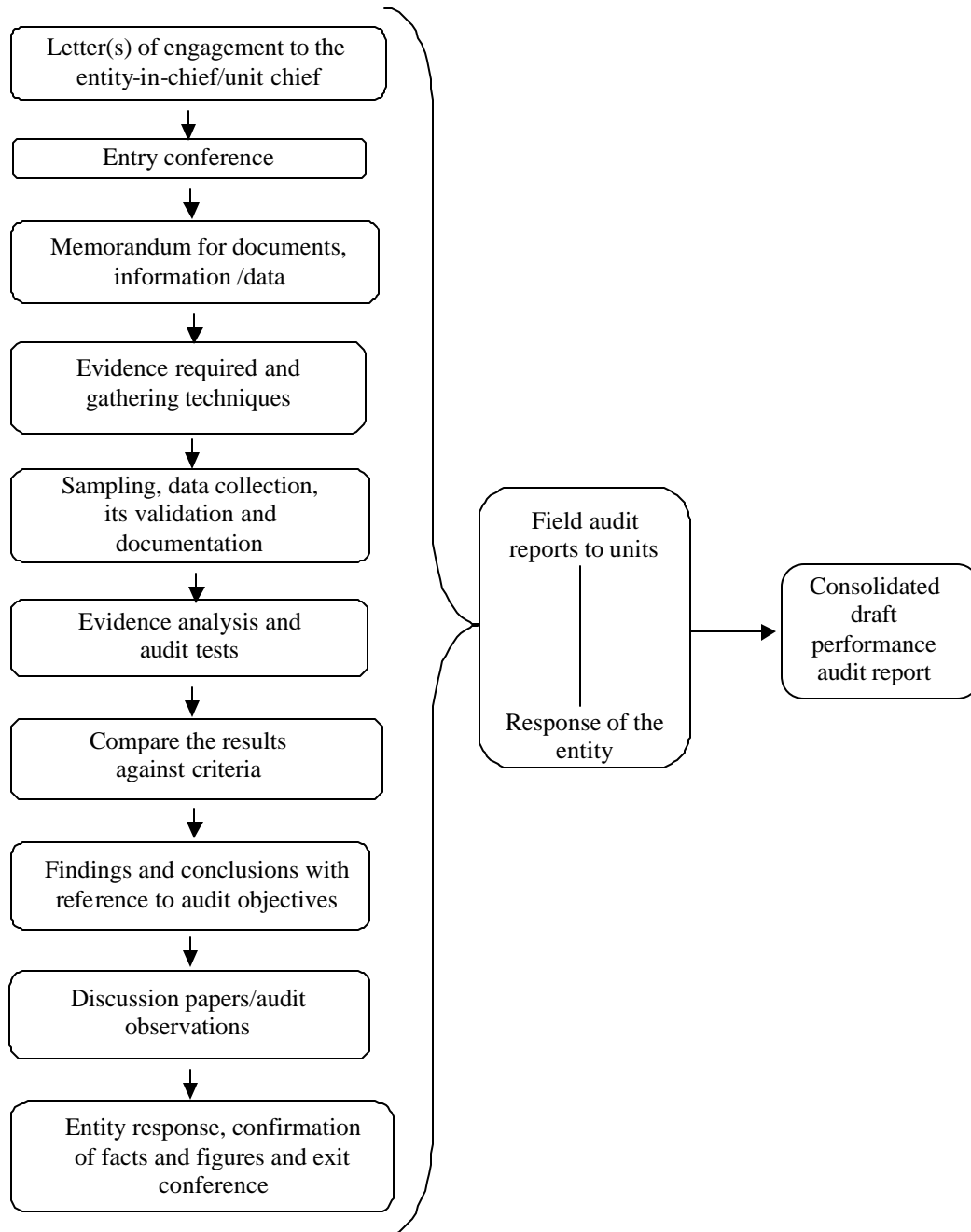
4.59 The constant supervision over the performance audits will normally be of the group officers, who may present status reports on important issues to Accountants General at the stages or the end of the periods prescribed in the implementation guidelines on the performance audits and/or as and when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

4.60 It is a good practice to review the progress of the performance audit through presentation by the team at the stages determined by Accountants General. This will add to the quality of the performance audits by enhancing the sense of ownership and responsibility of the project among the team members and the group officer besides affording an opportunity to Accountants General to ensure that the evidence gathering, audit test programmes and analysis are consistent with the audit objectives. In cases where the performance audits are conducted by different teams, within the administrative and technical control of one or more Accountants General, one or more mid-term workshops may assist in ensuring consistency of approach and techniques. Where necessary, a workshop on the results of performance audits conducted by a large number of teams across dispersed areas and under different audit control may be held to finalise consistent audit findings and recommendations.

4.61 The quality control and supervision on the implementation of the performance audit by the SAI top management is provided through approval of the implementation guidelines, periodic *work-in-progress* reports and guidance during the mid-term workshops.

Audit implementation cycle

4.62 Audit implementation cycle is summarised in the following diagram:



Quality assurance in implementation of performance audit

4.63 Quality in implementation of the performance audit is assured through the following:

- Adherence to the principles of field standards;
- Ensuring appropriate skill and knowledge - internal or procured;
- Supervision, monitoring and review, including workshops;
- Documentation of performance audit and of the processes; and
- Peer review.

4.64 Most of the above have been explained in the relevant paragraphs in this chapter. Documentation standards are dealt with in chapter 5. Peer review refers to the review of the procedures and practices by a professional, who has not been associated with the performance audit with a view to ensuring that the best practices have been followed. Peer review of the performance audit implementation is carried out in accordance with the practice established within SAI India.

Audit objective analysis matrix

Theme / Segment 1	Audit objective 1.1 <i>(Efficiency)</i>	Sub-audit objective 1.1.1 <i>(Effectiveness)</i>	Sub-audit objective 1.1.2 <i>(Economy and efficiency)</i>	Sub-audit objective 1.1.3 <i>(Ethics affecting efficiency)</i>	.....
	Audit objective 1.2	Sub-audit objective 1.2.1	Sub -audit objective 1.2.2	Sub-audit objective 1.2.2	.....
Theme / Segment 2	Audit objective 2.1	Sub-audit objective 2.1.1	Sub audit objective 2.1.2	Sub-audit objective 2.1.3	.....
	Audit objective 2.2	Sub-audit objective 2.2.1	.....	.....	.....

Note: Italics represent the performance audit concerns that the audit objectives and sub-objectives address.

Audit examination matrix

Audit objective	Criteria	Evidence	Sources of evidence	Data gathering methods	Data analysis method
Audit objective AO-1	AO-1-C1 AO-1-C2	AO-1.C1-E1 AO-1.C1-E2 AO-1.C2.E1 AO-1.C2.E2	.....	....	....
Sub audit objective AO-1.1	AO-1.1-C1	AO-1.1-C1-E1 AO-1.1-C1-E2	.....	.....	.....
....

5. Evidence and documentation

5.1 This chapter contains standards and procedures in respect of audit evidence that the performance auditors must maintain to ensure good quality. 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. It is, therefore, important that the nature, quality and amount of evidence collected should endure the criteria for audit evidence. It implies that the data collection and sampling techniques are carefully chosen.

SAI India's auditing standards

5.2 Standard 3(e) in chapter-III of the Auditing Standards of SAI India state:

'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.'

5.3 The standards further prescribe *inter-alia* 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.

Competence, relevance and sufficiency of evidence

5.4 The concept of competence, relevance and reasonableness of evidence, particularly in the context of performance audits, is elaborated below:

Competence

5.5 An evidence is competent when it is *valid* and *reliable* and actually represents what it purports to represent. Some factors that can help in assessment of the evidence from the point of view of reliability are:

- If an evidence is corroborated with help of different types of evidence obtained from other sources;
- Documentary evidence is more reliable than oral evidence;
- Evidence obtained through direct observation is more reliable than indirectly obtained evidence;

- The reliability of entity generated information is a function of reliability of internal control system within the entity;
- Oral evidence, which is corroborated in writing is more reliable than oral evidence alone;
- Photocopies being less reliable evidence than the originals, the source of photocopies should be identified by noting the source and as far as possible, the photocopies should be certified; and
- Evidence, which is accepted by the entity, is always reliable.

Relevance

5.6 An evidence is relevant if it bears a clear and logical relationship to audit objectives and to the criteria. The most appropriate method to ensure relevance of the evidence in performance audit is to list in advance, for each audit objective and sub-objective and then to each criterion, the nature and location of evidence required as well as the audit procedure to be implemented.

Sufficiency or reasonableness

5.7 Sufficiency is a measure of quantity of audit evidence, while appropriateness is a measure of quality of audit evidence. *The requirement of appropriateness is fulfilled by the criteria of competence and relevance, which are both qualitative.* Evidence is sufficient if the test is carried out on a reasonable representative of the population, the sample being selected objectively.

5.8 *In performance audit the evidence is necessarily persuasive.* Thus, evidence is sufficient or reasonable, when there is enough relevant and reliable information to persuade a reasonable person that the performance audit findings, conclusions and recommendations are warranted and are fully supported.

5.9 *The strength of qualitative evidence in performance audits will be enhanced if supported by corroborative evidence from different sources or of different nature. While planning the audit, the nature of evidence to be gathered should also be identified.*

5.10 Considerations that determine the strength of evidence are:

- If the observation is highly significant and material, it will require stronger evidence to sustain;
- The strength of evidence should be very high when the degree of risk associated with wrong conclusion is high;

- If previous experience suggests that the entity's documents are reliable, less corroboration of the evidence may be necessary; and
- Evidence needs to be more convincing, if the issue is controversial or sensitive.

Factors affecting the evidence

5.11 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

5.12 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). The statements can be by employees of the entity; beneficiaries, experts and consultants contacted to provide corroborative evidence, *etc.*

It will be essential to corroborate the oral evidence, if the oral evidence is itself to be used as primary evidence rather than simply as a background or lead for further examination. The corroboration of oral evidence could be:

- by written confirmation by the person interviewed;

- by weight of multiple independent sources disclosing same facts;
- by checking the records later; or
- by entrusting the collection of evidence to independent organisations of repute.

In cases of surveys through independent agencies, it may not, however, be possible to obtain written confirmation from the ‘subjects’ of the survey. In this background, credibility of the agency selected for survey is critical for sustaining the competence of the evidence. It is also important to note that surveys are generally corroborative (secondary) evidence rather than being the primary evidence. In instances in which it is not possible to gather primary evidence, the decision to develop audit findings on the basis of the survey or other secondary evidence may be taken with the approval of SAI top management.

- *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 (viz. notes/reports of other ministries, incoming correspondence, external evaluations and surveys), 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.

The reliability and relevance of documentary evidence should be assessed in relation to the objectives of the audit. For example, if the objective is to ensure whether contract procedures are followed by an entity, mere existence of an updated manual of contract is not a sufficient and competent evidence for audit conclusions.

- *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. The source of data analysed to develop an evidence should be indicated to facilitate acceptance by the entity.

The evidential process: audit criteria ® evidence

5.13 Collection of evidence begins with the preliminary study and is completed at the close of examination phase. Accountants General and the audit team should:

- determine the characteristics of data required;
- collect data relevant to the audit objectives;
- collect data to carry out tests against audit criteria linked to the audit objectives;
- collect data (evidence) which is sufficient and persuasive to logically support the analysis, audit findings, conclusions and recommendations; and
- apply the standard of evidence, where direct cause and effect relationship cannot be established, to build a successful case on the balance of probabilities.

Sources of evidence

5.14 The following are some sources of evidence.

- *Policy statements and legislations* - policy documents, operating guide lines and manuals, administrative orders, etc. along with the background papers leading to their promulgation.
- *Published programme performance data* - budget, accounts including VLC outputs, plan documents, performance budgets and reports, programme documents, annual reports and replies or statements placed before Parliament and 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.*
- *SAI 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.

5.15 It may not be possible to examine all files of the entity due to time constraint. The selection of the files for examination will be guided by the audit objectives or the purpose of the investigation. Depending upon the subject of performance audit, the audit team may examine a sample selected at random.

5.16 *Physical verification/inspection is an important source of evidence.* Accountants General may make an assessment based on the nature of the subject of performance audit and the audit objectives as to whether physical verification/inspection is required to achieve the audit objective and document the results of their assessment. Accountants General should be conscious of the relatively lower levels of acceptability of evidence when the physical inspection/verification is carried out by auditors alone. Some of the measures to transform the observed evidence into competent evidence could be joint inspection in which the result of such inspection is certified by the representative of the entity holding responsible position, out-sourcing the physical observation to an agency of repute and supplementing the observed results with photograph, *etc* attested by the representative of the entity.

Sampling techniques

5.17 In most performance audits, it may not be possible to examine all units or all data and documents. It will, therefore, be necessary that a representative sample be selected. The sampling techniques to be applied will depend upon the nature of data and audit objectives. The central issue in selection of the sample should be that:

- the sample selected is representative of the entire population and that audit findings on the sample apply to the entire population within the defined confidence limits;

- the sample is unbiased and each element of the population has an equal chance of appearing in the sample within the scope of the sampling method selected; and
- the sample size is sufficient to extrapolate the result of audit test to the entire population within the confidence levels.

5.18 It is open to Accountants General to carry out the sampling themselves, including the statistical sampling or refer the matter to the departmental statistical adviser with sufficient details about the entity environment, nature and type of data and audit objectives, *etc.* The sampling technique and sample selected should be shared with the entity. However, prior selection of the sample and sharing of the information with the entity impose no restriction on the audit team to limit its tests to the sample only. If, in course of the audit, it is considered desirable to expand the sample size, the audit officer may approve it and record the reasons *viz.* improved level of confidence, perceived risks and significant materiality, *etc.* Appendix ‘D’ contains a brief exposure to statistical sampling along with other evidence-gathering techniques.

Evidence analysis

5.19 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.

5.20 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.*

5.21 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 introduced in Appendix ‘E’.

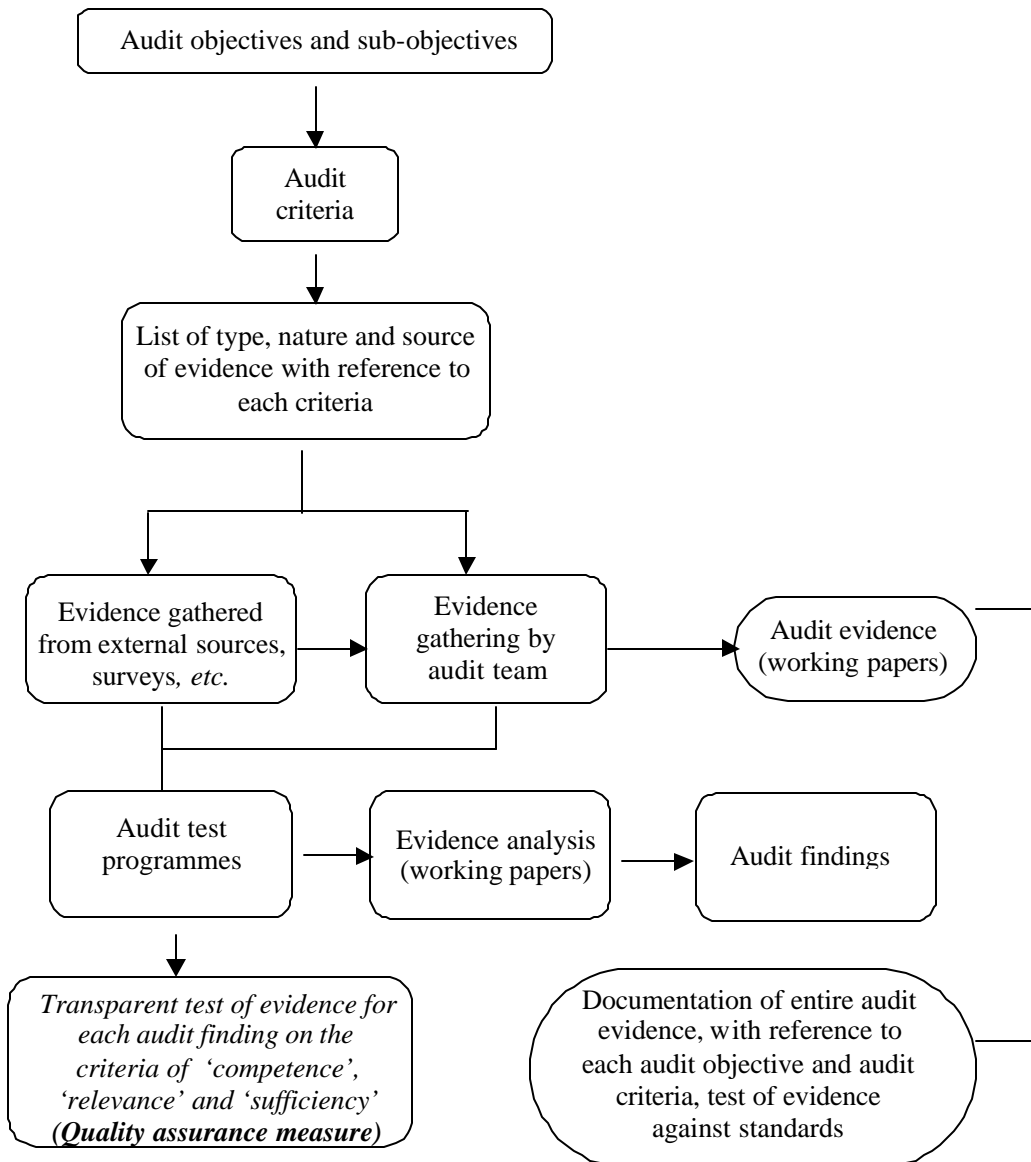
Transparent test of evidence

5.22 *Accountants General 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 Accountants General are satisfied about fulfilment of these attributes of the quality of evidence should be recorded in the working papers.

5.23 The evidential process is explained in a nutshell in the following diagram:

Evidential process



Documentation

5.24 *Meticulous documentation of the evidence* supports the audit conclusions and confirms that the audit was carried out in accordance with relevant SAI standards. Proper documentation of evidence is also one of the important measures of quality assurance.

5.25 SAI India's Auditing Standards (paragraph 8, chapter III) state:

'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.'

5.26 The Standards further add:

'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.'

5.27 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 within the SAI.

Characteristics of good quality working papers

5.28 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.*

5.29 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.

5.30 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 Accountants General and SAI management 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.

5.31 The audit officer and group supervisory officer will be responsible individually and jointly for the documents as per the above standards.

Quality assurance in evidence gathering, analysis and working papers

5.32 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 Auditing Standards 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.

5.33 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 SAI top management with reference to the audit conclusion; and
- peer review and technical inspection of the performance audit process and procedures.

6. Reporting process

6.1 This chapter includes the standards and the best practices in reporting of the performance audit. While every performance audit is to culminate in development of a report containing the audit findings and recommendations, report writing is to be viewed by the performance audit teams and Accountants General as a continuous process. This chapter attempts to guide the performance audit teams through the process of the development of the final report.

Auditing standards

6.2 SAI India's Auditing Standards stipulate *inter alia* the following on reporting:

'On the completion of each audit assignment, the Auditor should prepare a written report setting out the audit observations and conclusions in an appropriate form; its content should be easy to understand, free from ambiguity and supported by sufficient, competent and relevant audit evidence and be independent, objective, fair, complete, accurate, constructive and concise'.

'With regard to performance or value for money audits, the report should include a description of the scope and coverage of audit, objective of audit, area of audit, main findings in respect of the efficiency, economy and effectiveness (*including impact*) aspects of the area (*subject matter*) which was audited and recommendations suggesting the improvements that are needed'.

'In contrast to regularity audit, which is subject to fairly specific requirements and expectations, performance audit is wide ranging in nature and is more open to judgement and interpretation; coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period; and it does not normally relate to particular financial or other statements. As a consequence, performance audit reports are varied and contain more discussion and reasoned argument'.

6.3 Other significant standards in the SAI India's Auditing Standards in relation to performance audit reports, which should be kept in view, are set out in chapter-IV. Paragraphs 1.10, 1.11, to 1.18 and 11 of the Auditing Standards are particularly significant for performance audit reporting.

Characteristics of good report

6.4 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

6.5 As explained earlier in this chapter, performance audit reporting is to be viewed as a continuous process. At various stages, during the performance audit, the audit team and Accountants General will be required to issue different forms of reports. 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, within the limitation of the responsibilities and accountability of the individual field units and the data held by them. It will be expected that the entity response by way of confirmation of the facts and figures and acceptance of audit findings and conclusions are sought/obtained at each stage to minimise the unresolved issues at the stage of development of the draft performance audit report. This modular approach, apart from facilitating the development of the final performance audit report, would also provide assurance of high quality of audit throughout.

Reporting process

6.6 As stated in paragraph 1.53 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.

Discussion papers

6.7 Discussion papers serve to confirm the facts with the entity and help in development of audit findings and recommendation by exploring significant early findings and recommendations with the entity and obtaining its preliminary response. They assist the performance auditor to detect at an early stage possible mistakes in understanding the subject, possible weakness in audit findings and the supporting evidence or the logic rather than when the entity points out on receipt of the draft report.

6.8 A discussion paper is designed to bring together findings and conclusions for a specific segment or area of audit, which may not be formatted with the precision, expected in the final report but should be self-contained (including the sources and types of evidence used) and logical. The discussion papers could be prepared for internal use or for discussion or response of the entity.

6.9 Discussion papers may contain suggestions after their approval by the group supervisory officers or the Accountant General, as per the procedure followed by the respective Accountants General. It may lead to early implementation of SAI recommendations and can, thus, contribute to improving public administration. *In such cases, it would be appropriate to mention in the report that, during the audit, the SAI raised a specific issue to which the entity took remedial action.*

Risk involved with discussion papers

6.10 Accountants General should be aware of the possible risks to performance audit associated with issue of discussion papers. It is not uncommon for the entities to

overreact or tend to be uncooperative with the issue of the discussion papers. It may facilitate desirable entity response if it is made clear in the discussion papers that these are preliminary findings and are intended for facilitating a dialogue with the entity to sort out any weakness in development of the audit findings and for obtaining entity response at an early stage. As far as possible, the discussion papers may be discussed with the entity, who may be requested for a written response, preferably before the meeting.

Discussion papers and audit observations

6.11 A doubt may arise about the purpose of both the discussion papers and audit observations, since both serve more or less similar purpose. The discussion papers, however, are issued early in the process of developing audit observations and may not be as precise as audit observations, which are generally developed towards the close of the audit of an entity or unit. The discussion papers, because of the objective they serve, contain much more details. It may assist the performance audit team to understand relatively more complex issues better and to develop good audit findings, if discussion papers are issued early in the audit. The audit officer or the supervisory officer may determine consciously whether findings on a segment, theme or sub-theme may be processed directly as an audit observation or should be developed with the help of issue of a discussion paper. Whether the matters contained in a discussion paper should necessarily be followed up through issue of audit observation or may be taken directly to the draft local audit report may vary from case to case.

Audit observation

6.12 Audit observations are developed keeping the field audit report and the final report in mind. These may be developed from the discussion papers and the response of the entity to them or directly as a result of audit test programme if the audit team is confident that convincing and logical audit findings and conclusions can be developed straightway as audit observation. It is a good practice to develop audit observation in a modular fashion, containing the audit findings, conclusions and recommendations (where applicable) along with details of evidence, their sources and analysis, so that the portion containing audit findings, conclusions and recommendations can be used directly in the field audit report and finally in the draft performance audit report. It is a measure of skill and competence of the audit officer and supervisory officer if audit findings, conclusions and recommendations (where applicable) on one segment or theme are included in a *single audit observation rather than dispersing them in many audit observations.*

Exit conference/interview

6.13 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

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

6.14 In cases where the performance audit is conducted across several field units of the entity, Accountants General 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 multi-layered and sometimes variously controlled environment, Accountants General may determine the level of units to whom the field audit reports are to be issued.

Draft performance audit report

6.15 Draft performance audit report is to be prepared by Accountants General 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 Accountant General 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 ministry/department).

6.16 It is important that the draft report describes the objectives and scope of the audit to enable any reader understand the purpose of the audit. Any limitation imposed on the scope of the audit, the reasons thereof and efforts made to resolve it should be indicated in the draft report. The scope limitation may occur, for example, when it is not possible to audit any unit or segment of unit or programme or to perform necessary audit procedure due to factors beyond the control of the auditor, *viz.* failure of the entity to facilitate audit, failure to furnish documents and information, *etc.* It will be incumbent for the audit officer to seek the guidance from the group supervisory officer, who should promptly bring the matter to the notice of Accountants General, if his own efforts are not successful.

Level of details in the report

6.17 Emphasis on quality of performance audit report implies *inter alia* that it should be self-contained in the sense that a reader is able to understand the scope, audit

objectives, audit criteria and evidence used, audit findings and conclusions in a logical manner. At the same time, the standard of conciseness of the report entails that it should be brief. Accountants General will be called upon to strike a balance between these two contrasting features. This can be achieved by keeping the user in mind. While the final report is *meant* for the Parliamentarians/legislators, the draft report is oriented towards the entity (secretary of the ministry), which should contain sufficient details, particularly in relation to the evidence, their sources and methods of evidence gathering and evidence analysis in support of the audit findings and conclusions to enable him/her to send the response in proper perspective.

One way to achieve this balance could be to write the draft report as designed for the final report and add all relevant information containing details of sampling of units and transactions/documents, sources and methods of evidence gathering, evidence analysis (where applicable), *etc.* as supporting annexes with cross-references to enable the entity appreciate the audit findings and conclusions and relate them to the evidence and its analysis. The annexes may be dropped at the stage of the final report.

Adherence to style guide

6.18 The presentation and language of the performance audit report should abide by the ‘style guide’ of SAI India. The essence of the style guide is to adopt uniform format and language, render the report simple and reader friendly as well as interesting. *Accountability-centred, third person active voice narration by designation enhances the readability and interest of the reader and induces objective response from the entity.* It should be followed uniformly.

Forwarding of the draft report

6.19 Accountants General may forward the draft performance audit report to the government with a demi-official forwarding letter to the secretary with a copy to the financial adviser to the ministry, 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;
- attention to the orders of the government issued on the recommendation of the parliamentary/legislature committee, setting time limit for formal response, (when specific time limit has not been set, Accountants General may follow that set by the parliamentary committee or any other legislature committee as a reference point);
- 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.

6.20 Accountants General may forward simultaneously a copy each of the draft performance audit report and the forwarding letter to the secretary of the ministry/department to the SAI headquarters (where the reports are finalised in the SAI field offices) along with the following:

- evidence for each audit finding and conclusion along with test of evidence against the standards of relevance, competence and reasonableness, sources of evidence, evidence analysis along with cross-references to the findings and conclusions;
- copies of basic documents referred to in the report *viz.* rules, orders, acts, correspondence, *etc.* with cross-references;
- details of all correspondences, meetings, presentations, *etc.* with the entity with cross-references, where applicable;
- complete audit management process documentation from the stage of audit planning (implementation guidelines) to the processing of the draft report, which demonstrates conscious application of thought on all major issues involved with the management of the audit;
- An assurance memo in the prescribed form;
- period during which audits were conducted in the field along with break up for each stage/unit; and
- names and designations of the members of the audit team and supervisory officer.

Response of the entity

6.21 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. A formal response, apart from ensuring compliance to the orders of the government, issued mostly at the behest of Parliamentary/legislative committees demonstrates earnestness of the entity in implementing the recommendations of audit for improvement in programme management. *Accountants General are encouraged to facilitate a formal presentation of the draft performance audit report before the secretary of the ministry and his team.*

6.22 Since the audit report is presented to the Parliament/state legislature, it is crucial that the response of the entity has the approval of the secretary of the ministry/

department. Accountants General may evolve procedures to assure that the response by the entity is issued by or with the approval of the secretary and an indication to this effect is given in the latter case.

Observation of the SAI headquarters on draft report

6.23 The observations in relation to the audit findings and conclusions, recommendations, evidence, drafting, etc. by the SAI headquarters is a combination of quality control, quality assurance and supervision measures. The observations and suggestions for improvements by SAI headquarters provide assurance on the logical development of findings and conclusions, quality and validity of supporting evidence and objective approach in audit by the SAI top management, which has not been involved on day-to-day basis with the conduct of the audit. It also facilitates review by the SAI top management to ensure that appropriate procedures have been followed by Accountants General in implementation of the audit.

Second journey of the report to SAI headquarters

6.24 The system of simultaneous forwarding of the draft audit report to the entity for its response and SAI headquarters for approval facilitates parallel processing. On receipt of the response of the entity and observations of the SAI top management, Accountants General may incorporate the modifications, warranted by them and forward the draft report along with a response sheet to the SAI headquarters for approval of the report.

Final report

6.25 On approval of the report by SAI top management, the Accountant General may send the bond copy of the report with appropriate annotations for formal approval of the report by Comptroller and Auditor General, after which the report stands cleared for printing of the prescribed number of copies, signature copies for signature of the Comptroller and Auditor General in ink and others with his facsimile signature.

6.26 The printed signature copies of the report are to be forwarded to the SAI headquarters for signature of Comptroller and Auditor General. The signed copies of the report should be forwarded to the government for placing it on the table of the Parliament/state legislatures. Simultaneously, intimation on forwarding of the report along with a copy of the report is to be sent to the secretary to the President/Governor in respect of the reports relating to the Union and state governments respectively. The remaining copies of the printed reports are forwarded to the Parliament/legislature secretariat on their request, generally on the day the report is presented.

6.27 The reporting process is illustrated in the following diagram.

Reporting process

Contents of the report

6.28 The contents of the report should be consistent with the provisions of SAI's Auditing Standards and should:

- contain title, signature and date, objective and scope of audit, addressee (not necessary when formal procedures exist for its delivery);
- be complete;
- identify the subject matter *viz.* areas of performance audit and the legal basis of audit;
- provide assurance that audit has been carried out in accordance with generally accepted procedures in compliance with the standards; and
- be timely.

Structure of the report

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

- *Title*: the subject of the performance audit,
- *Highlights*: major audit findings either in the sequence of their materiality or in the same sequence as the audit objectives and sub-objectives;
- *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. Thus, in so far as the entity and the SAI are concerned, the action would revolve around implementation of the recommendations and follow-up respectively. It would, therefore, be desirable to gather all recommendations together.
- *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;
- *Lessons learnt and sensitivity to error signals:* Under this caption significant audit findings on sensitivity and effectiveness of the internal control system to ensure that the management recognised major causes of underperformance brought out in internal or external studies/reports, including past audit reports and the remedial measures may be included. Also the audit findings on the sensitivity of the management to various error signals generated through internal inspections, evaluations, media reports, complaints, study by interest groups, etc. and effectiveness of the action taken may be also be included. In both cases, the audit findings that could have been avoided with effective lessons learnt and error signal response system may be highlighted.
- *Acknowledgement:* it may be useful to indicate or acknowledge in brief the co-operation, acceptance of the criteria/findings and recommendations by the entity. In case the co-operation or response was not forthcoming at any stage it may be indicated if it has resulted in any limitation along with its implication and the special efforts made by the Accountant General to seek cooperation or response. Care should be taken to state them as a matter of fact rather than giving an impression to convey any accusation;
- *Graph, charts, diagrams, photographs, etc.:* Accountants General are 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.

- *References or bibliography* : containing reference to all published material utilised in developing the report.

Data in the report

6.30 Excessive statistical data diminish the readability of the report. However, quite often inclusion of statistical data in the report is either inescapable or necessary to explain the findings. Accountants General will be called upon to secure a balance between the readability of the report and at the same time render it convincing through inclusion of the statistical information. If the entity response and acceptance have been forthcoming throughout the performance audit, there should be very few occasions where elaborate data may be required to be included in the report. *Care should be taken to make sure that the audit findings and conclusions are stated with the help of logic emerging out of the audit procedures and that the main issues are not underplayed in the maze of statistical data.* Where inescapable, the explanatory data may be included in the form of annexes or appendices, as the case may be; keeping in mind that too many annexes or appendices may make the report appear longer.

Enhancing the presentation and readability of the reports

6.31 Modern publishing techniques should be used to highlight in box form (i) significant audit conclusions and (ii) to explain the technical terms and more importantly, technical processes used in the performance audit reports. The distinction in presentation between the highlights of significant audit findings and explanation of technical procedures, etc. may be achieved with help of formatting and publishing techniques, including different backgrounds and font colours for the two.

Quality assurance of reporting

6.32 Quality assurance of reporting process and the final output is assured by:

- adherence to the auditing standards and the guidelines;
- transparent audit and audit management process documentation of entire reporting process;
- securing entity response at all stages of performance audit process;
- concurrent supervision and control by Accountants General;
- quality control assessment and review by SAI top management before approval of the report; and
- technical inspection by SAI and peer review of the performance audit process.

7. Supervision, review and quality control

7.1 A sound system of supervision and review of audits, particularly of the performance audits contributes to good quality of audit. This chapter outlines the system of supervision, review of the work of performance audit and quality control within SAI India.

7.2 Auditing Standards of SAI India state:

‘The work of audit staff at each level and audit phase should be properly supervised during the audit; and a senior member of the audit staff should review documented work.

Supervision is essential to ensure the fulfilment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control are, therefore, necessary in all cases, regardless of the competence of individual auditors.

Supervision should be directed both to the substance and to the method of auditing.’

7.3 Supervision of audit involves ensuring that:

- the members of the audit team have a clear and consistent understanding of the audit plan;
- the audit is carried out in accordance with the auditing standards and practices of the SAI;
- the audit plan and action steps specified in the plan are followed unless a variation is authorised;
- working papers contain evidence, adequately supporting all conclusions, recommendations and opinions;
- the auditor achieves the stated audit objectives; and
- the audit report includes the audit conclusions and recommendations, as appropriate.

7.4 Performance audit being more open to judgement and interpretation requires close and careful supervision. Accountants General may ensure that for each assignment the supervision procedures and system of monitoring compliance to them are prescribed as part of the detailed operational guidelines.

Structure of supervision

7.5 Supervision is exercised by senior members of audit staff and SAI management at various levels:

- by the group supervisory officer and Accountant General, during planning of the individual performance audits;
- by the audit officer, during the course of field audit, further supervised by group supervisory officer;
- by the Accountant General during review of periodic reports, monitoring and interim appraisals at the close of the audit of a particular phase or unit; and
- by the SAI top management during approval of the strategic and operational plans, implementation guidelines, mid-term/interim appraisal or meetings at intervals determined with reference to the complexity and time period of performance audits.

7.6 The key supervisory role for the performance audit planning, implementation of the audits and reporting rests with the group supervisory officer, who should be involved with all key elements of the performance audit process. The performance audit and the process documentation, should demonstrate the discharge of his/her supervisory role at each stage. Accountants General may determine their supervisory intervention at their discretion and will be called upon to personally supervise in all matters that are to be addressed, either in writing or in personal meetings, with the entity-in-chief (secretary) of the ministry/ department.

7.7 All audit staff and officers are individually and collectively responsible for the quality of the audit reports. It is, however, imperative that the audit personnel understand the most important role that they have to play. The Audit team is primarily responsible for *data collection*. The Audit Officer and the Group Supervisory officer are responsible for *data analysis*. The Accountant General is expected to apply his *judgement* to the audit findings, conclusions and recommendations, while the most important role of the SAI top management is to impart *vision* to the entire performance audit process.

Responsibility of the supervisory officer

7.8 Some of the more important responsibilities of the supervisory officers in relation to performance audit are to ensure:

- that the work plan is executed with integrity and care in relation to the auditing standards;

Supervision, review and quality control

- that the implementation of audit is carried out in accordance with the operational audit plan and all significant deviations, where necessary, are made only with prior authorisation of the Accountant General or under intimation to him/her;
- adherence to the best practices contained in these guidelines;
- documentation - both the performance audit documentation (working papers) as well as the performance audit process documentation, which demonstrates various actions and options considered and decided in the course of implementation; and
- that confidentiality and integrity of information obtained from the entity, persons and other sources are maintained and that the factual basis of information, descriptions, analyses and recommendations are accurate and they are fair, balanced and well founded, that they are correctly communicated to the entity and the audit team is provided oral and written guidance in conduct of the audit.

Supervision by the audit officer

7.9 The day-to-day supervision and control of the performance audit particularly the field audit will rest with the audit officer. Some of the more important supervisory responsibilities of the audit officers are:

- ensuring that the audit work is carried out in harmony with the audit plan, more particularly, in tune with the audit objectives;
- identification of important issues in course of audit;
- ensuring that no significant matters in the context of the audit objectives and evidence required, therefore, remain unresolved;
- evidence collected fulfils the criteria prescribed in the Auditing Standards;
- the work performed and the results including the process of audit are separately documented, first in support of audit findings, conclusions and recommendations and the second in support of due diligence exercised by the audit team; and above all
- ensuring that the objectives of audit are fully met.

Progress reporting

7.10 The audit officer and group supervisory officer will be responsible for reporting the progress of audit to the next level supervisory officer; at intervals as may be provided

in the detailed audit implementation plan or as demanded under the orders of Accountants General. The progress reports should contain all important information relating to the progress of audit, extent of data collection, sources of data collection, analysis of evidence, time spent in audit against the time allotted, dialogue with entity, problems encountered in the course of audit and modification applied to the audit plan, if any, *etc.*

7.11 Accountants General may prescribe assurance memo to be furnished by the group supervisory officer and audit officer for each performance audits and on completion of the audit of each unit or stage in the performance audits. Accountants General may send '*work-in-progress*' to SAI top management every quarter or as determined by SAI top management in the PERT format, including explanatory note that may be required in the context of the progress reports.

Supervision and control during reporting process

7.12 Group supervisory officers and Accountants General will be required to closely supervise the preparation of various reports in course of performance audit.

7.13 The group supervisory officer may supervise preparation of all discussion papers, audit observations and draft field audit reports. It will be desirable that Accountants General exercise their supervisory role in respect of draft field audit reports, where applicable, since consolidation of these reports is to culminate in the draft and the final performance audit report. They may also maintain a supervisory oversight on the development of discussion papers and audit observations.

7.14 The draft performance audit report will be prepared under direct personal supervision of the Accountant General.

Review

7.15 The Auditing Standards of SAI India state:

'All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It should be carried out as each part of the audit progresses. Review brings more than one level of experience and judgment to the audit task and should ensure that:

- All evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;

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- All errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and
- Changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities.’

7.16 A review ensures involvement of higher levels of management with the audit process and provides an assurance that the work has been carried out as per the standards and guidelines. The review of the performance audit works is carried out at each stage of the performance audit cycle as under:

- by the audit officer on concurrent basis when the team members conclude a particular stage in the field work;
- by group supervisory officer at the time of preparation of discussion papers, audit observations and field audit report;
- by the Accountant General at the time of preparation of field audit reports and draft audit report and by SAI top management during the mid-term appraisals and workshops; and
- by SAI top management while evaluating the draft performance audit report and quality checks before approval of the Comptroller and Auditor General of India.

Quality control

7.17 It is important that an appropriate quality control system is in place and operates efficiently within the SAI. The probability of acceptance and implementation of the recommendations increases with high quality audit. *High quality of performance audit is established if it can be demonstrated that audit findings, conclusions and recommendations are warranted and fully supported by good quality evidence, analysis and supervision.* The quality control system is ingrained in SAI top management’s expectation of and insistence on quality including the principle, policies and procedures by which it can be achieved.

Quality control procedures

7.18 The objectives of quality control procedures are:

- professional competence;
- professional independence;

- supervision and delineation of responsibilities for audit;
- guidance and assistance;
- clear understanding of quality control system and accountability by the audit staff;
- feedback and monitoring system; and
- generation of error signals.

Quality control system

7.19 Quality control and management system in the context of performance audit within SAI India consists of the following elements:

- strategic/perspective/operational planning – the principles governing the planning, data/information forming the basis of planning and the quality of the detailed process of planning;
- ensuring the quality of each assignment evolved against the Auditing Standards, work procedures, skill and knowledge of staff, documentation and reporting;
- evaluating the intended outcome of the performance audit – right job done the right way provides the best opportunity to get the desired results;
- quality checks by the supervisory officer, Accountant General and by SAI top management throughout the performance audit cycle generally and before the approval of the final product (audit report) in particular;
- top managements' involvement with ensuring quality by providing guidance on strategic planning, reviewing planning procedures and approving them and evaluating progress;
- post audit internal quality reviews carried out by Accountants General to satisfy that the quality control system in place has resulted in consistent quality of performance audit; and
- post audit quality review on selective basis by SAI top management to satisfy that the field audit offices apply the quality standards consistently.

Key quality control and assurance questions

7.20 The entire drill of the performance audit from the strategic planning to the follow-up procedures and quality assurance system within SAI India is designed to provide satisfactory answers to the questions that address the quality control system.

Some of the more important questions in the context of the quality of the performance audits that these guidelines seek to provide answers to are as follows:

Key quality questions	Answers
Am I doing the right work?	Strategic planning and annual operational plans in pursuit of the strategic goals and strategic objectives and risk and materiality based planning, <i>etc.</i>
Am I doing the job right?	Detailed procedure for implementation guidelines, field audit procedures, evidence gathering, evidence analysis and evidence testing methods, standards on reporting process, <i>etc.</i>
Am I getting the results right?	Value addition due to performance audit through impact evaluation and follow-up procedures.
Does my organisation perform consistently high quality of work as a matter of habit and routine?	Auditing Standards, organisational goals and objectives, consistent application of quality checks, training and skill development, assessment of attainment of strategic goals and objectives, technical inspections and peer review and relentless evolution of the principles and techniques of performance audit and development of the best practices within SAI India, <i>etc.</i>

Quality assurance for supervision and review

7.21 Quality assurance in supervision and review as well as in the quality control is ensured with the help of the following:

- adherence to Auditing Standards and guidelines;
- defined structure and system of supervision, review and quality control;
- strict conformity to the prescribed supervision, review and quality control system;
- periodic reporting and monitoring during performance audit process; and
- peer review and technical supervision review.

7.22 SAI management may prescribe specific supervision and review procedures for each performance audit undertaken while formulating the detailed operational guidelines for performance audit.

7.23 Accountants General may design the internal post audit quality review tests for all performance audits and document their findings and improvements introduced in the quality control system. This will provide a platform.

8. Follow-up procedures

8.1 Performance audit reports are essentially a ‘means’ to the ‘end’ of improving public sector performance and accountability. This can be achieved through implementation of the recommendations contained in the performance audits. Consistent and systematic follow-up process in the SAI may contribute significantly to the effectiveness of performance audit in improving the programme management. *The essence of performance audit and recommendations included in them is in the expectation of securing the corrective actions that may achieve the desired results, briefly said, the guiding spirit is ‘getting the results’.*

8.2 Follow-up procedures in relation to performance audit essentially concentrate on implementation of the recommendations. The follow-up of SAI’s recommendations is aimed at the following main objectives:

- *increasing the effectiveness of audit reports* - to increase the probability that the recommendations will be implemented. Awareness that the recommendations would be followed up may be expected to increase the likelihood that the entity management would implement the accepted recommendations;
- *assisting the legislature* - follow-up reports may provide valuable information to the committees of Parliament/state legislature for their examination;
- *evaluating the SAI performance* - follow-up programme and outputs may be a good measure for assessing and evaluating SAI performance, particularly for validating the expected cost savings and improvements in programme management, etc. anticipated at the time of planning the audit; and
- *provides an input* to the strategic planning of performance audit by the SAI.

Follow-up procedures

8.3 Follow-up activities are essentially directed towards ensuring implementation of the recommendations i.e., the focus is on the correction to the previously identified weaknesses.

8.4 The follow-up procedures in the context of performance audit should be established keeping the following features in mind:

- The performance audits which are selected by the committees of the Parliament/state legislature for detailed examination and oral evidence

should be pursued in the context of the decisions of the respective committees, if their recommendations have been issued. Good quality of performance audit being assured with the help of the quality assurance measures adopted by SAI, it would be expected that the recommendations of the committees of the Parliament/state legislature would not only support but also strengthen the recommendations by audit. Where, however, the examination and issue of recommendations by the committees of the Parliament/ state legislature have not taken place, Accountants General may continue to pursue the follow-up on recommendations as in the cases where the subject is not selected for detailed examination;

- In cases of the performance audits that are not selected for detailed examination, Accountants General will carry out follow-up procedures to secure implementation of the recommendations, particularly those that are accepted by the entity. The procedure to be followed in cases where there is disagreement with the entity has been dealt with separately in this chapter.

Parliamentary guidelines

8.5 While the orders of the government, generally issued on the recommendation of the legislative committees, in the context of follow-up ‘action taken notes’ by the entities may vary from state to state, the model applicable to the Union Government, issued at the instance of the Public Accounts Committee may be kept in view.

8.6 As per the extant procedure, applicable in case of the reports on the Union Government, the ministries and departments are to forward the ‘action taken note’ against all matters included in the report of the Comptroller and Auditor General to the Parliamentary Committees within the prescribed time. The ‘action taken note’ is vetted by Accountants General for correctness of facts and figures, adequacy of the remedial measures and explanations for underperformance before they are submitted to the committees of the Parliament. The ministries and departments submit the ‘action taken notes’ after attending to the comments of Accountants General. In exceptional cases, they may include the vetting comments of Audit along with a response to the comments before submission of the notes to the committee.

8.7 *In vetting the ‘action taken notes’ Accountants General may concentrate on the substantive action on the recommendations, rather than on the form. The action taken reported in the notes of the entity should be generally accepted without verification at that point of time. However Accountants General may flag issues, which may be needed to be verified specifically as part of the follow-up programme.*

8.8 While no uniform model can be suggested for securing the implementation of the recommendations and the procedure outlined above may be one of the models, the ultimate objective should be to ensure prompt and effective implementation of the recommendations. Towards this end, Accountants General may persuade the Government or assist the committees of the legislature to issue similar instructions, where no formal procedures have been established.

Procedure for recommendations not accepted

8.9 As pointed out in chapter 4, Accountants General may be faced with situations where the performance audit reports include one or more recommendations, which were not accepted by the entity. In such cases, Accountants General may persist with further discussions and persuasion to take such recommendation(s) to logical conclusion, rather than abandoning them as deadlock. One of the methods could be to take it up with political executive (Prime Minister, Minister, Chief Minister, etc.) as per the extant procedure obtaining within the SAI, if the implications are vital. Another method could be to take all such major issues, where the SAI is of the considered opinion that their implementation is likely to contribute significantly to the improvement in programme management, to the respective committees of the Parliament/state legislature in the form of a generic follow-up report.

Annual follow-up programme

8.10 Accountants General may prepare annual operational plan for follow-up programme in relation to the performance audits conducted in the past. The annual operational follow-up programme should be incorporated in the annual audit plan prepared by each field office under distinct section.

8.11 The annual follow-up programme should be supported by data on major recommendations made in the past, recommendations stated to have been implemented but not tested through follow-up audit and recommendations not implemented by the entity. This should be supplemented by the feedback received from other field audits, including regularity audits suggestive of persistence of the programme weaknesses, which should have been addressed with the implementation of the recommendations. Similar information may be available from other sources; viz. media, legislative debates, academic research, *etc.* suggesting shortcomings in the areas that were expected to have been addressed through the performance audit.

Objective of follow-up programme

8.12 The follow-up programme is oriented towards:

- compliance with the accepted recommendations with emphasis on encouraging the implementation rather than highlighting the lack of action;
- strategy for recommendations that are not replied/not accepted/partially accepted;
- follow-up on the accepted recommendations for which compliance reports are awaited;
- testing the quality of implementation of the recommendation and impact thereof; and
- assessment of audit effectiveness and value addition to the entities and programme management through performance audits.

8.13 The follow-up activity can be performed by:

- ascertaining the implementation of the recommendations;
- carrying out a *desk review*, which involves more detailed review of the implementation of the recommendations, which may involve a series of meetings and presentations, but does not involve extensive fieldwork;
- a detailed follow-up review involving comprehensive field work in relation to the recommendations made in the performance audit report, including the quality and effectiveness with the objective of preparing a report to the legislature; and
- a generic follow-up audit of similar types of significant recommendations in the same or various entities with a view to analysing the common reasons for underperformance and a report to the legislature.

Inventory of recommendations

8.14 The starting point for follow-up procedures could be a comprehensive inventory of recommendations maintained in appropriate data base by all Accountants General. The inventory should consist of all recommendations, with appropriate grading under '*vital or critical*', '*significant*' and '*important*'. The database should also contain other relevant information *viz.* the year of audit report, status of acceptance *viz.* accepted, partially accepted, not accepted and not replied, nominal implementation reported by the entity and the time of such reporting, risk associated with non-implementation or poor

implementation, besides follow-up reviews. This inventory should be maintained as a permanent database, which may assist in performance audit planning in future.

8.15 Where the committee of legislature has examined a performance audit report, the inventory may contain the final recommendations made by the committee.

8.16 Accountants General may monitor the preparation and updating of the inventory and send reports to SAI headquarters at the prescribed intervals.

Method to deal with significant delay in implementation of the recommendations

8.17 It may be desirable that Accountants General are able to persuade the secretary of the department to implement the accepted recommendations as expeditiously as possible, so that the value addition through performance audits is realised at the earliest. They may bring the delay in implementation of significant recommendation(s) to the notice of the minister, in case of the recommendations relating to state governments. If the matter is significant enough so as to warrant taking up with the Chief Minister, the issue may be referred to the SAI top management. In regard to matters pertaining to the Union Government, such issues may be taken up with the minister or the Prime Minister by Comptroller and Auditor General. Accountants General may refer such matters to SAI top management along with the consequence of delay in implementation of the recommendation(s). Another method could be to prepare a generic follow-up report for presentation to the legislature. This will involve detailed field study to highlight the risk of delay in implementation of the recommendation(s).

Effectiveness of performance audits: assessment

8.18 An efficient follow-up programme serves dual purpose, both linked intrinsically to each other. Apart from achieving improvements in performance of the public sector programmes, it is an important instrument of evaluation of effectiveness of SAI performance audits.

8.19 Accountants General may carry out an evaluation of the effectiveness of the performance audits annually. The internal evaluation may consist of:

- the expected outcome of each performance audit anticipated at the time of planning;
- *the actual value added, qualitatively and quantitatively to the programme or the entity as a result of implementation of the recommendations; and*

- the reasons for significant variation between the expected value addition and the actual. The variations may be attributed to under assessment or over assessment, deficient entity response and deficient quality of performance audit. The evaluation will include the remedial measures also.

Reporting to SAI Headquarters on audit effectiveness

8.20 Accountants General may send the result of their internal impact evaluation on the effectiveness of the performance audit to SAI top management with detailed explanatory notes.

Quality assurance of the follow-up programmes

8.21 Quality assurance of the follow-up programme is provided by:

- compliance to the provisions for follow-up programmes in these guidelines;
- supervision by Accountants General;
- monitoring by SAI top management; and
- internal quality reviews, evaluation and peer reviews.

8.22 The audit effectiveness through performance audits may be incorporated as a specific area in the SAI's programme of technical inspection, peer review, *etc.*

9. Quality assurance in performance audit

9.1 High quality of performance audit is achieved with help of a sound quality assurance system within the SAI. *The concept of quality assurance encompasses all 'efforts' to ensure that a high quality of service or product is provided.* It is about the 'processes' by which the SAI goes about doing what it does. Part of this is knowing that 'right things' are done at 'right time'; a part of it is doing them the 'right way'. *In short, assuring quality is about 'confidence' that every thing needed for a high quality of work will be done.* While quality assurance system in relation to each stage of performance audit process has been dealt with in each chapter, overall quality assurance systems and procedures applicable to the performance audit as a whole is dealt with in this chapter.

Auditing standards

9.2 SAI India's Auditing Standards state:

'SAI should have an appropriate quality assurance system in place.

SAI should establish systems and procedures to:

- confirm that internal quality assurance processes have operated satisfactorily;
- ensure the quality of the audit report; and
- secure improvements and avoid repetition of weaknesses.'

9.3 The objectives of quality assurance programmes in SAI India are to satisfy its top management that:

- the audit work is carried out to an appropriate standard;
- the output has been presented in a satisfactory manner; and
- the work in general meets the legitimate needs of the legislature, audited entities, the media and the public at large.

9.4 Quality assurance depends on a number of inter-related factors, which might be considered under the following groups:

- *basic conditions* for good performance *i.e.*, the general foundations on which the day to day work depends;
- *quality features*, which are built into the routine procedures for performance audit work encouraging good performance and reviews to determine the extent to which it is achieved on a continuing basis;

- *supporting elements* needed for good performance, such as the adequacy of resources and facilities; and
- *controls and reviews* designed specifically to examine and improve the quality of performance.

Quality assurance and quality control

9.5 Quality assurance and quality control are not one and the same. Quality assurance is ‘*process-centric*’ while quality control is ‘*product-centric*’. *Quality assurance system concerns all steps and techniques that the performance auditors must follow to assure good quality audit while quality control system attempts to make sure that the results of performance audit are what was expected. The quality assurance is for the entire life cycle of the performance audit while quality control measures apply to individual stages or products.* Quality assurance system is put in place before the work is undertaken or done while quality control is applied during and after the work is completed.

Quality assurance system in SAI India

9.6 The quality assurance system within SAI India consists, among others, of:

- performance audits conducted in pursuance of strategic goals and strategic objectives;
- setting the reasons or the audit objectives of performance audits;
- the implementation guidelines on performance audit;
- organisation of audit work with clearly defined responsibilities for team members, audit officers and supervisory officers;
- standards of qualification and competence of the staff members, continuing skill development and training;
- standards for independence, competence, due care, field standards relating to planning, supervision and review, evidence, financial and performance audits, reporting and follow-up;
- documentation of the audit and of the management process;
- internal quality control system including the guidance on technical and administrative aspects of quality control; and
- quality review/assurance programmes.

Quality assurance reviews

9.7 The quality assurance review programmes should not be confused with the quality control measures. The quality control system is expected to be functioning as a matter of course, while quality assurance review is a deliberate exercise to provide feedback on functioning of the quality assurance systems measures. The quality control exercise functions as part of the system, while a quality assurance review is to be carried out at various stages of the performance audit process.

9.8 The quality assurance review may consist of the following features:

- *planning reviews*: the review of the strategic plan and annual operational plan by SAI top management is conducted at the time of its examination and approval of the strategic plan, annual operational plan and detailed guidelines for the implementation of the individual performance audits. The reviews are carried out with a view to ensuring that the plan is consistent with SAI's strategic goals and objectives and adequate consideration has been given to all matters required for strategic and annual operational plans and that the planning of individual performance audit covers comprehensively all issues, more specifically of audit objective, criteria, evidence gathering, supervision and review procedures, etc;
- *on-going reviews*: the procedures and tasks performance are concurrently reviewed by the audit officers and supervisory officers, which support in maintaining the quality of tasks and provide staff development through feedback and on-the-job training;
- *task reviews*: all completed tasks are reviewed prior to their finalisation; and
- *product reviews*: review of the final product – the audit report – against the standards and the stipulations in the guidelines.
- *annual review programme*: the SAI is to establish an annual performance audit quality assurance review programme for all Accountants General, to be carried out independent of those involved with the audits to ascertain any weaknesses in the methodology and practices.

Quality assurance review programme

9.9 Performance audit quality assurance review programme is a series of independent *peer reviews* of the activities undertaken within the SAI to assess the overall quality of performance audits. The objective of the programme should be to provide an assurance

that the tasks have been performed strictly in accordance with the standards and guidelines as also to establish whether the policies and procedures themselves needed any modifications. Quality assurance reviews address both adherence to the prescribed procedures and the quality of work performed.

9.10 The quality assurance review may consist of review of the selected tasks or group of tasks randomly as well as an annual programme of task reviews. The task selected for quality assurance reviews should follow the norm of high-risk procedures and task besides quality review of important performance audits. The high-risk procedures are those that are either critical to the process, *e.g.*, setting the audit objectives and criteria, assessment of skill, knowledge and competence available in-house, efforts for entity co-operation and response and evidence analysis, *etc.* The performance audits of relatively more complex subjects and those consisting of only qualitative criteria are another example of high-risk subjects.

Standardisation of quality assurance questionnaire

9.11 While it is not intended to curb the professional instinct of those carrying out quality assurance reviews, the quality of such reviews can be substantially enhanced with the help of a standard exhaustive questionnaire or check-list, which can form a framework for quality assurance review. SAI headquarters may prescribe detailed questionnaire for quality assurance review, consisting of the questions applicable generally to performance audit in all sectors, *viz.*, civil, defence, railways, *etc.* Questions specific to audit of different sectors of entity operations may be added to the questions of general applicability.

Report on quality assurance review

9.12 The results of quality assurance reviews may be placed before SAI top management annually, or on demand during the course of the year. The structure of the report may consist of:

- constitution of the quality assurance review team;
- terms of reference, if any;
- period of coverage and period during which the quality assurance review was carried out;
- objectives of quality assurance review;
- special tasks assigned by SAI top management, if any;
- highlights of the findings – positive findings on good practices, deficient practices and procedures and requirement of modification of any of the existing practices and procedures; and

- detailed findings and recommendations.

Standards of assessment

9.13 Until any orders or guidelines are amended, the quality assurance review should be carried out with reference to the Auditing Standards and the performance auditing guidelines. *The focus of the quality assurance review should be on the quality of processes and task performance, including documentation rather than personnel oriented.* In other words, rather than being critical, the quality assurance review should aim at assisting in improvement of the quality of performance.

Selection of quality assurance team

9.14 The selection of quality assurance teams shall be made by SAI top management. In doing so, the skill and aptitude of personnel selected for quality assurance review may be kept in mind.

Annual summary of quality assurance review

9.15 SAI may publish an annual summary of quality assurance reviews, for internal use within the department, highlighting the best practices or benchmarks in the field offices which may be emulated by others and deficient procedures and practices that should be improved. Such a practice may encourage healthy competitiveness among various offices to attain the highest standard of quality.

Skill and knowledge of audit personnel and training

9.16 One of the most important prerequisite of good quality audit is the competence of audit personnel. The competence of audit personnel is established through qualifications set for each grade of audit personnel, competitive selection process and training and development. The qualifications and the selection procedures for audit personnel are already well established. The SAI and Accountants General may give special attention to their training and skill development for performance audit. While training and development may be necessary for all auditors, it is critical for the performance audit, which is a knowledge-based activity. It will, thus, be imperative that the performance auditors are provided training for skill development to refine their concept of objectives of the performance audits and the procedures for each stage in the performance audit cycle.

Auditing standards

9.17 The SAI India Auditing Standards state the following with reference to the competence of the personnel.

‘The auditor and the SAI must possess the required competence.

The audit department needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Persons whose education and experience is commensurate with the nature, scope and complexities of the audit task should carry out the audit work. The audit department should equip itself with the full range of up-to-date audit methodologies, including system-based techniques, analytical review methods, statistical sampling and audit of automated information systems.’

Annual training and professional development programme

9.18 Accountants General may include the training requirement of the audit personnel for performance audits in the overall annual training programme for their offices in a distinct section. The annual training programme should consist of training in regional training institutes or regional training centres or in-house within each office. The training programme may be formulated on the basis of a transparent assessment of the skill and knowledge generally required for conducting performance audits, the existing level of skill and knowledge and the gap between the two. The training programme should be aimed at bridging the gap of ‘what it should be’ and ‘what is’. The training programme should be formulated for general development of skills and knowledge as well as for specific requirements with reference to subjects selected for performance audit in the strategic plan.

9.19 The objective of training and skill development in performance audit should be to improve the audit acumen, competence and knowledge management. The audit personnel should be made conversant with the practices on performance audit. The aim should be to make sure that all audit personnel understand the principle and practices alike and simultaneously understand their own responsibility and accountability for compliance to them. Since performance auditors are required to present their audit findings in a persuasive manner and will be called upon to interact with the entity on a regular basis, the training module should also consist of behavioural aspects of auditing. SAI may prepare standardised training modules for performance auditing through its regional training institutes, which may be uniformly used for training in performance audits by regional training institutes. The course modules may be continuously improved on the basis of experience gained during the training and feedback from the instructors and participants.

10. Critical issues in performance audit

10.1. While all steps and actions in performance audit process consisting of planning, implementation, reporting and follow-up are important and must be negotiated deftly; the most critical among them are outlined below with the objective of at a glance recapitulation. Because of the very nature, some of the issues have been repeated in the light of their contexts. The issues in this chapter have only been flagged rather than explaining them all over again. The crucial issues are presented in two sections. The first section contains the important considerations in the context of management of performance audit and consists of steps that must be traversed and documented to provide assurance of consistent high quality of audit. The second section consists of the most crucial issues in relation to techniques and documentation that should be applied to performance audits. It may be noted that the list is not exhaustive and must be understood in the context of the detailed expositions in the preceding chapters. The list of issues may assist Accountants General, group supervisory officers and audit officers ensure the quality of audit, monitor and review the crucial procedures in management and implementation of performance audits.

Section I: Audit management issues

10.2 Mandate for performance audit

- Mandate under the Constitution and Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971;
- Section of the Act under which a particular audit is covered, read with section 23 of the Act; and
- Mandate strengthened through convention - performance audits carried out over the past 40 years on a variety of subjects, the reports on all of them having been presented to the Parliament and state legislature.

10.3 Strategic planning for performance audit

- Strategic planning for performance audit is not the same as the strategic planning of SAI India, but should be consistent with it;
- Set strategic goals and strategic objectives to be achieved through performance audits;

- Prepare performance audit strategic plan to fulfil the strategic goals and objectives and document how the selected performance audits will accomplish them;
- Prepare comprehensive directory of data sources, collect and update all possible data that assist the strategic planning;
- Ensure that the strategic goals and objectives are set in the context of perceived risks and materiality of issues of financial, non-financial or governance nature;
- Be alive to the major policy shifts affecting the governance and large sections of public and select cutting-edge and sunrise subjects for performance audit;
- Prescience of the policy shifts and anticipation of the risks associated with the policy shifts and emerging national or international environment demonstrate the cerebral capability of the institution; and
- Plan performance audits in time to ensure value addition to the management of the programmes.

10.4 Annual operational plan

- Consists of the performance audits of the subjects, including the subjects brought forward from the previous years that are to be implemented during the year;
- Provides an opportunity to review the plan in the light of new developments and risk assessment since the approval of strategic plan; and
- Provides a basis for assessment of the performance of the Audit Offices on annual basis and affords an opportunity to assess and re-assess the skill and knowledge required and those available in-house, which forms a basis for training programmes, engagement of consultants / experts and outsourcing.

10.5 Performance audit implementation plan

- Gather all relevant data and documents to understand the entity and the programme;
- Intimate the entity about the intent to carry out the performance audit;

- Facilitate / persuade formal presentation by the entity to explain the various aspects of the programme;
- Invite representatives of other departments / agencies which have a stake in the programme by way of provision of funds, evaluation, etc;
- State the reasons for conducting the performance audit by setting out audit objectives and sub-audit objectives;
- Set audit objectives in the form of complete statement of questions, the answer to which will satisfy the reasons for conducting the performance audit;
- Set audit objectives under distinct themes and sub-themes with reference to programme objectives, further developed in the context of audit concerns;
- Specify the audit concerns of economy, efficiency and effectiveness that the audit objectives and sub-audit objectives address individually or severally as also the equity and ethics aspects, in so far as they affect one or more of the primary concerns of economy, efficiency and effectiveness;
- Set quantitative and qualitative audit criteria against which the performance will be tested to develop audit findings;
- Set one or more criteria for each audit objective or sub-objective;
- Identify tentatively the evidence/ data required to be collected for testing each criteria;
- Identify sources of data and determine the methods of data collection;
- Plan for procurement of expert advice or the services of consultant;
- Assign duties and responsibilities; and
- Make a formal presentation to the entity of the audit plan, including the audit objectives, criteria, evidence required and tentative location of audits and invite the representatives of other concerned departments also.

10.6 Use of expert, consultant and outsourcing

- Document transparently the assessment of knowledge and skill required for each performance audit;

- Examine and document how the required skill can be fully met in-house, without compromising the audit quality; and
- Follow the procedure in vogue within the SAI in the matter of procedure for procurement of services of expert/consultants.

10.7 Entity consultation, cooperation and response

- Entity cooperation and response being the hallmark for the success of performance audits, Accountants General will be called upon to adopt a persuasive approach to attain goal-matching;
- Rather than quitting in the face of inadequate response, the objective will be to continue making efforts with a view to making such cooperation a routine in time to come;
- The method of persuading the entity for full cooperation is left to the judgement of Accountants General;
- The cooperation of the entity is not to be confused with agreement on all issues. Recognition of possibility of difference in opinion and its resolution is inherent in cooperation;
- Entity cooperation and response should be obtained throughout the performance audit process- from the intimation of the intent to the recommendation and finally to the implementation of the recommendations; and
- Entity cooperation is to be secured through a series of transparent measures:
 - Sharing of the subject selected for performance audit in the strategic plan with the secretary;
 - Intimation to the secretary when the subject is taken up for performance audit;
 - Presentation by the entity for understanding the subject;
 - Presentation by the Accountant General on audit implementation plan containing audit objectives and audit criteria;
 - Request for agreement with the criteria;
 - Entry and exit conference;
 - Discussion papers and audit observations;

- Formal presentation of audit findings, conclusions and recommendations; and
- Follow-up procedures involving implementation of the recommendations.

10.8 Supervision and review

- Supervisory responsibilities should be delineated in the audit plan;
- Supervision trail, as far as possible, must be maintained for subsequent review; and
- The performance audit work and documentation should be reviewed as per the plan as well as at random intervals.

10.9 Monitoring progress and periodic reports

- The frequency of monitoring by various levels of officers should be built into the audit plan;
- Progress report on various stages of performance audit cycle should be built into the plan and should be submitted with appropriate explanatory note; and
- Accountants General to submit quarterly '*work-in-progress*' report to the SAI top management with explanatory notes.

10.10 Quality assurance and quality control

- The members of audit team and supervisory officer will be made aware of the quality control system within the offices of Accountants General and in SAI headquarters;
- All audit personnel ought to be aware of the quality assurance system established in SAI India and ensure compliance to the quality standards;
- Assurance memo in the prescribed format will be enclosed with (i) strategic plan, (ii) annual operational plan, (iii) audit implementation guidelines and (iv) draft performance audit report;
- SAI may draw up a quality assurance programme for each office; and
- A summary of the results of quality assurance reviews should be published highlighting good practices for emulating and deficient practices and procedures to be addressed for improvement.

10.11 Duties, responsibilities and accountability

- The duties and responsibilities of each member of the audit team, audit officer and supervisory officer shall be stated clearly with reference to compliance to the prescribed procedures, professional conduct, field audit, evidence/data gathering, quality of data and documents, documentation, dialogue with entity, audit test, audit findings, recommendations, guidance to the team members, monitoring, supervision, reporting and preparation of reports, etc;
- A review may be made during the course of audit and upon conclusion of the performance audit on the quality of fulfilment of the responsibility by the performance audit team members and supervisors;
- Accountants General may prescribe assurance memo to be furnished by the group supervisory officer and audit officer for each performance audits and on completion of the audit of each unit or stage in the performance audits; and
- Assessment of the quality of audit and the performance of audit personnel for each procedure, data collection, data analysis, documentation and output during the performance audit cycle enhance the quality of performance audit.

10.12 Process documentation

- Process documentation of all management actions and judgments may be retained throughout the audit to provide a trail for review of management actions;
- The process document should contain all considerations that do not form part of the working papers for the performance audits in support of the audit findings, conclusions and recommendations; and
- The more important among the process documentation, which demonstrates management actions, should be sent to SAI top management with the draft performance audit report along with assurance memo in the format prescribed by SAI top management.

10.13 Impact evaluation of performance audits

- All performance audits will be conducted keeping the expected impact on the programme in mind. The expected value addition- *qualitatively and quantitatively*- will be estimated before taking up the performance audits;

- Impact evaluation against the expected impact of *each* performance audit and *collectively* for all performance audits conducted by the Accountant General shall be carried out annually; and
- The impact evaluation will be carried out with reference to the recommendations accepted and implemented.

Section II: Critical technical issues in performance audits

10.14 Fundamental principles

- 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 audits also address 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 audits are 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 audits 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 audits could be financial, non-financial or public interest and governance issues;
- The subjects selected for performance audits should include cutting edge issues that form the core of governance and sunrise issues in the light of policy shifts;
- Prescience of the risks to programmes or public interest demonstrates the competence of the institution;
- Performance audits can be carried out *posteriori* or concurrently;
- Performance audits 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 and 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 audits being knowledge-based exercise, in which conclusions emerge from interpretations, call for special skills, knowledge and competence of the audit personnel.

10.15 Audit plan and programme – detailed guidelines for conduct of audit

- The detailed audit implementation guidelines will consist of all relevant information and document required for complete understanding of the entity, besides the audit objective, criteria, types and sources of evidence to be gathered, audit test programme, delineation of duties and responsibilities among team members and supervisors, progress reports, etc;
- The implementation guidelines should be such as to address all issues designed in the prescribed structure; and
- Unless authorised by general or special order, the performance audit guidelines will be approved by SAI top management.

10.16 Audit objectives

- Audit objectives will be the focus of field audit and data collection;
- All audit objectives and sub-objectives will address one or more of the core audit concerns of economy, efficiency and effectiveness and the concerns addressed by each audit objective and sub-objective will be identified against each of them;
- The evidence testing will also revolve around the audit objectives; and
- Audit objectives need not be limited to testing of the programme objectives. The audit objectives go much beyond the programme objectives to test the programme for economy, efficiency and effectiveness.

10.17 Audit criteria

- Audit criteria are performance measures against which the evidence is tested for arriving at the audit findings and conclusions;
- For each audit objective or sub-objective there must be at least one criterion and testing on more than one criteria against the same audit objective enhances the acceptability of audit findings and makes them convincing;
- Audit criteria should be acceptable to the entity;
- In the event of disagreement in a few cases, it may be a good practice to request the entity to suggest alternative criteria;
- All possible sources of criteria should be consulted to arrive at the best fit;
- Criteria developed by or in consultation with the experts of repute assume enhanced credibility and are easily acceptable;
- Institutional consultancy for criteria and for other consultancy or advice in the performance audits have better credibility and acceptance;
- Performance criteria prescribed in the programme or later developed by the entity should be tested for appropriateness and unless otherwise established that they may hide underperformance or over-pitch the performance, these should be adopted in performance audits;

- Performance audits need not confine to the entity established criteria, but should go beyond to establish more criteria to provide tests for all audit objectives and sub-objectives; and
- The ultimate objective should be to persuade the entity to include performance criteria within each programme.

10.18 Audit evidence for testing against criteria

- All data and evidence to be gathered will, as far as possible, be pre-determined with reference to each criterion, which are intrinsically linked to each audit objective or the sub-objective;
- The sources and location of data / audit evidence and method of gathering them shall be determined in the audit implementation plan;
- Evidence in support of each audit finding will be transparently tested on the standards of relevance, competence and sufficiency (reasonableness) in the working papers;
- The secondary evidence viz. surveys, photographs, physical inspection, etc. should be corroborative and should not form the only basis of audit finding, unless accepted by the entity;
- Accountants General are encouraged to identify secondary/ corroborative sources of evidence and establish means for gathering them with the approval of the SAI top management; and
- They may also determine approach and methodology for physical verification in programmes in which asset verification and beneficiary survey are crucial inputs to establish the actual delivery or the output and the quality of output/delivery. While nothing prevents physical verification by audit team, the question of credibility and acceptance should also be taken into account, since physical verification by audit team may, sometimes, be contested later as incorrect. Some of the methods that could be considered are joint physical inspection with attestation from both sides, survey by reputed agencies, etc.

10.19 Sampling

- The audit findings should be based on objective sampling and the sampling techniques used should be disclosed;
- As far as possible, statistical sampling techniques should be used;
- Assistance of statistical adviser in the SAI headquarters may be obtained for statistical sampling; and
- Adequate sample size should be selected to be able to generalise the audit findings and be able to meet the standard of sufficiency.

10.20 Audit findings

- Audit findings should be developed on the basis of audit tests carried out on the sample;
- Audit findings should be in the context of the audit objectives and criteria;
- The causes of underperformance should be determined to be able to recommend remedial measures; and
- All evidence used for audit findings should be tested transparently on the standards of relevance, competence and sufficiency and the basis on which the satisfaction of fulfilling the standards is established, should be documented in the working papers.

10.21 Recommendations and follow-up procedure

- All audit reports must contain recommendations arising out of audit findings and the cause of audit findings;
- As the performance audit revolves around the audit objectives, the follow-up procedure is built around the recommendations and the impact of performance audit is measured on the basis of implementation of the recommendations; and
- Follow-up procedure is conducted with reference to the nominal information on the implementation of the recommendations and the quality of implementation of recommendations through a more detailed follow-up audit.

10.22 Publication

- Stand-alone volume for each performance audit report;
- Deviation from this only with authorization; and
- Performance audit reports prepared and presented during all sessions of legislature round the year as per the pre-determined schedule.

10.23 Reporting procedures

- The reporting covers all types of reporting and includes discussion papers, audit observations, field audit reports, draft performance audit report and the final report;
- Same standards should be applied on all forms of reporting, except that the discussion papers, audit observations and field audit reports will contain more detailed, including the details of evidence used and evidence testing;
- The style guide is to be followed uniformly;
- Lower levels of reporting viz. discussion papers, audit observations, etc. should be written keeping the objective of next level of report and the final report in view;
- The reporting should be strictly in accountability-centred style by designation only, and
- The prescribed structure of performance audit reports should be followed meticulously.

Appendix A: Potential impacts of the performance audits

Economy

- reduction in costs through better contracting, bulk buying, etc;
- reduction in costs through economies on usage of personnel or other resources;
- introduction of charges where none were previously imposed, or revision of charges;
- rationalisation of facilities;

Efficiency

- greater outputs from same inputs;
- remedying duplication of effort or lack of coordination;

Effectiveness

- better identification/justification of need;
- clarifying objectives and policies;
- introducing better sub-objectives and targets;
- better achievement of objectives by changing the nature of outputs or improved targeting;

Improved quality of service

- shorter waiting lists;
- reduced response times;
- fairer distribution of benefits;
- better access to information;
- wider range of services and greater choice;
- helping the public, clients, industry, etc;
- improved equity in access to programmes;

Improved planning, control and management

- introduction/improvements to corporate planning;
- clearer definitions of priorities and better-defined targets;
- better-targeted incentives;
- better control and management of human resources, assets, projects and resources;
- tighter controls against fraud;
- improved financial accounting systems;
- better financial management information;
- better computer security;

Improved accountability

- improved visibility of procedures and outputs;
- improved accountability for expenditure to the legislature and to the public sector;
- improved forms of account, including commercial formats;
- improved external control and monitoring by departments;
- better and/or more accurate performance indicators;
- better comparison between similar agencies;
- greater information on sectoral performance; and
- clearer and more informative presentation of information.

Appendix B: Performance auditing in IT environment

Introduction

1. Information Technology (IT) is being increasingly used for public sector programme planning, execution and monitoring. The sharing or integration of information between entities raises issues such as the risk of security breaches and unauthorised manipulation of information. Auditors should not only be aware of the uses of IT, they should also develop strategies and techniques for providing assurance to stakeholders about value for money from the use of IT, security of the systems, existence of proper process controls and the completeness and accuracy of the outputs.

2. The value of good IT systems is that they can be an efficient and effective programme delivery mechanism. They have the potential to deliver existing services cheaper and also to provide a range of additional services, including programme performance information, with greater efficiency, security and control than are available from manual systems. However, IT systems also have the potential to result in major systemic errors, with a resulting greater impact on entity performance than would be possible in manual systems.

3. This appendix highlights a range of important considerations for performance auditing in an IT environment and is not intended to substitute for detailed guidelines that SAIs may need to be developed to suit entities IT environment.

4. The approach towards performance auditing in an IT environment should involve the following inter-related processes:

- obtain an understanding of the entities IT systems and determine their significance to the performance audit objective;
- identify the extent of IT systems auditing required to achieve the performance audit objective (eg. audit of systems development; audit of environment and applications controls) and employ specialist IT auditors to undertake the task; and
- develop and use appropriate Computer Assisted Audit Techniques (CAATs) to facilitate the audit.

5. A performance audit in an IT environment should:
- identify any deficiencies in IT controls and the resulting effect on the efficiency, economy and effectiveness of the performance of the entity;
 - examine the IT system development and maintenance practices of the entity, compared to industry better practice;
 - compare the IT strategic planning, risk management and project management practices of the entity, with industry better practice and in relation to the corporate governance framework of the entity;
 - determine whether system outputs meet entity quality and service delivery parameters; and
 - assess whether the IT systems enhance the economy, efficiency and effectiveness of the entity's programme management, in particular in relation to programme planning, execution, monitoring and feedback.

Planning and resourcing

6. As with any audit, performance auditing in an IT environment needs to be planned. The planning process should frame audit objectives with reference to the objectives of the entity in adopting/introducing IT systems and should include audit concerns relating to security, controls and value for money. The planning phase should also identify the IT systems, computer systems and software packages being used by the entity. Planning will also need to identify the major potential risks and exposures of IT systems in the entity.

7. Performance auditing in an IT environment requires specialist skills and appropriately trained personnel with IT, audit and accountancy skills should be dedicated to the task. The services of consultants may need to be considered for the more specialised technical areas. The SAI will also need to consider acquisition of appropriate hardware and software tools. Personnel will require extensive training to remain abreast of technological developments and IT audit techniques.

Performance auditing involving IT system development

8. A performance audit involving IT systems development should determine if the entity:

- has the appropriate executive approvals for the development of the IT system, ie. that IT management fits within the corporate governance of the entity;
- has appropriate project management processes in place to manage the project;
- has met required targets of time, cost, system function and value for money;
- uses an appropriate system development methodology; and
- has processes in place, including the involvement of Internal Audit, to ensure that the new system includes all the necessary controls and audit trails, and is likely to meet the requirements of the entity and its stakeholders.

Performance auditing involving operational IT systems

9. The following list contains some of the more important concerns that the auditor would be expected to consider and should be modified as required for the specific entity being audited:

- the strategic and operational management of IT within the entity, including assurance that IT is included in the overall corporate governance of the entity;
- IT project management within the entity, including the entity's record in meeting legislative and other deadlines;
- the risk management practices of the entity in relation to IT;
- IT system design, development and maintenance controls;
- compliance with standards, including external standards;
- application controls;
- processing controls, including audit trails;
- business continuity arrangements;
- data integrity, including sampling of data (possibly using CAATs);
- access controls and the physical and logical security of networks and computers, including Internet firewalls;
- controls to safeguard against illegal software;
- performance management and measurement; and
- other issues that arise during the audit.

10. In making the assessment the auditor may:
- review files and other documents relevant to the development and operation of the IT systems;
 - use appropriate software packages to test the central and networked computing system controls;
 - test a sample of transactions (including the use of CAATs) to validate the systems and relevant controls; and
 - interview key staff members.

Performance aspects of auditing in an IT environment

11. The auditor may also examine whether the IT system has enhanced the efficiency with which the entity manages its programmes/activities and whether the conversion to an IT system has any beneficial results for the stakeholders in the entity.

12. The auditor may also be expected to assess if the IT systems have facilitated improved programme management. Some areas to be considered include:

- IT should support the objectives of the entity and, therefore, is an integrated part of its operations;
- IT operations require highly qualified staff;
- the contribution of IT to operations is measured in operational efficiency terms;
- the gains of IT may not be realised without appropriate organisational changes; and
- normal value for money measures may be more difficult to apply.

13. In addition to assessing whether the entity's IT system represents value for money, the performance auditor may also be expected to assess whether the IT environment has contributed to transparency, accountability and good governance.

Computer Assisted Audit Techniques

14. Auditors are increasingly using Computer Assisted Audit Techniques. CAATs utilise custom developed software programmes to aid in the execution of the audit. They can be used for both sampling of system transaction data and for testing the system as a whole. CAATs tools can be developed to:

- access and extract information from auditee databases;
- total, summarise, sort, compare and select from large volumes of data in accordance with specified criteria;

- tabulate, check and perform calculations on the data;
- perform sampling, statistical processing and analysis;
- provide reports designed to meet particular audit needs; and
- facilitate audit planning and control eg. electronic audit working papers that support effective indexing, review and reporting.

15. CAATs can be used to validate the processes in the programme or to analyse the data. The auditors should develop Computer Assisted Audit Techniques and provide training to the staff of the entity. CAATs tools should be developed/modified keeping in view the IT environment in the entity and the audit objectives.

16. CAATs can be utilised in performance audits of both IT and non-IT environments.

17. SAI India has adopted Microsoft Office, IDEA and Structured Query Language (SQL) as standard CAATs. Microsoft Office includes Excel and Access. While Excel is used in performing 'What if' analysis and statistical analysis, Access is used for handling large volumes of data and running queries. IDEA is general audit software which is used for data analysis, data extraction, data conversion, sampling etc. SQL is used mainly in RDBMS environment to query data directly. The advantage with the use of SQL is that the data can be collected in CDs or other portable media and interrogation of the data can be carried out without bothering too much about data conversion.

Specialized and support audit techniques/software

18. *COBIT* (Control Objectives for Information and Related Technology) is a generally applicable and accepted standard for good Information Technology security and control practices that provide a reference framework for management, users, and information system audit, control and security practitioners. COBIT, is internationally accepted as good practice for control over information, IT and related risks. It enables an enterprise to implement effective governance over the IT that is pervasive and intrinsic throughout the enterprise. In particular, COBIT's management guidelines contain a framework responding to management's need for control and measurability of IT by providing tools to assess and measure the enterprise's IT capability for the 34 COBIT IT processes. The tools include:

- Performance measurement elements (outcome measures and performance drivers for all IT processes)
- A list of critical success factors that provides succinct, non-technical best practices for each IT process

- Maturity models to assist in benchmarking and decision-making for capability improvements.

19. *TeamMate* is audit management software developed by Pricewaterhouse Coopers. TeamMate is an electronic work paper package that simplifies and enhances the effectiveness of audit documentation process. The software has the following four components:

- Teamrisk – a risk assessment tool for preparing risk based audit plan;
- Temschedule – a tool for scheduling staff resources to audit;
- Teammate (EWP) – a electronic work paper system; and
- Teamcentral – a web-based issue tracking system.

20. *Crystal Ball* is a software developed by the General Accounting Office, United States to analyse the effect of varying inputs to a modeled system on the outputs. The software used Monte Carlo simulation in conjunction with a cost estimation spreadsheet on the costs to give a range of values and the probability or the certainty of the values. The software is useful for performing cost and uncertainty analysis.

21. *Earned Value Analysis (EVA)* is a quantitative tool of measuring the value of work actually done on a particular date during the life cycle of a project and based on that, to forecast the project cost and schedule performances. The three objects of EVA are to measure the progress of the project; to provide schedule and budget variances on a particular date; and to forecast the completion date and cost of completion of the project. By integrating these three important measurements, EVA provides consistent, numerical indicators with which one can evaluate and compare projects. The EVA is a powerful tool for evaluation of ongoing projects, particularly those with long gestation.

Internet

22. The Internet is becoming increasingly important as a research, planning, communication and reporting tool. Auditors should be sufficiently familiar with the Internet to be able to use it to facilitate the conduct of performance audits and to understand the implications for performance auditing and of its use by entities.

Reporting

23. The performance audit report should be drafted so as to minimise the use of technical terminology with a view to making it easily understandable to management, members of the legislature and to the general public. Where the use of technical terms is inescapable, these should be adequately explained.

Appendix C: Important issues in the performance audit of Public Sector programmes

Mandate	<ul style="list-style-type: none">• Has management obtained the approval of the competent authority (<i>e.g.</i>, legislature) for the programme?
Objectives	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Does the agency have mechanisms, which enable it to respond appropriately to changing technology, competition, client demand and other environmental characteristics?
Human resources	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Is there an appropriate policy for the protection of key assets, <i>i.e.</i>, 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	<ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • Are the systems and procedures used in the management of public programmes transparent and do they promote the concept of accountability and good governance? |

Appendix D: Evidence gathering techniques

Introduction

1. This appendix contains a broad framework of evidence gathering techniques. The evidence gathering techniques and the introduction to the statistical sampling are neither exhaustive list of such techniques nor attempts to illustrate them comprehensively. Thus, these are basically in the nature of introduction to some of the more important techniques. The performance auditors are encouraged to enhance their knowledge of the evidence gathering techniques through in-depth study and training. Some of the techniques may be issued as a separate series of publications in the context of performance audit.

Survey

What is the technique?

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?

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. Surveys can collect quantitative information in order to estimate output (performance indicators) or evaluate processes in a project, eg, 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

5. The survey process would involve the following stages:

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 country. Accordingly, the target population would be potential beneficiaries in the district, region or country. 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. We might also wish to estimate the frequency of people returning to unemployment district-wise to identify problem regions or study the trend over a time frame in which case target population needs to be district-wise.

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 percent 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.

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. While using mail or telephone interviews are cheaper, the response rate will be lower. Further, the method presumes access to telephone / reading and writing skills of the target sample which may not always be a practical assumption, especially in a beneficiary survey for a social intervention programme. Personal interviews will have a better response rate provided that the questionnaire is framed to elicit the best response.

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.

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.

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. It is necessary to specify a suitable time-limit for providing the responses, specially in a survey through mail (electronic or postal). A high response rate is critical to the success of the survey and follow up efforts need to be made to ensure maximum response.

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.

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.

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.

Strengths and concerns of the technique

14. Strength: Surveys provide a framework for gathering evidence when information required for addressing the audit objective cannot be gained from files and administrative records. A well-designed and managed survey can provide primary evidence of existence of problems and their extent, which can be of immense importance in performance audit.

15. Concerns: Success of a survey depends both on skills and the environment in which the survey is done. If the sample is chosen incorrectly or there are a large number of non-responses or wrong responses, the results projected for the population may be erroneous. In addition, the method is very costly and time intensive.

Introduction to statistical sampling

16. 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. Accepting this level of risk, (or conversely at a definite assurance level) the auditor can state his conclusions for the entire population. In sum, statistical sampling provides greater objectivity in the sample selection and in the audit conclusion.

Attributes and variable sampling

17. 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.

18. 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 a 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 mis-classified) 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

19. 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 an 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.

20. 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 from 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 states
- sample districts within selected states
- sample blocks within selected districts
- sample villages within selected blocks
- sample beneficiaries within selected villages

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

22. 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)

23. 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:

- 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 percent.
- 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.

24. The required sample size can be calculated using the formula in annexure IA. 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

25. 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

26. The test results are to be projected to the population. Using the same formula at annexure IA, 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.

27. 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?

28. 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 state/ district in a project can be benchmarked against a high performing state/ district to efficiently highlight problems and their causes.

When to use the technique?

29. 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.

30. 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

31. 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

32. *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
33. *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?

34. 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.

35. 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.

36. 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?

37. 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.

38. 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.

39. 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

40. *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.

41. *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?

42. 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.

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

When to use the technique?

44. 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.

45. 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

46. 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 un-necessary details. The interviewee could be taking a guess at the answer. The questions may not have been formulated properly resulting in mis-understanding by the interviewee.

Case studies

What is the technique?

47. 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 in-depth study of individual cases to explore the audit issues.

When to use the technique?

48. 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.

49. 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

50. 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 in-depth 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 in-depth 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.

Appendix E: Evidence analysis techniques

Introduction

1. This appendix contains an introduction to some of the evidence analysis techniques. Evidence analysis is crucial to the performance audit. Meticulous use of appropriate evidence analysis techniques enhances the authenticity of audit findings and therefore, their acceptance by the entity. However, these do not contain an exhaustive list of evidence analysis techniques and the performance auditors are encouraged to apply other appropriate techniques for evidence analysis.

Quantitative data analysis

2. 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

3. 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. 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.

5. 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?

6. *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.

7. *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.

8. *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?

9. 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 un-naturally high and can lead to wrong conclusions. Here the median will be a better measure for average age of the equipment.

Data spread

10. 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?

11. *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.

12. *Inter quartile range:* Inter quartile range is the difference between two points in a distribution that bracket the middle 50 percent of the cases. These two points are called first and third quartiles and in effect, cut the upper and lower 25 percent 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.

13. *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 percent of the data will lie between ± 2 times the standard deviation
- For a single mode, symmetric (not necessarily normal) curve, at least 80 percent of the data will lie between ± 2 times the standard deviation
- For an irregular shape curve, at least 75 percent of the data will lie between ± 2 times the standard deviation.

When to use the technique?

14. 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.

15. *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.

16. *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	8.33	9.21	9.93

Regression analysis

What is the technique?

17. 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.

18. 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?

19. 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

20. 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?

21. 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?

22. 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 20 purchases 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 ration 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

23. 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?

24. 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

25. An 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?

26. 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?

27. 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.

28. 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?

29. 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?

30. 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.

31. 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?

32. 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?

33. 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?

34. 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.

Glossary

Accountant General	Refers to the heads of field offices of SAI India, which constitute the senior management cadre within the SAI and are entrusted with the responsibility of audit of specified entities or sectors. This term used in these guidelines includes Principal Accountant General, Accountant General, Principal Director and Director General, who are responsible to manage and control the field audit functions on behalf of Comptroller and Auditor General of India.
ASOSAI	Asian Organisation of Supreme Audit Institutions - an international and independent body, which aims at promoting the exchange of ideas and experience between Asian Supreme Audit Institutions in the sphere of public auditing.
Audit evidence	Information that forms the foundation, which supports the auditor's, or SAI's opinions, conclusions or reports.
Audit mandate	The auditing responsibilities, powers, discretions and duties conferred on a SAI under the constitution or other lawful authority of a country.
Audit objective	A precise statement of what the audit intends to accomplish and/or the question the audit will answer. The question may include financial, regularity or performance issues.
Audit Officer	Refers to the team leader or audit manager of the audit team, which may be of the rank of a Senior Audit Officer or an Audit Officer.
Audit planning	Defining the objectives, setting policies and determining the nature, scope, extent and timing of the procedures and tests needed to achieve the audit objectives.
Audit procedures	Tests, instructions and details included in the audit programme to be carried out systematically and reasonably.
Audit programme	Audit requirements and procedures necessary to implement the audit objective and to make assessments against audit criteria.
Audit sampling	Statistics based techniques that extrapolate from specific cases to make assertions about the population as a whole and are used when it is not feasible to analyse entire population <i>e.g.</i> , invoices/ vouchers, and elements of internal control systems, entity units, <i>etc.</i>

Audit scope	The boundary of audit in terms of the segment of programme and the time period of operations over which the audit tests are to be carried out.
Auditing standards	Auditing standards provide minimum guidance for the auditor that helps determine the extent of audit steps and procedures that should be applied to fulfil the audit objective. They are the criteria or yardsticks against which the quality of the audit results is evaluated.
Committees of Parliament / legislature	Upon presentation of the reports by SAI India to the Parliament and state legislature, these stands automatically referred to two committees, namely the Public Accounts Committee and Committee on Public Undertakings. The second committee examines the reports on the government companies and corporations.
Discussion paper	A discussion paper is a document that is used to summarise audit findings and conclusions for a specific segment of the audit and is prepared either for discussion and/or formal response of the entity.
Due care	The appropriate element of care and skill which a trained auditor would be expected to apply having regard to the complexity of the audit task, including careful attention to planning, gathering and evaluating evidence, and forming opinions, conclusions and making recommendations.
Economy	Minimising the cost of resources used for an activity, having regard to the appropriate quality.
Effectiveness	The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.
Efficiency	The relationship between the outputs, in terms of goods, services or other results, and the resources used to produce them.
Entity	Refers to an organisation, which is subjected to audit – both for the headquarters and the field units.
Evaluation	Evaluation is systematic collection and analysis of information to answer questions about activities, characteristics and outcomes of the programmes to make judgement about the programmes, suggests means for improving the programme effectiveness and assists decisions about future programme development. Programme evaluation is not limited to appraising what is accomplished in relation to costs but also whether the objectives of the programmes are proper and suitable.

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.
Findings and conclusions	Findings are the specific issues identified by the auditor to satisfy the audit objectives; and conclusions are statements deduced by the auditor from those findings.
IA&AD	Stands for Indian Audit and Accounts Department. The Supreme Audit Institution in India is referred to also as IA&AD.
INTOSAI	International Organisation of Supreme Audit Institutions-an international and independent body, which aims at promoting the exchange of ideas and experience between Supreme Audit Institutions in the sphere of public auditing.
Parliament and legislature	The law making authority of the country is the Parliament and that for the state government it is the state legislature. The reports of SAI India in respect of the matters relating to the Union Government are presented to the Indian Parliament. The reports of SAI India on matters relating to the states are presented to the respective state legislatures.
Performance audit	An audit of the economy, efficiency and effectiveness with which the entity uses its resources in carrying out its responsibilities.
PERT	Refers to programme evaluation and review technique. PERT charts depict task, duration, and dependency (internal or extraneous) information. Each chart starts with an initiation node from which the first task, or tasks, originates. If multiple tasks begin at the same time, they are all started from the node or branch, or fork out from the starting point. Each task is represented by a line, which states its name or other identifier, its duration, the number of people assigned to it. The other end of the task line is terminated by another node, which identifies the start of another task, or the beginning of any slack time, that is, waiting time between tasks.

Policy and programme	Policy is the broad statement of intent or principle proclaimed by the entity competent to establish it and may consist of one or more objectives. The policy objectives are accomplished through programmes framed consistent with the policy. The programme consists of programme objectives, inputs, implementation process, management structure, information system, accountability relationship, outputs and impact. It is essential for auditors to distinguish between policies and programmes to enable them to select subjects for performance audit and frame audit objectives.
Public sector programme	Refers to programmes, functions and activities by the Union Government, state governments and bodies and authorities set up and/or substantially financed directly or indirectly by the Union and state governments.
Qualitative audit evidence	Evidence of a non-quantitative nature gathered during a performance audit <i>e.g.</i> , interview notes or document extracts. Forming conclusions about organisational performance using qualitative information requires the use of professional judgement and accordingly the auditor would ordinarily seek corroborating evidence from different sources or of a different nature.
Quality assurance	Policies, systems and procedures established by SAIs to maintain a high standard of audit activity.
Quality control	The requirements applicable to the day-to-day management of audit assignments.
Recommendations	Recommendations are actions suggested by the auditor that will address the cause of audit findings.
Regularity audit	Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements; attestation of financial accountability of the government administration as a whole; audit of financial systems and transactions, including an evaluation of compliance with applicable statutes, regulations and rules; audit of internal control and internal audit functions; audit of the probity and propriety of administrative decisions taken within the audited entity
Report	Written findings, opinion, recommendations and other remarks on completion of a performance audit.
Reporting standards	The framework for the auditor to report the results of the audit, including guidance on the form and content of the auditor's report.

SAI	Supreme Audit Institution - the public body of a State which, however designated, constituted or organised, exercises the highest public auditing function of that State by virtue of law. In India, the institution of the Comptroller and Auditor General of India represents the supreme audit institution for audit of public sector both in regard to the Union Government and provincial (state) governments.
States	The Union of India consists of provinces, called states.
Supervision	Supervision refers to guidance and control of the audit work by middle and senior management.
Trusteeship	Refers to management concept under which the holder of authority and resources retain and utilise them on behalf of the stakeholders. In the context of trusteeship concept applied to public sector programmes, it connotes that the managers of public funds ought to manage the public affairs as trustees of the stakeholders that is the general public.