

FORWARD



Introduction of performance audit in Supreme Audit Institution (SAI) of Bangladesh has been a long felt need. To meet that need, this manual has been developed as one of the major programmes of the ongoing reforms agenda under the project "Strengthening the Office of the C&AG". This manual is a landmark in the history of SAI Bangladesh, as the manual will make key contribution towards modernisation of auditing practices and improving quality of audit by introducing performance audit.

Our tradition- bound financial and regularity audit, though makes significant contributions to safeguarding public resources from misuse, wastage and misappropriation, it does hardly have any reflection on the success or failure of management in terms of the objectives achieved. Viewed from this context, existing auditing practice fails to play its due role as an aid to and an integral part of the modern management process.

Over the last few decades the approach to public auditing across the world has shifted to examination of issues of performance and results. The accountability regime has shifted from emphasis on procedures, controls and regulations to accountability for results and performance. These developments in the management of public resources and the notion of economy, efficiency and effectiveness have led to the development of a new approach to audit, namely, the performance audit or value for money audit, which can significantly contribute towards modern management practices and change management style.

The role of audit has to change to respond to what our principal clients, Parliament and the public want. They want to know how public resources are being spent and, in exchange, what benefits are being derived. Parliament desires that the operations and programmes carried out in the public sector organisations are effective, efficient and economic. The Public Accounts Committee strongly supports the examination of such operations and programmes to ensure that the value for money is being achieved.

This manual, I hope, will be instrumental to the auditors in understanding and carrying out performance audit. Knowledge of this manual coupled with practical experience will enhance capability and skill level of the auditing staff to carry out effective performance audit. This manual will also be a guide to training on performance audit.

The main objectives of the manual are to provide:

- An introduction to the concept of performance audit.
- Guidance on selection of appropriate studies and planning of performance audit.
- A summary of audit techniques needed to carry out performance audit.
- Guidance applicable when undertaking performance audit examinations.
- Advice and guidance on performance audit reporting.
- Advice on the follow-up of performance audit reports.

The manual aims to provide a structured but flexible approach. Every performance audit will be different. On individual studies, auditors will have to exercise judgement and develop an appropriate approach. Auditors must ensure that the performance audit procedures are carried out and adapted to meet the nature, scale and needs of each examination.

The manual should be read along with the Government Auditing Standards, the Audit Code and other Audit Manuals issued under the authority of the Comptroller and Auditor General of Bangladesh. All procedures and techniques set out in these documents, as far as they relate to performance audit, should be followed with due care.

This manual derives its authority from Article 128 of the Constitution of the People's Republic of Bangladesh and the Comptroller and Auditor General (Additional Functions) Act, 1974. The manual will be updated from time to time to accommodate organisational and legislative reforms as well as evolution of audit techniques and methodologies. Any suggestion for improvement of this manual is most welcome.

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Dhaka
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Chapter 1: Performance Audit – Mandate and Concepts

Introduction

- 1.1 Statutory audit of government entities by the Supreme Audit Institution (SAI) in Bangladesh, the Office of the Comptroller and Auditor-General (C&AG), is concerned primarily about **accountability of these entities to Parliament** and ultimately to the taxpayer. This embraces not only financial and regularity audit but also the audit of **performance or value for money** (VFM). The main purpose of conducting performance audits is to provide Parliament with an independent evaluation of the economy, efficiency and effectiveness with which public resources have been used. Public entities have a responsibility to account properly for the resources used in discharging their functions.

Audit Mandate

- 1.2 The C&AG is appointed by the President and is the Head of the Bangladesh Audit and Accounts Department. The authority of the C&AG to carry out all types of audits is derived from **Article 128 of the Constitution** of the People’s Republic of Bangladesh. Article 128(1) of the Constitution and the Comptroller and Auditor-General (Additional Functions) Act, 1974 empower the C&AG to audit all public accounts of the Republic and, for that purpose, to have unrestricted access to all records, books, vouchers, documents or other items required for the audit. The C&AG is required to submit reports to the President, who shall cause them to be laid before Parliament in accordance with Article 132 of the Constitution.
- 1.3 Under Section 11 of the Comptroller and Auditor-General (Additional Functions) Act, 1974, the C&AG may make rules and give directions in respect of all matters pertaining to the audit of any accounts that he is required to audit. The Act also empowers the C&AG to inspect any government office that is responsible for the keeping of any accounts. The Government Auditing Standards, the Audit Code and Audit Manuals issued in 1999 and 2000 also encompassed performance audits in addition to financial and regularity audits.
- 1.4 In carrying out performance studies, the C&AG will take into account any proposals or suggestions made by the Public Accounts Committee (PAC). However, resource constraints on the C&AG may direct his attention to areas where the largest resources are involved and where VFM is judged to be most at risk. The nature and type of audit,

including performance audit, are ultimately issues for the C&AG to decide, since he is constitutionally independent and not subject to the direction or control of any person or authority (Article 128(4) refers).

- 1.5 In summary, the Constitution of the People’s Republic of Bangladesh gives the C&AG wide discretionary powers in deciding what, how and when to audit particular areas. This is taken to include performance audit.

Definition of Performance Audit and Value for Money

- 1.6 Reference is frequently made to “**value for money audit**” and “**performance audit**” in relation to examinations of the use of resources by public sector organisations. Different terms are used in various parts of the world. Although performance audit can sometimes be interpreted as extending beyond clear VFM issues (to include, for example, quality and technical matters), the terms are used inter-changeably by many auditors. As in the Government Auditing Standards, the formal term “**performance audit**” has been adopted in this manual.
- 1.7 Although performance audit can be very wide-ranging, in broad terms, it can be applied to:
- those activities involving a considerable level of resources
 - projects that are at risk of failing in their objectives
 - issues which are of concern to Parliament or the PAC.
- 1.8 Throughout this manual, where references are made to the PAC, these should be taken to apply in principle also to the Public Undertakings Committee.
- 1.9 The term “**entity**” is used in this manual to refer to any public sector organisation. Such organisations include ministries, departments, subordinate offices, statutory corporations, public enterprises, public financial institutions, autonomous bodies and local government institutions. These are all bodies for which the C&AG has audit responsibility.
- 1.10 It is important that any public sector organisation in Bangladesh should ensure that optimal VFM is achieved from the resources provided. The term “**value for money**” refers to the way in which resources (financial, human or physical) have been allocated and utilised by the entity.

- 1.11 For the purpose of this manual, the following definition has been used for **performance audit**:

A performance audit “is an objective and systematic examination of a public sector organisation’s programme, activity, function or management systems and procedures to provide an assessment of whether the entity, in the pursuit of predetermined goals, has achieved **economy, efficiency and effectiveness in the utilisation of its resources**”.

Source: Government Auditing Standards, Bangladesh, November 1999.

- 1.12 Performance audit, therefore, involves an independent assessment of whether **economy, efficiency and effectiveness** have been achieved by the organisations concerned. These three key elements of VFM can be defined in various ways, as follows:

- **Economy**

Economy is concerned with minimising the cost of resources used (staff, materials and equipment) for an activity in the pursuit of its objectives and whether they are in accordance with sound administrative principles and practices and management policies. An economical organisation **acquires its input resources, of the appropriate quality and quantity, at the lowest cost**. In summary, economy means minimising the cost of resources used for an activity, having regard to quality i.e. **spending economically, whilst maintaining quality**.

Example: Where standard items such as school or hospital supplies of a given quality are purchased at the best possible price.

Example: Cost of a vehicle in comparison with another model of similar quality.

- **Efficiency**

Efficiency is concerned with **the relationship between goods and services produced (the outputs) and the resources used to produce them (the inputs)**. An efficient entity produces the maximum output from any given set of inputs. Alternatively, it may require minimum inputs to achieve a given quantity and quality of output. This will be reflected in increased productivity and lower unit costs. In summary, efficiency means ensuring that maximum output of goods and services has been gained from the resources used in their production i.e. **spending well**.

Example: Efficiency has improved when the unit cost of teaching children or providing hospital treatment has been reduced over time; or where more children have been taught or hospital beds provided, without additional resources.

Example: Reduction in repairs and maintenance cost of equipment, for example, vehicles, computers or photocopiers, is a measure of efficiency.

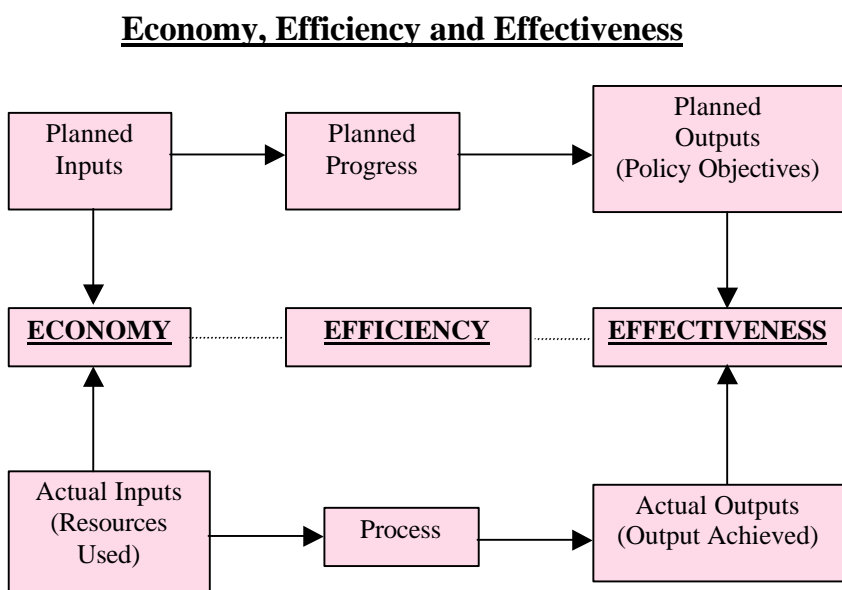
- **Effectiveness**

Effectiveness is concerned with **achieving predetermined objectives** (specific planned achievements) or goals and with the **actual impact (the output achieved) compared with the intended impact (the objectives)**. Using a range of performance measures and indicators, it is possible to assess an entity’s effectiveness. In summary, effectiveness means ensuring that the desired results, objectives, targets or policies have been successfully achieved i.e. **spending wisely**.

Example: Where there has been an improvement in school examination results or where sickness rates have fallen as a result of medical care.

Example: Whether the purchased item or service provided was “fit for purpose”.

1.13 The following model illustrates the relationships between inputs, processes and outputs and between economy, efficiency and effectiveness:



1.14 In practice, the boundaries between economy, efficiency and effectiveness are seldom clear-cut. Examinations of VFM, therefore, normally pursue these various aspects of performance simultaneously as part of the same exercise.

Example: A performance examination of a hospital building programme might cover any or all of the following aspects:

- The tendering, contract and project control procedures to establish how far the hospital and associated facilities had been built to specification, on time and at lowest achievable cost or within approved cost limits (**economy**).
- Utilisation of facilities such as wards, beds, operating theatres and equipment; the mix of medical and administrative staff and their deployment; integration of services; maintenance arrangements; and management and resource allocation systems (**efficiency**).

- Results in terms of, for example, reductions in patient waiting lists, increase in operations performed, improved diagnostic and treatment rates and (ultimately) improvements in health and quality of life and reduced mortality rates (**effectiveness**).

1.15 Measurement of effectiveness often has distinctive characteristics that require special care. There can be difficulties in defining objectives and in measuring the related performance. Audit effectiveness is frequently closely associated with matters of policy and other factors. This may pose particular problems in measuring performance or achievement, for example, in assessing such factors as “improvement in health, quality of life or educational achievement”. The effect on health of, for example, a hospital building programme or improved equipment or additional nursing staff may be difficult to distinguish from the impact or influence of other external factors.

1.16 Performance audit differs from financial audit in that the former examines whether the entity has done the right thing and done so in the correct and least expensive way. It considers whether the entity has achieved its goals economically, efficiently and effectively in utilising its resources. Financial audit is concerned with examination of the transactions relating to expenditure and receipts and with the form and content of the accounts. A comparison of performance and financial audit is shown in **Appendix 1**.

1.17 In summary, the scope of performance audit should include an examination of an entity’s economy, efficiency and effectiveness in the use of resources:

- **Economy** is about minimising the cost of the input resources.
- **Efficiency** is about the relationship between outputs produced (the goods and services) and the input resources used to produce them.
- **Effectiveness** is about the extent to which an entity’s predetermined objectives have been achieved.

Responsibility for Achieving Value for Money

1.18 The achievement of economic, efficient and effective resource utilisation depends on the existence of good management controls. **Responsibility for establishing the best arrangements and achieving optimum VFM rests with the management of the entity concerned.**

- 1.19 In general terms, **management controls** include policies and procedures for:
- planning, organising, directing and controlling programme operations
 - confirming that resource use is consistent with legislation and regulations
 - safeguarding resources against waste, loss and misuse
 - measuring, monitoring and reporting on the entity's performance
 - ensuring that a programme or activity meets its objectives
 - ensuring that valid and reliable data are obtained, maintained and disclosed accurately in annual reports and other documents.
- 1.20 The auditor's role is to provide independent verified information that management has the proper arrangements in place and that they are effective. Independent, SAI auditors who are not involved in the day-to-day management of the resources are, therefore, ideally placed to carry out performance audits. However, auditors should be careful not to undertake the responsibility of management.

Objectives of Performance Audit

- 1.21 **The primary objective of performance audit is to provide Parliament with independent information, assurance and opinion about economy, efficiency and effectiveness (in effect, value for money) in major fields of revenue, expenditure and the management of resources.** Independent performance reviews can indicate whether, in using its resources to achieve organisational goals, the entity's management has achieved or realised its policies, principles or standards economically, efficiently and effectively. By this means, stakeholders, policymakers decision-makers and the general public are provided with information on improving public accountability.
- 1.22 A secondary objective of performance audit is **to identify ways of improving value for money** and to encourage and assist audited bodies to take the necessary action to improve systems and controls.
- 1.23 The approach adopted in performance audit, therefore, involves the examination and evaluation of arrangements for securing **good value for money** within entities that are in receipt of public funds. The audit will also aim to expose serious waste, extravagance or other examples of **poor performance**. The auditor's role is to evaluate how far and how

well the management of resources is being discharged by the organisation concerned.

- 1.24 Performance audit assists government by contributing through the following impacts:

<p style="text-align: center;"><u>Impacts of Performance Audit</u></p> <ul style="list-style-type: none">• Increasing income• Reducing costs or expenditure, resulting in financial savings• Improving efficiency• Strengthening or enhancing management and administrative or organisational processes• Improving the quality of services provided• Achieving the body's aims and objectives more cost-effectively• Developing policy• Creating awareness of the need for good accountability and transparency in the use of resources.
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Areas of Performance Audit

- 1.25 **Performance reviews** can be used to cover all types of management activities. They can cover all types of projects, activities and programmes. They can also be applied to particular sectors or they may be government-wide. They can be input-based (concerned with the cost of resources used in relation to outputs); system-based (concerned with staffing, organisational structure or procedures in an entity); or output-based (concerned with effectiveness). It is, however, possible to divide performance audit examinations into **four broad categories**:

(1) **Selective examinations.**

These audits involve the examination of possible serious waste and extravagance, improper expenditure, inefficiency, ineffectiveness or weaknesses in control or non-compliance with laws and regulations. These are largely confined to assessing whether criticism of the entity is justified, examining causes for deficiencies or weaknesses and considering action taken or needed to introduce improvements.

Example: Finding out why a building project overran its costs or timetable or failed to meet the requirements for which it was designed and developed; and how far the lessons learnt are being applied to future projects.

Example: Examination of the criteria used when selecting sites for development projects.

(2) **Major broad-based examinations.**

Such audits may cover an audited entity as a whole or important activities, projects or programmes within the entity. They are designed to lead to balanced reports giving assurance in major areas where arrangements are found to be satisfactory and no criticism is justified, as well as drawing attention to material weaknesses in control or achievement and their consequences.

Example: Examining the implementation and outcomes of the various schemes that form the Government's programme for reducing or alleviating poverty.

Example: Examination of the grant arrangements for controlling pollution in rivers.

Example: An evaluation of a scheme under which the supplier of electricity helps customers to use electricity more efficiently.

(3) **Major reviews of standard managerial operations.**

These reviews may cover common procedures, systems or established good practice.

Example: Areas of "good housekeeping" such as procurement, maintenance of buildings or equipment and operation of transport fleets.

Example: Examination of stores, inventory control systems and the relevant records.

Example: An examination of the management of office space of a particular organisation to ensure the lowest possible running costs, the best use of existing accommodation and to keep the need for additional space as low as possible.

(4) **Smaller-scale examinations.**

These are not normally expected to lead to a report to be submitted to Parliament but are directed towards producing useful

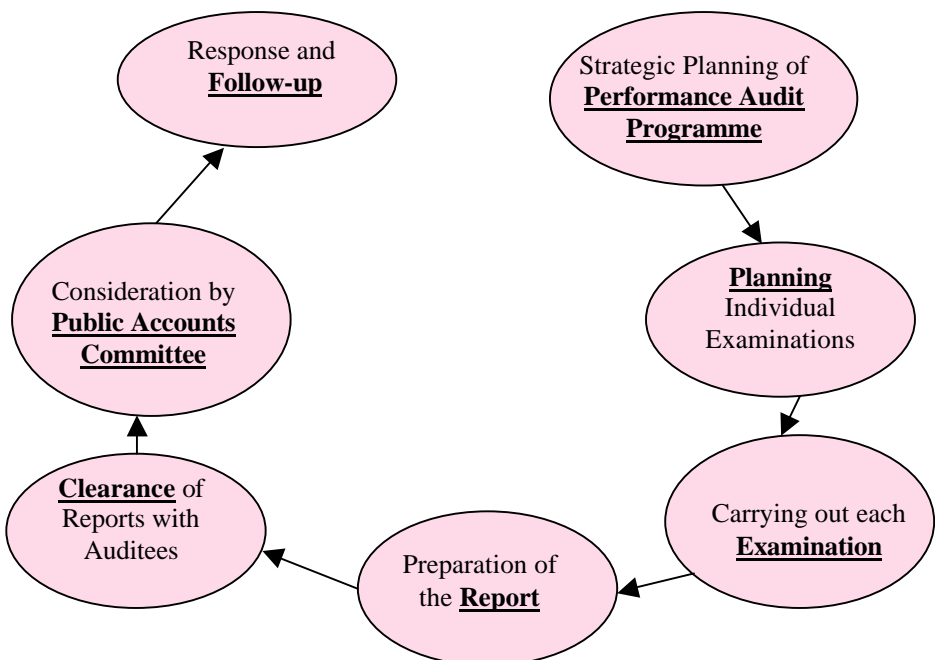
improvements in VFM, strengthening systems and encouraging cost-consciousness.

1.26 The general aim of a performance audit programme is to secure a variety of examinations and reports, covering areas of major expenditure and receipts in each of the first three categories mentioned above. Some examinations pursue matters within a single department, while more broad-based studies follow up a particular subject or function, for example, investment appraisal and procedures for building maintenance, across a number of different ministries or public sector organisations.

Performance Audit Cycle

1.27 A structured approach should be adopted to performance audit work. The elements in each performance audit study can be grouped into three major phases, namely **planning, examination and reporting**. These elements are described in the following chapters of this manual. The **performance audit cycle** can be summarised as follows:

Key Stages in the Performance Audit Cycle



1.28 The main steps in a typical performance audit are as follows:

- | |
|---|
| <p style="text-align: center;"><u>Steps in Performance Audit</u></p> <ul style="list-style-type: none">• General surveys and updating (marking) of potential study areas in order to obtain up-to-date knowledge and understanding of the entity concerned• Planning and preparation of a performance audit strategy and decisions on the areas to be examined, taking account of high risk areas• Preliminary studies and planning individual performance audits, including confirmation of the terms of reference for specific audits• Conducting the full performance audit examination, involving detailed fact-finding, research and analysis of the area under review• Preparation of reports resulting from the audits• Agreeing the findings and clearance of the reports with the auditee organisations• Finalising and publishing of the reports and their presentation to Parliament through the President• Consideration by the PAC, examination of witnesses and preparation of a PAC report• Review of follow-up to the reports of PAC and the C&AG. |
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Performance Audit Standards

- 1.29 SAI auditors of public entities in Bangladesh must meet the **Government Auditing Standards** in conducting their performance audits. These standards are issued under the authority of Article 128 of the Constitution and the Comptroller and Auditor General (Additional Functions) Act, 1974. A summary of the general standards and those in relation to fieldwork (planning and conducting the audit) and reporting on performance audits is included as **Appendix 2** to this manual.
- 1.30 The standards indicate that **audit criteria** should be developed for each line of enquiry in performance audit. Auditors need a means of measuring the performance of the areas subject to audit. The audit criteria should be:

- **Relevant:** criteria that contribute to making observations and reaching conclusions against the audit objectives
 - **Reliable:** criteria that result in consistent conclusions when used by different auditors in similar circumstances
 - **Neutral:** criteria that are free from bias
 - **Understandable:** criteria that are clearly stated and not subject to different interpretations
 - **Complete:** i.e. all the criteria which could affect the observations and conclusions are identified and used.
- 1.31 It is essential to establish suitable criteria for performance measurement when planning an audit. Criteria are reasonable and attainable standards of performance against which an auditee will be measured. Without suitable and acceptable criteria determined in advance, much effort could be wasted, conclusions may be difficult to reach and obtaining clearance from the auditee may be prolonged.
- 1.32 The standards stress the importance of independence and professional competence of staff; exercising due care; proper planning and supervision; reasonableness of criteria; sufficiency, reliability and relevance of evidence to support conclusions; and fairness and completeness in reporting. These essential audit objectives should be applied rigorously to all performance audit work.

Examination of Policy Matters

- 1.33 In pursuing public accountability, it is sometimes said that auditors should not be concerned with matters of policy. Whilst it is true that they do not normally question the merits of policies which have been decided by Parliament, they can examine whether and to what extent the objectives of policies have been achieved.
- 1.34 The constraints on audit examinations involving the merits of policy objectives affect particularly, though not exclusively, **examinations of effectiveness**. In this area the C&AG's audits of VFM are concerned with matters such as:

- the accuracy, reliability and completeness of the information provided for determining policy objectives and deciding on the means of pursuing them
- the clarity with which policy objectives have been defined and communicated to those responsible for implementing them
- the appropriateness and consistency of lower level operational aims, targets and priorities
- the management information systems and other arrangements for monitoring results and achievement against objectives, and taking any necessary action
- directly assessing the economy, efficiency and effectiveness with which objectives are being pursued and achieved.

1.35 In practice, therefore, auditors will need to enquire into policy objectives and the basis on which decisions were taken. This will provide a firm start to the examination of the pursuit of those objectives through the various programmes and projects.

Chapter 2 – The Planning Phase of Performance Audit

Introduction

- 2.1 A **performance audit programme** needs to be thoroughly planned if it is to be effective. Planning is the means by which potential performance or VFM examinations are identified, prioritised, selected and included in an overall programme of work. The planning process leads to appropriate decisions on the nature, extent and timing of the performance audit work to be undertaken. The programme of performance audits should be incorporated into the strategic plan for the C&AG's Office as a whole.
- 2.2 It is helpful to adopt a structured approach to performance audit, whilst still allowing flexibility in approaching the fieldwork, timing and priority given to particular studies. The main phases in any performance audit are **planning the audit, carrying out the examination and reporting the results**. The Government's field standards for auditing in relation to planning performance audits (**Appendix 2** refers) state that:
- “All audit work should be adequately planned”.*
- 2.3 This Chapter covers **strategic planning** in relation to the performance audit work of the Office of the C&AG as a whole. The strategic plan represents a policy statement from which shorter-term performance audit plans can be prepared. It should be updated periodically to reflect changing needs and circumstances.
- 2.4 The aim of strategic planning is to determine the future programme of performance audit work and the priorities and resources required to carry it out. Strategic plans look ahead for at least three years to identify longer-term options and they may include more detailed study proposals for the shorter term. The plans involve procedures for identifying, prioritising and selecting possible areas for performance examinations. They should be reviewed and updated as necessary. Operational plans are concerned with the approach to be taken to specific studies.
- 2.5 **Proper strategic planning of performance audit** is essential to ensure that:
- an effective performance audit programme is in place

Performance Audit Manual

- the audit programme is comprehensive and well planned
 - priorities are adequately determined
 - resources are allocated cost-effectively to areas with the greatest potential impact
 - monitoring arrangements are in place to review progress on delivering the agreed audit programme
 - individual studies are carried out as effectively as possible.
- 2.6 There are **four main stages in performance audit planning**:
- **General survey work** - to review fields of activity in order to develop a performance audit component for the C&AG's strategic plan for his Office.
 - **Marking** - keeping general surveys up-to-date by regular monitoring.
 - **Strategic planning** - preparing a strategic plan, together with annual updates
 - **Performance audit programme** - assembling a programme for the Office as a whole, including making arrangements for the carrying out of each individual audit and the monitoring of progress. Planning individual audits is considered in **Chapter 3** of this manual.

General Surveys

- 2.7 As stated in the Government Auditing Standards, it is important that the auditor understands the entity that may eventually be the subject of audit. Sufficient knowledge of the entire audit field is required in order to judge whether there is the potential for improvements in performance. As part of their normal audit contacts, auditors will have built up considerable accumulated knowledge about the organisations in which they work. In addition, further information is required on which to base an audit programme. This can be obtained through periodic on-going examinations of the audit field, perhaps every five years. This is described as **general survey work**. The information can then be kept up-to-date by “marking” (paragraphs 2.12 to 2.15 refer).
- 2.8 **General surveys** may cover a whole entity, a group of related activities or particular major projects or programmes of expenditure or receipts. The general survey is aimed at providing an understanding of the

organisation's objectives, its main activities and the level and nature of resources used in carrying out its functions. Information is assembled and evaluated on the background, objectives, activities, plans, resources, procedures and controls in the entities or areas concerned. The aim is to:

- identify and review those areas absorbing a significant level of resources
- identify potential risks to achieving good VFM
- highlight areas for continuing audit attention
- propose areas or subjects for inclusion in the performance audit programme.

2.9 Much of the information for general survey work can be obtained through normal day-to-day work and contact with the public sector organisations in Bangladesh. Information on progress of projects may be obtained from Implementation, Monitoring and Evaluation Division (IMED) of the Ministry of Planning. The planning cell of the line ministry or the organisation may provide such information. Initial information may also be gathered from the internal control unit of the auditee entity. Separate investigative work may, however, be required from time to time to obtain more detailed information. This is required to provide a basis for identifying potential areas for performance audit.

2.10 The information gathered and assessments made during general survey work are recorded in **working folders** for reference when making proposals for inclusion in the performance audit strategy. It is not necessary to repeat detailed material that is readily available in source documents but such material should nevertheless be available for reference.

2.11 **Appendix 3** summarises the information required and the approach to general survey work. This can act as a checklist of the required background information, covering the following:

Coverage of General Surveys

- Background environment and information on the entity
- Significant legislative authorities
- Objectives of auditee entity
- Organisational arrangements
- Accountability relationships
- Activities carried out
- Nature and level of resources used
- Procedures and control systems in place
- Other relevant information or evidence.

Marking

2.12 The information and analysis from general survey work must be kept up-to-date by regular monitoring to take account of changing circumstances if it is to be of value in drawing up a performance audit programme. A process of "**marking**" is used for this purpose. It allows changes and new developments to be reflected in planning the performance audit strategy. Particular note should be taken of those areas identified from general surveys as requiring special attention.

2.13 Marking can be carried out by referring to a wide range of information that may be available on the activities of the entity. This includes financial estimates, accounts, annual reports, annual development programmes, project proforma, project concept papers, IMED reports, records of debates or announcements, policy proposals, Parliamentary references and recommendations of the PAC.

2.14 Auditors need to be alert to any opportunities for prospective VFM work and where there is **risk to VFM**. During the marking or monitoring process, auditors, therefore, need to follow a scheme, as shown below, so that their knowledge of the entity is up-to-date.

Marking Scheme

- Be familiar with the policy objectives, operational objectives and main activities, working methods and problems of the prospective auditee entity
- Keep abreast of changes in policy, significant developments and projects
- Monitor outputs from financial control and management information systems
- Establish reasons for any changes in income and expenditure trends
- Identify signs of serious waste, extravagance or inefficiency
- Identify signs of under-assessment or under-realisation of revenue
- Inform the C&AG of any developments that should be taken into account in finalising a performance audit programme.

2.15 The marking scheme above can be used as a checklist to ensure that all important information is reviewed and used to update the information from the general surveys.

Assessing Risks to Value for Money

2.16 An important aspect of both general survey and marking work is an examination of the **risks to VFM**. Risk assessment helps to evaluate priorities and to decide between different possibilities for inclusion in a performance audit strategy or programme. In carrying out a **risk assessment**, auditors should:

- identify areas, operations and activities susceptible to poor VFM (that is, poor allocation and utilisation of resources)
- identify specific risks
- establish VFM control and management information systems
- assess degree of risk in terms of likelihood, frequency, significance, extent or consequence
- arrange the potential audit areas in an order of ranking.

2.17 **Risk factors** to be taken into account in planning a programme of performance audit include the following:

- **Identified risk** – evidence that an activity is not, or may not be, achieving good VFM. Many organisations in Bangladesh may suffer from such risks, which can arise from weaknesses in systems of control or management practices.

Examples: Areas at risk may be found in government sponsored poverty alleviation programmes, social service activities, road maintenance projects and rehabilitation projects. They may have been identified through the general survey or marking work or by staff with experience and audit knowledge of the area concerned.

- **Inherent risk of poor VFM** – certain types of operation, which by their nature, run a risk of poor VFM.

Examples: These include areas such as large individual projects, functions where there has been rapid expansion, large procurements and complex programmes.

2.18 In addition, the following factors should also be taken into account:

- **Materiality** – In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is generally considered in terms of value i.e. the amount of money involved in relation to the whole. The inherent nature or characteristics of an item or group of items may also render a matter material.
- **Auditability** – the activity cost and output must be capable of being discreetly identified and audited, with clear accountability for its management. Reliable information on the area should be available and in an auditable form.
- **Balance** – the selection of areas or topics should result in a balanced programme that ensures coverage of all the important areas in the audit field over a reasonable timescale.

Examples of a spread of areas to cover could be:

- ◆ town protection embankment projects
- ◆ irrigation projects in the coastal areas
- ◆ improving street children’s environment project
- ◆ afforestation project
- ◆ rural social services project

- ◆ population education in schools
- ◆ mass literacy programme.

2.19 All of these factors should be taken into account in assessing the opportunities for carrying out performance audit work and in narrowing down the possible areas for examination. They will almost certainly include areas where there is possible waste and poor overall performance.

Proposals for Performance Audit

2.20 Apart from special cases, potential areas for performance audit may already have been identified through the general survey and marking work. A more detailed list of considerations influencing study selection is shown in **Appendix 4** and a summary checklist is shown below.

Choosing Performance Audit Topics - Checklist

- **Materiality**, including the budget or scale of expenditure in the area proposed for audit
- **Auditability** and availability of sufficient management and financial information, including performance indicators or measures
- **Timeliness**
- **Potential impact** and scope for improvement (such as reduction in costs or increase in revenue)
- **Evidence of weakness** in financial control and assessed risk to VFM
- **Previous PAC recommendations** and level of public interest
- **Balance** of the overall programme of performance audits
- **General significance.**

Strategic Planning of Performance Audit Work

2.21 The **aim of strategic planning** is to determine the future programme of performance audit work and the relative priorities of various projects, together with the staff and other resources needed to carry out the programme for the Office as a whole. This will be based on the proposed audit topics that have been submitted for inclusion in the strategic plans. The plan should ensure that it reflects proper priorities and a balanced and varied programme. It must also be capable of being carried out by the available staff resources. The likely demands on the

prospective auditee entities should also be taken into account when deciding on audit areas. Strategic plans look forward for three to five years but detailed proposals need only be made for the early part of the period.

2.22 The strategic plans covering performance audit should be updated regularly and should aim to:

- ensure that the programme coverage broadly reflects the full extent of audit risk across all the areas for which the C&AG is responsible
- establish an adequate cycle of performance audit coverage
- deliver a range of performance studies to time, quality and within agreed budgets
- specify targets for full examinations and clearance with the audited entities
- achieve savings, if possible.

2.23 It is clearly not possible to include every area identified and choices will have to be made. The following are often fruitful areas for performance audit:

<u>Potential Performance Audit Areas</u>	
<u>Type of Activity</u>	<u>Possible Improvements</u>
• Procurement or purchasing arrangements	Purchasing goods and services more cost-effectively
• Stores management	Improved procedures resulting in reduced stockholding and reduced losses
• Support services, including telephones and electricity	Obtaining services at better prices, managing facilities better and identifying scope for reducing consumption
• Estates and asset management, including vehicles, buildings etc.	Making better use of land, buildings, vehicles, equipment or accommodation. The latter will allow increased capacity or release of accommodation for other use or for disposal
• Management of major capital projects	Improved procedures allowing contracts to be completed within cost and timescale
• Utilisation and deployment of manpower	Increased productivity and reduced staffing overheads

2.24 Once the strategic planning process has been completed and decisions taken by the C&AG on the highest priority areas for audit, Heads of the organisations and the concerned Principal Accounting Officers (PAOs) should be informed of the provisional audit topics. It would be helpful to establish a formal nominated contact person within each body to be audited with whom the C&AG's auditors could liaise. The most senior finance officer in the auditee entity could perform this role.

Conclusion

2.25 Strategic planning is an important phase in developing the performance audit programme for the Office as a whole. Planning is necessary to determine the objectives and scope of the work programme and to assess the resource needs to carry it through within a given timeframe. At the end of the strategic planning phase, the C&AG will have reached

decisions on potential candidates for performance audit in the longer term, with other more likely areas in the year immediately ahead.

Chapter 3 – Planning Individual Performance Audit

Introduction

- 3.1 Planning the approach to individual performance audits is essential prior to starting the fieldwork. Within the programme of audits included in the strategic plan, auditors will need to concentrate on those likely to be included in the work programme for the year ahead. Audit teams should acquire a comprehensive knowledge of the topic or area that is to be audited. Study proposals for the early part of the strategic planning period should be supported with more detailed information as they are soon likely to be confirmed as audit areas.

Information on Proposed Audit Areas

- 3.2 The information required for these areas is shown below.

Information on Study Proposals - Checklist

- **Background information on the proposed audit area**
- **Main policy objectives and instruments for implementation (can be obtained from various policy documents and strategic plans)**
- **Any Parliamentary interest or previous audit involvement**
- **An assessment of the risks to achieving VFM**
- **Proposed scope of the study and main issues to be addressed**
- **Whether there are any other examinations proposed in the same area or which might overlap**
- **The proposed methodology (the approach and techniques to be used) and sources of evidence**
- **Expected impacts of the study in terms of savings or improvements**
- **Staffing requirements and cost to carry out the study**
- **The proposed timing of the study.**

- 3.3 Relevant information may be obtained from the following sources:

- The relevant Act of Parliament, Ordinance or Executive Order
- The entity's mission statement, annual reports, conference reports and minutes of Board meetings
- Previous audit reports, reviews, evaluation and inquiries into the activities of the entity
- The budget estimate
- Discussion with management, employees and stakeholders
- The entity's policy files and government policy decisions published in gazettes.

- 3.4 Other external sources may also contribute to the auditor's repository of information. The following may be consulted:

- Studies by government, professional or interest groups
- Information held by sister entities
- Research held by academics or research organisations e.g. research conducted by the Bangladesh Institute of Development Studies on the Micro-Credit Programme of the Government Agencies.
- Similar works undertaken by other government agencies and non-government organisations
- Media coverage.

- 3.5 When considering whether proposals for performance audit should be retained in the audit programme, there should be a realistic prospect of producing a worthwhile report at the conclusion of the study. The availability of audit staff is limited and their time should not be spent on nugatory or non-productive work. It is clearly not possible to examine every area identified and choices will have to be made.

The Preliminary Study

- 3.6 The first stage in obtaining a sound understanding of the prospective audit area is through a **preliminary study**. This can be used to confirm whether or not the full study is still justified in the area identified during the strategic planning stage. If the audit is to continue, the preliminary study should state how the work should proceed. It should recommend precise objectives and tasks for the full examination.
- 3.7 The aim of the preliminary study is to carry forward the assessment made at the earlier general survey, marking and planning stages. Its

purpose is to determine whether a more detailed examination is still justified and should proceed. This should be clearly distinguished from the full, in-depth study that will follow at a later stage.

- 3.8 The preliminary study should be kept as brief as possible but should be sufficiently thorough to enable a decision on the full study to be taken. It must have adequate, relevant and reliable evidence to support the conclusions reached.
- 3.9 The fieldwork involves examination and analysis of the entity's papers, local and foreign visits as necessary and discussions with appropriate staff in the auditee organisation. Assistance and advice from experts may also be required where the study involves a professional area, such as hospital services. The duration of the preliminary study will depend on the circumstances and complexity of the area being considered but should normally last for only a few weeks. The preliminary study should address the points shown below.

Points to Identify in Preliminary Study

- The **fundamental VFM issues** to be examined and included in the planning document for the full study
- The nature, extent and availability of audit evidence required and how it will be collected
- The approach and techniques which will be used to analyse the data
- The timing of the various stages of the full review
- The resources required in terms of staffing input (both auditing and supervisory) and skills
- The format in which the findings and results of analysis should be reported.

- 3.10 Once the preliminary study is under way, it may become apparent that the scope for a full examination is limited or that significant benefits are unlikely to be achieved. Reasons for reaching such a conclusion may include the following:

- The topic has been overtaken by events or is being duplicated by other studies or projects
- The investigation is impracticable
- The data essential to the study is insufficient, unreliable or incorrect
- Other factors influencing the results could not be defined

- The audited organisation has already taken action to address any problems
- Audit staff with the required expertise and skills are not available
- The scope for added value from the study seems limited.

- 3.11 By using the preliminary study, the auditor is able to cover all aspects of the organisation, activity, programmes and systems in order to acquire a working knowledge of the entity, as shown in the illustrative list below (this is not exhaustive):

Preliminary Study – Information Required

- **For an organisation or entity:**
 - ◆ Its history and location
 - ◆ Its legal requirements
 - ◆ The entity's charter, objectives, obligations and policies
 - ◆ An organogram (organisational chart) and its management
 - ◆ Its budgetary allocations and expenditure levels
 - ◆ Travel and equipment expenditure
 - ◆ Number of employees
 - ◆ Type of examination to be made
- **For an activity:**
 - ◆ Background and factors influencing the activity
 - ◆ The type of activity
 - ◆ Its location
 - ◆ Persons responsible for the activity
 - ◆ Policies pertaining to the activity
 - ◆ Specific procedures for accomplishing the activity
- **For a programme:**
 - ◆ Its purpose and objectives
 - ◆ Cost and duration of programme
 - ◆ The inter-relationships between entities responsible for the programme
 - ◆ Policies and procedures for accomplishing the programme
 - ◆ Administrative regulations related to the programme

Identifying Fundamental Issues

3.12 The preliminary study should identify, as far as possible, **the fundamental VFM issues** which are to be examined in the full study. The auditor should draw up a checklist of points to be pursued. The following questions should be addressed:

Questions on Fundamental Issues

- What are the objectives that the organisation is expected to achieve?
- How well and how far have these been achieved?
- At what cost?
- **Have the objectives been achieved economically (spending less), efficiently (spending well) and effectively (spending wisely)?**
- If not, what explanations are given by the organisation?
- What are the areas of weakness in the organisation perceived by management?

3.13 These are the **basic VFM questions** that any performance review should address if it is to reach sound conclusions on the use of resources. Reports are likely to be more effective if the number of such issues is confined to the limited number of crucial VFM questions set out above.

3.14 The issues identified should be clear and specific. The following questions will help in **identifying fundamental issues**:

Identifying Fundamental Issues

• Authority?	Does the activity have specific authority under relevant legislation or regulations?
• Need?	Is there a need for public expenditure or resources to be used on this activity?
• Alternatives?	Has consideration been given to alternative means of meeting the need? Was the best alternative chosen?
• Method?	Have activities been planned, organised and implemented in an acceptable way?
• Standard?	Were the requirements or specifications appropriate, at the right level and are they being met?
• Timeliness?	Did matters proceed at the appropriate rate, avoiding delay and unnecessary costs?
• Controls?	Are there adequate controls to ensure the achievement of satisfactory VFM?
• Cost?	Were resources used economically and efficiently?
• Recovery?	Were receipts or returns optimised?
• Achievement?	Were the intended objectives properly defined and communicated? Were they achieved?
• Implications?	Were there any other significant VFM implications of the activity concerned?

3.15 One particular point to be applied by the auditor during the preliminary study refers to the **Audit Standard on compliance with laws and regulations** (Appendix 2 refers). The standard states that:

“The auditor should design audit steps to provide reasonable assurance of detecting acts that may be non-compliant with laws and regulations that are significant to audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts”.

Confirmation of Examination

- 3.16 The main factors influencing the **final choice of areas for performance audit** were summarised in paragraph 2.20. It is important to keep the audited body fully aware of progress on the proposed study and, if possible and appropriate, to take its views into account. The organisation should understand, however, that it is entirely a matter for the concerned audit authority whether or not to proceed with the study. In reaching the final decision, the authority may, therefore, consider the following, in addition to the points included in paragraph 2.20:
- The extent of the risks to good VFM, or evidence of poor VFM, in the proposed area and the importance and significance of the VFM issues identified
 - Whether sufficient sound audit evidence is likely to be available and obtainable in support of any conclusions or recommendations
 - The likely impact of the full study on achieving improved VFM and added value
 - The prospects of producing a robust report which would assist the PAC in its further investigations
 - The cost of the study and the skills available to carry it through.
- 3.17 On the basis of the preliminary study report, a decision is then taken, by the C&AG, or a designated officer, on whether to confirm that the full examination should continue. If the decision is to proceed with a full study, specific objectives should be defined and plans drawn up for the timing of the examination, together with the estimated staffing requirements to carry it out. The supervision and management arrangements for the full study should also be clearly spelt out. These should include provision for specific progress and monitoring meetings throughout the examination.

Audit Plan

- 3.18 The aim of the audit is to answer the questions that have been identified and set out in the preliminary study report. As stated in the Government Auditing Standards, a **written audit plan** should be prepared for each proposed audit. This audit plan should be prepared by the respective audit team, in consultation with higher authority. It should meet the required standard and in effect will become the terms of reference for the audit examination. The written audit plan should cover the following:

Audit Plan - Coverage

- **The audit objectives**
- **The audit scope, major considerations and the rationale for the scoping decisions, reasons for any limitations to the scope**
- **The audit criteria and their sources**
- **Description of the planned audit approach and methodology**
- **Identification of audit staff and external consultants, including their qualifications and special knowledge or skills**
- **The estimated cost of the audit (staff hours and other costs)**
- **The timing, the key milestones and the main control points.**

Audit Objectives

- 3.19 **Audit objectives** for each study should be carefully considered and expressed as precisely as possible so that the auditor can reach a conclusion against each objective. They should identify the audit subjects together with the performance aspects to be examined, for example, the economy, efficiency and effectiveness in the selected entity. The potential findings and reporting elements that the auditor expects to develop should also be identified.
- 3.20 Audit objectives are normally expressed in terms of what **questions the audit is expected to answer about the performance of an activity**, such as results achieved, or the economy or efficiency of resource utilisation. They must be defined in a way that will allow the audit team, at the end of the audit, to reach conclusions against each of the objectives.
- 3.21 An example of such an audit objective would be “to assess the efficiency of a given activity”. In this example, the efficiency criteria applicable to the activity are identified and agreed with the auditee and the auditor can reach a conclusion based on the evidence collected. In other cases, the objective of the audit could be “to review the management of the facilities”. The result of this study is more for information purposes and a conclusion may be more difficult to reach.

Audit Scope

- 3.22 The **audit scope** refers to the framework, boundary, limit, subject and nature of the audit. In the early strategic planning stages, the audit is usually defined in very broad terms. Scoping the individual study involves narrowing the audit down to a relatively few matters of significance that relate to the audit objective. It describes the parts or functions of the entity that are subject to the audit in addition to the time period covered by the audit. It must also be within the capacity and capability of the audit resources available.
- 3.23 There are three underlying **principles in establishing the scope of the audit**:
- (1) **Relevance to the mandate**: Auditors should determine whether the issues selected for audit are within the mandate of the C&AG. Policy matters are normally excluded.
 - (2) **Matters of significance**: Audits should focus on significant issues that are likely to add value and be of interest to Parliament. Answers to the following questions will help in identifying matters of significance:
 - Does the subject have an important impact on results?
 - Is it an area of high risk?
 - Does it involve material amounts?
 - Is it an area of visibility or of current concern?
 - Is it of interest to Parliament and the public?
 - Will it result in improved performance, accountability or value for money?
 - (3) **Auditability**: Auditability relates to the ability of the audit team to carry out the audit in accordance with the required professional standards. The team must possess, or be able to acquire, the required expertise to carry out the examination successfully.

Audit Criteria

- 3.24 Audits must have **suitable criteria or performance measures** that focus the audit and provide a basis for developing observations. Auditors need a means of measuring or judging the performance of the matters subject to audit. The standards used for this purpose are referred to as **audit criteria**. They are reasonable and attainable standards of performance and control against which compliance, adequacy of

systems and practices and the economy, efficiency and effectiveness of operations can be evaluated and assessed.

- 3.25 Primary **sources of audit criteria** include the controls, standards, measures, results, commitments and targets adopted by the entity itself or imposed by legislative bodies. The auditor should review these criteria to assess their relevance to the audit to ensure that they are reasonable and complete. Where the entity's own measures are found to be suitable, they can be adopted as audit criteria.
- 3.26 Where the entity does not have well-established standards for measuring performance, acceptable criteria may be obtained from the law, regulations, standards developed by professional bodies and from the performance data of other similar organisations.
- 3.27 Further information on **audit criteria** is included in paragraphs 1.29 to 1.32 of this manual and information on **performance measurement** in paragraphs 5.15 to 5.25.

Audit Approach and Methodology

- 3.28 The approach and methodology comprise the **techniques that will be used** by the auditor in gathering evidence and conducting the analysis. Examples of gathering evidence include review of the entity's documentation and files, reports and studies, conducting surveys, field visits to project sites and interviews with entity staff or other experts. Analytical methods include statistical sampling, year-to-year comparisons, trend analysis and comparisons with other similar entities.
- 3.29 Further information on **audit techniques** that can be used in performance audit are included in **Chapter 4** of this manual.

Audit Resources

- 3.30 An **adequate number of audit staff and supervisors with appropriate skills, knowledge and experience** should be assigned to each individual audit. Consultants can be used, as necessary, when in-house skills are not available or are insufficient. Adequate other resources need to be made available, for example, for travel to allow the team to carry out the audit properly. The audit team is considered further in paragraphs 5.26 to 5.28.

Terms of Reference

3.31 The drawing up of detailed **terms of reference**, including the **audit objectives**, are essential at the beginning of any examination. These can be discussed with the organisation to be audited and, if possible, its commitment obtained prior to the commencement of the full study. Where consensus on the terms of reference can be achieved with the auditee body, the audit is more likely to have a successful impact. The terms of reference should be based upon the outcome of the preliminary study and the written audit plan and should include the points outlined below. **Appendix 5** shows an example of the terms of reference for a performance audit examination.

Contents of Terms of Reference

- **Background** to the area or entity selected for review
- The **objectives of the performance audit**. Usually expressed in terms of what questions the audit hopes to answer about the performance of an activity, such as results achieved or the economy or efficiency of resource utilisation. They should be expressed as precisely as possible so that the auditor can reach a conclusion against each objective
- **Scope, boundaries or coverage** of the examination, including major considerations
- Details of **the audit approach** e.g. tasks to be carried out, assignment of responsibilities, together with the methodology to be employed and the consultation arrangements
- **Timetable** for the phases of the examination, together with target dates
- Proposed **resource inputs** by the Office of the C&AG, including named personnel at specific grades and any special skills or knowledge required
- **Reporting format and procedure**, including timing of expected outputs
- **Estimated cost** of the audit (both staffing and other costs)
- **Potential benefits** to the audited organisation
- **Planned outputs from the examination**, usually an audit report or guidance on good practice.

Chapter 4 – Performance Audit Techniques

Introduction

- 4.1 In carrying out performance audits, there are a number of tools and techniques available from many disciplines that can be used. The chosen techniques should be those most suitable for the needs and circumstances of the particular audit.
- 4.2 Some of the techniques which auditors can use in obtaining and analysing performance audit evidence include the following:

- | | |
|--|--|
| <ul style="list-style-type: none">• Examination of papers• Interviewing• Direct observation• Benchmarking• Case studies• Questionnaires | <ul style="list-style-type: none">• Surveys• Focus groups• Flow charting• Statistical analysis• Work study• Cost benefit analysis |
|--|--|

Examination of Papers

- 4.3 **Written material** is an important source of audit evidence and is a major component of most studies. Auditors should look, among other things, for the following:

- | | |
|--|--|
| <ul style="list-style-type: none">• Annual reports• Financial statements• Project documents• Correspondence• Memoranda | <ul style="list-style-type: none">• Minutes• Reports• Directions to staff• Internal audit reports |
|--|--|

- 4.4 The main source of **documentary evidence** is through the examination and perusal of the files and papers in the audited entity. The collection of evidence from papers needs to be orderly and aimed at obtaining information that supports the findings of the review. Other file information and papers can be summarised and recorded in the working paper files. The auditor must ensure that all relevant files and papers are made available to him.

- 4.5 Important, significant or controversial documents should be photocopied for retention and their source recorded, so that the contesting of evidence based on an examination of written material can be avoided.

Interviewing

- 4.6 **Interviews and enquiries with staff** in the audited body are the main means of collecting **testimonial evidence** (that is, evidence based on interviews and discussion). All performance studies use some form of interviewing to collect information and establish the facts. To be successful, interviews need to be structured and prepared in advance. Careful preparation, including the development of checklists, where appropriate, helps to maximise the productivity of the interviews.
- 4.7 The person being interviewed should be encouraged to be at ease and to speak freely. The **types of questions** and the circumstances of their use can be summarised as follows:

- **Open-ended and descriptive questions** – these start with how, why, where, when and what and are used to collect quantities of new, unanalysed information. They tend to be broader and allow a wider range of responses than closed questions.
Examples: How many staff are responsible for a particular function and what is their function, for example, in reducing system loss of water? Explain how they attempt to reduce system loss?
- **Closed questions** – these are useful at the end of a line of questioning in order to obtain specific facts.
Examples: Did the entity set a performance target for the activity, for example, to reduce system loss of water by x%? What is the cost of the programme? When did the deterioration in system loss begin? How does this compare with performance in the water industry as a whole?
- **Probing or evaluative questions** – these allow more specific information to be obtained and to check for depth of knowledge and experience. They are also used to fill in gaps in the interviewer's knowledge about the area or topic and inform much of an auditor's performance audit work.
Examples: Was the target for reduction in system loss achieved? If not, what may have been the reasons? What action was taken to

ensure that the target was achieved? What difference did the programme make towards preventing system loss?

4.8 It is advisable to **avoid**:

- **Multiple questions** – this suggests that the interviewer doesn't really know what the issues are or what he/she is trying to find out. Questions should be properly planned and thought through.
- **Leading or suggestive questions** – these tend to put pressure on respondents to answer in a particular way. They may provide answers that the interviewer may wish to hear but they could not be regarded as proper evidence.
- **Vague questions** – the interviewer must be clear on the information being sought and what he wishes to find out.
- **Hypothetical questions** – these may only produce hypothetical answers that cannot be used as proper evidence.

4.9 In order to help with recollection, notes should be taken during each interview and written up as soon as possible afterwards. If the oral evidence is of particular significance to the examination, the record of the interview should be confirmed with the person interviewed.

Direct Observation

4.10 One of the best ways of following and understanding what is actually going on is by **direct observation of activities**. Techniques such as these help the auditor to obtain evidence about physical assets and can be helpful in gathering evidence about whether people are following the proper procedures. By observing carefully, auditors try to formulate their first-hand opinion about the activity or behaviour under study. Inspection of processes while they are in operation will give the auditor sufficient understanding and credibility when discussing issues with the audited entity. It should be remembered, however, that a single observation could not be used to draw conclusions about matters that have occurred over a period of time.

4.11 Points to keep in mind when **observing activities directly** include the following:

- Approach the observation in a common-sense way and make it active, rather than theoretical

- When being introduced to the staff directly involved, the auditor should explain tactfully what he is trying to achieve by observing the activity
- The auditor must try not to upset the normal flow of work, or people's behaviour, by getting in the way. The observers should try to understand the role of the participants in the procedure, trying to obtain knowledge of the activity as an insider, yet keeping their status as an objective observer
- Everything which is observed should be carefully recorded since it may become key evidence
- Take note of informal comments made when staff gain the confidence of the auditor (but be careful when staff simply make complaints). The evidence must be able to withstand scrutiny.

Case Studies

4.12 For performance audit, case examination is an effective way of obtaining, analysing and presenting information. **Case studies** refer to the in-depth examination of a representative selection of events, transactions or items in order to understand and measure a programme or activity as a whole. The method focuses on assessing efficiency of various services by analysing a sample of cases to obtain an insight into the precise workings of an activity.

Example: In the income tax department, the auditor may take a sample of income tax assessments to evaluate the response time of the department to letters received from taxpayers. Data would be tabulated to show dates on which letters were received and processed and the dates of replies. Case studies must, however, be chosen with care if they are to make a useful contribution to the performance review.

4.13 Areas where case studies may be useful include:

- inconsistent performance between different institutions e.g. hospitals catering
- sales of government land, buildings etc. to ensure the best price
- management of space in hospitals, schools etc. to ensure optimal use
- project management
- quality of service
- maintenance of vehicles

Benchmarking

4.14 The **aim of benchmarking** is to determine, through comparisons with performance or good practice elsewhere, whether there is scope for better performance. Comparisons can be made with other branches or units within the entity or with other relevant external organisations at home or abroad. The aim is to determine whether, by comparison with good practice elsewhere, there is scope for doing things better. This technique can help to identify opportunities to improve efficiency and make savings.

4.15 High-level comparisons can be made with other organisations carrying out the same function.

Example: schools, hospitals or administrative units or offices throughout the country.

4.16 Performance benchmarking uses a range of measures and indicators to compare performance. Areas covered include productivity, unit costs and quality of service.

Examples: pupil-teacher ratios, patients treated by hospitals, job placements achieved and unit cost of training provided.

4.17 Use of the benchmarking technique can stimulate entities to improve their performance. However, in making comparisons, it is important to ensure that:

- like is being compared with like (large entities may operate in different circumstances from smaller ones and comparisons may be unfair)
- the method of collection of the data should be consistent
- auditee entities are not permitted to accept favorable comparisons but reject others.

Questionnaires

4.18 Questionnaires comprise lists of questions designed to obtain information on a specific subject. When the cost of interviewing a large number of people would be prohibitive, questionnaires are a valuable means of gathering information. They are often used to assess quality of service or the scope for improvements in service delivery.

Questionnaires need to be structured to meet the needs of the situation and they can be suitable in circumstances where:

- there is a need to minimise the time and cost involved in collecting information
- the information is not otherwise available
- the auditor is trying to identify strengths and weaknesses in an organisation
- an assessment of quality of service is being made on the basis of ratings given by customers
- audit evidence is required to support particular conclusions from the study.

4.19 The design of questionnaires will have a direct impact on the quality of evidence obtained and is therefore particularly important. They need to be straightforward to complete, otherwise they will be avoided by potential respondents. Confidential, non-attributable questionnaires are more likely to encourage completion by respondents.

Surveys

4.20 Conducting a survey is a useful method of collecting new or standardised information, both quantitative and qualitative, from a number of respondents in an audit area. The main **quantitative survey methods** are postal (self-completion) questionnaires, personal interviewing and telephone interviewing. VFM studies can make good use of surveys to produce new insights and up-to-date evidence. They must be well planned, designed and implemented if the information obtained is to be useful and reliable. Where it is planned to organise a survey, auditors should seek professional assistance in drawing up the survey, conducting it and analysing the results.

Focus Groups

4.21 A **focus group** is a selection of people, often stakeholders or customers of an entity, brought together to discuss specific topics or issues. A focus group of about 15 to 20 people is an ideal size for free discussion. Since much of VFM work is about the impact of government programmes on a wide range of people, focus groups can have a useful part to play. They are often used to collect information and produce results that allow respondents to express views in their own words and context. Customers' views of services are often required as well as those of the providers of government programmes. Focus groups do, however,

only produce qualitative data and, therefore, considerable expertise is required in their interpretation.

Flow-Charting

- 4.22 **Flow-charting** refers to the gathering of information on specific processes or activities within an entity. The flow chart is a visual aid to the sequential processes in the flow of transactions in the organisation or process. Breaking down an activity into a flow chart can help to focus on the main features of an activity. It also helps in designing the methodologies to be used in the audit, for example, whether to use techniques such as surveys or benchmarking.

Statistical Analysis

- 4.23 **Statistical analysis** is often employed when data has to be analysed in order to establish trends or make comparisons. Statistics is concerned with the collection of data, its organisation, presentation and analysis. To investigate the characteristics of a particular group of individuals, objects or activities (called the “population”), a sample is taken and the values of the variables to be investigated is established. Statistical analysis can be helpful in measuring performance and ensuring that any analysis and interpretation of the data supporting the recommendations and conclusions is sound. A basic understanding of probability theory will help in carrying out statistical analyses. Presentation of the statistical data is also important in explaining complex data.
- 4.24 Software packages can make an important contribution, particularly in collecting and sorting data, analysing and interpreting it and in presenting the results.

Activity Analysis

- 4.25 **Activity analysis** refers to the identification, measurement and analysis (in terms of time, cost and throughput) of the activities undertaken by people in an organisation. This analysis is useful when trying to measure objectively the contribution made by an activity and by those carrying it out. Although the technique can be useful in providing cost-effective information about working activities, the measurement of activities may meet resistance from the staff involved.

Work Study

- 4.26 The principal objective of the **work study function** is to ensure that the area under study is providing value for money. It is a technique that examines work processes to see if working methods and standards can be improved. By measuring productivity (the relationship between input and output), work study has resulted in considerable benefits when applied to high volume, repetitive tasks. Work study can be used, for example, to highlight poor office practices and to improve working methods and procedures for clerical functions.

Cost Benefit Analysis

- 4.27 **Cost benefit analysis** is the most comprehensive form of **economic appraisal**. It seeks to quantify in money terms as many of the costs (inputs) and benefits (outputs) of a proposal as possible, including those for which the market does not provide a satisfactory measure of economic value. Cost benefit analysis need not be restricted to appraisal, since it can also be carried out after the event. In performance audit, it can be valuable to examine the original cost benefit appraisal to see whether the actual cost in comparison with the benefits achieved still represents value for money. Reasons for failure to contain the estimated costs or to achieve the predicted benefits can be probed as part of a performance audit.

Chapter 5 – The Examination Phase of Performance Audit

Introduction

- 5.1 The outcome of the preliminary study is likely to confirm that the audit is to proceed. A **full in-depth examination** is then required to gather sufficient evidence to enable sound conclusions to be drawn and a report written. These conclusions should refer to the degree to which VFM has been achieved and the scope for improvement, which will then form the basis of the report to the President and Parliament.

Audit Evidence

- 5.2 The **purpose of a full, in-depth examination** is to obtain the required quantity and quality of evidence to enable reasonable conclusions to be reached on the entity's VFM achievement. The **Government Auditing Standard in relation to audit evidence** for performance audit (**Appendix 2** refers) states that:

“Sufficient, reliable and relevant evidence should be obtained to support the auditor's judgement and conclusions.”

- 5.3 The main task in this stage of the performance audit is, therefore, that of **evidence collection and analysis**. This should concentrate on the main VFM issues selected for examination and should be aimed at making a positive contribution to the final report from the C&AG.
- 5.4 Auditors must have **rights of access** at all reasonable times to all documents and other information and access to sites and facilities that may be necessary for purposes of the performance audit. The C&AG has powers to inspect any activity of the government and any documents required for audit purposes (paragraph 1.2 refers).
- 5.5 It is essential that **sufficient evidence** be assembled to lead any reasonable person to the same conclusion as the auditor. Insufficient evidence may result in misleading conclusions. The amount of evidence required will depend on:
- the auditor's knowledge and experience of the audited organisation
 - the materiality of the issue being addressed

- the strength and persuasiveness of the evidence
 - the likelihood of the evidence being contested
 - effective internal controls.
- 5.6 In reaching reasonable conclusions, **relevant evidence** must be the most current that is available and must be related to the issue being addressed. Evidence will be relevant, therefore, if it relates to the audit objectives, the findings and the period of audit.
- 5.7 Information should also be the most accurate that can be obtained if it is to be regarded as **reliable evidence**. Accuracy means that it should be consistent with fact. External evidence is more reliable than that obtained from the auditee body. Also, empirical evidence such as information gained from documents is more reliable than oral views or comments.

Categories of Evidence

- 5.8 Obtaining and analysing evidence is a most important aspect of any performance review. Auditors should identify the categories of evidence that they intend to use in any particular investigation. Such evidence may be obtained from, for example, interviews, observation or analysis of records. Sources may be both within and outside the audited organisation. There are four **categories of evidence**:
- **Physical**: Obtained by direct inspection or observation of the activities of people, property or events. The auditor's powers of observation must be used effectively for this type of evidence to be satisfactory.
 - **Testimonial**: Obtained orally from others through interviews, discussion or from written statements received in response to enquiries. Interviews with staff who actually operate specified procedures or carry out the activity or function are particularly relevant.
 - **Documentary**: Obtained from actual documentation such as file papers, management reports, submissions, staff instructions, operating manuals, documents, internal audit reports or other papers.

- **Analytical:** Obtained by examining and making judgements about data collected during the course of audit work. Comparisons with the performance of other appropriate organisations are useful.

Audit Documentation

- 5.9 The **working papers and audit records** are of immense importance in audit work, performance audit being no exception. The main purpose in retaining working papers is to furnish a systematic record of work carried out during the audit. They represent the record of information and facts obtained and developed to support the findings, conclusions and recommendations and follow-up.
- 5.10 All such papers should be maintained in a well organised and orderly fashion to provide a complete and accurate record of the work carried out. They should show the findings and conclusions reached and provide the basis on which the performance audit report can be prepared.
- 5.11 There is no standard method of organising **working papers** in relation to performance audits. Working papers should record:
- the major decisions influencing the examination
 - the management of the examination process by the audit team and the Office of the C&AG
 - key correspondence and other contact with the audited body
 - the main items of evidence, their source and the analysis undertaken
 - benchmarking information
 - the argumentation and justification for conclusions and recommendations.
- 5.12 Working papers should be prepared as the audit proceeds and filed in a series of folders, together with other source documents. Papers should be clear, concise and legible. Excessive detail is not required. **Separate folders** should be retained covering, for example:
- papers relating to the planning stage
 - other administrative material e.g. notes of progress meetings
 - copies of evidence obtained during the examination stage
 - records of calculations and analyses used to develop the findings and recommendations
 - papers relating to report preparation.

- 5.13 A complete record of the auditor's work should be retained, so that another auditor, without previous involvement in the audit, could understand the work carried out and the basis for the findings and recommendations. The **audit record** should show the following:
- Evidence collected
 - Procedures used for its collection
 - Source of the evidence
 - Staff who carried out the work
 - Date of the work
 - The issue and detailed audit objective to which the evidence relates.

Key Performance Audit Questions

- 5.14 An auditor should not make assertions without the necessary and accurate supporting facts, figures or examples. There are a number of **key questions** that the auditor must keep in mind continually in a performance audit examination, as shown below.

<p style="text-align: center;"><u>Key Questions</u></p> <ul style="list-style-type: none">• Why is the activity, function or procedure carried out at all?• What value does it add?• Why is it carried out in the way that it is?• How is performance measured in the area under examination and what systems are in place to achieve this?• Are economy, efficiency and effectiveness measures and targets in place and, if so, what do they show?• Could the activity be carried out at less cost without affecting efficiency or effectiveness?• Could it be carried out more efficiently or more effectively?• What potential is there for financial impact as a result of the audit review?
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Performance Measurement

- 5.15 The setting of **criteria for performance measurement** is one of the most important techniques to be employed during performance audit. It should also be a central part of performance management by any entity or for any activity within its responsibility. It is helpful to the auditor if

the organisation's performance can be measured in terms of economy, efficiency or effectiveness. Unfortunately, organisations frequently do not have proper performance measures in place and measurement is often difficult.

5.16 The key elements of **performance management** are as follows:

- Preparation of aims, objectives and a strategy for the entity
- Selection of appropriate **performance measures**
- Development of corresponding **performance targets**
- Reporting of information on performance
- Action to improve performance.

5.17 An entity's **aim** is the main purpose for which it exists. Whilst it may not necessarily be quantifiable, it does give direction to the organisation's activities.

Example: In relation to a museum, "to illustrate the way of life, past and present, and the traditions of the people of Bangladesh".

5.18 **Objectives** are specific planned achievements by the entity. They contribute towards its aims and should be expressed in a way that allows achievement of the aims to be measured and assessed.

Example: In relation to a museum, "to maximise access to, and use of, a museum's collections".

5.19 **Performance measures** refer to the direct quantification of performance. They include the efficiency with which the organisation is operating or the quality of service it is delivering. When compared with other measures or with previous performance, they can provide a precise and unambiguous analysis of economy, efficiency and effectiveness.

Examples: Administrative cost in relation to the number of claimants; the percentage accuracy or the time taken by a government entity to process applications; reduction in road traffic accidents; or reduction in system loss from the public water supply.

5.20 **Performance indicators** give some information about output or performance if direct measures are difficult to obtain.

Examples: Quality of service, for example, customer satisfaction ratings.

5.21 **Performance targets** are the quantified objectives to be achieved by the entity by a given date and they can be developed from the performance measures.

Examples: The percentage reduction in unit cost of output; or an increase in the number of applications processed per person per day.

5.22 The auditor should endeavor to identify the information on which performance measurement could be based. Where information is available on **inputs, processes and outputs**, it is possible to make calculations on the organisation's economy, efficiency and effectiveness. Comparisons of actual performance can be made against the targets set or against other similar organisations. It also allows the trend in performance over a period of time to be identified.

5.23 The key to the making of comparisons lies in the selection of **appropriate measures of performance** and examining the **related performance targets**. Some of the basic rules may be summarised as follows:

- Policy objectives and performance targets must be defined in quantifiable terms against which actual performance can be measured.
- Those terms must consist of one or more measures, which reflect the successful achievement of what is being undertaken.
- Measures should as far as possible be acceptable to any staff whose performance is being subjected to measurement.
- Information about actual performance must be available or capable of being obtained to enable it to be measured.

<u>Examples of Performance Measures</u>	
Area/Activity	Performance Measures
<ul style="list-style-type: none"> • Transport 	% usage of vehicles Cost per vehicle per hour Fuel cost compared with hired cost % idle time for vehicles
<ul style="list-style-type: none"> • Stores 	Ratio of stock held to turnover Ratio of slow moving stock to stock held
<ul style="list-style-type: none"> • Printing Services 	Cost per page printed Average turnaround time % work completed on time
<ul style="list-style-type: none"> • Cash Collection 	Cost per transaction Investment income 'lost' Number of transactions per cashier per day

5.24 Examples of useful performance measurement could involve examination of information for comparable activities in the following:

- Water supply authorities
- Hospitals
- Fire services
- Irrigation authorities
- Agricultural extension areas
- Poverty alleviation programmes
- Roads and highways projects

5.25 The **tools and techniques** available to the audit team to assist in measuring performance are included in **Chapter 4** of this manual.

The Audit Team

5.26 The skills required will vary with the nature of any individual performance audit. They should be carried out by audit teams with the appropriate competence in terms of skills and experience. The audit issues can often be sensitive, involving discussions with senior level staff in the audited organisation. The skill mix and seniority of staff should take this into account.

5.27 Collectively, the team as a whole should:

- have appropriate experience in conducting performance audit work
- be familiar with the subject under examination
- have a collective complement of the required skills to carry out the performance audit effectively. This may necessitate the inclusion of experts in professional disciplines
- have received the necessary training in performance audit and be able to apply the required techniques for collecting, analysing and interpreting evidence
- be of the right status and level to be respected by senior staff in the audited bodies
- be able to deliver study reports to cost, time and quality requirements.

5.28 The size, structure and level of the audit team will depend on the nature, scale and timing of the performance audit. Teams will normally be led by the Director/Senior Deputy Director and managed by the team leader.

Supervision and Monitoring of Audit Teams

5.29 Good **team management** and staff supervision is important if audits are to be carried out comprehensively, cost-effectively and within the required timescale. The relevant **Government Auditing Standard relating to supervision** (**Appendix 2** refers) states that:

“The work of the audit staff at each level and audit phase should be properly supervised”.

5.30 A large amount of information will be collected and analysed, involving a series of discussions at various levels within the audited entity. The team leader should keep in touch with individual tasks and support team members at important meetings or interviews with staff in the entity. It is essential also that **regular progress meetings** should be held between the audit team and Headquarters.

5.31 A **team leader** and his audit team normally undertake the work. The team leader is responsible for the day-to-day management of his/her audit team and the performance audit work, including the supervision and training of staff. Staff at lower grades are responsible for carrying

out the audit fieldwork, operating individually or in teams and may be assisted by trainee or technician staff. The **Audit Directorate** is responsible for overall planning, management and output from the performance audit programme.

- 5.32 Senior members of the audit team should, therefore, as part of quality assurance, carefully monitor progress of the study against the approved plans. **Monitoring meetings** with the audit staff should be held regularly (every two to three weeks) to ensure that the examination is progressing satisfactorily.

Progress Monitoring Checklist

- That the agreed audit objectives are still relevant
- That the subject is being, or has been, carefully and thoroughly examined and that no significant aspects are being, or have been, omitted or overlooked. This may involve a review of working papers and documents on file
- That the audit examination is proceeding effectively
- That the evidence being assembled is of the required standard to support firm conclusions and recommendations
- That the auditor's conclusions are sound
- That there are minimal delays and that any departures from the timetable are justified
- That comments of the audited body are given proper and due consideration.

- 5.33 Full examinations should not be allowed to become open-ended and should be **time-bound**, aiming to complete the fieldwork within the agreed timescale, for example, four months. Performance audit could easily drift into peripheral areas that are not included in the agreed terms of reference. This should be avoided although information may be obtained that could be of value in a further study. The audit objectives should be kept in mind, together with the timetable deadlines and the approved staff budgets for the study.

- 5.34 When the likely outcome of the performance audit becomes clear, the audit team should prepare an **advance outline of the report** for submission to concerned senior management. This outline should show the proposed structure and content of the report and summarise the main issues that were addressed, together with the provisional conclusions. It

is normally submitted to the concerned senior management for approval towards the end of the fieldwork stage of the audit examination. When approved, the outline will form the basis for detailed drafting of the final report.

Quality assurance

- 5.35 The Quality Assurance Team has overall responsibility for ensuring that the performance audit work is carried out in a timely manner and in accordance with audit standards and practice. **Quality assurance** must be carried out throughout the planning, examination and reporting stages of the audit. The strengths and weaknesses of the outputs should be evaluated systematically. This should be part of the monitoring process and the responsibility given to the team leader.

- 5.36 In addition, the **final audit reports should be evaluated** to ensure that any lessons learned are applied to future work. External expertise can help in the review and evaluation of reports. Standard review sheets should be developed to cover the various aspects of the report. This should be the responsibility of the concerned Audit Directorate.

Conclusion

- 5.37 In summary, **good team management** involves:

- ensuring that the audit work is carried out in a logical and efficient sequence in order to avoid delays and overlaps
- ensuring that the number of staff with the required skills and experience are available to carry out the audit in line with the terms of reference
- encouraging a team approach to the study
- ensuring that key tasks are carried out at the right time and stage of the examination
- resolving any difficulties that may arise as soon as possible
- keeping the audited entity informed of progress and findings
- regular monitoring of progress and costs.

- 5.38 When the examination stage of the audit has been completed, the leader of the audit team should **review the evidence** to confirm that it is of the required standard and that it has been properly used.

Review of Evidence

- Ensure that the work carried out meets the terms of reference fully and the subject has been carefully and thoroughly examined in line with the audit plan
- Confirm that no significant aspects have been overlooked or omitted from the examination
- Confirm that all evidence has been properly checked and recorded
- Check that the auditor's conclusions are sound and based on sufficient, relevant and reliable evidence
- Ensure that the auditor's minutes, summaries, drafts and other original work are factually accurate.

5.39 The outcome of the fieldwork stage will be a body of facts and figures that have been discussed and cleared progressively with the auditee entity as the examination proceeded. In support of audit findings, audit objectives, audit criteria, status, cause and effect should be recorded and provisional findings and conclusions are also discussed. An outline report is prepared for consideration by concerned senior management. The final draft report will then be developed from the documented material.

Chapter 6 – The Reporting Phase of Performance Audit

Introduction

- 6.1 The **Government Auditing Standard** for performance audits (**Appendix 2** refers) states clearly that:

“Auditors should prepare written audit reports communicating the results of each audit”.

- 6.2 In relation to report content, the Standards state further that:

“Each performance audit should be complete, accurate, objective, convincing and as clear and concise as the subject permits”.

- 6.3 Reporting is the most important part of the performance audit cycle. It is also a legislative requirement and, therefore, a report from the C&AG is the expected outcome of any performance review. Effective reporting is essential if the C&AG is to convey accurately and positively how economically, efficiently and effectively the entities have performed.

Framing Conclusions and Recommendations

- 6.4 The final stage of the performance audit involves reaching conclusions based on the detailed examinations, making recommendations and drafting the report for Parliament. The reporting methods can include letters and presentations in addition to written reports. However, the latter are the principal means by which the C&AG meets his responsibility of providing Parliament, through the President, with independent assurance, information and advice on the use of resources by government entities.
- 6.5 Having measured and evaluated the performance of the audited body, the auditor must consider how to report his findings. Where deficiencies in performance have been identified, the audit team needs to develop recommendations to guide corrective action. Where there is potential for significant improvement in performance and this is confirmed by the findings, **recommendations** may be appropriate. They should be

feasible, soundly based and cost-effective to implement. They should also be consistent with the findings and conclusions in the report.

- 6.6 The form of the recommendation in the report may vary from direct recommendations, to “the Office (of the C&AG) suggests” or “considers ...”. Audit recommendations may not be necessary where the audited body has given a commitment to implement a corrective course of action. The ultimate responsibility for the wording of any recommendation lies with the C&AG.

Objectives of Performance Audit Reports

- 6.7 Since reporting is such a key part of performance reviews, the approach and design of the overall audit exercise should be planned and carried out with this in mind. The audit reports are primarily for consideration by Parliament and the PAC but they should also be of interest to taxpayers and the general public. The reports must inspire confidence if they are to be effective.
- 6.8 Auditors should ask: “**What do readers need to know in order to understand the study’s conclusions?**” The reports must get their message across clearly and simply to an audience that does not need to know the technical details and complexities. A well-organised report with clear summaries and effective tables, graphs and diagrams will have more impact. These should demonstrate clearly that conclusions have been based on acceptable evidence followed by thorough analysis.
- 6.9 In order to achieve these objectives, the main points to be followed in effective reporting are shown below.

Effective Reporting

- Keep reports as brief as possible, bringing out only the most important matters. Avoid the temptation to include every detail in the reports. Select only the information that is required
- Develop a strong, clear report structure, covering the main issues
- Use simple, direct and unambiguous language
- Concentrate on the reasons why things are done, how well they are controlled and the VFM achieved, rather than on their descriptions
- Use clear evidence and well-chosen examples to strengthen the messages in the reports.

Report Structure and Content

- 6.10 The order and structure of the report must be logical if it is to be effectively understood. The length and style will vary according to the circumstances. The **structure and contents of the final report** should generally be along the following lines:
- **Title:**
 - ◆ Ensure that the subject matter of the report is reflected accurately in the title.
 - **Preface:**
 - ◆ Introduction by the C&AG, indicating the aim of the examination.
 - **Executive Summary:**
 - ◆ Distinguish clearly between findings and recommendations.
 - ◆ Include an overall conclusion, together with key findings and recommendations. This should provide the reader with a concise, clear view of the purpose and results of the performance review.
 - ◆ A concise summary (perhaps only two pages) is more effective. Reports of more than about ten pages should begin with a summary of the findings and conclusions.
 - **Introduction to Report:**
 - ◆ Set out the purpose and nature of the review, ensuring that it is consistent with the terms of reference.
 - ◆ Provide a brief background to the review and the programme, activity or area of study. This should be sufficient to allow readers to understand the context of the report.
 - ◆ Identify the legislative authority under which the audit examination was carried out.
 - ◆ Indicate the audit standards under which the examination was conducted.
 - **Objectives and Scope of the Review:**
 - ◆ The report should clearly state the objectives and scope of the audit.

- **Timing:**
 - ◆ The report should indicate the period of time for which assurance is being given and to assure readers that the issues considered are of current interest.
- **Audit Criteria:**
 - ◆ The report should explain the basis for measuring performance and the source of the criteria.
- **Methodology:**
 - ◆ The report should give a clear explanation of the techniques used to collect and analyse information.
- **Findings:**
 - ◆ Present the findings in a logical sequence. Separate sections or chapters of the report should cover each identified main theme, topic or fundamental issue.
 - ◆ The report should include the criteria that were used to measure performance.
 - ◆ The report must be accurate and complete in every respect, containing the most recent figures and information.
 - ◆ Include only relevant information.
 - ◆ Present the report in a way that does not unduly exaggerate deficiencies and which presents the findings in a neutral way, so that “the facts speak for themselves”.
- **Recommendations and Conclusions:**
 - ◆ Include in the relevant sections the recommendations and conclusions on the action needed to correct any problems and ensure that they flow directly and logically from the findings. The **drafting of recommendations** is particularly important. They should have the following characteristics:
 - * Clarity and precision in conveying the key messages i.e. be **specific**
 - * Practicality i.e. be **achievable and realistic**
 - * Timescales for their achievement i.e. be **time-bound**
 - * Personnel should be identified who will have responsibility for the implementation of specific recommendations
 - * Estimates of the potential financial savings i.e. quantify the **financial or other impacts** of the recommendations.

- ◆ Include any response to the recommendations from management in the audited entity.
 - ◆ Conclusions should indicate the performance against each of the audit objectives.
 - **Appendices:**
 - ◆ Key messages and the supporting evidence should be included in the main text. However, more detailed information which may be essential to an informed reading of the report can be included in **appendices**. They may also include background material or details of calculations.
 - **Glossary:**
 - ◆ **Technical terms and abbreviations** should be kept to a minimum and should be listed and explained in a glossary at the end of the report.
- 6.11 Reports should make full use of **diagrams, charts, tables and graphs** to assist readers in understanding the issues and conclusions. Where possible, graphics such as these should be incorporated in the text, rather than in appendices. Reports should also indicate the period of time for which assurance is being given so that readers are aware that the report is dealing with current issues.

Stages in Reporting

- 6.12 Preparation of the draft report should proceed through a number of further steps before reaching the final published version. The main **stages in the preparation of performance audit reports** are as follows:
- Draft final report (referred to as the preliminary report) sent for comment to the PAO of the line ministry or division of the audited entity
 - Comments on the report from the PAO
 - Draft report amended as considered necessary and agreed, as far as possible, with the audited entity
 - Draft report forwarded to the C&AG for approval
 - Publication and presentation of the final report to the President.
- 6.13 The **preliminary draft report** contains the outcome of the audit findings and is, in effect, the draft of the final report. The reports should cover each of the following:

- the three or four main issues identified;
 - the important findings and conclusions on each main issue;
 - any wider conclusions identified; and
 - the main facts, figures or other evidence available to support the conclusions.
- 6.14 The preliminary report is sent to the PAO i.e. the Secretary of the line ministry or division for comment. The report should present the main issues, together with the views of the Head of the audited organisation. The report should also contain the views of the auditors on how the issues were addressed. The PAO may accept the auditors' views and give a commitment to take corrective action. Where the audited entity takes the necessary action within a specified timeframe, the report may not need to be submitted to the PAC for consideration.
- 6.15 If the PAO disagrees with the audit findings and recommendations, his views and comments are sent to the Office of the C&AG. These are considered by the auditors to decide whether or not the comments are valid, and the report amended if considered necessary.

The Draft Report

- 6.16 Main reports should normally be drafted as **self-contained documents**, capable of being read without the need to refer to other material. The essential requirements are accuracy, completeness, balance and fairness:
- **Accuracy:** facts and figures should be supported by sufficient audit evidence. Facts, figures or examples should accompany all statements.
 - **Completeness:** sufficient information should be provided to present the main findings and conclusions without gaps and to ensure sound coverage of the areas examined.
 - **Balance:** all aspects of the issues should be presented in an unbiased and open-minded way.
 - **Fairness:** reports should comment on creditable performance, effective management and examples of good VFM as well as weaknesses in systems and control and examples of poor VFM.

- 6.17 When reporting on performance audit, auditors must adhere to the appropriate **Government Auditing Standards** (Appendix 2 refers). These refer primarily to the **content and timeliness** of performance reports. They state respectively that:

- *“Each performance audit should be complete, accurate, objective, convincing and as clear as the subject permits”*; and
- *“Audit reports should be issued to make the information available for timely use by legislators and others”*.

- 6.18 In essence, the draft report should focus on the answers to the questions to be addressed as part of the performance review. It should **concentrate on analysis**, keeping the descriptive background to the minimum considered necessary. The analysis and findings should be placed properly in context. The outline of the report prepared at the end of the fieldwork stage and approved by senior management in the Audit Directorate will form the basis for the final report.

Consultation

- 6.19 Consultation should begin during the planning stage and continue with the audited organisation throughout the fieldwork and reporting stages. The body should be kept informed about progress on the review through **regular meetings**. The aim should be to agree the basic factual material, as far as possible, as the examination progresses. Analysis of the fieldwork findings can then proceed on an agreed basis.
- 6.20 Consultation should extend beyond the auditee body to include other knowledgeable staff in the Office, external experts on particular subject areas and formal advisory groups of external and internal advisors. This should be carried out before any draft report is finalised.

Formal Clearance of Reports

- 6.21 All draft reports should be **cleared at the appropriate level** within the audited entity. As far as possible, critical or significant findings should be discussed as soon as they are identified, while the review is in progress. Formal clearance of the draft report is necessary to ensure that:
- all material and relevant facts have been included

- the facts are accurate and are not in dispute
 - their presentation and any conclusions drawn from them are fair
 - the report is balanced in coverage, content and tone
 - where the report contains views or conclusions with which the audited organisation cannot agree, this should be clearly stated in the report.
- 6.22 The C&AG should approve the final version of the report that is to be cleared formally with the audited entity. The draft report that will be sent to the entity should be accompanied by a follow-up report on previous audit examinations in the same entity. The **final approved draft is then submitted to the PAO for agreement** on content and presentation. To ensure that it is given the right degree of priority, clearance letters from the C&AG (or his Office) should always stipulate a date by which a reply is expected. The Office of the C&AG should consider any amendments suggested by the PAO and, if possible, try to reach agreement.
- 6.23 A short covering minute from the audit team leader should inform the C&AG if there are any particular difficulties or sensitivities resulting from the clearance procedure. These might include any reservations about the quality of evidence or any difficulties that had arisen during discussions with the audited body.
- 6.24 However, although the audited organisation may have reservations, it is the C&AG, not the audited body, who is making the report. He will nevertheless wish, where possible, to present to Parliament **an agreed report** that states clearly the relevant factual background, together with the evidence and conclusions. The report should reflect the situation where it is not possible to agree with the audited body on the conclusions to be drawn from the facts. After examining the contents, evidence and response from the audited entity, the C&AG will decide what should be included in the report.
- 6.25 In order to manage **the clearance process** successfully, the following key points should be kept in mind:

Clearance of Reports – Key Points

- Clearance is likely to be easier when draft reports are well argued and based on strong evidence
- Potentially contentious issues should be given special attention to ensure that the recommendations are sound
- Tactics at clearance meetings should be well planned
- Listen to the points made by the audited body to ensure a balanced report
- Minor details should not be allowed to absorb undue time or to block progress
- A clearance timetable should be agreed with the audited entity and the line ministry and strong efforts made to adhere to it
- It is fruitful to maintain good communication with the audited organisation at all times.

Management Letters

- 6.26 A **management letter** to the audited body may be used to report on items of importance found during the performance audit but which are not considered to be of sufficient significance to be reported to Parliament. The management letter should briefly address the problem, its effects on performance and suggest recommendations for resolution of the problem. The management letter should be addressed to the concerned PAO.

Confidentiality

- 6.27 The Government Auditing Standard states that “**it is essential that the Office maintains confidentiality regarding audit matters and information arising from its audit examination**”. Throughout the clearance process, the normal rules of confidentiality should apply regarding the draft report or any part of it. The draft report has been prepared as a basis for the official report which the C&AG will present to Parliament in due course. It is supplied to recipients for the sole purpose of verifying the accuracy and completeness of the information contained in it. Recipients should be informed that neither the draft report nor any part of its contents should be disclosed to anyone unless authorised by the C&AG.

- 6.28 Staff of the Office must also maintain confidentiality regarding audit matters and information arising throughout any performance audit examination.

Impacts of Performance Audit

- 6.29 **Measuring the impact of each performance audit** is an important part of the process. This ensures that auditors take account of the need to promote improvements in performance amongst the audited entities. It should also be part of the follow-up work to identify the extent to which audited bodies have implemented improvements as a result of the PAC’s recommendations. This allows the C&AG to report to the PAC on the overall impact of his work.

- 6.30 **Impacts** arising from performance reviews include the following:

- Financial savings
- Identified waste
- Quantified non-financial savings
- Qualitative improvements

- 6.31 Audit staff should therefore put arrangements in place to record the impact of the examinations, as shown below:

Record of Impacts

- **Quantify the impacts, as far as possible**
- **Record recommendations expected to be implemented as a result of each performance audit**
- **Record commitments given by audited organisations to make improvements**
- **Monitor actual achievements against the commitments**

Publication of Final Report

- 6.32 When the report has been discussed with the audited entity and the final version approved by the C&AG, arrangements with the press need to be put in place for printing. The printing timetable and arrangements for presenting the report to Parliament should be agreed as early as possible, preferably before the clearance procedure has been completed. This helps to ensure that the clearance process and publication of the report is not unduly delayed.

Chapter 7– Follow-up of Performance Audit Reports

Introduction

- 7.1 One of the aims of performance audit is to promote the achievement of good value for money throughout the public service in Bangladesh. Following up the recommendations in the performance reports is a means of ascertaining whether recommendations have been taken care of or addressed by the audited bodies or auditees. The **PAC makes many recommendations** each year and it is important that these are followed-up. It would represent nugatory effort if no action were taken as a result of the C&AG’s performance reports or the recommendations of the PAC. The intended impacts of the report’s recommendations would then be lost.
- 7.2 The efficiency and effectiveness of the Office of the C&AG depends on the existence of an equally effective PAC and a positive attitude by government towards audit issues.

Purpose and Elements of Follow-Up

- 7.3 The main **purpose of follow-up** is to:
- ascertain whether, or to what extent, recommendations or observations made by the PAC or the C&AG have been implemented by the concerned audited body
 - determine the impacts which can be attributed to performance audit examinations
 - demonstrate added value from performance audit work.
- 7.4 **Responsibility for planning and carrying out the follow-up** rests with the Audit Directorates concerned. In case of any doubt as to whether a particular report or question has been adequately dealt with, the matter should be referred to the C&AG for advice on further appropriate action. Effective follow-up arrangements need to be in place to ensure that the audited body has properly considered any matters identified during the current or previous audits and, where appropriate, has implemented agreed actions.
- 7.5 The **elements of follow-up** include the following:
- A timely review of the action taken by the management of the audited body on the recommendations made by PAC or the C&AG
 - An evaluation of the adequacy of the action in achieving performance improvement

- An assessment of any problems that may have arisen in relation to implementation
 - An assessment of the impacts of the examination
 - Consideration of the need or scope for further audit work in the same or a related area.
- 7.6 Information on the entity’s progress in implementing PAC performance audit recommendations is reported to Parliament by the C&AG.

The Public Accounts Committee

- 7.7 The **composition and functions of the PAC** are enumerated in Rules 233 and 234 of the Rules of Procedure of Parliament. The Committee is constituted according to Article 76(1)(a) of the Constitution of the People’s Republic of Bangladesh. The PAC is the foremost among the **standing committees of Parliament**. It is composed of 15 Honorable Members, one of whom is elected chairman, if not already nominated by Parliament.
- 7.8 Under Rule 233 of the Rules of Procedure, the Committee is required to report to Parliament on the lapses of the entities and to recommend measures to remove the noted lapses. The Committee’s views are based on the C&AG’s reports and the subsequent interview of witnesses.
- 7.9 The **general aim of the PAC** is to encourage the application of high standards of financial control and sound financial management of both revenue collection and public expenditure by all public sector organisations whose accounts are audited by the C&AG. The Committee’s objectives are to highlight, to Parliament, serious failings in financial controls operating in audited entities and the reasons for them. The Committee also encourages timely action by all audited entities to improve financial management and controls and to rectify failings.

Evidence from Witnesses

- 7.10 In exercising its functions, the PAC has powers to call any person holding public office to appear before it to give evidence. Rule 203 of the Rules of Procedure for Parliament empowers the PAC to call for the concerned person (usually the PAO) to appear before it. The Committee can, therefore, **call witnesses** (including the C&AG and any auditors associated with the review) and take evidence from them in relation to any failings that the C&AG has identified. The C&AG’s reports should, therefore, be aimed at assisting PAC to the fullest extent possible by, for

example, **highlighting clearly the major weaknesses identified** and the most significant findings, together with **recommendations for improvement**. The Committee will then produce its own reports following the hearings with the Heads of organisations and individual Accounting Officers.

- 7.11 The PAO of the concerned ministry will be called upon by the PAC to explain the findings of the C&AG's performance audit reports, once these have been tabled for discussion. The PAC will review the evidence, exercise judgement and seek assurances as to remedial action required to ensure economy, efficiency and effectiveness. PAOs will be given time to take the necessary corrective action recommended by the PAC and to report back by a given date.
- 7.12 Where the PAC agrees to the audited body's or the line ministry's commitment to implement the audit recommendations, the PAC may instruct the line ministry to send an implementation report to the C&AG for monitoring purposes.
- 7.13 The functions and role of the **Public Undertakings Committee** in relation to its financial responsibilities are similar to those of the PAC for the undertakings concerned, normally commercially run government institutions.

Response by Audited Bodies

- 7.14 The follow-up procedure begins as soon as the PAC report has been adopted and the secretariat has circulated the minute of the meeting signed by the PAC Chairman. It will be the responsibility of the appropriate Audit Directorate in the C&AG's Office to follow up audit reports on the basis of decisions by Parliament as recommended by PAC and communicated to government for action. The C&AG will, therefore, take these matters up directly with the audited entities. A reasonable period for implementation should be allowed before the follow-up procedure is initiated.
- 7.15 The C&AG informs the PAC when **follow-up meetings** identify instances of serious failure in the performance of the audited bodies. This will include instances where the PAC recommendations have not been implemented.
- 7.16 Compliance with the decisions of PAC is monitored by the respective Audit Directorate. Both the line ministries of the audited entities and the Audit Directorates report back to PAC on compliance.

Appendix - 1 (Paragraph 1.16)

Financial and Performance Audits - Comparison

<u>Financial Audit</u>	<u>Performance Audit</u>
1) Voucher - oriented	1) Objective - oriented
2) Examines compliance to financial rules	2) Examines economy, efficiency and effectiveness in use of resources and goes beyond compliance
3) Usually quantitative	3) Usually qualitative
4) Usually not very analytical	4) Usually analytical
5) Does not use performance indicators, standards and targets	5) Requires indicators, standards and targets to measure performance
6) Does not usually consider cost-benefit analysis	6) Usually considers cost-benefit analysis
7) Examines financial statement assertions, such as in finance accounts and appropriation accounts	7) Examines all or part of an entity's activities in relation to economy, efficiency and effectiveness.
8) Usually post - event	8) Considers past, present and even the future performance
9) Does not usually aim at optimal allocation of resources	9) Aims at optimal allocation of resources

Appendix 2 (paragraph 1.29)

Standards for Performance Audit

Extracts from the Government Auditing Standards issued by the Comptroller and Auditor-General of Bangladesh in relation to general standards and those for fieldwork and reporting on performance audits are shown below.

General Standards

- ◆ **Independence:** In all matters relating to the audit work, the auditor and the Office should be free from personal and external impairments and be organisationally independent.
- ◆ **Competence:** The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.
- ◆ **Due Care:** The auditor and the Office must exercise due care in conducting the audit and preparing related reports.
- ◆ **Quality Control:** The Office should have in place an internal quality control system to review the efficiency and effectiveness of its internal standards and procedures.

Field Standards for Performance Audit

- ◆ **Planning:** All audit work should be adequately planned.
- ◆ **Supervision:** The work of the audit staff at each level and audit phase should be properly supervised.
- ◆ **Compliance with Laws and Regulations:** The auditor should design audit steps to provide reasonable assurance of detecting acts that may be non-compliant with laws and regulations that are significant to audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts.
- ◆ **Study and Evaluation of Management Controls:** Auditors should obtain an understanding of management controls that are relevant to the audit. When controls are significant to audit objectives, auditors

should obtain sufficient evidence to support their judgment about such controls.

- ◆ **Audit Evidence:** Sufficient, reliable and relevant evidence should be obtained to support the auditor's judgement and conclusions.

Reporting Standards for Performance Audit

The standards of reporting for performance audits cover the need for written audit reports and their timeliness and content.

- ◆ **Written reports:** Auditors should prepare written audit reports communicating the results of each audit.
- ◆ **Timeliness:** Audit reports should be issued to make the information available for timely use by legislators and others.
- ◆ **Content:** Each performance audit should be complete, accurate, objective, convincing and as clear and concise as the subject permits.

Source: Chapters 5 and 6 of *Government Auditing Standards*. Issued by the authority of the Comptroller and Auditor-General of Bangladesh.

Appendix 3 (paragraph 2.11)

General Surveys

The purpose of general survey work is to assemble information about an organisation or activity to assist in the preparation of the performance audit component of the C&AG's strategic plan. A survey requires information on:

Background

- ◆ Financial information on expenditure and receipts, major resources and significant holdings of assets
- ◆ Organisational structure
- ◆ Constraints under which the auditee organisation operates

Objectives

- ◆ Policy objectives and their relative priority
- ◆ Operational objectives

Activities

- ◆ Means by which the organisation aims to achieve its objectives (e.g. through grants, loan schemes, capital building programme etc)

Resources

- ◆ The nature and characteristics of resources used by the organisation e.g. cash, manpower (staffing numbers and grades), land and buildings, plant and equipment

Procedures and Control

- ◆ Procedures and controls in operation to ensure that objectives are pursued with due regard to VFM (e.g. planning arrangements, financial controls, management information systems etc)

Other relevant information

- ◆ Evidence of serious waste, inefficiency or ineffectiveness
- ◆ Internal or external reviews (e.g. by consultants, internal audit, management services etc)

- ◆ Previous C&AG or other reports
- ◆ Areas of particular interest to Parliament or the press

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

- ◆ the clarity and adequacy of policy and operational objectives
- ◆ the adequacy of procedures and controls designed to ensure economy, efficiency and effectiveness in the use of resources
- ◆ operations carrying inherently high risk to achieving VFM e.g. new activities or programmes, major or long-term capital projects
- ◆ any apparent strengths and weaknesses in management and performance
- ◆ the effectiveness of the organisation in achieving its objectives.

Appendix 4 (paragraph 2.20)

Considerations Influencing Study Selection

Selection Criteria: May include the following:

◆ Materiality	◆ Assessed risk
◆ Auditability	◆ High level of complaints (clients dissatisfaction)
◆ Timeliness	◆ New unusual function / programme
◆ Impact	◆ Known performance failure
◆ Public interest	◆ Operation size
◆ Legislative interest	◆ Income, expenditure and investment involved
◆ Executive interest	◆ Cost-history
◆ Scope for improvement	◆ Topicality of subject
◆ Acceptability of study results	◆ Expenditure investment
◆ Media	
◆ Environment	

The following may also apply:

- ◆ New programmes and initiative made in haste
- ◆ Small organisation with regulatory services.
- ◆ Low profile services sometimes offer good potential for improvement because there are new ways of looking at them.
- ◆ Timely service delivery.
- ◆ Financial impacts of study i.e. savings compared to cost of study.
- ◆ Study should not duplicate.

Questions on Performance Study Selection

1. Is the study likely to add value?
2. Is the study practicable and cost effective?
3. Is the study auditable in terms of skill?
4. Is the area topical, of interest to stakeholders?
5. Is there scope of improvement?
6. Is the study innovative?
7. Is it a new programme never studied?
8. Is the subject study concerned with regulatory services of public interest?
9. Is the study likely to generate financial savings?
10. Are the study results likely to have acceptance?
11. Is the study feasible in the sense that answers are available to questions relating to economy, efficiency and effectiveness?
12. Is the study likely to be timely and to assist decision taking?
13. Is it possible to collect sufficient and reliable evidence at a reasonable cost?

Appendix 5 (paragraph 3.31)

Example of Terms of Reference

- **Introduction:** Previous audits have identified considerable levels of loss and wasteful expenditure. Preliminary study has also confirmed that there may be potential for improved efficiency and quality of service improvements. The performance audit aims to review the offices of the auditee entity (to be named).
- **Objectives of audit:** The examination has the following audit objectives:
 - to review the management of the facilities;
 - to examine the efficiency of the entity's operations; and
 - to assess the quality of service provided (narrow down the review to a few fundamental issues).
- **Scope:** The offices in the geographical area (for example, in Dhaka) will be reviewed in detail. Other areas will not be involved in this audit.
- **Audit approach:** State types of evidence being sought, where it will be obtained and proposed collection techniques.
- **Timetable:** The review will take place during the period from October to December 2000 and a draft report will be issued in February 2001.
- **Costs:** The budget for the review is Tk 0.15 million. Show how it was derived.
- **Staff involved:** The audit team will be under the leadership of an Assistant C&AG in the Office of the C&AG (to be named). Other staff allocated to the work should also be named, together with their grades.
- **Reporting arrangements:** A detailed audit report will be produced by (date), outlining the findings and recommendations. The clearance procedure should be explained. Format and procedure, including expected outputs and benefits, should be spelt out.

Appendix 6

Glossary of Audit and Related Terms

Accountability: That responsibility to some outside or higher level of authority by a person or group of persons in an organisation.

Administrative Control System: A series of actions, being an integral part of the internal control system, concerned with administrative procedures needed to make managerial decisions, realise the highest possible economic and administrative efficiency and ensure the implementation of administrative policies, whether related to financial affairs or otherwise.

Audit Code: The Audit Code issued by the Comptroller and Auditor-General of Bangladesh which contains guidance on audit principles and practices to be followed by auditors.

Auditee or Audited Body or Entity: The body, organisation or entity for which the C&AG is responsible for auditing.

Audit Evidence: Information that forms the foundation, which supports the auditor's opinions, conclusions or reports. **Sufficient:** information that is quantitatively sufficient and appropriate to achieve the auditing results; and is qualitatively impartial such as to inspire confidence and reliability. **Relevant:** information that is pertinent to the audit objectives. **Reliable:** information that is consistent with the facts, i.e. it is valid.

Auditors: Officials of the Bangladesh Audit Department who perform audit work on behalf of the Comptroller and Auditor General. Any audit official involved in planning, conducting, supervising or reporting the audit.

Audit Mandate: The audit responsibilities, powers, discretion and duties conferred on the 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. This may include financial, regularity or performance issues. It will help decision-makers to improve the economy, efficiency and effectiveness of their operations.

Audit Procedures: Tests, instructions and details included in the audit programme to be carried out systematically and reasonably.

Audit Scope: The framework, boundary or limits and subjects of the audit.

Audit Standards: Audit 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 are evaluated; the Government Auditing Standards which are issued by the Comptroller and Auditor General of Bangladesh containing standards with which auditors are required to comply.

Causes: Management or employee action or actions that took place or should have taken place and created a result by not following an appropriate standard.

Conclusions: Conclusions are statements deduced by the auditor from the findings.

Constitutional: A matter that is permitted or authorised by the fundamental law of the Republic of Bangladesh.

Cost Benefit: The techniques for determining the product or service of greatest benefit for the least cost.

Criteria: Any standards used for measuring the results caused by the actions of employees or management in any performance audit situation.

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 output, in terms of goods, services or other results, and the resources used to produce them.

Field Standards: The standards that apply to the planning and examination phases of an audit. These allow the auditor to systematically meet the requirements for setting the audit objective, choosing suitable criteria, supervising the audit, gathering sufficient, relevant and competent evidence, and making an appropriate study and evaluation of internal controls.

Findings (or Observations): Findings (observations) are the specific evidence gathered by the auditor to satisfy the audit objectives; the results of an audit on the basis of the evidence obtained.

General Standards: The qualifications and competence, the necessary independence and objectivity, the exercise of due care, and appropriate quality controls, which shall be required of the auditor to carry out the tasks related to the field and reporting standards in a competent, efficient and effective manner.

Independence: The freedom of the SAI in audit matters to act in accordance with its audit mandate without external direction or interference of any kind.

Internal Control: The whole system of financial and other controls, including the organisational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information.

Internal Rate of Return: The discount rate at which a stream of costs and benefits has a net present value of zero, net present value being the sum of the present values of all benefits less the sum of the present values of all costs.

Management Control: The plan of organisation and all other plans, policies, procedures and practices needed by an entity to assure that the objectives of the entity are achieved.

Materiality: In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is generally considered in terms of value, i.e. the amount of money involved in relation to the whole. The inherent nature or characteristics of an item or group of items may also render a matter material, for example, where the law or some other regulation requires it to be disclosed separately regardless of the amount involved. A matter may also be considered material because of the context in which it occurs, for example, an item in relation to the corresponding amount in previous years. Audit evidence plays an important part in the auditor's decision concerning the selection of materiality issues

and areas for audit and the nature, timing and extent of audit tests and procedures.

Planning: Defining the objectives, setting policies and determining the nature, scope, extent and timing of the procedures and tests needed to achieve the objectives.

Preliminary Study: The process of obtaining background and general information in a relatively short period of time on all aspects of the organisation, activity, programme or system being considered for examination to set a tentative audit objective.

Public Accountability: The obligations of persons or entities, including government departments, public enterprises and corporations, entrusted with public resources to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them.

Public Sector Organisations: Public Sector Organisations include Government Ministries, Departments, Subordinate Offices, Statutory Corporations, Public Enterprises, Public Financial Institutions, Autonomous Bodies, and Local Government Institutions.

Questionnaires: Forms used by auditors for gathering evidence from individuals when there are numerous individuals to be interviewed and the costs of personal interviews would be excessive.

Recommendations: Recommendations are courses of action suggested by the auditor relating to the audit objectives.

Report: The auditor's written opinion and other remarks on a set of financial statements as the result of a financial or regularity audit or the auditor's findings 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.

Supervision: An essential requirement in audit work entails proper leadership, direction and control at all stages to ensure a competent, effective link between the activities, procedures and tests that are carried out and the aims to be achieved.

Supreme Audit Institution (SAI): The public body of a State which, however designated, constituted or organised, exercises by virtue of law the highest public auditing function of that State; the Office of the C&AG in the Republic of Bangladesh.

Transparency: The quality of being easily understood.

Value for Money or Performance Audit: An objective and systematic review of an organisation to assess whether in the pursuit of predetermined goals it has achieved economy, efficiency and effectiveness in the utilisation of its resources. The term VFM audit also denotes performance audit.

Note: Terms or expressions used in this manual which appear also in the Act or in any order or rules issued thereunder shall have the same meanings as have been assigned in the Act, the order or the rules concerned.

Appendix 7

List of Abbreviations

C&AG: Comptroller and Auditor-General
CEO: Chief Executive Officer
IMED: Implementation, Monitoring and Evaluation Division
PAC: Public Accounts Committee
PAO: Principal Accounting Officer
SAI: Supreme Audit Institution
VFM: Value for money