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SRI LANKA AUDITOR GENERAL'S DEPARTMENT PERFORMANCE AUDIT MANUAL

Leadership in Public Financial Management II (LPFM II)

Sri Lanka Short-Term Assistance to Improve Public Financial
Management Reform (STAIR)

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Management Reform (STAIR)

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CONTENTS

Acronyms.....	2
Part 1: Introduction to Performance Auditing	3
Part 2: Principles of Performance Auditing	9
Part 3: Performance Auditing in Sri Lanka	28
Part 4: Strategic Planning	44
Part 5: Planning a Performance Audit.....	53
Part 6: Conducting a Performance Audit.....	82
Part 7: Reporting of a Performance Audit	94
Part 8: Follow-up.....	105
Part 9: Quality Assurance	109

ACRONYMS

AAG	Assistant Auditor General
AE	Audit Examiners
COPA	Committee of Public Accounts (of Parliament)
COPE	Committee on Public Enterprises (of Parliament)
COR	Contracting Officer's Representative
DAG	Deputy Auditor General
IDIQ	Indefinite Delivery Indefinite Quantity Contract
INTOSAI	International Organization of Supreme Audit Institutions
ISSAIs	International Standards for Supreme Audit Institutions
LPFM II	Leadership in Public Financial Management II
PFM	Public financial management
SA	Superintendent of Audit
SAI	Supreme Audit Institution
SMART	Specific, Measurable, Achievable, Realistic, and Time-bound (recommendations)
USAID	United States Agency for International Development
USAID/E3	United States Agency for International Development Bureau for Economic Growth, Education and Environment
USG	United States Government

PART 1: INTRODUCTION TO PERFORMANCE AUDITING

PURPOSE OF MANUAL

- 1.1. The purpose of this manual is to provide guidance and assistance to auditors in the Auditor General's Department of Sri Lanka in order to enable them to conduct performance audits to the highest level of quality and professionalism and in line with international Auditing Standards for Supreme Audit Institutions and international best practice.
- 1.2. Performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organizations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement (ISSAI 3000/1.5; ISSAI 300/8).
- 1.3. This Performance Audit Manual covers all aspects of performance audit and provides a clear understanding of the standard of quality expected of auditors.
- 1.4. The manual describes the Auditor General's Department, Performance Audit Division's audit methodology to utilise during a performance audit. It outlines how audits are selected, planned, conducted and reported as well as follow-up and quality assurance. It is expected that the manual will be used as a focal point for continuous improvement of the Performance Audit Division.
- 1.5. The manual has been developed for all audit staff to assist them in the planning, execution and reporting of performance audits. This manual is designed to provide guidance so that performance audits are conducted in accordance with applicable legislative requirements, relevant International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards (International Standards for Supreme Audit Institutions (ISSAIs), generally accepted principles of performance auditing and the Auditor General Department's policies and mandate. The manual therefore comprises

contemporary performance auditing methodology and reflects “best practice” for the current environment.

1.6. The Manual is a “Living document” which will need to be updated as the audit environment changes and as performance auditing methodology and practice develops. For example, the manual is based on current INTOSAI Standards i.e. International Standards of Supreme Audit Institutions (ISSAI’s). The relevant ISSAI’s for Performance Audit are:

- ISSAI 300 Fundamental Principles of Performance Auditing
- ISSAI 3000 Standards and guidelines for performance auditing based on INTOSAI’s Auditing Standards and practical experience
- ISSAI 3100 Performance Audit Guidelines: Key Principles

In December 2016, these Standards will be replaced:

- ISSAI 3000 Performance Audit Standard
- ISSAI 3100 Guidelines on central concepts for Performance Auditing
- ISSAI 3200 Guidelines for the performance auditing process

The changes in these updated Standards will be minimal, but this Manual should be updated to reflect any changes in the above Standards.

1.7. While the Auditor General’s Department adopts these guidelines as minimum requirements for performance audits, the users of this manual are also expected to draw upon the standards and practices of other disciplines, regulations, and legislative enactments (such as – Local Authorities Act, Central Environmental Authority Act, Finance and Administrative Regulations and the Finance Act).

STRUCTURE AND ORGANIZATION OF MANUAL

1.8. The manual follows the chronological timeline of planning, conducting, reporting and following up on a performance audit. It also includes Quality Assurance processes to be followed during a performance audit.

1.9. The focus on the manual is on:

- Defining Performance Audit

- The Auditor General's Department's Audit Mandate
- The Performance Audit Division
- Organizing Strategic Planning
- Planning for a Performance Audit
- Conducting a Performance Audit
- Reporting a Performance Audit
- Following up on a Performance Audit
- Ensuring Quality Assurance

1.10. There are no Appendices in this Manual. Each Part is a self-contained element of performance auditing which contains all the necessary Audit Check Lists and pro-formas.

WHAT IS PERFORMANCE AUDITING?

1.11. As stated, performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organizations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements (ISSAI 3000/1.5; ISSAI 300/8). It seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Subject matters need not be limited to specific programs, organizations or funds in Sri Lanka. They can include activities, output, outcome and impact, such as service delivery and effects of Sri Lankan government policy and regulations on stakeholders, businesses, citizens, and society. The main questions are whether the government of Sri Lanka is *"doing the right thing"* and doing this *"in the right and least expensive way"* to determine pre-determined objectives.

1.12. In short, performance auditing is an independent review of public sector activities to assess if performance is economic, efficient and effective.

1.13. The purpose of performance audit is to contribute to improved economy, efficiency and effectiveness in the public sector by examining, analysing and reporting on the performance of public entities. Performance audit can bring advantages to governments by promoting good governance and performance accountability; promoting transparency and provide reliable

and independent information; and promote incentives for learning and change and improved conditions for decision making.

- 1.14. While promoting good governance is one of the main aims of performance auditing, it also contributes to accountability and transparency by assisting those charged with governance and with oversight responsibilities in improving performance, rather than only identifying weaknesses and errors *ex post*. It does this by examining whether decisions by the legislature, or the executive authorities are efficiently and effectively implemented, and whether the taxpayers or citizens have received value for money. It is important to note that it should not question the intentions and decisions of the legislature of Sri Lanka, but instead examines whether possible shortcomings in the laws and regulations have affected those intentions being met. Performance auditing focuses on examining issues that can add value to the citizens of Sri Lanka, and on areas with the largest potential for improvement. It provides constructive incentives for the responsible authorities concerned to take appropriate actions.
- 1.15. Performance auditing promotes transparency in Sri Lanka by affording taxpayers, citizens, and the media an insight into the management and outcomes of different government activities. It thereby contributes in a direct way to providing useful information to the citizens of Sri Lanka while also serving as a basis for learning and improvements.
- 1.16. Users of performance audit reports need to be assured about the reliability of the information contained in reports. They will therefore expect robust, authoritative reports which set out the Auditor General's Department's evidence-based position on the subject examined. Consequently, performance auditors should in all cases provide findings based on sufficient appropriate evidence and actively manage the risk of inappropriate reports. However, performance auditors are not normally expected to provide an overall opinion, comparable to the opinion on financial statements, on the audited entity's achievement of economy, efficiency and effectiveness.
- 1.17. The level of assurance provided by a performance audit should be communicated in a transparent way. The degree of economy, efficiency and effectiveness achieved may be conveyed in the performance audit report in different ways:

- Either through an overall view on aspects of economy, efficiency and effectiveness, where the audit objective, the subject matter, the evidence obtained and the findings reached allow for such a conclusion; or
- By providing specific information on a range of points including the audit objective, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions.

1.18. Audit reports should only include findings that are supported by sufficient appropriate evidence. The decisions made in drawing up a balanced report, reaching conclusions and formulating recommendations frequently need to be elaborated upon in order to provide sufficient user information. Performance auditors should specifically describe how their findings have led to a set of conclusions and – if applicable – a single overall conclusion. This means explaining which criteria were developed and used and why, and stating that all relevant viewpoints have been taken into account so that a balanced report can be presented. The principles on reporting give further guidance for this process (see Part 7 of this Manual).

BENEFITS OF PERFORMANCE AUDITING

1.19. Performance audit demonstrates to the citizens of Sri Lanka if the public sector has fulfilled its responsibilities with regards to accountability of resources. It therefore helps in holding the public sector accountable for the economic, efficient and effective discharge of programs. This may promote better public service delivery while enhancing public accountability and management.

1.20. More specific benefits of performance audit include:

- Identifying problem areas, including factors that cause problems. This may assist in finding alternative solutions, through recommendations for improvements to procedures and structure which could help in reducing wastage and inefficiencies;
- Evaluating performance of departments or sections in an organization and obtaining a critical view of compliance with legal requirements, policies, objectives and procedures;
- Helping the citizens of Sri Lanka obtain an insight into the management of different government programs and activities.

- Being used as a basis of decisions on future funding and priorities
 - Increasing the profile of the Auditor General's Department in the media because performance audit reports attract a wider audience than financial or compliance audits.
 - With the main aim of performance auditing being to identify potential improvements in public administration, helping ensure public funds are spent wisely, the credibility obtained from this type of auditing can provide greater incentives for the Sri Lankan government to allocate additional human and financial resources to the Auditor General's Department.
- 1.21. Some Performance Audit practitioner's claim that only developed countries, where corruption levels are generally low should carry out Performance Audits. However, the prevailing view is that for the very reason that wide spread irregularities and misuse of public resources can occur in developing countries, the need for Performance Auditing in these jurisdictions has never been greater.
- 1.22. Performance auditing increases the knowledge base on how public administration works and can identify areas of risk. Performance Auditing helps to identify inefficiency and waste and in many instances, waste of public money is an initial indicator of fraud and corruption.

PART 2: PRINCIPLES OF PERFORMANCE AUDITING

- 2.1 In conducting a performance audit, auditors should follow general principles as set out in ISSAI300/24-34. These are discussed below.

Audit objective

Auditors should set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness.

- 2.2 The audit objective determines the approach and design of the study. They range from normative audit objectives (are things as they should be?) or analytical audit objectives (why are things not as they should be?). In all cases, the auditors need to consider carefully the scope of the audit, which organizations and bodies are involved and for whom the ultimate recommendations are likely to be relevant. Well-defined audit objectives relate to a single entity or an identifiable group of government undertakings, systems, operations, programs, activities or organizations.
- 2.3 Many audit objectives can be framed as an overall audit question which can be broken down into more precise sub-questions. They should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit question. Devising audit questions is an iterative process in which the questions are refined. (See Issue Analysis in Part 5 of this Manual).
- 2.4 Auditors may choose several audit objectives, which need not always be broken down into sub-questions.

Audit approach

Auditors should choose a result-, problem- or system-oriented approach (or combination) to audit design.

- 2.5 The overall audit approach is a central element of any audit. It determines the nature of the examination, defines the necessary knowledge, information and data and the audit procedures needed to obtain and analyze them.
- 2.6 Performance auditing generally follows one of three approaches:

- A system-oriented approach, which examines the proper functioning of management systems, e.g. financial management systems;
- A result-oriented approach, which assesses whether outcome or output objectives have been achieved as intended or programs and services are operating as intended;
- A problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

2.7 All three approaches can be pursued from a top-down or bottom-up perspective. Top-down audits concentrate mainly on the requirements, intentions, objectives and expectations of the legislature and central government of Sri Lanka. A bottom-up perspective focuses on problems of significance to people and local communities in Sri Lanka.

Criteria

Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.

- 2.8 Criteria are the benchmarks used to evaluate the subject matter. Performance audit criteria are reasonable and audit-specific standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed.
- 2.9 Criteria provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives. They also form an important element in discussions within the audit team and management and in communication with the audited entities. The criteria can be qualitative or quantitative and should define what the audited entity will be assessed against. The criteria may be general or specific, focusing on what should be according to laws, regulations or objectives; what is expected, according to sound principles, scientific knowledge and best practice; or what could be (given better conditions).
- 2.10 The criteria used should be relevant and understandable for users as well as complete, reliable and objective in the context of the subject matter and audit objectives.
- 2.11 The criteria should be discussed with the audited entities, but it is ultimately the auditor's responsibility to select suitable criteria. While defining and

communicating criteria during the planning phase may enhance their reliability and general acceptance, in audits covering complex issues it is not always possible to set final criteria in advance; instead they will be defined and finalized during the audit process.

- 2.12 The audit objectives, question and approach determine the relevance and the type of suitable criteria, and user confidence in the findings and conclusions of a performance audit depends largely on the criteria. Thus it is crucial to select reliable and objective criteria.

Audit risk

Auditors should actively manage the audit risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value.

- 2.13 Many topics in performance auditing in a developing country like Sri Lanka, are complex and politically sensitive. While simply avoiding such topics may reduce the risk of inaccuracy or incompleteness, it also reduces the impact and added value the Auditor General's Department can make to the economy and society in Sri Lanka. Therefore, it is vitally important that the Auditor General's Department should tackle complex and politically sensitive topics

- 2.14 The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information to the risk of neglecting important factors and, therefore not providing recommendations that would make a real contribution to better performance.

- 2.15 Important aspects of risk include:

- Not possessing the competence to conduct sufficiently broad or deep analysis. ¹
- Lacking access to quality information,
- Obtaining inaccurate information (e.g. because of fraud or irregular practices),

¹ This is an important issue in the Auditor General's Department and should be addressed by more in depth training of auditors involved or likely to be involved in performance auditing. Training is required in areas like audit planning, study scope, evidence gathering (e.g. selection of samples, interviewing skills), evidence analysis (both quantitative and qualitative), drafting effective recommendations and report drafting.

- Lacking the ability to put all findings into perspective,
- Failing to collect or address the most relevant arguments.

2.16 Auditors should therefore actively manage risk. Dealing with audit risk is embedded in the whole process and methodology of performance audit. Audit planning documents should state the possible or known risks of the work envisaged and show how these risks will be handled, avoided or mitigated.

Communication

Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.

2.17 There are several reasons why planning communication with the audited entities and stakeholders is vital in performance audit:

- As performance audits are not conducted on a regular (e.g. annual) basis, channels of communication will need to be set up. While there may be contacts with the legislature and government bodies, other groups (such as the academic and business communities or civil society organizations) may not have been engaged with previously.
- There are no predefined criteria (such as a financial reporting framework), and thus detailed meetings with the audited entity is necessary.
- The need for balanced reports requires the views of a range of different stakeholders both inside and outside Government.

2.18 Auditors should identify the key participants and stakeholders and establish effective two-way communication. With good communication, auditors can improve access to information sources and to data and opinions from the audited entity. Effective communication channels to explain the purpose of the performance audit to stakeholders should increase the likelihood of audit recommendations being implemented.

2.19 Auditors should seek to maintain good professional relations with all relevant stakeholders. This should promote a free and frank flow of information in so far as confidentiality requirements permit, and enable discussions to take place in an atmosphere of mutual respect and

understanding for the role and responsibilities of each stakeholder. This is a very important element of communication – as in many cases, the Auditor General’s Department will be finding deficiencies, weaknesses and failings in the auditees management, administration and or processes.

- 2.20 Auditors should notify audited entities of the key aspects of the audit, including the audit objective, audit questions and subject matter. Notification will usually take the form of a written engagement letter and regular communication during the audit. Auditors should maintain communication with audited entities throughout the audit process, by means of constructive interaction as the audit evolves.
- 2.21 Audited entities should be given an opportunity to comment on the draft audit findings, conclusions and recommendations before the Auditor General’s Department issues a final audit report.
- 2.22 Any disagreements should be analysed and factual errors corrected. The examination of feedback should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented.
- 2.23 At the end of the audit process, stakeholder and auditee feedback can also be obtained on the quality of the published audit reports.

Skills

Collectively, the audit team should have the necessary professional competence to perform the audit. This includes sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills.

- 2.24 Staff in the Performance Audit Division need to have or acquire these skills in order to produce effective performance audit reports. Auditors should also have a sound knowledge of Sri Lankan government organizations, programs and functions. This will ensure that the right areas are considered and selected for audit and that auditors can effectively undertake reviews of government programs and activities.
- 2.25 For each performance audit the auditors need to have a full understanding of the government measures which are the subject matter of the audit, as well as the relevant background causes and the possible impacts. This

knowledge must frequently be acquired or developed specifically for the engagement. Performance audits often involve a learning process and the development of methodology as part of the audit itself. On-the-job learning and training should therefore be available to auditors, who should maintain their professional skills through ongoing professional development. The Auditor General's Department needs to invest in training for performance auditors, to equip them with the necessary skills with which to perform effective performance audits, which will produce effective recommendations which can lead to a positive impact and added value to the citizens of Sri Lanka.

- 2.26 In specialized areas, external experts may need to be utilized to complement the knowledge of the audit team. Many performance audits by nature are technical and complex e.g. infrastructure projects, health initiatives, education programs. External experts can bring not only their technical knowledge, but an independent and objective approach to the audit. Their involvement can also increase the credibility of the auditing findings, conclusions and recommendations.

Professional judgement and skepticism

Auditors should exercise professional skepticism, but also be receptive and willing to innovate.

- 2.27 It is vital that auditors exercise professional skepticism and adopt a critical approach, maintaining an objective distance from the information provided. Auditors are expected to make rational assessments and discount their own personal preferences and those of others.
- 2.28 At the same time, they should be receptive to views and arguments. This is necessary in order to avoid errors of judgement or bias. Respect, flexibility, and a willingness to innovate are equally important. Innovation applies to both the audit and the audit processes.
- 2.29 Auditors are expected to consider issues from different perspectives and maintain an open and objective attitude to various views and arguments. If they are not receptive, they may miss important arguments or key evidence. As auditors develop new knowledge, they also need to be creative, reflective and practical when collecting, interpreting and analyzing data.
- 2.30 A high standard of professional behavior should be maintained throughout the audit process. It is also important for auditors are properly supervised and carry out their work with due care and objectivity.

Quality control

Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced and fair reports that add value and answer the audit questions.

- 2.31 The following specific issues need to be addressed:
- Performance audit is a process in which the audit team gathers a large amount of audit specific information and exercises a high degree of professional judgement. This must be taken into account in quality control. The need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams should be seen as part of quality management. This may entail applying quality control procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received from quality control.

- In performance auditing, even if the report is evidence-based, well-documented and accurate, it might still be inappropriate or insufficient if it fails to give a balanced and unbiased view, includes too few relevant viewpoints or unsatisfactorily addresses the audit questions. These considerations should therefore be an essential part of measures to safeguard quality.
- As audit objectives vary widely between different audit engagements, it is important to define clearly what constitutes a high-quality report in the specific context of an audit engagement. General quality control measures should therefore be complemented by audit specific measures.

2.32 No quality control procedures at the level of the individual audit can guarantee high-quality performance audit reports. It is equally important for auditors to be – and remain – competent and motivated. Control mechanisms should therefore be complemented by support, such as on-the-job training and guidance for the audit team. In the Auditor General's Department it is vitally important to commence training on this manual, followed by detailed training in performance auditing techniques, then further augmented by regular, mandatory update and refresher training

Materiality

Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social aspects of the subject matter, with the aim of delivering as much added value as possible.

- 2.33 Materiality is the relative importance of an issue within the context in which it is being considered. The materiality of an audit topic should have regard to the magnitude on its impacts. It will depend on whether the activity is comparatively minor and whether shortcomings in the area concerned could influence other activities within the audited entity.
- 2.34 An issue will be considered material where the topic is considered to be of particular importance and where improvements would have a significant impact. It will be less material where the activity is of a routine nature and the impact of poor performance would be restricted to a small area.
- 2.35 In performance audit, materiality by monetary value may, but need not, be a primary concern. In defining materiality, the auditor should consider also

what is socially significant and bear in mind that this varies over time and depends on the perspective of the relevant users. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation, this perspective may vary from one audit to another. Assessing it requires careful judgement on the part of the auditor

2.36 Materiality concerns all aspects of performance audits, such as:

- selection of topics,
- definition of criteria,
- evaluation of evidence and documentation, and
- management of risks of producing inappropriate or low-impact audit findings, conclusions and recommendations.

DOCUMENTATION

Auditors should document the audit in accordance with the particular circumstances. Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.

2.37 Performance auditors must maintain an adequate documentary record of the preparation, procedures and findings of each audit. However, the purpose and context of documentation in performance auditing is different to financial or other compliance audits:

- Often the auditor will have acquired specialized knowledge about the audit topic. Since the audit methodology and criteria for each audit is unique, the auditor must document this knowledge carefully.
- In performance auditing, as well as containing findings and recommendations the report describes the framework, perspective and analytical structure that were adopted and the process that was followed to arrive at the conclusions. To some extent, the report performs functions that in other types of audits are provided by general standards or audit documentation.
- Documentation should not only confirm the accuracy of facts, but also ensure that the report presents a balanced, fair and complete examination of the audited question or subject matter. Thus, for

example, it might be necessary for the documentation to include reference to arguments not accepted in the report, or to describe how different viewpoints were dealt with in the report.

- The audit objectives determine the nature of the documentation.
- Maintaining adequate documentation contributes to the quality of the audit and the Auditor General's Departments collective and individual auditors' professional development.
- It is important that audit documentation for working papers has a common format. As indicated in Point 4 of Table 21 'Mandatory steps in conducting a performance audit and sign-off', each audit paper must include:
 - objective
 - audit procedures
 - results
 - conclusions
 - matters arising
 - sign-off

AUDITING ECONOMY, EFFICIENCY AND EFFECTIVENESS

2.38 As stated previously, performance auditing is mainly concerned with the examination of economy, efficiency, and effectiveness (often referred to as the 3E's). A performance audit will have the objective of examining one or more of these three aspects. The following paragraphs describe the 3E's and provide examples of audit questions in each area.

Economy – keeping the costs low

2.39 According to Auditing Standards, 'economy' means minimizing the cost of resources used for an activity, having regard to appropriate quality. Audits of economy may provide answers to questions such as:

- Do the inputs represent the most economical use of public funds?

- Have the human, financial or material resources been used economically?
- Are the management activities performed in accordance with sound administrative principles and good management policies?

2.40 Even though the concept of economy is well defined, an audit of economy is not easy to conduct. It is often a challenging task for an auditor to assess whether the inputs chosen represent the most economical use of public funds, whether the resources available have been used economically, and if the quality and the quantity of the 'inputs' are optimal and suitably coordinated. It may prove even more difficult to provide recommendations that will reduce the costs without compromising the quality and the quantity of services.

2.41 An example of an audit question relating to economy is:

- *'How does the cost of the fertilizer subsidy compare to the forecast cost when the subsidy was introduced in 20XX'*

Efficiency – making the most of available resources

2.42 Efficiency is related to economy. Here the central issue concerns the resources deployed, with the main question being whether these resources have been put to optimal use or whether the same results (in terms of quality and achievement) could have been obtained with fewer resources. Put another way, are we getting the most output – in terms of quantity and quality – from our inputs and actions? The question refers to the relationship between the quality and quantity of services provided and the activities and cost of resources used to produce them, in order to achieve results.

2.43 Clearly, any opinion or finding on efficiency is relative. A finding on efficiency can be formulated by means of a comparison with similar activities, with other periods, or with a standard that has explicitly been adopted. Sometimes standards, such as best practices, are applicable.

2.44 Assessments of efficiency might also be based on conditions that are not related to specific standards – when matters are sufficiently complex that there are no standards. In such cases, assessments must be based on the best available information and arguments and in compliance with the analysis carried out in the audit.

2.45 Auditing efficiency requires consideration of whether:

- human, financial, and other resources are efficiently used;
- government programs, entities and activities are efficiently managed, executed, monitored and evaluated;
- activities in government entities are consistent with stipulated objectives and requirements;
- public services are of good quality, client-oriented and delivered on time; and
- the objectives of government programs are reached cost effectively.

2.46 The concept of cost-effectiveness concerns the ability of an audited entity, activity, program, or operation to achieve certain outcomes at a reasonable cost. Cost-effectiveness analyses are studies of the relationship between project cost and outcomes, expressed as cost per unit of outcome achieved. Cost effectiveness is just one element in the overall examination of efficiency, which might also include analyses of, for example, the time in which outputs were delivered.

2.47 This, however, does not always coincide with the optimal timing with a view to optimizing impact. In some cases it may prove difficult to totally separate the two concepts – efficiency and economy – from each other. They may both directly or indirectly, concern whether, for instance, the audited entity:

- is following sound procurement practices;
- is acquiring the appropriate type, quality, and amount of resources at an appropriate cost;
- is properly maintaining its resources;
- is using the optimum amount of resources (staff, equipment and facilities) in producing or delivering the appropriate quantity and quality of goods or services on time;
- is complying with requirements of regulations that govern/affect the acquisition, maintenance and use of the entity's resources; and
- has established a system of management controls.

2.48 In reality, audits of economy tend to focus on the first three points. The concept of efficiency is mainly restricted to the question of whether the

resources have been put to optimal use. Consequently, efficiency is normally specified in two ways:

- Could the same output been achieved with fewer resources?
- Could the same resources have been used to achieve better results (in terms of quantity and quality of the output)?

2.49 An example of an audit question relating to efficiency is

'Were resources used efficiently to acquire road building materials for two new motorways compared to best practice engineering standards.'

Effectiveness – achieving the stipulated aims or objectives

2.50 Effectiveness is essentially goal-attainment. It is concerned with the relationship between goals or objectives, outputs and impacts. Are the stipulated aims being met by the means employed, the outputs produced and the impacts observed? Are the impacts observed really the result of the policy rather than other circumstances?

2.51 The question of effectiveness consists of two parts:

- first, if the policy objectives have been achieved and,
- second, if this can be attributed to the policy pursued.

2.52 In order to judge the extent to which the aims have been achieved, they need to be formulated in a way that makes assessment possible. This cannot easily be done with vague or abstract goals. In order to judge the extent to which observed events could be traced back to the policy, a comparison will be needed. Ideally, this consists of a measurement before and after the introduction of the policy.

2.53 In practice, such comparisons are difficult to make, partly because comparative material in developing countries like Sri Lanka is often lacking. In such cases, one alternative is to assess the plausibility of the assumptions on which the policy is based. Often a less ambitious audit objective will have to be chosen, such as assessing to what extent objectives have been achieved, target groups have been reached, or the level of performance has improved.

2.54 The auditor might seek to assess or measure effectiveness by comparing outcomes – or 'impact' – with the goals set in policy objectives. This

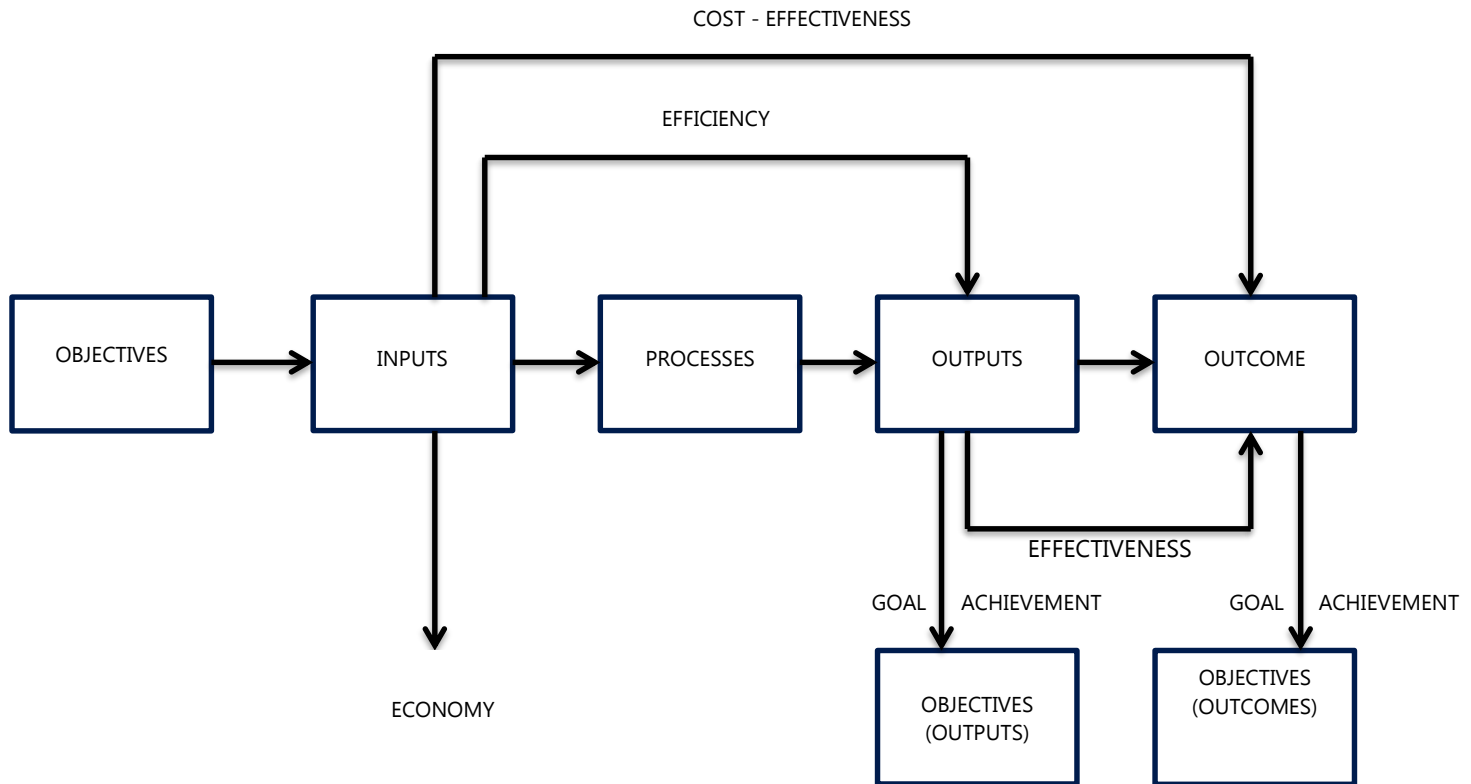
approach is often described as 'goal achievement' analysis. However, when auditing effectiveness, auditors should attempt to find out to what extent policy instruments used have actually contributed towards the achievement of the policy objectives. This is effectiveness auditing in its 'true' application and requires evidence that the outcomes, which have been observed, have actually been caused by the action in question rather than by some other factors. For example, an audit question in this area would be:

'if there was a policy objective to reduce unemployment in Sri Lanka, and this occurred; was this due to the success of the policy or / and a general improvement in the economic climate'

Application of the 3E's

2.55 The interaction between economy, efficiency and effectiveness is shown in the following Table. Essentially economy relates to the getting the most out of inputs, efficiency relates to getting the best outputs for a desired level of input and effectiveness relates to getting the best outcomes from the resources utilized.

TABLE 1 THE RELATIONSHIP BETWEEN ECONOMY, EFFICIENCY AND EFFECTIVENESS



- 2.56 The overriding objective of any activity is effectiveness. Effectiveness is a measure of how well an audited activity achieves its objectives. These objectives may be specifically stated or they may be the outputs of the activity. Effectiveness generally involves not just producing some sort of deliverable but doing so in a way that optimizes the expenditure of public monies.
- 2.57 Economy and efficiency are subsets of effectiveness. The inter relationship between the 3 E's can be demonstrated by way of a real life scenario – a child vaccination program:

A child measles vaccination program has the objective to vaccinate 10,000 children under one year old over a period of six months, in order to reduce the incidence of measles by x%. The relevant Health Department had a budget to buy the vaccines. If, after market research, the agency responsible for the acquisition of vaccines manages to buy it at cheaper than expected rate (with the same quality), we can say that economy was achieved. Let's say in health unit A, the nurse has vaccinated 10 children per day. In health unit B, the nurse has vaccinated 12 children per day. So, the nurse from health unit B was more efficient. If, by the end of six months, 10,000 children (or more) received the vaccine, and the incidence of measles reduced by more than x%, the program was effective regarding the outputs (vaccinations dispensed) and outcomes (reducing incidence of measles).

DIFFERENCES BETWEEN PERFORMANCE AUDIT AND FINANCIAL AUDIT

- 2.58 A Performance audit an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organizations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.
- 2.59 In contrast, a financial audit is an examination of financial statements to enable the Auditor General to express an opinion as to whether the financial statements give a true and fair view of the results of operations and state of affairs of the auditee and are prepared in accordance with a financial reporting framework. In Sri Lanka, financial audits also can review the appropriation of funds allocated for entity activities.

2.60 Some of the major distinguishing features of performance audits and financial audits are highlighted in the table below:

TABLE 2 PERFORMANCE AUDIT AND FINANCIAL AUDIT COMPARED

Features	Financial Audit	Performance Audit
Focus	Accuracy and correctness of financial statements	Measurement of economy, efficiency and effectiveness
Evidence Base	Financial Statements	Wide variety of forms of evidence
	Appropriation Accounts, Budgetary Statements	
	Transactions	
	Conclusive nature of evidence	Persuasive – Evidence related to pre-determined Audit Objectives
	Materiality by amount	Materiality guided by content
Academic Base of staff required	Accounting, Law	Social Sciences, Economics, Public Affairs, Science, Technology, Accounting, Law
Approach and Methodology	Standardized Audit Program	Varies – Performance Audit Manual serves as basic framework
Assessment Criteria	Standardized	Unique Assessment Criteria to support Audit Objectives
Assurance	A reasonable assurance is given	No assurance is given
Reporting	Opinion on Financial Statements	Conclusion on 3 E's
	Opinion on compliance with laws, regulations etc.,	Wide ranging, open to interpretation
	Report on compliance with relevant financial reporting standards (SLAS or SLPSAS)	Report on performance. Measure against set criteria, report deviations and make recommendations
	Standardized format – Audit Opinion	Report can be presented in a number of formats

	Related to specific period	Separate publication of each report
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AUDITING ENVIRONMENTAL ISSUES

2.61 Many Performance Audits in Sri Lanka will have an environmental element to them i.e. they will review environmental compliance and sustainable development. These elements should be treated as part of the audit objectives of the performance audit.

PART 3: PERFORMANCE AUDITING IN SRI LANKA

PERFORMANCE AUDIT MANDATE AND AUTHORITY

- 3.1 The performance audit mandate generally specifies the minimum audit and reporting requirements. It indicates what is required of the auditor and provides the auditor with authority to carry out the work and report the results.
- 3.2 The Auditor General's mandate for audits is set out in Articles 154 of the Constitution of Democratic Socialist Republic of Sri Lanka. This mandate operates in the context of other relevant legislation, regulations and legislative enactments such as the Finance Act, Local Authorities Act, the Financial and Administrative Regulations and the Accounting and Auditing Standards Act (1995). The Finance Act No. 38 of 1971 provides guidance in carrying out comprehensive performance audits conducted by the Auditor General's Department and other aspects of audits such as financial and investigative audits.
- 3.3 At the time of producing this Manual, the National Audit Act, which came out in line with the 19th Amendment to the Constitution of Democratic Socialist Republic of Sri Lanka, had not yet been passed by Parliament. This proposed Act gives specific mandate to the Auditor General to conduct performance, social and environmental audits or any other technical audits. When it is passed into law, this element of the Manual will need to be updated to reflect this.
- 3.4 A performance audit:
- provides auditees with information about the quality of management of public resources; and
 - assists by identifying and promoting better management practices.
- 3.5 Performance auditing by the Auditor General's Department has the following objectives:
- improving public sector utilization of funds;

- exercising effective legislative control and oversight
- improving governance;
- encouragement of public managers to publicly report on performance auditing

3.6 Overall, performance auditing should lead to improved

- economy and efficiency in the acquisition of resources,
- effectiveness in achieving public sector objectives, including management planning and control over the environment.
- accountability,

LINK TO THE SRI LANKA ACCOUNTABILITY FRAMEWORK

3.7 The following provisions in the Constitution are important to understand and maintain when conducting a performance audit.

Articles 148 and 149

3.8 Parliament shall have full control over public finances and for raising revenue under the authority of a law passed by Parliament or any other existing law. Spending funds out of the Consolidated Funds/public monies is also under the authority of Parliament. A bill or a motion relating to raising revenue or expenditure of public monies or related matters as recommended by executives is introduced in Parliament by a Minister only after the approval of the Cabinet of Ministers.

Articles 52(1)

3.9 Secretaries to Ministries are appointed by the President. Secretaries, subject to the direction and control of the relevant Minister in-charge, exercise supervision over the Institutions coming under the relevant Ministry.

Articles 55(2)

3.10 Head of Departments are appointed by the Cabinet of Ministers or the Constitutional Council.

Auditor General's Mandate

Article 153 (1)

- 3.11 There shall be an Auditor-General who shall be a qualified Auditor, and subject to the approval of the Constitutional Council, be appointed by the President and shall hold office during good behavior.

Article 154(1)

- 3.12 The Auditor General shall audit the accounts of all the departments of Government, the Office of the Secretary to the President, the Office of the Secretary to the Prime Minister, the Offices of the Cabinet Ministers, the Judicial Services Commission, the Constitutional Council, the Commissions referred to in the Schedule to Article 41B, the Parliamentary Commissioner for Administration the Secretary-General of Parliament, local authorities, public corporations, business and other undertakings vested in the Government under any written law and companies registered or deemed to be registered under the Companies Act, No. 7 of 2007 in which the Government or a public corporation or local authority holds fifty per cent or more of the shares of that company.

Article 154(3)

- 3.13 The Auditor General shall also perform and discharge such duties and functions prescribed by Parliament by law.

Article 154 4(b)

- 3.14 The Auditor General is empowered to obtain assistance on any technical or professional or scientific matters relevant to audit. In the performance of the duties and functions, the Auditor General exercises wide powers not limited to the examination of books and records. The Auditor General is empowered to have access to properties, both movable and immovable and call for any information and explanation that may be necessary.

Article 153A

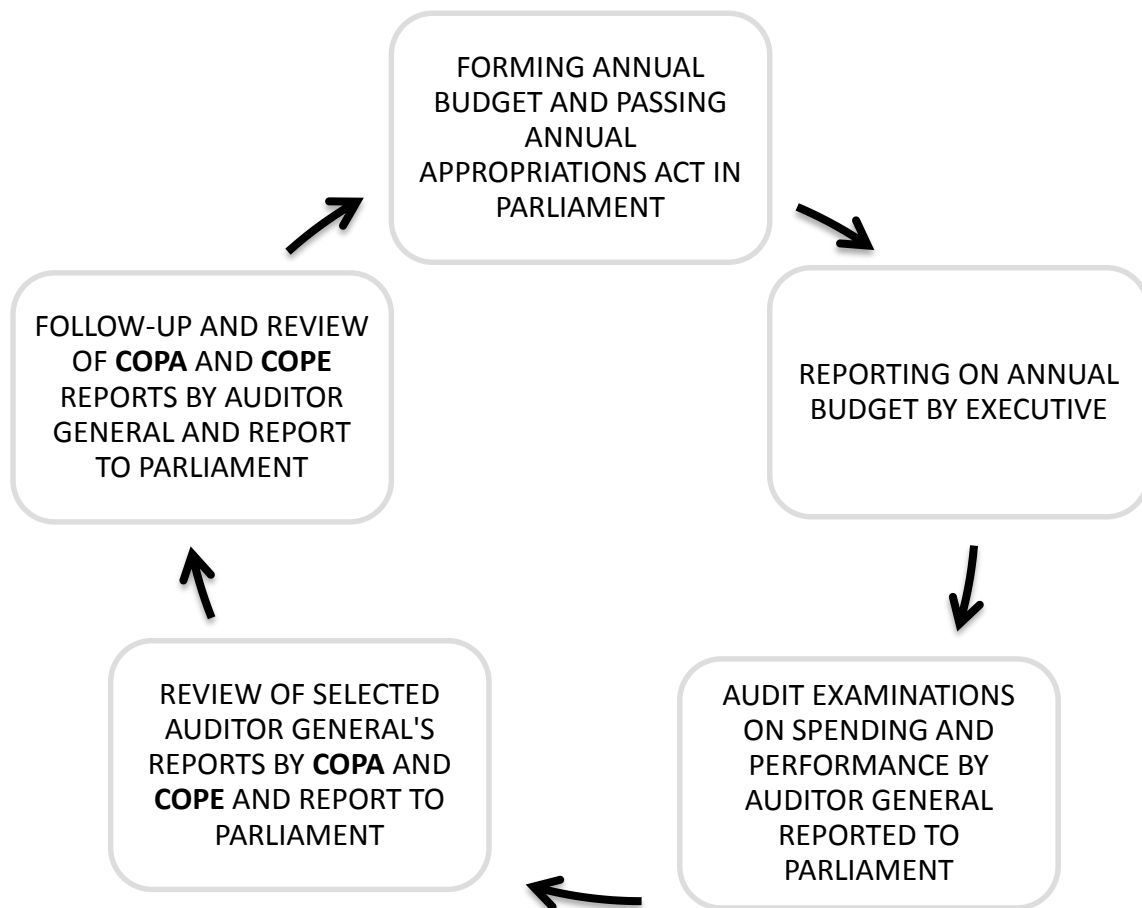
- 3.15 A new Audit Service Commission is to be created, consisting of the Auditor General, two senior retired officers of the Auditor General's Department, a retired Judge of the Supreme Court, Court of Appeal or High Court of Sri Lanka and a retired Class 1 officer of the Sri Lanka Administrative Service.
- 3.16 The functions of the Commission are to enable administrative and financial independence. The Commission will have the power to approve schemes of recruitment, or of the appointment, transfer, dismissal or disciplinary control of the members of the new Sri Lanka State Audit Service; prepare annual

estimates of the new National Audit Office to be reviewed by Parliament; and discharge such other duties and functions as may be provided for by law.

3.17 The above provisions clearly demonstrate that the Auditor General’s role and responsibilities have increased and he is empowered to conduct Financial, Investigative, Performance Audits or any other Audits to ensure their accountability to the Parliament.

3.18 The Table below depicts the relationship of the Sri Lankan Accountability framework to the requirements of the constitution.

TABLE 3 SRI LANKAN ACCOUNTABILITY FRAMEWORK



Note: COPA is Committee of Public Accounts and COPE is Committee on Public Enterprises

Public accountability

- 3.19 This is the obligation and accountability of public enterprises and agencies (entrusted with public resources) to be answerable for fiscal and social responsibilities. Public accountability provides appropriate, accurate and timely information to government and the community through a range of statutory and other accountability obligations and publications. Public accountability mainly relates to matters in the public domain, such as spending of public funds, the exercise of public authorities or the conduct of public institutions.

PERFORMANCE AUDIT DIVISION IN SRI LANKA AUDITOR GENERAL'S DEPARTMENT

- 3.20 In 2011, the Performance Audit Division was set up in the Auditor General's Department. Below is listed staff roles and responsibilities.

Staff Roles and Responsibilities

- 3.21 The roles and responsibilities for a typical audit engagement team is set out below.

Deputy Auditor General (DAG) or Assistant Auditor General (AAG)

- 3.22 The DAG or AAG oversees all aspects of the audit.
1. Strategic planning for Performance Audit topics over following 3 years (see Part 4 of this Manual).
 2. Selecting audit topics at the beginning of the year - considering complexity of audit, available resources, national interest, etc. This is undertaken through a committee with the Auditor General and three DAGs including the Divisional DAG.
 3. Determine performance audit criteria.
 4. Determine cost and timing of performance audits, including start and finish dates
 5. Provide advice and guidance to the Superintendent of Audit (SA) and to the Audit Examiners (AEs).

6. Agree workload and resources for audits.
7. Communicate expectations to the SA and review plans to ensure expectations are addressed.
8. Involved in major audit decisions on relationship with the auditee entity, scope of audit, complex and contentious issues, reporting strategies, reviewing and challenging the queries and reviewing related files as necessary.
9. Ensure that all performance audit procedures are followed.
10. Monitor all audit activities periodically by reviewing that:
 - audit activities are in progress and on time
 - there is appropriate segregation of duties within the team
 - work is being appropriately documented
 - progress is in line with the plan and objectives set for the audit.
11. Review draft reports, seek the advice and input of a Quality Assurance and clear reports with senior officials from the auditee.
12. Provide assurance to the Auditor General on the audits undertaken and report findings.

Superintendent of Audit (SA)

3.23 The Superintendent of Audit has overall responsibility for auditing the entities, managing the entire audit cycle and a team of Audit Examiners and ensuring the quality of audit. The Superintendent of Audit is also responsible for carrying out pre-studies on selected audit topics and making recommendations to the DAG / AAG. Duties of a SA include:

1. Undertake operational planning, which describes the day to day activities of the Division.
2. Maintaining adequate team knowledge of the audit entities and functions.
3. Maintaining effective relations with the audit entities.
4. Managing all aspects of the audits and developing an audit strategy for the audit entity.
5. Coordinating with other teams on audits affecting their audit entities.
6. Developing and refining audit program and testing programs with the participation of the AEs.

7. Leading audit teams, delegating responsibilities, monitoring and reviewing progress, mentoring and developing staff.
8. Managing budgets and timely completion of audits.
9. Seeking counsel and expert advice throughout the audit.
10. Reviewing (or drafting if required) audit reports.
11. Initiating audit planning process and developing detailed audit plans.
12. Determining audit objectives, identifying entity components significant to the audit objectives, defining an audit approach, determining criteria and documenting how risks in audit are covered.
13. Reviewing Audit Examiners fieldwork
14. Identifying performance audit opportunities for inclusion in future annual performance audit plans.

Audit Examiners (AE)

3.24 The Audit Examiners will carry out the responsibilities assigned to them by DAGs, AAGs or SAs). Their responsibilities include:

1. Delivery of quality audit work.
2. Documenting audit issues identified.
3. Complying with performance audit procedures.
4. Providing continuous improvement feedback on the Auditor General's Department's quality management.

Type of performance audit

3.25 The Performance Audit Division have completed a number of different types of Performance Audits, including for example:

- audits of a program or activity in a single entity;
- cross entity audits (reviews the same activity in a number of entities or the administration of a program by a number of entities);
- sector audits;
- detailed audits carried out as a result of comprehensive audits;

- auditing important National issues (e.g. environmental pollution, success of disease management etc.); or
- weak or substandard key areas of Government

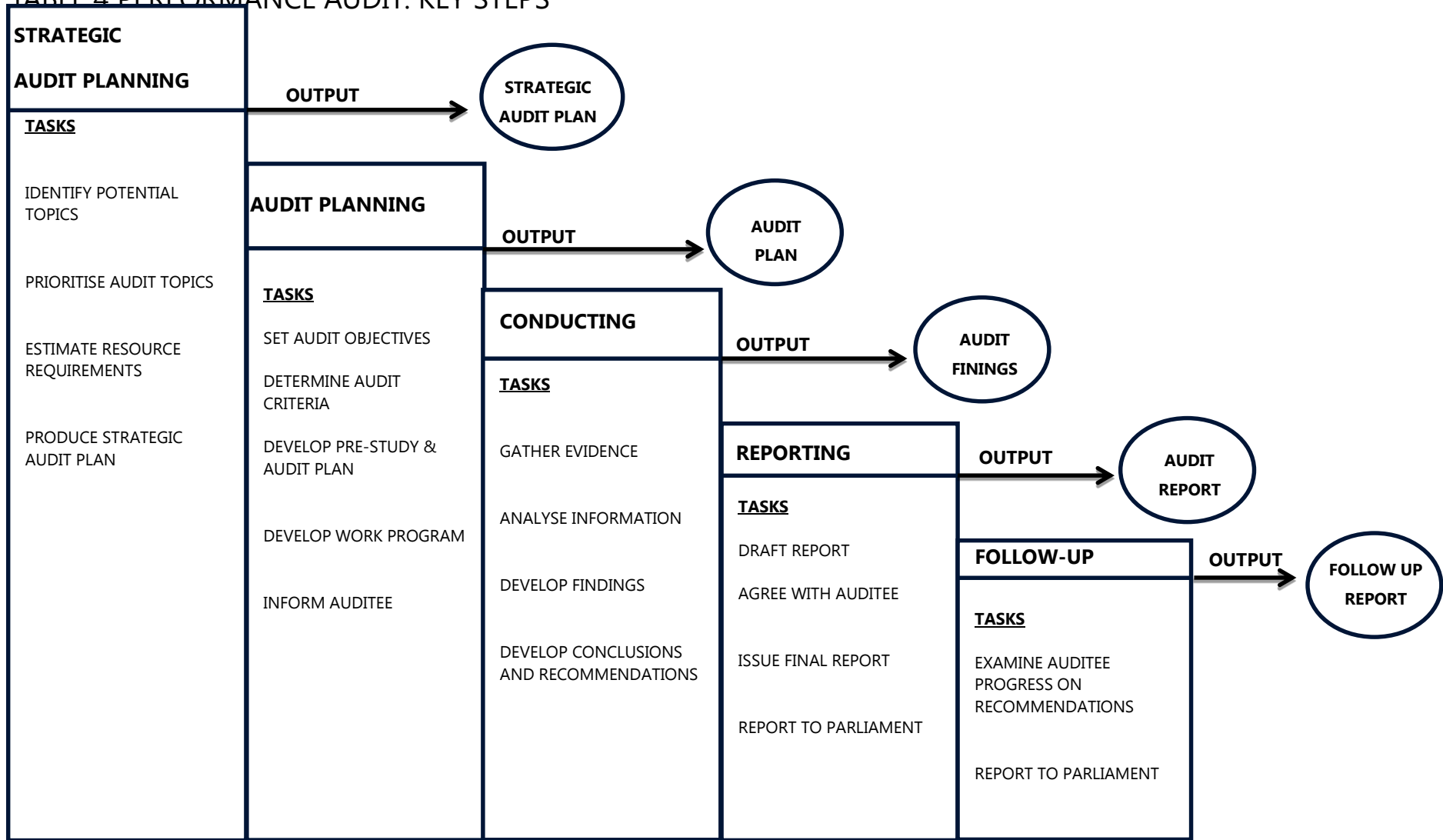
PERFORMANCE AUDIT APPROACH

3.26 The performance audit cycle covers four key steps:

- planning (Strategic and individual Audit);
- conducting;
- reporting;
- follow up

These are illustrated in the Table below and summarized briefly in text below. They are described in much more detail at Parts 4,5,6,7 and 8 of this Manual.

TABLE 4 PERFORMANCE AUDIT: KEY STEPS



FINAL

PLANNING

- 3.27 The planning process is divided into two stages. The first stage is annual planning, as part of the Auditor General's Department's strategic planning process. Here potential themes and topics are identified, discussed and analyzed. The output from this process is a list of performance audits to be carried out in each of the next three years.
- 3.28 Once a topic has been selected for audit, an individual performance audit plan is required. Initially there will be a scoping study (pre-study), which may result in a work plan for the main report and which will assist in finalizing the proposed design of the report and the areas to be examined. At this stage audit objectives and audit criteria should be determined.

CONDUCTING

- 3.29 The principal activity in conducting a performance audit is the collection, analysis, interpretation of evidence and applying professional judgement to draw conclusions and recommendations from evidence. All performance auditing must be evidence based. Auditors must obtain sufficient, appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and formulate recommendations.
- 3.30 All audit findings and conclusions must be supported by sufficient appropriate evidence. This should be placed in the context of the auditee and all relevant arguments, and different perspectives should be considered before conclusions can be drawn. The nature of the audit evidence required to draw conclusions in performance auditing is determined by the subject matter, the audit objective and the audit questions.
- 3.31 The auditor should evaluate the evidence with a view to obtaining audit findings. Based on the findings, the auditor should exercise professional judgement to reach a conclusion. Findings and conclusions are the results of analysis in response to the audit objectives. They should provide answers to the audit questions.
- 3.32 Conclusions can be based on quantitative evidence obtained using scientific methods or sampling techniques. Formulating conclusions may require a significant measure of professional judgement and interpretation in order to answer the audit questions, due to the fact that audit evidence may be

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persuasive ("points towards the conclusion that ...") rather than conclusive ("right/wrong"). The need for precision should be weighed against what is reasonable, economical and relevant to the purpose. The involvement of senior management in reaching conclusions and formulating recommendations is crucial.

REPORTING

Report Content

- 3.33 Auditors should strive to provide performance audit reports which are
- comprehensive,
 - compelling,
 - timely,
 - reader-friendly, and
 - balanced.
- 3.34 To be **comprehensive**, a report should include all the information needed to address the audit objective and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions.
- 3.35 To be **compelling**, it should be logically structured and present a clear relationship between the audit objective, criteria, findings, conclusions and recommendations. All relevant arguments should be addressed. In a performance audit, auditors report their findings on the economy and efficiency with which resources are acquired and used and the effectiveness with which objectives are met.
- 3.36 If recommendations contained in reports are to be useful to improve the activity or performance of the auditee, reports must be **timely** i.e. published within 18 months of commencement. Out of date reports lose their relevance and findings, conclusions and recommendations can become obsolete.
- 3.37 Reports may vary considerably in scope and nature, for example assessing whether resources have been applied in a sound manner, commenting on

the impact of policies and programs and recommending changes designed to result in improvements. Whatever shape the report takes, it must be **reader friendly** and include information about the audit objective, audit questions and answers to those questions, the subject matter, criteria, methodology, sources of data, any limitations to the data used, and audit findings. It should clearly answer the audit questions or explain why this was not possible.

- 3.38 The audit findings should be reported in a **balanced** way and put into the context of the auditee. They should demonstrate how problems restrict optimum performance, which in turn should encourage the auditee to initiate corrective action. It should, where appropriate, include recommendations for improvements to performance. The report should be as clear and concise as possible, and avoid jargon and ambiguous language. It is very important that the tone of the report should be constructive and highlight necessary improvements, rather than pointing out a list of deficiencies.

Recommendations

- 3.39 The ultimate output of a Performance Audit is recommendations for change and improvement for the auditee. It is imperative that constructive recommendations are made, that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit.
- 3.40 Recommendations should be well-founded and add value. They should address the causes of problems and/or weaknesses. However, they should be phrased in such a way that avoids simply inverting the audit conclusions. It should be clear who and what is addressed by each recommendation, who is responsible for implementation and what the recommendations mean –i.e. how they will contribute to better performance.
- 3.41 Recommendations should be practical and be addressed to the entities which have responsibility and competence for implementing them. They should be clear and presented in a logical and reasoned fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report, they should convince the reader that they are likely to significantly improve the conduct of government operations and programs, e.g. by lowering costs and simplifying administration, enhancing the quality

and volume of services, or improving effectiveness, impact or the benefits to society.

3.42 These type of recommendations are known as SMART recommendations. SMART is an acronym for the qualities of effective recommendations. They should be:

- Specific
- Measurable
- Achievable
- Realistic
- Time-bound

3.43 As an example of a SMART recommendation, contrast a recommendation that is not 'SMART' to one that has these characteristics through the following example.

A fertilizer subsidy program costs 500m rupee. It has not delivered its intended objectives of lowering grain prices and the level of grain imports. Results show that grain prices have increased and imports of grain have increased.

Non-SMART Recommendation

The auditee must do more to improve the fertilizer subsidy program in order to lower grain prices and reduce the level of imports

SMART Recommendation

The auditee must improve results from the fertilizer subsidy program so that grain prices should be 10% lower than current prices (Specific, Measurable, Achievable, Realistic) and imports of grain should have reduced by 15% by the end of 2017 (Time-bound)

Follow up

3.44 Auditors should follow up audit findings and recommendations The Auditor General should report these to Parliament of Sri Lanka. Follow-up specifically refers to the auditors' examination of corrective action taken by the audited entity on the basis of the results of a performance audit. It is an independent activity that increases the value of the audit process by strengthening the

impact of the audit and laying the basis for improvements to future audit work. It also demands that audited entities take reports seriously, and provides the auditors with useful lessons and performance indicators.

- 3.45 When conducting follow-up of an audit report, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow-up. This exercise can contribute to a better understanding of the value added by performance auditing over a given time period.

PART 4: STRATEGIC PLANNING

4.1 On an annual basis the Auditor General's Department needs to carry out strategic planning in the area of Performance Audit. The ultimate output from this process is a list of potential performance audit reports to be carried out in the next 3 years.

4.2 ISSAI 3000, 3.2 states:

'Strategic planning is the basis for selection of audit topics. Linked to a Supreme Audit Institution's annual planning system, it may be a useful tool in setting priorities and selecting audits. It may serve as a mechanism for selecting future audit themes and a basis for detailed planning. Finally it may serve as an instrument for strategic policy decisions on the future direction of the audit. Planning might be carried out in the following steps: determining potential audit areas; establishing the selection criteria to be used; and identifying the main sources of information for potential audits. The strategic planning exercise would normally result in a coherent and cogent audit program and serve as a basis for operational and resource allocation.'

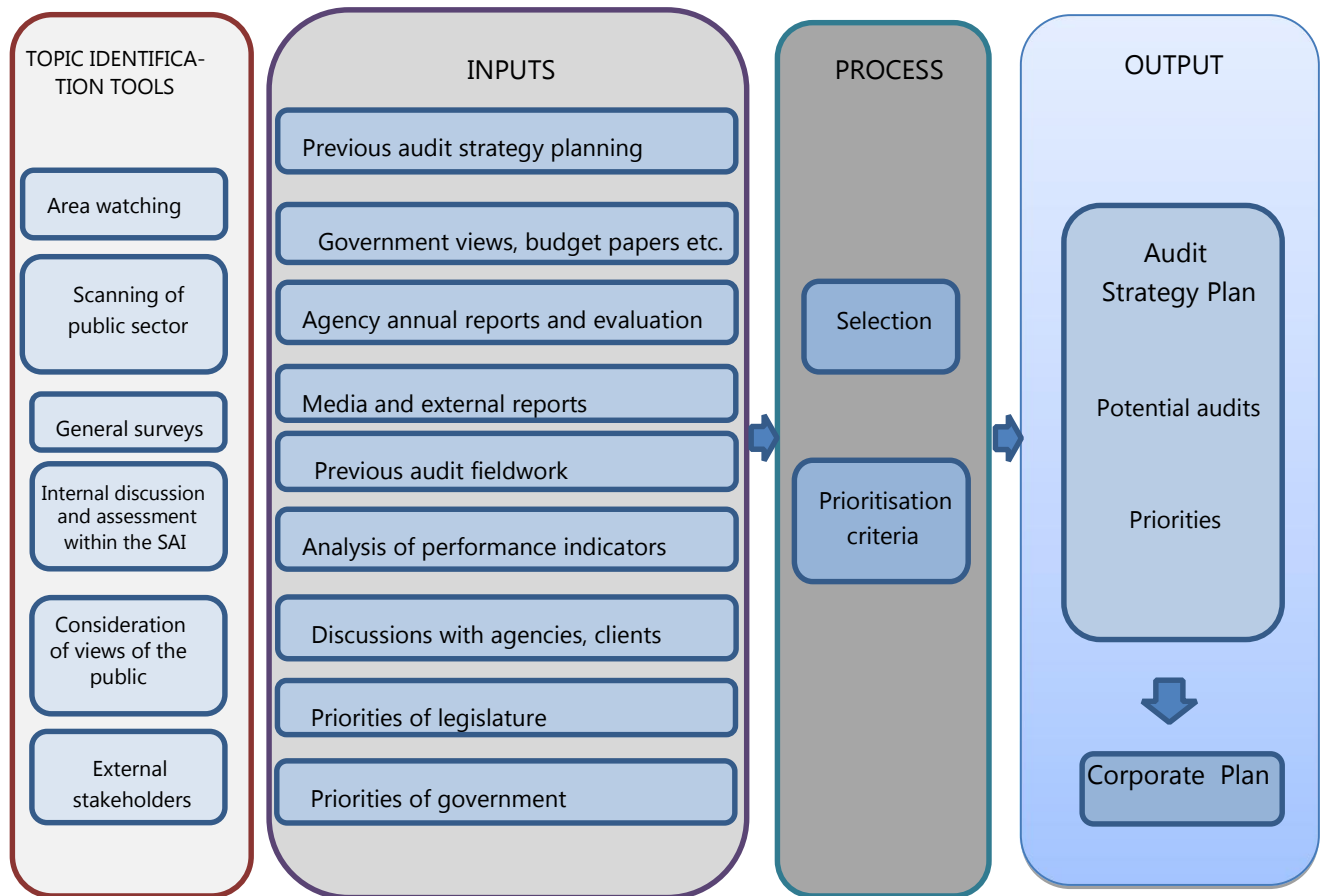
4.3 The objectives of strategic audit planning are to:

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

STRATEGIC PLANNING PROCESS

- 4.4 A well planned and executed strategic planning process, based on a sound principles, is imperative in order to strive to utilize the resources of the Auditor General's Department in an efficient and effective manner.
- 4.5 The significance of wider performance audit areas incorporating government's overall and primary objectives can be established by analyzing and understanding government policies, strategies, budgets and statements to identify critical aspects of policy implementation.
- 4.6 Consultation can assist in understanding government's policies and priorities. This can involve appropriate stakeholders in government such as Ministers, Committees (national bodies that process legislation and have oversight of the key Departments of any jurisdiction - health, education, infrastructure, economy, housing etc.), accounting officers, external experts and others. The consultation process should inform the decision on appropriate strategic and cross cutting performance audit topics.
- 4.7 The strategic planning process will be achieved by:
- Environmental scanning relevant to performance audits
 - Constantly reviewing the wider performance audit areas for relevance
 - Facilitating a wider consultation process to obtain inputs from relevant stakeholders in government.
 - Maintaining planning methodology for risk analysis and reporting.
 - Identifying internal and external subject matter experts.
- 4.8 The strategic planning process is outlined in the Table below.

TABLE 5 STRATEGIC PLANNING DIAGRAM FOR PERFORMANCE AUDIT



- 4.9 The key deliverable of the strategic planning process is a document for the Auditor General's Department senior management to enable it to critically assess the proposed planning strategy for overall consistency within its corporate objectives contained in the Corporate Plan.
- 4.10 The Performance Audit Division DAG/AAG and Superintendent of Audit and the DAG or AAG from other Divisions should work together to produce the Strategic Audit Plan for Performance Audit. This will be ultimately included into the Auditor General's Department overall Corporate Plan.

Identification of possible audit topics

- 4.11 The start of the process is deciding what to audit from the vast array of activities which government and public sector entities engage in. There will always be more potential audit areas than audit resources are able to audit. It is therefore vitally important to utilize scarce audit resources in areas where the most impact and value added can be derived for the citizens of Sri Lanka. Performance auditing should be directed towards areas where an

external, independent audit will support and strengthen the oversight function in promoting accountability, economy, efficiency and effectiveness in the use of public resources. The aim is to select audit topics that are significant, auditable and can be expected to lead to important benefits for public finance and administration, the audited entity or the general public.

4.12 A number of tools can be utilized to gain intelligence in the public sector and to identify potential performance audit topics:

Area watching

4.13 This is also known as environmental scanning and horizon scanning. It involves recording and monitoring key issues in the public sector of Sri Lanka to keep abreast of developments. Its purpose is to identify possible audit areas for further scrutiny. It can be effected by :

- reading relevant publications and previous reports relating to performance and compliance audits
- listening to the experience of regularity auditors
- listening to or reading transcripts of parliamentary debates
- attending conferences and seminars
- discussions with colleagues, stakeholders and specialists
- listening to radio, television and podcasts
- reading newspapers, journals and on-line articles of interest

4.14 It is a continuous process that ensures that the Auditor General's Department is always in possession of updated information about what happens in society and areas that may require further examination.

Scanning of public sector environment

4.15 The public sector environment should be scanned each year and relevant sources of information should be inspected. The following list of information should be reviewed:

- Meetings and Reports from the Committee on Public Accounts (COPA) and the Committee on Public Enterprises (COPE)

- Sri Lanka Program for Government outlining aims, objectives and spending priorities. Review of programs subsidized by Government
- Social Issues
- National budgets and guidelines.
- Other related policy documents.

General surveys

4.16 As part of their normal audit contacts, auditors will have built up considerable accumulated knowledge about the organizations in which they work. In addition further information is required on which to base an audit program. This can be obtained through periodic on-going examinations of the audit field, perhaps every four years. This is described as general survey work.

4.17 General surveys may cover a whole entity, a group of related activities or particular major projects or programs of expenditure or receipts. It is aimed at providing an understanding of the organization's objectives, main activities and the level / nature of resources used in carrying out its functions. Information is assembled in order to identify

- those areas absorbing a significant level of resources
- potential risks to achieving good value for money
- areas for audit attention
- areas or subjects for inclusion in the performance audit program.

4.18 Much of the information for general survey work can be obtained through normal day to day work and contact with the public sector organizations. The information should be recorded in working folders for reference when making proposals for inclusion in the Strategic Planning process. Information should be assembled in the following way:

- Background environment and information on the entity
- Significant legislative authority
- Objectives of audited entity
- Organizational arrangements

- Accountability relationships
- Activities carried out
- Nature and level of resources used
- Procedures and control systems in place
- Other relevant information or evidence.

Internal discussions and assessments within the Auditor General's Department

4.19 Comprehensive Audits of public enterprises in the Auditor General's Department are carried out using a risk based methodology. These may uncover risk areas in relation to the economy, efficiency and effectiveness of certain organizations. This information should be made available to performance auditors so that they can consider for inclusion in the strategic audit planning process.

Consideration of views of citizens

4.20 The views of the citizens of Sri Lanka, many of whom are tax payers, are valid to be considered during the strategic audit planning process. The Auditor General's Department should maintain a database of relevant information from citizens who have genuine concerns about the operation of certain areas of the government and public sector entities.

External stakeholders

4.21 External stakeholders can often identify possible performance audit topics. Inputs may be obtained from professional subject experts, academics and non-government organizations.

4.22 The academic community has expert knowledge in specific audit areas and may provide a more objective view, less restricted by personal interest. Academics may serve as suitable discussion partners, co-readers and sometimes as consultants during an audit. Non-government organizations can be a useful source of ideas. They may have conducted their own research through surveys and case studies and may have a range of relevant contacts

CRITERIA FOR EVALUATION OF POSSIBLE AUDIT TOPICS

- 4.23 Once the performance audit topics have been selected, the development of a system for determining a balanced portfolio of performance audits will assist with providing for adequate coverage of government functions. At this stage in the Performance Audit Division's maturity, while a small number of performance audits are being completed annually, a relatively simple policy direction for performance audits should be established. This could include concentrating for example on economy, while competencies are built up in efficiency and effectiveness; or choosing some higher level themes such as major infrastructure programs, health, education or reducing bureaucracy in order to improve transparency and efficiency and effectiveness in public administration
- 4.24 In the future, when performance auditing has matured in the Auditor General's Department and more reports are being produced annually, a more sophisticated criterion for selection of audit topics could be introduced. This would rank potential topics against qualitative aspects to determine whether the topics are significant. The criteria, given in the Table below, are examples of aspects that may be considered. The relative importance of each criterion will depend on the prevailing public sector circumstances in Sri Lanka in future years.

Table 6 Performance Audits: Potential future selection criteria

	Criteria	Factors
1	Materiality	Is the topic important to government/the public/ the audited entity (national priority) and does it involve a critical area?
2	Public accountability	Will responsibility be taken? Is the topic capable of being explained?
3	Possible impact	Will the topic have a powerful effect on enhancing the economy, efficiency and effectiveness of government undertakings?
4	Improvement	Will the audit lead to improvements in government?
5	Legislative or public interest	Will the topic address a legal concern or be to the advantage of the community?

6	Risks to the Auditor General's Department	Will the topic present risk (strategic or reputational) to the Auditor General's Department?
7	Departmental issues	Will subjects of departmental concern be addressed by the topic?
8	Relevance	Does the topic have major importance for the citizens of Sri Lanka?
9	Auditability	Can the topic be audited?
10	Timeliness	Is this the right or appropriate time to audit the topic?
11	Previous audit work	Has the topic been the subject of a Performance Audit in the recent past?
12	Other major work planned or in progress	Is other work being planned or done on the topic?
13	Developments likely to affect assessment	Are there any events or processes of change that would probably affect the assessment
14	Request for performance audits	Have any special requests been made for performance audits to be done? Consideration should be given to the source of the request e.g. interests from Parliament versus requests from Departments.
15	High political sensitivity	Does the topic involve a sensitive subject that is of government concern?

Developing the Strategic Audit Plan

4.25 Following prioritization of the audit topics the Strategic Plan for Performance Audits should then be developed. The basic information required is:

- a list of audit topics in the various government agencies
- expected resource requirements for each audit and the
- proposed start and finish dates for audits.

The audits included should be proposed to be conducted in each of the next three years.

4.26 In preparing the plan, there needs to be consideration of total audit performance audit resources available and the skills and experience of these

staff. The capabilities of individual staff members are a crucial determinant in the performance audit plan. If the staff are relatively inexperienced in performance audit, it would be inappropriate to plan for a number of complex and lengthy performance audits.

- 4.27 If the Auditor General wants to develop the Performance Audit function, to have a greater impact and produce more added value to the citizens of Sri Lanka, he must invest in training of current and potential performance audit staff through a range of detailed training courses on performance audit methods and techniques.
- 4.28 The plan should be submitted for approval to the Auditor General's Department senior management. It should be considered in light of the overall Corporate Planning process. Once agreed, it should be incorporated into the Corporate Plan and revisited and revised on an annual basis.
- 4.29 Once approved it may be worthwhile to provide the plan to COPA and COPE to share information about future performance audits. To provide transparency it could also be made available as a public document on the Auditor General's Department website.
- 4.30 All of the above Strategic Audit Planning does not preclude the Auditor General from making decisions in-year to divert resources to urgent performance audit matters or studies that may transpire.

PART 5: PLANNING A PERFORMANCE AUDIT

5.1 Each year the Auditor General's Department can undertake only a limited number of audits. These should therefore be carefully selected and designed to bring maximum benefits to the citizens of Sri Lanka. Within the program of audits included in the strategic audit plan, auditors will need to concentrate on those likely to be included in the work program for the year ahead.

5.2 ISSAI 3000, 3.3 states that:

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

5.3 Planning consists of developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The audit plan is the key document for controlling and monitoring performance audits. The auditor should develop and document an audit plan describing the expected scope and conduct of the audit

5.4 The importance of thorough and detailed planning cannot be overstated. Time invested in the planning stage, can save time later in the audit – during fieldwork, drafting and agreeing the report. Adequate planning of the audit work helps ensure that proportionate attention is devoted to the significant areas of the audit, that probable problems are identified and that the work is completed on time and within cost budget. Planning also assists in appropriate assignment of work to team members and in coordination of work performed by other auditors.

The audit planning documents should contain:

- background knowledge and information needed to understand the entity to be audited, to allow an assessment of the problem and risk, possible sources of evidence, auditability, and the materiality or significance of the area considered for audit (ISSAI 3100/2.4.1)

- the audit objective, questions, criteria, scope and period to be covered by the audit, and methodology including techniques to be used for gathering evidence and conducting the audit analysis (ISSAI 3100/2.4.1).
- an overall activity plan which includes staffing requirements, i.e. sufficient competencies, human resources, and possible external expertise required for the audit, an indication of the sound knowledge of the auditors in the subject matter to be audited (ISSAI 3000/2.2); and
- the estimated cost of the audit, the key project timeframes and milestones, and the main control points of the audit (ISSAI 3100/2.4.1).

5.5 Because no two performance audits are the same, there is an emphasis on the need for good planning. This helps to determine whether the audit is worthwhile and feasible, set clear and reasonable objectives, define a realistic and robust audit approach and establish resources needed. If the audit is not well planned there is a risk that the audit work will not be efficient or effective.

5.6 Planning involves two main steps:

- The pre-study which enables the auditor to consider the significant risks to sound financial management and the potential audit objectives, approaches and methodologies. It can also help determine whether the audit is realistic and likely to be useful. It is important to note that it is perfectly acceptable to abort a study at this stage, if there are valid reasons to do so. These reasons should be clearly articulated in the pre-study. It is better to halt a study at this stage than proceed in an area that may not be auditable, or which will yield little impact, added value or worthwhile recommendations.
- The Audit Plan which defines the audit work to be carried out - the audit scope, objective and methodology, the resources to be employed and the key milestones to be achieved.

Conduct of pre-study

5.7 ISSAI 3000, 3.3 requires that:

before starting the main study,....it is important to define the audit objectives, the scope, and the methodology to achieve the objectives. This is often done in the form of a pre-study. Where a pre-study is conducted it:

- 1. establishes whether the conditions for a main study exist*
- 2. provides background knowledge and information needed to understand the entity, program, or function*
- 3. is carried out in a fairly short period.*

5.8 The purpose of the pre-study is to gain sufficient knowledge of the subject area to confirm that an audit can be conducted in accordance with the performance auditing policies, and to develop an audit plan that will provide a basis for the orderly, efficient and cost effective conduct of the audit.

5.9 The pre-study is a broad-based appraisal of the operations subject to audit. The auditors gather information in order to confirm or revise initial decisions about scope, cost, timing and skills and to propose audit objectives, areas for in-depth review, criteria and examination approach. In finalizing these decisions, the audit team designs an audit to reduce the risk of making incorrect conclusions and inappropriate recommendations in the report audit

5.10 Collecting data takes place during both the pre and main study of an audit. The primary role of data collection in the pre-study is to gather sufficient information to be able to assess alternative audit problems. A wide variety of procedures and techniques can be used to gather necessary information. These may include:

- Interviews with management;
- Review of policies, directives etc.;
- Review of entity's Corporate and Annual Plans and performance reports;
- Review of entity's internet site;
- Review of management and accountability reports;
- Observation of facilities;
- Walk through the major systems and control procedures;
- Assessment of risks facing the entity;

- Consultation with advisors and outside organizations to identify best practices and opportunities for improvement;
- Previous audits and studies and audits conducted by others;
- Review of spending trends.

5.11 Other external sources that may be consulted:

- Studies by government, professional or interest groups;
- Information held by similar entities;
- Research held by academics or research organizations;
- Similar works undertaken by other government agencies and non-governmental organizations;
- Media coverage.

5.12 The Table below shows the typical format of a Pre-Study

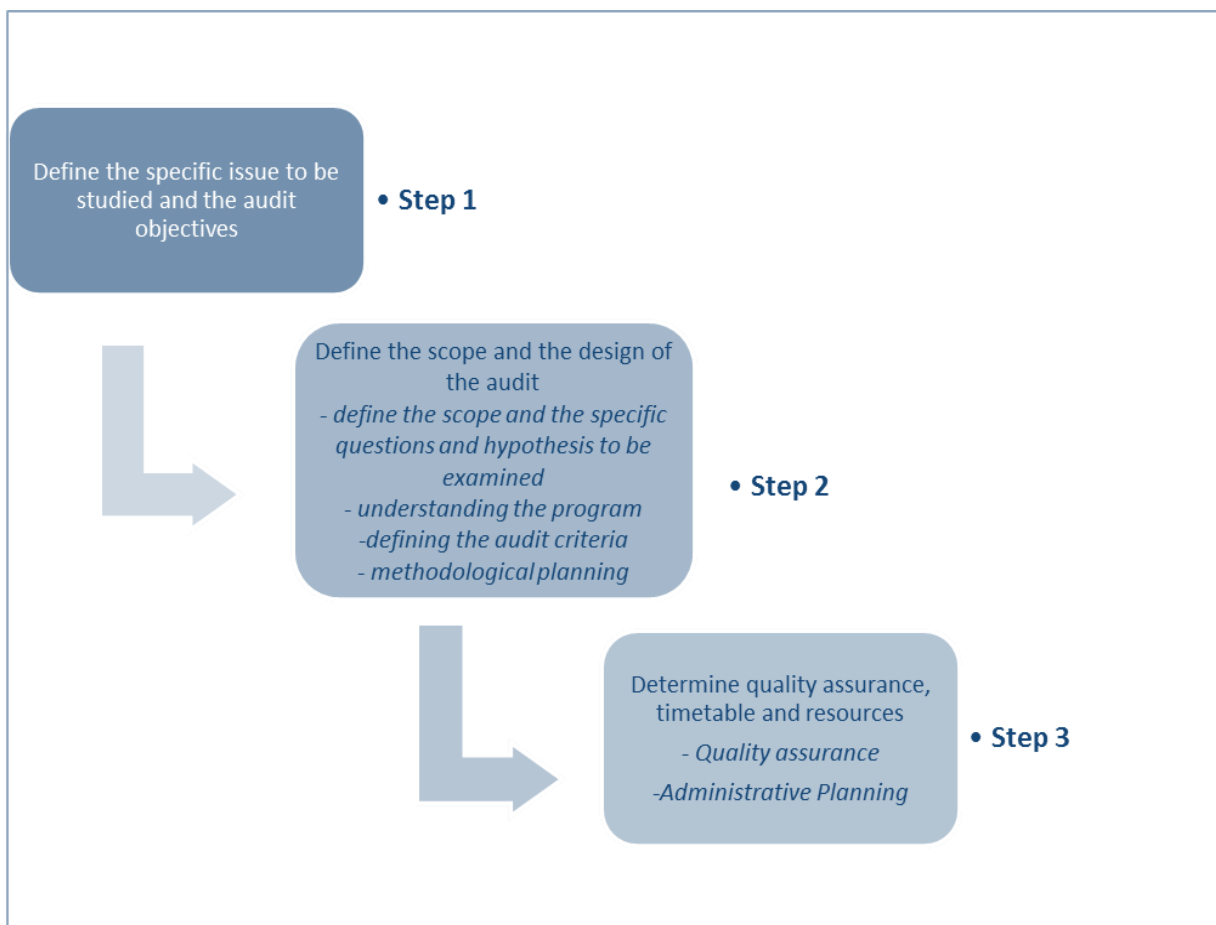
Table 7: Contents of a Pre-Study Report

<p>Report Title</p> <p>Date of Report</p>
<p>Background</p>
<p>Audit Objectives</p>
<p>Evidence Collected</p>
<p>Risks Identified</p>
<p>Audit Scope</p>
<p>Audit Criteria</p>

Preparation of the Audit Plan

5.13 ISSAI 3000:3.3 identifies three important steps in drawing up an audit plan. The Table below provides details of the steps.

Table 8: The 3 steps of preparing an audit plan



5.14 The following paragraphs discuss each step of the audit plan. There are three main approaches to performance auditing - problem-oriented approach, results oriented approach and system-oriented approach. The planning steps discussed below covers the problem-oriented and results-oriented approach.

Step 1: Defining the specific issue to be studied and the audit objectives

5.15 The initial step is the more precise definition of the topic or the problem to be audited. The motives and the objectives for the study must be developed. This is a difficult but crucial step that involves examining the subject matter in depth by studying relevant literature, documents and statistics, conducting interviews with major stakeholders and experts and analyzing potential problem indications from various viewpoints.

5.16 In short this step involves elaborating on the following two questions (ISSAI 3000/3.3).

What? - What is the basic question or the problem to be studied?

Why? - What are the audit objectives?

5.17 The wording of the basic question or problem is of great importance; it is a decisive factor for the results of the audit. It can be thought of as a fundamental research question into a government program that the auditor seeks the answer to.

What is the basic question?

5.18 The proper formulation of questions is critical to the success of the audit, since it will have implications for decisions regarding the types of data to be collected, how collection will be carried out, the analysis that will be performed and the conclusions that will be reached. In developing the audit questions, the following aspects should be taken into account:

- Clarity and specificity;
- Use of terms that can be defined and measured;
- Investigative feasibility (possibility to be answered);

5.19 The following provides examples of basic audit questions / problem.

Problem oriented approach

- What caused the rapid increase in costs in the construction of the road from Colombo to Kandy?
- Why are the garbage services in Colombo not delivered on time?
- Why was the quality of healthcare in a hospital in Jaffna so much less than planned?

Results oriented approach

- Are the services provided to the public transport users of Colombo of good quality and passenger focused?
- Are government programs around fertilizer subsidy in Sri Lanka implemented efficiently?

5.20 In the problem-oriented approach, emphasis has to be put on how to define the problem properly. Usually the audit begins with problem indicators of some kind e.g. shortcomings in service, complaints, rising costs etc. At the next stage the auditor tries to relate and link the different problem to be audited as precisely as possible. They should also seek to identify possible causes of the problem (ISSAI 3000/Appendix 1).

What are the audit objectives?

5.21 ISSAI 3000,3.3 states that audit objectives:

relate to the reasons for conducting the audit. In determining the objectives the audit team must take into the account the roles and responsibilities of the SAI and the expected net impact of the audit as defined in the strategic audit plan.

5.22 The audit objective should address concerns on the economy, efficiency and/or effectiveness of program management as well as financial control where relevant and accountability and good governance. The auditor may consider the following questions in defining audit objectives.

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

5.23 The auditor should seek to frame the objectives in the clearest possible terms and as simply as possible when developing audit objectives. The following Table provides examples of audit objectives:

Table 9: Examples of Audit Objectives from other SAIs

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

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

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

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

Managing the impact of Housing Benefit Reform; National Audit Office of United Kingdom; 2012

The audit objective was to review the progress made by the Department of Work and Pensions in implementing the reforms to Housing Benefit.

The Sustainability of Schools: Northern Ireland Audit Office; 2012

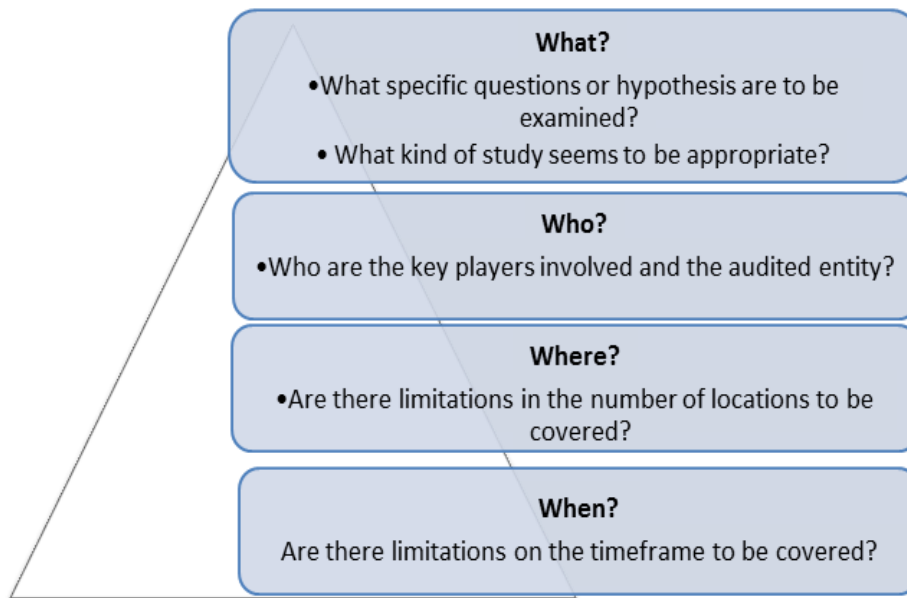
The audit objective was to evaluate progress made since 2006 by the Department of Education in delivering sustainable schools in Northern Ireland

- 5.24 Ideally, the objective of the audit should be capable of being posed as a question. It is also possible to extend the objective into a series of associated questions which may be answered in the audit process. The audit objectives and scope are interrelated and should be considered together (ISSAI 3000/3.3).

Step 2. Define the scope and the design of the audit

- 5.25 The scope defines the boundary of the audit. It addresses such things as specific questions to be asked, the type of study to be conducted and the character of the investigation. The scope of an audit is determined by answering the following questions in the Table below

Table 10: Questions to determine the scope of the audit



5.26 The following Table provide examples of audit scope adapted from various performance audit reports:

Table 11: Examples of Audit Scope from other SAI's

Managing the expansion of the Academies Program; Report of the National Audit Office UK; 2011

This report evaluated the Department's implementation of the program expansion since May 2010 and the adequacy of its funding and oversight framework across the academies sector (including academies established before May 2010).

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

The audit included the administration of fish habitat protection and pollution prevention provisions of the Fisheries Act and the two policies (the Habitat Policy and the Compliance and Enforcement Policy) that set out the government's intentions relating to these provisions. The audit included the policies, programs and activities of Fisheries and Oceans Canada and certain arrangements with others that support the administration and enforcement of these provisions.

The effectiveness of public transport in Northern Ireland; Northern Ireland Audit Office; 2015

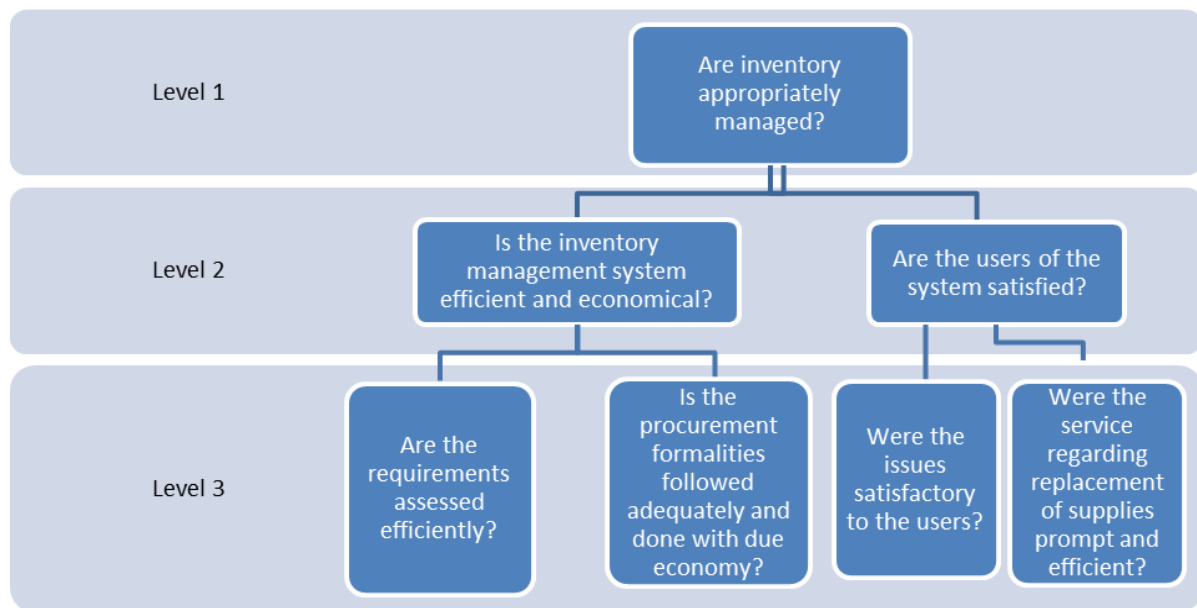
The report assessed the effectiveness of public transport in Northern Ireland by reviewing performance against the public transport initiatives and targets for the period 2002 – 2012. It also examined the Department for Regional Development investment priorities for transport and benchmarked public transport performance against Great Britain, Republic of Ireland and Europe.

- 5.27 Auditability is an important requirement in the planning process. It defines whether a topic is suitable for a study. As objectives and scope vary from one audit to another, the audit team needs to assess whether an audit can be carried out. An issue must be both auditable and worth auditing in order to be included in the audit scope. The auditor might, have to consider, for instance, whether there are relevant approaches, methodologies, and criteria available and whether the information or evidence required is likely to be available and can be obtained efficiently. Furthermore, reliable and objective information should exist and there should be reasonable chances of obtaining this information (ISSAI 3000/3.3).
- 5.28 After formulating the basic audit question, the auditors need to break it down to specific and testable sub-questions to be answered by the study

5.29 One technique called “issue analysis’ breaks the basic audit question into a number of lower levels, more detailed questions to form a pyramid. It is normally sufficient to have three levels of questions. The Table below is a simple example of the use of issue analysis.

Table 12: Example of Issue analysis

The objective of the audit is to examine whether inventory were appropriately managed?



5.30 The purpose of the technique is to clarify the feasibility of concluding against the main audit question and to assure a logical chain from specific audit procedures to the sub-questions all the way up to the main audit question. This helps to impose a logical disciplined pattern and ensure that all aspects of a question or sub-question are considered.

Understanding the program

5.31 It is important to develop a sound understanding of the audited program or the audited entity business, which is sufficient to achieve the audit objectives, facilitate the identification of significant audit issues and fulfil assigned audit responsibilities. This knowledge includes an understanding of:

- nature of government program being audited (role and function, activities and processes in general, development trends etc.);

- legislation and general programs and performance goals;
- organizational structure and accountability relationships,
- internal and external environment and the stakeholders;
- external constraints affecting program delivery;
- earlier investigations in the field; and
- management processes and resources

5.32 The aim in the design phase is to develop a basic understanding of the auditee. Obtaining the required knowledge is a continuous and cumulative process of gathering and assessing information, and relating the resultant knowledge to audit evidence at all stages of the audit. It is important that auditors weigh the costs of obtaining information and the additional value of the information to the audit (ISSAI 3000/3.3)

5.33 Sources of information may include:

- enabling legislation;
- ministerial statements, government submissions, and decisions;
- recent audit reports, reviews, evaluations, and inquiries;
- scientific studies and research (including that from overseas);
- strategic and corporate plans, mission statements, and annual reports;
- policy files and management committee and board minutes;
- organization charts, internal guidelines, and operating manuals;
- program evaluation and internal audit plans and reports;
- conference reports and minutes;
- viewpoints from experts in the field;
- discussions with audited entity management and key stakeholders;
- management information systems.

5.34 Past reviews are often a very useful source of information. They can help avoid unnecessary work in examining areas that have been under recent scrutiny and highlight deficiencies that have not yet been remedied.

Defining the audit criteria

- 5.35 The audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of activities can be assessed. They represent good practice, a reasonable and informed person's expectation of 'what should be'.
- 5.36 Audit criteria define what the undertaking, services, program or operation will be judged against e.g. policies, laws, pre-defined targets, professional standards, public opinion etc.
- 5.37 The nature of the audit and the audit questions determines the relevance and the type of suitable criteria. In the problem-oriented approach, the audit criteria have a less significant role, since the starting point is a deviation from set criteria.
- 5.38 Sources of audit evidence should be identified at this stage. An assessment should also be made of the ease of gathering competent, relevant and reasonable audit evidence. Audit evidence is discussed in more detail at paragraphs 6.5 - 6.11 of this Manual.
- 5.39 When criteria are compared with what actually exists, audit findings are generated. Meeting or exceeding the criteria might indicate 'best practice' but failing to meet criteria would indicate that improvements can be made. Criteria can perform a series of important roles to assist the conduct of a performance audit, including forming (ISSAI 3000/Appendix 2):
- a common basis for communication within the audit team and Auditor General's Department management concerning the nature of the audit;
 - a basis for communication with the audited entity's management;
 - a basis for data collection procedures in order to obtain audit evidence; and
 - the basis for audit findings and structuring observations.

Setting audit criteria

- 5.40 Audit criteria must be set objectively. It must be developed according the audit objectives and audit questions. The process requires rational consideration and sound judgment. The auditors must for instance have (ISSAI 3000/Appendix 2):

- a general understanding of the area to be audited, and be familiar with relevant legal and other documents as well as recent studies and audits in the area;
- a good knowledge of the motives and the legal basis of the government program or activity to be audited and the goals and objectives set by the legislature or the government;
- a good understanding of the expectations of the major stakeholders; and
- a general knowledge of practices and experience in other relevant or similar government programs or activities.

Basis and sources of criteria

5.41 The basis of the audit criteria may be considered from different angles:

- official standards (such as goals laid down in laws and regulation, decisions and policies taken by the legislature), or
- scientific – information from specialist scientific literature and other sources such as professional standards and best practices.

5.42 Audit criteria can be obtained from the following sources:

- objectives of organization, project or program
- generally accepted management practices
- laws and regulations governing the operation of the audited entity;
- decisions made by the legislature;
- comparisons with best practice;
- professional standards, experiences, and values;
- performance specifications
- key performance indicators set by the audited entity or the government
- independent expert advice;
- scientific knowledge;
- sector studies;

- criteria used previously in similar audits or by other Supreme Audit Institutions; and
- organizations, projects or programs (inside or outside Sri Lanka) carrying out similar performance standards

Characteristics of suitable audit criteria

5.43 Characteristics of suitable criteria include the following (ISSAI 3000/Appendix 2):

- **Reliability:** Reliable criteria result in consistent conclusions when used by another auditor in the same circumstances.
- **Objectivity:** Objective criteria are free from any bias of the auditor or management. The Auditor General's Department staff should remain neutral / impartial.
- **Usefulness:** Useful criteria result in findings and conclusions that meet users' information needs.
- **Understandability:** Understandable criteria are clearly stated and are not subject to significantly different interpretations.
- **Comparability:** Comparable criteria are consistent with those used in performance audits of other similar agencies or activities and with those used in previous performance audits of the entity being audited.
- **Completeness:** Completeness refers to the development of all significant criteria appropriate to assessing performance.
- **Acceptability:** Acceptable criteria are those that independent experts in the field, audited entities, legislature, media, and general public are generally agreeable to.

5.44 The following Table provides some examples of audit criteria:

Table 13: Examples of Audit Criteria from other SAI's

- ***Monitoring water resources; Report of the Office of the Auditor General of Canada; 2010***
Audit issue: Environment Canada has not fulfilled its reporting obligations under the Canada Water Act
Criteria: Under the Canada Water Act, Environment Canada is required to prepare an annual report to Parliament on the operations of this Act.

- ***Access to safe drinking water; Report of the Office of the Auditor General of Fiji; 2011***
Audit issue: Existence of legal framework
Criteria: The Pacific Regional Action Plan on Sustainable Water requires that there should be a legal and policy framework to establish entities to be responsible for providing water services, water regulatory functions, water environment protection and proper allocation of water to consumers.

- ***Drinking Water supply and sanitation; Report of the Rural Audit Authority of Bhutan; 2011***
Audit issue: Water quality test for determining safe drinking water
Criteria: The Rural Water Supply and Sanitation (RWSS) policy requires that all sources for RWSS schemes should be tested and confirmed safe for consumption prior to construction of scheme.

5.45 It is often useful to obtain the input of audited entity management to the development of criteria. Disagreement about criteria can then be identified, discussed, and, perhaps, resolved at an early stage. However, the facts and arguments presented by the audited entity must be weighed against other relevant facts and arguments (ISSAI 3000/Appendix 2).

Methodological planning (ISSAI 3000/3.3)

5.46 When planning for the methodology of measuring audit criteria, performance audit can draw upon a large variety of data-gathering techniques that are commonly used in the social sciences, such as surveys, interviews, observations, and studying written documents. Practical considerations will also influence the audit program. Sampling methods and

surveys might allow general conclusions to be drawn and case studies provide an opportunity for in-depth studies.

The Audit Design matrix

5.47 A design matrix is a tool which outlines the requirements and procedures necessary to implement the audit objectives and to make assessments against the audit criteria. Its main objectives are to

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

5.48 There are various – more or less complicated- versions. In some cases they contain a lot of components; main audit question, sub-questions, what to examine, audit criteria, information needed, how information will be collected, risks involved, complication, comparison or analyses needed, potential conclusions and likely recommendations etc.

5.49 For the Auditor General’s Department a simple and brief Audit Design Matrix is illustrated in the Table below:

Table 14 Audit Design Matrix

Audit Objective(s)	Audit Questions	Audit Criteria	Evidence	Data collection and analysis method

Step 3 Determine Quality Assurance, timetable and resources

Quality assurance

5.50 ISSAI 3000/3.3 states that:

Quality control procedures should be designed to ensure that all audits are conducted in accordance with relevant standards and policies

5.51 The Superintendent of Audit (SA) is responsible for the day-to-day management of the audit, including detailed planning, execution of the audit, supervision of staff, reporting to management and overseeing preparation of the audit report. They also have a role to play, along with the DAG / AAG, on quality assurance.

5.52 Chapter 9 of this Manual discusses Quality Assurance in detail.

Administrative planning

5.53 It is important to determine the timetable and the resources needed for the audit. Relevant factors include: (i) the manner in which the audit is organized, (ii) the expected costs, and (iii) the expected completion time (ISSAI 3000/3.3).

5.54 The budget and timetable should be documented. Progress against these targets should be monitored (ISSAI 3000/3.3). The estimation of resources and timing of the audit will be a task for the Superintendent of Audit (SA) who should prepare the budget and schedule for the audit. The proposed audit timing and budget should be approved by the DAG.

5.55 It is important that audits are carried out in a timely manner. Reviews of audit reports published between 2011 and 2015 indicate that, in general, the planned time for completion was around 3 months, but the actual time for completion was between 2 and 3 years. The planning timeframe was too short and the execution too long. If a report is taking more than 18 months to produce from commencing planning, its findings, conclusions and recommendations can become obsolete.

5.56 It is important to allocate sufficient time to planning and conducting a performance audit. The more thorough these phases are, the better likelihood that the agreement of the report will be achieved easily with conclusions and recommendations more likely to be agreed by the auditee.

5.57 The Table below gives an indication of typical times taken for performance audits by other SAI's.

Table 15: Performance Audit –Typical average times to complete in other SAI's

Performance Audit Stage	Typical Time taken by SAI's
Planning	2 – 3 months
Conducting	6 – 9 months
Reporting	4 – 6 months
Total	12 – 18 months

- 5.58 Apart from short studies and one-off exercises, the Auditor General's Department should be aiming to complete performance audit reports within one year. However, currently because of issues with agreeing and translating reports, this is impractical. In recognition of this, the time span should be around 18 months (i.e. 3 months planning, 9 months fieldwork and 6 months reporting). As the Performance Audit Division becomes more proficient, it could aim to reduce the overall time to produce a performance audit to 12 months.
- 5.59 Performance Audit Division management should decide which particular auditors will be assigned to an audit and will take into account such things as:
- Capability and experience of individual staff members;
 - Special expertise requirements;
 - Development needs of staff; and
 - Staffing combinations e.g. placing experienced and inexperienced staff together.
- 5.60 If the experience or expertise requirements of the audit cannot be met by available Performance Audit Division staff, consideration should be given to engaging experts to work with the audit team.
- 5.61 The Auditor General's Department senior management should be kept informed of and involved in the development of the audit plan. The Auditor General needs to approve the audit plan before it can proceed.

5.62 The Table below indicates the contents of an Audit Plan:

Table 16: Contents of an Audit Plan

<p>Report Title</p> <p>Date of Report</p> <p>Background</p> <p>Audit Objectives</p> <p>Audit Scope</p> <p>Issue Analysis</p> <p>Audit Criteria</p> <p>Quality Assurance</p> <p>Resources</p> <p>Timetable</p> <p>Appendix</p> <p>Audit Design Matrix</p>
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5.63 The following Table shows the Mandatory Steps to take and associated sign-off for the Performance Auditing Planning Stage:

Table 17 Mandatory steps to undertake Planning and Sign-Off

PLANNING	Completed (Y/N)	Cross reference to documents	SIGN OFF		
			Completed by	Checked by	Reviewed by
1. A Memorandum to commence performance audit must be reviewed by the DAG/AAG and issued to the auditee entity.					
2. The Superintendent of Audit must meet with management of audit entity to confirm functions, key objectives, risks, controls and audit scope. Meeting to be documented and maintained within audit work papers					
3. All steps required to develop a plan must be addressed and documented within the audit papers. Key sources of information include: <ul style="list-style-type: none"> Risk and controls assessments 					

PLANNING	Completed (Y/N)	Cross reference to documents	SIGN OFF		
			Completed by	Checked by	Reviewed by
<ul style="list-style-type: none"> • Previous audit reports • Financial governance and other relevant reviews and findings • Strategy documentation. 					
<p>4. Based on the inputs sourced, the Superintendent of Audit must verify that all key risks have been considered in confirming the audit scope. The Superintendent of Audit should consult with subject matter experts and other staff in Auditor General's Department as required.</p>					
<p>5. The respective DAG/AAG must approve any changes to the audit scope from the approved Performance Audit Division's annual audit plan.</p>					

PLANNING	Completed (Y/N)	Cross reference to documents	SIGN OFF		
			Completed by	Checked by	Reviewed by
6. The plan must be approved by the relevant DAG / AAG and AG.					
7. The audit plan must be issued to auditee before fieldwork commences. An entry meeting must be held with the entity to discuss the audit. (see pro forma Entry Meeting at Table 18 of this Manual)					
8. Changes to the audit plan must be approved by the DAG and AG. The DAG should consult with the relevant entity management for material changes or limitations in scope in determining the audit's response.					
9. The DAG/AAG must approve the risks, controls and testing approach described during the planning process, prior to the					

PLANNING	Completed (Y/N)	Cross reference to documents	SIGN OFF		
			Completed by	Checked by	Reviewed by
commencement of fieldwork.					
10. The Superintendent of Audit must develop the detailed audit procedures and supporting work programs and document these within the work papers.					
11. The Superintendent of Audit must organize a team briefing with audit team prior to the commencement of audit fieldwork. The DAG/AAG must attend the team briefing. Minutes of the meeting must be documented within the working papers.					
12. The DAG/AAG must approve individual team member's assignment objectives.					
13. The scope and objectives of the audit and the approach must be clearly understood by the audit team and the entity.					
14. Channels of communication between					

PLANNING	Completed (Y/N)	Cross reference to documents	SIGN OFF		
			Completed by	Checked by	Reviewed by
auditee and auditor should be agreed.					
15. Superintendent of Audit must ensure Quality Assurance meeting after planning stage is documented and any actions taken. DAG/AAG to approve.					
16. Planning sign off by DAG/AAG certifying completion of all mandatory planning steps					

Table 18 Entry Meeting Agenda

<p>Report Title</p>
<p>Date of Meeting</p>
<p>Attendees</p>
<p>Introduction</p>
<p>Functions, Objectives, Risks and Controls in Auditee organization</p>
<p>Audit Scope</p>
<p>Audit Criteria</p>
<p>Formal Agreement of Audit Scope & Criteria by Auditee</p>
<p>Personnel to interview</p>
<p>Information requests</p>
<p>Timing of Audit – Key Dates</p>
<p>Any Other Business</p>

PART 6: CONDUCTING A PERFORMANCE AUDIT

6.1 The objective of conducting a performance audit is to obtain competent, relevant and reasonable evidence to support the audit findings and conclusions of the audit. The main activities of this audit phase are:

- development of fieldwork in order to gather evidence;
- analysis of collected data;
- preparation of an Audit Findings Matrix.

6.2 Audit findings are the evidence gathered by the auditor during the field work that will be used to answer audit questions.

6.3 The fieldwork consists of collecting data and information set out in the audit planning. All fieldwork should be planned from the perspective of acquiring evidence intended to support the findings appearing in the final report (ISSAI 3000/4.2). The type of data to be collected and sources of such data will depend on methodology and selected criteria.

Data collection methods

6.4 Some of the methods used for data gathering are: (ISSAI 3000/Appendix 1, 5).

File examination – is an important source of audit evidence and is used in many performance audits, usually on a sample basis. Some examples are:

- annual reports,
- financial statements
- project documents,
- correspondence,
- internal audit reports.

Secondary analysis and literature search – review of general research reports, books, papers, studies in the audit area.

Surveys / questionnaires – A survey is a systematic collection of information from a defined population, usually by means of interviews or questionnaires with a sample of the population. Surveys are used to gather detailed and specific information from a group of people or organizations. A questionnaire is the most common data collection tool used in surveys and are used when comprehensive knowledge is required.

Case studies – are methods of learning about a complex issue, based on a comprehensive understanding of a particular set of events. The case study involves an extensive description and analysis of the particular issue within the context of the whole area under review. Case studies are used to gather qualitative information and can be used to supplement / illustrate evidence gathered in questionnaires.

Interviews – are question and answer sessions to elicit specific information. A great deal of performance audit work is based on interviews. Conducting an interview is not a simple task. It requires preparation, discipline and developed inter-personal skills. To obtain the broadest possible view, it is important to interview people with different positions, perspectives and insights. The results of the interviews must then be compiled and documented in a way that facilitates analysis and quality assurance.

Seminars – used to gain knowledge of a specialist area; discuss problems, observations, and possible measures; air arguments for and against different views and perspectives.

Focus groups – this technique is used to collect qualitative data. The source of data is the discussion and interaction among participants of a group brought together to discuss specific topics and issues e.g. to obtain information on the implementation and impacts of government programs based on the perspectives of the beneficiaries and other stakeholders. It can be an effective data collection method, but auditors need to be aware of some of the pitfalls i.e. one or two participants may dominate the focus group or there may be a lack of engagement from some key participants.

Direct observation – this technique for qualitative data collection involves physical observation of activities, conditions, outcomes and outputs concerning the audit. This enables the auditor to compare conditions found with audit criteria and to identify gaps. This should facilitate identifying causes and effects and forming audit conclusions and recommendations.

Evidence

6.5 Evidence is information collected and used to support audit findings. All audit findings and conclusions must be supported by audit evidence. Evidence should be placed in context and all relevant arguments and perspectives should be considered before conclusions and recommendations are drawn (ISSAI 3000/Appendix 3,).

6.6 Evidence should be competent (valid and reliable), relevant and reasonable (sufficient and appropriate):

- **Validity** – based on accurate information;
- **Reliability** – ensure that the same results will be obtained if the audit is repeated;
- **Relevance** – linked, in a clear and logical way, to the criteria and audit objectives;
- **Sufficiency** – is a measure of quantity. It should be enough evidence to persuade a reasonable person that the findings, conclusions and recommendations are warranted and supported; and
- **Appropriateness** – is a measure of quality of audit evidence.

6.7 A significant amount of evidence gathered during a performance audit may be qualitative in nature and require extensive use of professional judgment. Accordingly, the auditor also requires corroborating evidence from different sources or of a different nature in making assessments and forming conclusions (ISSAI 3000/Appendix 3, 1.2).

6.8 Auditors need to be aware of potential problems or weaknesses with evidence. Potential problems include (ISSAI 3000/Appendix 3, 2):

- evidence based on a single source (reliability, validity, sufficiency);
- testimonial evidence not supported by documentation or observation (reliability);
- evidence not time-sensitive, i.e. too old and does not reflect changes (relevance);
- evidence too expensive to obtain relative to benefits (relevance and sufficiency);
- source of evidence has a vested interest in outcome (reliability);

- samples collected are not representative (relevance, validity, sufficiency);
- evidence related to an isolated occurrence (validity, sufficiency);
- evidence does not establish a cause and effect relationship (reliability, sufficiency);
- conflicting evidence (reliability); and
- biased evidence (reliability).

6.9 Evidence can be categorized into four types (ISSAI 3000/Appendix 3, 2):

- **Physical** – obtained by observing people and events or examining property. Can take many forms and includes photographs, charts, maps and graphs. A photograph of an unfinished building in Kandy, a damaged road in Colombo or a dilapidated hospital ward in Jaffna is far more compelling than a written description. When the observation of a physical condition is critical to achieving the audit objectives, it should be corroborated by other evidence.
- **Testimonial** – statements obtained through questionnaires or interviews. They can be made by different stakeholders, for example: employees of the audited entity, beneficiaries and clients of the program being audited, experts and consultants contacted to provide corroborating evidence in relation to an audit and members of the general public of Sri Lanka. Corroboration of oral evidence is needed if it is to be used as evidence rather than mere background information.
- **Documentary** – the most common form of audit evidence. May be available in physical or electronic media. May include letters, contracts, accounting records, invoices, memoranda, reports, statistics and management information on performance. The reliability and relevance of documentary evidence needs to be assessed in relation to the objectives of the audit. For example, the existence of an operational manual is not evidence that the manual is put into practice. As with oral evidence, the position, knowledge and expertise of the author or approver of the document may need to be assessed.
- **Analytical** – includes computations, comparisons, analysis of ratios and trends and patterns. Analysis is usually numerical, and considers, for example, cost-benefit analysis, time value of money (discounting, net

present value (NPV), internal rate of return (IRR)), correlation, regression analysis, analysis of cost and time over-run, ratios of output to resources, or the proportion of the budget that is spent. It can also be non-numerical in nature, for example, observing a consistent trend in the nature of complaints made about an entity.

6.10 There are some techniques that can help to obtain more robust evidence.

- **Circularization** – the confirmation by third parties of facts and information submitted by the audited entity.
- **Triangulation** - the use of different research and data collection methods to study the same subject, aiming at confirming / strengthening the findings.

6.11 The different types of evidence are linked to different methods of data collection as shown in the Table below.

Table 19: Link between Evidence type and Data collection method

Evidence type	Data collection method
Physical	<ul style="list-style-type: none"> • Direct observation • Inspection
Testimonial	<ul style="list-style-type: none"> • Interviews • Questionnaires • Focus groups
Documentary	<ul style="list-style-type: none"> • File examination • Document examination • Secondary research • Literature search • Existing statistics and databases
Analytical	<ul style="list-style-type: none"> • The analytical evidence is built by the auditor, using different types of data. • The auditor can use any data collection method listed above or a combination of them.

The Audit Findings Matrix

6.12 The findings and information obtained during the audit, and the conclusions and recommendations formulated from these are recorded in the Audit Findings Matrix. Completion of this matrix should start during field work, as findings are noted. This is a useful tool to support and guide the preparation of the audit report, because it allows gathering the main elements that constitute the central chapters of the report in a structured way. It reviews how evidence compares to the audit criteria and facilitates the drafting of conclusions and recommendations. It links back to the Audit Design Matrix at Table 14 of this Manual.

6.13 An example of a findings matrix is shown in the Table below

Table 20: Audit Findings Matrix

Audit Objective(s)	Audit Questions	Audit Criteria	Evidence	Conclusions*	Recommendations*

* Note – Not all lines of evidence will lead to a conclusion and not all conclusions will lead to recommendations

6.14 Below is a Table outlining the mandatory steps when conducting a performance audit and associated sign-off.

Table 21: Mandatory steps in conducting performance audit and Sign-Off

CONDUCTING	Completed (Y/N)	Cross reference to documents	S I G N O F F		
			Completed by	Checked by	Reviewed By
1. The Superintendent of Audit must assess need for documented processes and transaction flows to confirm and assess effectiveness of					

<p>controls. Where required, the Superintendent of Audit should process documentation from management or develop these for audit purposes.</p>					
<p>2. The Superintendent of Audit must assess coaching needs of audit team, providing and monitoring need for additional coaching where required. The DAG/AAG must confirm that the level of on job coaching has been identified and is being provided to relevant team members. The focus of coaching must be on the 'what' and 'why' elements of audit procedures, not just on the 'how'.</p>					
<p>3. The DAG/AAG must verify that the audit approach, sample selection and sample sizes are appropriate for the nature and risks of the audit and ensure that these are</p>					

<p>documented in the audit papers.</p>					
<p>4. Each audit work paper must contain the following fields:</p> <ul style="list-style-type: none"> • Objectives • Audit procedures • Results • Conclusion • Matters arising • Signoff 					
<p>5. The work paper must be structured and prepared with sufficient detail to enable a reasonable user to understand the audit evidence supporting the conclusions and re-perform the audit steps to reach the same conclusion.</p>					
<p>6. The Superintendent of Audit must ensure that all evidence collected is documented and any observations and recommendations made are adequately</p>					

supported by the evidence.					
7. Each audit work paper must be cross referenced to testing used and issues raised. A reviewer of the audit work paper should be able to readily identify which issues were formally reported and identify a clear rationale for those matters not reported.					
8. Each audit work paper must clearly identify and distinguish between facts, opinions and comments from auditees.					
9. Each work paper must be reviewed by the Superintendent of Audit.					
10. The DAG/AAG must discuss and confirm issues identified with the audit team and ensure these are resolved and documented in the audit file for inclusion in audit report. Findings, conclusions and recommendations					

<p>must be discussed with the AG.</p>					
<p>11. Superintendent of Audit must ensure Quality Assurance meeting after fieldwork stage is documented and any actions taken. DAG/AAG to approve</p>					
<p>12. The Superintendent of Audit and DAG / AAG must invite the auditee to an exit meeting to confirm findings, conclusions and recommendations. The meeting must be documented (see pro forma at Table 22)</p>					
<p>13. Fieldwork sign off by DAG/AAG certifying completion of all mandatory steps.</p>					

Table 22 Exit Meeting Agenda

Report Title
Date of Meeting
Attendees
Findings
Conclusions
Recommendations
Timing of Clearance – Key Dates
Any Other Business

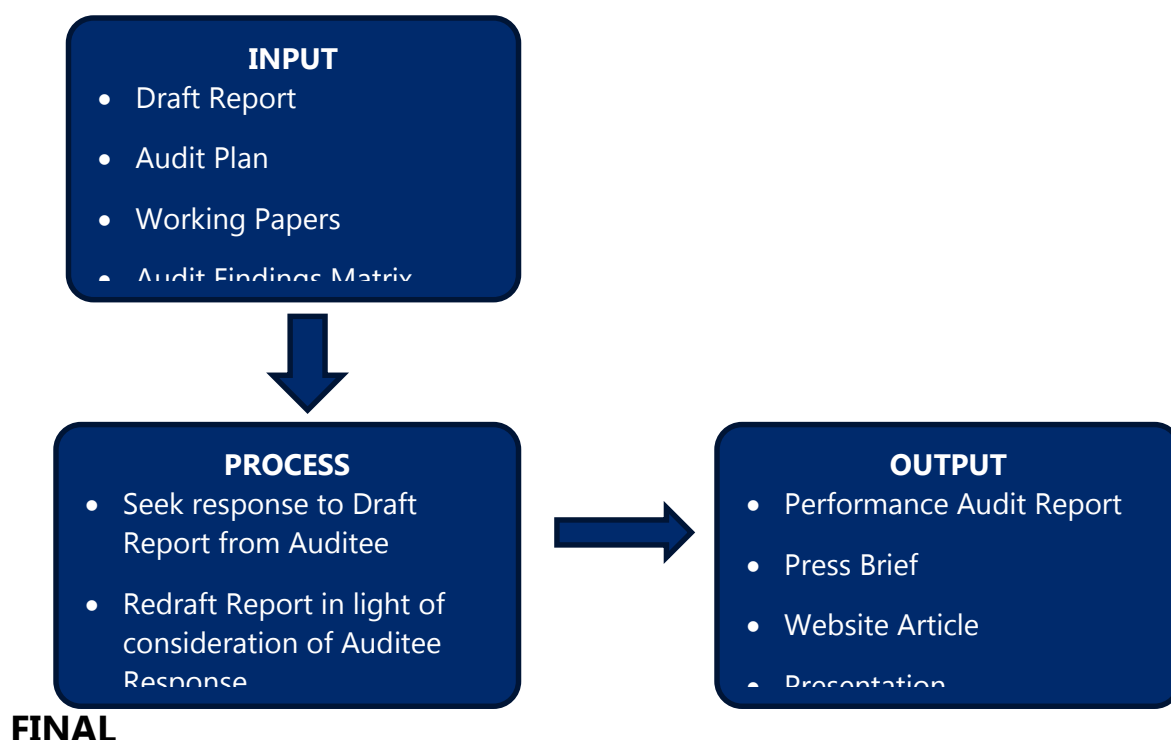
PART 7: REPORTING OF A PERFORMANCE AUDIT

- 8.1 The culmination of the planning and conducting of the audit is the final performance report. The report must contain an executive summary, the audit scope and methodology, audit findings, conclusions, and recommendations.
- 8.2 The report must be complete, accurate, objective, convincing, constructive, clear, concise, and timely. It should also be reader-friendly, well structured, contain unambiguous language, and add value to the stakeholders (ISSAI 3100/2.4.3, 31). The report-writing process should be viewed as a continuous one of formulating, testing, and revising ideas about the topic (ISSAI 3000/3.1). This process may start at the beginning of the audit. The contents of the audit report should be widely disseminated to different stakeholders to increase its impact. Further, working papers should contain supporting documents relating to the various tasks performed during the reporting process.

The reporting process

8.3 An overview of the reporting process is illustrated in the Table below:

Table 23: Diagrammatic overview of reporting process



Input

- It is a good practice to revisit the audit plan while writing the audit report to ensure that all the key issues identified had been covered in the field audit
- Examination of audit memos and response to the memos and working papers of evidence gathered and analyzed while writing the report will provide an assurance that the audit findings and conclusions are supported by significant and appropriate evidence
- Audit Findings Matrix – this document should provide a structure for the report. If utilized properly, it will logically identify key evidence, findings, conclusions and recommendations.

Process

- Communicating with the audited entity to obtain their views on the preliminary audit conclusions is an important task to be performed. This could be achieved by holding meetings to discuss audit findings and conclusions and sharing the draft report with the audited entity and seeking their response
- The response of the audited agency must be thoroughly examined and incorporated and necessary changes made to the draft report, provided the evidence requirements are satisfied
- Amend report, if required, following Quality Review (See Part 9 of this Manual)

Output

- When agreed with the auditee the final report is published and tabled in Parliament. It should also be distributed to relevant stakeholders. It should be published on the Auditor General's Department website along with a media briefing.

- As the Performance Audit Division increases its output of reports, the Auditor General's Department should consider more widespread dissemination of its reports. Other methods of publicizing reports include presentations, seminars and leaflets.

Form and contents of a report

8.4 The Auditor General's Department's performance audit reports should have a standard structure. Although the subject matter of performance audits is varied, standard reporting templates should be utilized. Users of the report will become accustomed to the style and the product will become a 'badged product' of Auditor General's Department.

8.5 All reports should contain:

- **Table of Contents:** this illustrates the structure of the report
- **Executive summary:** this summarizes the background, major findings, conclusions and recommendations. It is a short summary designed to succinctly relay the key messages from the report.
- **Introduction:** this should include a background of the audited entity / subject/project/program.
- **Objectives, scope and methodology:** a description of audit objectives and the scope and the methodology used for addressing audit objectives. Report users need this information to understand the purpose of audit, the nature and extent of the audit work performed and any significant limitations in audit objectives, scope and methodology
- **Findings:** Audit findings represent the key audit evidence upon which the reports' conclusions and recommendations are founded. This section of the report should clearly describe the audit criteria and relate it to the findings.
- **Conclusions:** the logical inferences about the subject matter based on the auditors' findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. The conclusions in the report will form the basis of the recommendations.

- **Recommendations:** The report should recommend actions to correct deficiencies and improve programs and operations when the potential for improvement in is substantiated by the reported findings and conclusions'

Recommendations, where provided, should be presented in a logical, knowledge-based and rational fashion, and be based on competent and relevant audit findings. They should be practicable, add value and address the audit objective and questions. They should be addressed to the entities having responsibility and competence for their implementation (ISSAI 3100/32). Recommendations should be SMART – Specific, Measurable, Accurate, Relevant and Timely.

- **Appendices:** these can be used to present detailed descriptions and findings and may also be used for comprehensive descriptions of the audited entities, statistical tables, detailed explanations of methods used, etc. This is an effective way to avoid the main report being too detailed and unattractive to read. It may also suitable to place a glossary of terms and a list of abbreviations at the beginning of the report or in an appendix. This section is generally for those people at an operational level who need to implement the recommendations or develop alternatives.

Attributes of an effective performance audit report

8.6 The report should be objective, complete, accurate, convincing, constructive, timely, and as clear and concise as the subject-matter permits (ISSAI 3100/31). These attributes of a good performance audit report are briefly described below:

- **Objective:** the presentation of the report is balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner. The report should be fair and not misleading, and should place the audit results in perspective. This means presenting the audit results impartially and guarding against the tendency to exaggerate deficient performance. Interpretations should be based on insight and understanding of facts and conditions. One-sided presentations should be avoided (ISSAI 3000/5.2). Facts must not be suppressed, and the auditor must not overstate minor shortcomings. Explanations – especially from the audited entity – must always be

sought and critically evaluated (ISSAI 3000/5.3). The report may recognize the positive aspects of the audited entity or program if applicable to the audit objectives.

- **Complete:** the report contains all the information and arguments needed to satisfy the audit objectives and promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements (ISSAI 3000/5.2). It also means the report states evidence and findings without omission of significant relevant information related to the audit objectives. Providing report users with an understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations. Being complete also means clearly stating what was and was not done and explicitly describing data limitations, constraints imposed by restrictions on access to records, or other issues.
- **Accurate:** A report supported by sufficient, appropriate evidence with key facts, figures and findings traceable to the audit evidence. Accuracy requires that the evidence presented should be true and comprehensive and that all findings are correctly portrayed. The need for accuracy is based on the need to assure readers that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report. In addition, inaccurate reports can damage the credibility of the Auditor General's Department.
- **Convincing:** clearly defined and logical links from the audit evidence to the findings, the conclusions and recommendations. These links should be compelling and unambiguous.
- **Constructive:** conclusions and recommendations should be written in a positive manner. If they reflect good practice this should be praised. If they reflect poor or inadequate practice, conclusions and recommendations should be framed to positively demonstrate that their implementation would correct or improve a deficient situation
- **Timely:** An audit report should be drafted as quickly as possible after the completion of the audit field work. The process should commence

during the fieldwork. As the audit report is going to result in improvement in processes and structures and those improvements are going to enable the entity to achieve its objectives more efficiently or effectively, timeliness of the report is key.

- **Clear:** The report should be easy to read and understand. Technical terms and unfamiliar abbreviations must be defined. Logical organization of material, and accuracy in stating facts and in drawing conclusions, are essential to clarity and understanding (ISSAI 3000/5.2).

Defining technical terms, abbreviations and acronyms that are used in the report is also useful. Effective use of titles and captions and assertive headings makes the report easier to read, follow and understand. In this way, the Table of Contents of the report effectively becomes a storyboard, relaying the key findings through headings. Visual aids (such as pictures, charts, graphs, and maps) may clarify and summarize complex material.

- **Concise:** The report should not be longer than necessary to convey and support the key messages. Extraneous detail detracts from a report, may conceal the key messages, and may confuse or distract readers.

8.7 Below are two Tables outlining:

- The mandatory steps when reporting a performance audit and associated sign-off.
- The mandatory steps in a performance audit wrap-up and associated sign-off

Table 24 Mandatory steps in reporting a performance audit and Sign-Off

REPORTING	Completed (Y/N)	Cross reference to documents	SIGN OFF		
			Completed by	Checked by	Reviewed by
1. The audit team must communicate audit findings to auditee management before they are finalized for reporting. Comments from management should be documented and fully considered when reviewing findings.					
2. The audit report must adhere to the new performance audit report template.					
3. Superintendent of Audit must ensure Quality Assurance meeting after drafting stage is documented and any actions taken. DAG/AAG to approve					
4. The draft report must be reviewed by the DAG/AAG prior to circulation to auditee.					
5. The report must be clear and concise.					

<p>The executive summary should reflect the tone and findings of the main body of the report.</p>					
<p>6. The report introduction should help reader understand the audit and support audit scope and objective. The conclusion should answer the audit questions and flow logically from the findings. The draft report should make use of annexes and graphics as appropriate.</p>					
<p>7. Once draft final report reviewed by Superintendent of Audit, it must be presented to AAG / DAG for comment.</p>					
<p>8. Superintendent of Audit must ensure Quality Assurance meeting after reporting stage is documented and any actions taken. DAG/AAG to approve</p>					
<p>9. Final reports must be agreed with auditee prior to being issued</p>					

10. Final Report must be agreed by AG					
11. Reporting sign off by DAG/AAG certifying completion of all mandatory steps.					

Table 25 Mandatory steps in a performance audit wrap-up and Sign-Off

REPORTING	Completed (Y/N)	Cross reference to documents	SIGN OFF		
			Completed by	Checked by	Reviewed by
<p>1. The Superintendent of Audit must conduct a team debrief with audit team and the DAG/AAG. The team debrief should cover the:</p> <ul style="list-style-type: none"> • Outcomes from the audit – including performance against targets (timelines, budget) • Feedback on the audit – formal and informal • Areas of strengths and opportunities for improvement (including lessons learned and actions required). • Mechanisms to identify existing and future impacts (from implemented recommendations) <p>The results from the team debrief must be documented in the working papers.</p>					

<p>2. Superintendent of Audit must ensure Quality Assurance meeting after lessons learned stage is documented and any actions taken. DAG/AAG to approve.</p>					
<p>3. The DAG/AAG must ensure that individual assignment appraisals are completed and signed off within 4 weeks of final report issuance for all team members.</p>					
<p>4. Final wrap up sign off by DAG/AAG certifying completion of all mandatory steps.</p>					

PART 8: FOLLOW-UP

9.1 A primary objective of audit is to improve public sector performance and accountability through the implementation of audit recommendations. The effective and timely implementation of recommendations will be facilitated by a follow-up process; where auditors monitor if recommendations have been implemented by the audited entity.

9.2 ISSAI 3000/5.5 states that

Follow-up is the assessment of whether weaknesses identified in the audit have been corrected by the audited entity (ISSAI 3000/5.5). It may include the following elements:

- a timely review of the action taken by the management of the audited body on the recommendations made by the Auditor General's Department or the Committee of Public Accounts (COPA), or the Committee on Public Enterprises (COPE)
- an evaluation of the adequacy of the action in achieving performance improvement.
- an assessment of any problem 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.

Purpose of follow-up

9.3 Follow-up procedures identify and document audit impact and the progress made in implementing audit recommendations (ISSAI 3000/3.1). Following up on the recommendations of the Supreme Audit Institution and the relevant Public Accounts Committees have made in reports may serve four main purposes: (ISSAI 3000/5.5)

- Increasing the effectiveness of audit reports – the prime reason for following up audit reports is to increase the probability that recommendations will be implemented;

- Assisting the government and the legislature – following up may be valuable in guiding the actions of the legislature;
- Evaluation of Supreme Audit Institution's (SAI) performance – following up activity provides a basis for assessing and evaluating SAI's performance; and
- Creating incentives for learning and development – following up activities may contribute to better knowledge and improved practice within the SAI.

What to follow-up

9.4 A follow-up is not restricted to the implementation of the audit report recommendations but focuses primarily on whether the audited entity has adequately addressed the problems and issues uncovered by the original audit. COPA and COPE recommendations should also be followed up. Ideally all performance audit reports should be followed up.

When to follow-up

- 9.5 The admissible period for follow-up activity will depend on the context and nature of audit recommendations. Some recommendations may require a long time for implementation while some may require a short span of time. Generally, recommendations for improvement of systems may take a longer period of time.
- 9.6 The timing of follow-up therefore, constitutes a key management decision to be taken by each individual SAI in accordance with its policies or mandate. In the case of the Auditor General's Department the objective would be to follow-up on audit reports and COPA and COPE reports, as a minimum, one year after they had been issued.

How to follow-up

9.7 When conducting follow-up of audit reports, the auditor should adopt an unbiased and independent approach. The focus should be to determine whether actions taken on findings and recommendations remedy the underlying conditions, after sufficient time to allow an audited entity to implement the recommendations. If the conclusion of the follow-up activities is that the audited entity has taken sufficient corrective measures

and that the situation on the audited area is satisfactory, the case can be closed, and this can be reported to Parliament.

9.8 However, if it is evident that the audited entity has not taken appropriate measures to correct the findings, or if the measures have not had sufficient effect, a follow-up audit may be considered. This would be a new performance audit, which would eventually result in a new performance audit report to Parliament.

9.9 The Table below outlines the mandatory steps when following up on a performance audit and associated sign-off.

Table 26 Mandatory steps in a performance audit follow-up and Sign-Off

FOLLOW-UP	Completed (Y/N)	Cross reference to documents	SIGN OFF		
			Completed by	Checked by	Reviewed by
1. The audit team must review if recommendations have been implemented.					
2. Check evidence to support those recommendations implemented.					
3. Document the impact implemented recommendations have had on auditee.					
4. Discuss with the auditee entity the timeframe for recommendations not implemented.					
5. If significant number of recommendations not implemented, DAG /					

AAG to consider follow-up audit					
6. Any follow-up audit must be agreed and authorized by the AG					
7. Follow up sign off by DAG/AAG certifying completion of all mandatory steps.					

PART 9: QUALITY ASSURANCE

9.1 Quality Assurance is the process of comparing what is required of a product or service and what is actually being provided to the users of that product or service. Thus, Quality Assurance provides independent assurance to the Auditor General in Sri Lanka that quality control systems and practices are working effectively and that appropriate reports are being issued.

Objectives of Quality Assurance

9.2 The main objectives of Quality Assurance are to ensure that:

- Auditor General's Department's staff have adhered to professional standards and applicable legal and statutory requirements;
- All necessary quality controls are in place;
- Quality controls are being properly implemented; and
- Potential ways of strengthening or otherwise improving quality controls are identified.

Benefits of Quality Assurance

9.3 The benefits that can be derived from an effective quality assurance system include:

- Ensure a high standard of audit work by improving audit performance and results;
- Ensure that the audit is conducted in the most efficient and cost effective way (which can lead to savings in audit time and cost);
- Improve the capability, credibility and reputation of the Auditor General's Department;
- Maintain a high degree of integrity, accountability and competence;
- Improve training and identification of additional training needs;
- Motivate staff;
- Facilitate self-assessment;

- Provide a management tool for measuring the performance Auditor General's Department

Quality Assurance Process

- 9.4 The Quality Assurance process in the Auditor General's Department should involve senior staff that is independent of the performance audit being reviewed. This independence gives them objectivity to comment on the different stages of the audit.
- 9.5 During a performance audit there are 5 quality thresholds that should be considered. These are at the end of the following key stages of an audit i.e.
1. Planning
 2. Conducting
 3. Drafting
 4. Reporting
 5. Lessons learned
- 9.6 An AAG and a DAG independent from the performance audit being reviewed should ask the following questions of the responsible DAG/AAG and Superintendent of Audit:

1. At the end of the Planning Stage – Are you ready to proceed?

Should you address this topic now?

What sort of output does the subject merit?

Will the impact of the audit justify the cost?

Do you have a coherent and relevant set of issues?

Do you have a robust and practical methodology?

Do you have the skills?

Are you clear about the resource costs?

Are you clear about the timetable for delivery?

Can you manage the risks?

How might the messages from the audit be communicated?

In the light of the above, should you proceed?

Do you have a file structure to manage the evidence and key documents?

2. At the end of the Conducting stage - Have you clear compelling messages supported by evidence?

Is there sufficient, relevant and reliable evidence to address each issue?

Have you fully analyzed and interpreted the evidence?

Have you identified the key messages, and are they supported by the evidence?

Do the findings match with those of wider stakeholders and experts?

Are the emerging messages agreed with the client? If not, do you have a clear strategy to deal with areas of disagreement?

3. At the end of the Drafting stage - Are you ready to clear the draft report?

Is there a clear and concise draft report that conveys the main messages?

Does the Executive Summary reflect the tone and findings of the main report?

Are the recommendations SMART, evidence-based and clear, and will they add value?

Will the report make sense to the general reader?

Does the draft report make effective use of graphics and appendices?

Have you produced all supporting material?

4. At the end of the Reporting stage - Are you ready to spread the message?

Is the draft report cleared for factual accuracy with the auditee?

Have you given stakeholders the chance to comment on the draft report?

Has the draft report maintained its clarity, coherence, structure and brevity during the clearance process?

Have you presented the draft report in a professional way?

Have you properly organized the physical production of the report?

Are actions in hand to disseminate and follow up on findings?

5. At the end of the Publication stage: Have you learnt and disseminated lessons?

Have you completed all mandatory work programs for planning, fieldwork, reporting and wrap up?

Have you identified lessons to be learnt and disseminated them appropriately to the team?

Have you identified existing impacts, and set up mechanisms to monitor the delivery of potential impacts?

- 9.7 At the end of each Quality Assurance Meeting, the Superintendent of Audit responsible for the Performance Audit being reviewed must draft a note of the meeting to be agreed by all participants. These records of Quality Assurance Meetings should be sent to the Auditor General for information.
- 9.8 The above steps have been integrated into the relevant areas of the Audit Checklists on Planning, Conducting, Reporting and Audit wrap-up. These are shown in the Table below for information purposes only. If all the other Audit Checklists are adhered to, the mandatory steps outlined below will have been completed.

Table 27 Mandatory steps in a performance audit quality assurance and sign-off

QUALITY ASSURANCE	Completed (Y/N)	Cross reference to documents	SIGN OFF		
			Completed by	Checked by	Reviewed by
1. Superintendent of Audit must ensure Quality Assurance meeting after planning stage is documented and any actions taken. DAG/AAG to approve.					
2. Superintendent of Audit must ensure Quality Assurance meeting after fieldwork stage is documented and any					

actions taken. DAG/AAG to approve.					
3. Superintendent of Audit must ensure Quality Assurance meeting after drafting stage is documented and any actions taken. DAG/AAG to approve.					
4. Superintendent of Audit must ensure Quality Assurance meeting after reporting stage is documented and any actions taken. DAG/AAG to approve					
5. Superintendent of Audit must ensure Quality Assurance meeting after lessons learned stage is documented and any actions taken. DAG/AAG to approve.					
6. Quality Assurance sign-off by DAG/AAG certifying completion of all mandatory steps.					