

Performance audit,How & why?

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A number of social, economic and technological events has influenced the course of development of auditing.

Around four decade ago , auditing has generally been associated with only accounting and financial records & the objective of this audit is to enable the auditor to express an opinion whether the financial statements are prepared , in all material respects , in according with an identified financial reporting standards & frameworks .

It was around 1970 that some countries began to pay attention to government shrinking policy and actually this policy was influenced by limitation of the resources and gain the most from the least.

This time audit process need to be changed in methods, purposes and process. Because this kind of audit can not fulfill all the needs of government in the case of auditing.

there are different kinds of audit from different aspects.

At the beginning of this excursus it is better to discuss the different kinds of audit. Normally when we discuss about nameable kinds of audit , different aspects of audit are considerable

The most citable aspects of audit definitions are:

Aspects/objectives	Kinds of audit
1.necessity aspect	Arbitrary / obligatory /internal audit
2.time of doing aspect	Continual/periodic/final audit
3.cause /primary purpose aspect	Financial/regularity/performance audit

Generally auditing involves collection and evaluation of evidence to determine and report whether information under audit complies with established criteria

According to this exordium it's normally that the process of audit needs to change in this condition.

Specially we discuss the government policies for using the audit procedure for value addition and accountability of government .and this is the main point in performance audit in SAI's.

In briefly our discussion is about performance audit and abbreviated definitions of Financial , regularity & performance audit is mentioned in this summarized form:

Kinds of audit	abbreviated definitions/primary purpose of audit
Regularity audit(compliance)	Compliance of activities with criteria(laws and regulations) and finding the contrariness cases.
Financial audit	Whether the financial statements are prepared, in all material respects, in according with an identified financial reporting standards & frameworks.
Performance audit	<i>audit of economy, efficiency and effectiveness of related affairs</i>

Performance audit refers to an examination of a program, function, operation or the management systems and procedures of a governmental or [non-profit](#) entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources. The examination is objective and systematic, generally using structured and professionally adopted methodologies

In most countries, performance audits of governmental activities are carried out by the external audit bodies at federal or state level. Many of these audit bodies have established guides for conducting performance [audits](#) which explain how performance audits are planned, conducted and its results reported.

Most of the countries pay attention to financial audit but at the same situation without considering to the aspects of audit may it be better to do v.f.m audit. Although there is some limitations and difference between them .

Performance Audit versus - Financial Audit

By contrast with financial audit performance audit involves:
more judgement and interpretation
more selective coverage
criteria for evaluation are not pre-defined
evidence tends to be at best persuasive, rather than conclusive
reports contain more discussion and reasoned argument

Also in this bases thy have some differences:

- a) Study selection stage
- b) Study design Stage
- c)Consulting the audited entity
- d)Team work
- a) Additional review

INTOSAI has published generally accepted principles of performance auditing in its implementation guidelines

INTOSAI Definition of performance audit:

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

In practice there can be an overlap between **regularity** and **performance** auditing and in such cases classification of a particular audit will depend on the primary purpose of that audit.

And what is the meaning of these there words?

Economy: according to intosai definition: audit of the economy of administrative activities in accordance with sound administrative principles and practices and Management policies.

In other words,

Economy is minimizing the cost of resources, having regard to the appropriate quality (spending less)

Efficiency: according to intosai definition: audit of the efficiency of utilization of human, financial and other resources including examination of information systems, performance measures and monitoring arrangements and procedures followed by audited entries for remedying identified deficiencies.

In other words,

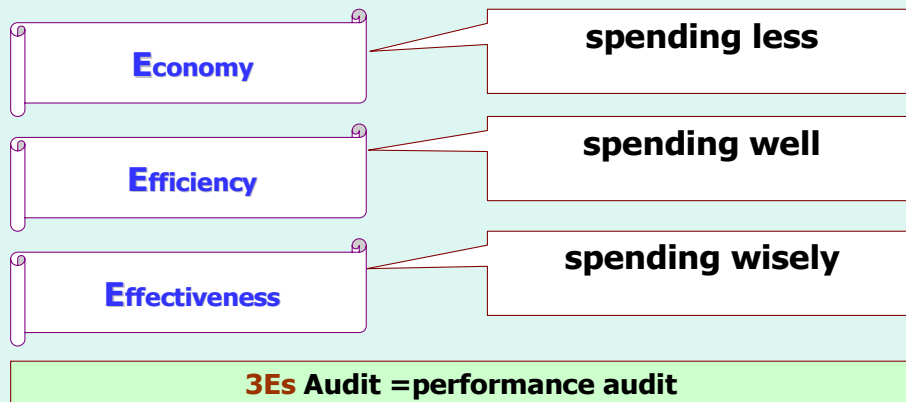
Efficiency is the relationship between the output, in terms of goods, services and other results and the resources used to produce them(Spending well)

Effectiveness: according to intosai definition: audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entry and audit of the actual impact of activities compared with the intended impact.

In other words,

Effectiveness is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity (spending wisely).

Summarized Definition



Performance audit

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Objectives of Performance Audit:

Performance auditing has the objective of improving public sector administration and accountability by adding value through an effective programme of performance audit.

judgement a robust methodology can provide an objective framework for this judgement. Performance auditing offers considerable scope for adding real value to public administration. It also aims to ensure that individuals and agencies managing public resources remain accountable for their actions.

To be effective, performance auditors must have a clear understanding of the objectives and priorities of any area subject to audit. They must also have an understanding of the policies for the planning and conduct of audits, audit standards, audit methodology and processes of the particular Supreme Audit Institution (hereinafter referred to as SAI).

These guidelines provide a methodology and a broad framework for the conduct of the performance auditing process and also provide the basis by which the quality of the audit product can be judged. The guidelines will assist performance auditors:

- to be attuned to the needs, expectations and priorities of clients, which in the case of SAIs are the legislature, government institutions and those entrusted with the task of managing public affairs;
- to add value to agencies through performance auditing services;
- to provide an environment which enables performance auditors to enhance their skills and achieve their full potential;
- to achieve audit excellence; and
- to manage performance audit operations efficiently and effectively.

The guidelines take into account relevant INTOSAI auditing standards and are based on generally accepted principles of performance auditing distilled from the experience of ASOSAI members. They therefore comprise contemporary performance auditing methodology and reflect a ‘best practice’ consensus for the current environment, among the member SAIs. The guidelines are a ‘living document’ which will need to be updated as the environment changes and as performance auditing methodology and practice develop.

1.1 the issue of whether the program/ activity has achieved its objectives. When focusing on effectiveness, it is important to distinguish between the immediate outputs (or products) and the ultimate impacts (or outcomes). Effectiveness is achieved, for instance, where there is improved achievement of a program's objectives. Outcomes are important to the effectiveness of programs/ activities but may be more difficult to measure and assess than the inputs and outputs. Outcomes will often be influenced by external factors and may require long-term rather than short-term assessment.

1.2 Performance auditing, also referred to as ‘Value For Money’ auditing, shares similar approaches and methodologies to program evaluation but does not generally extend to assessing policy effectiveness or policy alternatives. Apart from examining the impact of outputs, an evaluation could include issues such as whether agency planning reflected the program objectives, whether the objectives were consistent with policy and options for changing the policy to achieve more effective outcomes.

1.3 Performance auditing promotes public accountability and is an aid to good corporate governance. It also encompasses the concept of traditional financial, compliance and propriety audits. Compliance audits deal with regularity and legality aspects. Propriety refers to the concept of the best practice in public management of programs/ activities - public funds should not be misused by the managers for

personal benefit and expenditure on programs should not exceed what the occasion demands. Performance auditors should utilise these requirements in the course of their audit, wherever applicable.

1.4 The performance auditor will also be expected to address concerns relating to equity and ethics while assessing the effectiveness of a program/ activity. Equity in the context of program management relates to fairness and impartiality in use of public funds. Ethics in managing public expenditure enjoins the qualities of honesty and integrity in personal conduct and devotion to the duty as manager of public funds. The SAI performance auditor should be conscious of equity and ethics issues.

1.5 Performance audits may examine and report on:

- the quality of information and advice available to Government for the formulation of policy;
- the existence and effectiveness of administrative machinery in place to inform the Government whether program objectives and targets have been determined with a view to fulfilling policy objectives;
- whether, and to what extent, stated program objectives have been met;
- the economy, efficiency, effectiveness and ethics of the means used to implement a program/ activity; and
- the intended and unintended direct and indirect impacts of programs/ activities; for example, the environmental impact of government activity.

1.6 Auditors should not confine the audit to ‘what has been done’ but should also examine ‘what has not been done’ to meet the policy objectives. Given the size, complexity and diversity of agency operations, it is generally impracticable to attempt to assess the overall performance of departments or agencies. Consequently, performance audits are usually directed towards specific functions, activities, programs or operations of the agency.

Performance auditing mandate and objective

1.7 The audit mandate is generally set out in statute and dictates the extent to which an SAI can audit public sector agencies. Where the mandate is derived out of a broad interpretation of the term ‘audit’ or has been accepted by convention, auditors should be guided by their best judgement in the context of any such convention. The performance audit mandate ordinarily specifies the minimum audit and reporting

1.8 requirements; indicates what is required of the auditor; and provides the auditor with authority to carry out the work and report the results. Accordingly, the auditor should be guided by the audit mandate when planning the audit. In most countries performance audits are excluded from commenting on Government policy.

1.9 Performance auditing has the objective of improving public sector administration and accountability by adding value through an effective program of performance audits and related products such as better practice guides. One of the main objectives of performance auditing is to assist the people's representatives in exercising effective legislative control and oversight.

1.10 Performance audits have a dual role. They provide clients with information and assurance about the quality of management of public resources and they also assist public sector managers by identifying and promoting better management practices. Performance auditing may therefore lead to better accountability, improved economy and efficiency in the acquisition of resources, improved effectiveness in achieving public sector program objectives, a higher quality in public sector service delivery and improved management planning and control. The emphasis placed on the assurance role of performance auditing over the role of public sector improvement will vary between SAIs.

Performance audit process

1.11 The first stage in performance auditing is strategic planning, which requires the development and maintenance of information on the agency that will assist in identifying potential areas for audit. Potential topics can then be analysed and ranked to form annual audit strategy documents for each agency. Chapter 2 of these guidelines deals further with strategic planning.

1.12 Once a topic has been selected for performance audit, the audit is initiated by the development of a plan detailing the conduct of the audit. A preliminary study may be undertaken to gather information on the topic and to identify significant issues for audit. Chapter 3 of these guidelines deals with initiating the performance audit.

1.13 The implementation stage of a performance audit is dealt with in particular in Chapters 4 and 5 of these guidelines and involves:

- development and execution of an audit program of procedures;
- collection and documentation of sufficient relevant and reliable evidence, including quantitative and qualitative analysis;
- formulation of audit findings, conclusions and recommendations; and
- development of discussion papers and confirmation of audit findings at an exit conference.

1.14 A report on the audit may then be drafted for consideration by the government, the legislature, the agency and the public. Throughout each stage of the performance audit the emphasis should be on the production of a final report that is balanced and has value added impact. The report-writing process should be viewed as a continuous one of formulating, testing and revising conclusions, if necessary, about the audit topic. Therefore issues such as the expected impact and value of the audit, the likely

improvements and savings resulting from the audit and methods of communicating audit conclusions should be considered throughout the audit. Chapter 6 of these guidelines deals further with reporting.

Follow-up procedures should identify and document audit impact and the progress of the agency in implementing audit recommendations. The conduct of follow-up audits is vital to the follow-up process to provide feedback to the SAI, the legislature and the government on performance audit effectiveness in producing improvements in public sector management.

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