

Essentials of Performance Audit & Key Planning Parameters Session-04

November - - 2018

Key Planning Parameters

- The performance audit task is a separately identifiable piece of audit work, typically resulting in the issuing of a statement, or report.
- It has clearly identifiable objectives and pertain to a single or clearly identifiable group of activities, systems, programs or bodies know as the “audited entity”.

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- An individual performance audit should have the objective of examining one or more of these three assertions:
 - The economy of activities in accordance with sound administrative principles and practices, and management policies;
 - The efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies

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- The effectiveness of performance in relation to the achievement of the objectives of the audited entity, and the actual impact of activities compared with the intended impact

Audit Approach

- Audit approach is the method and means adopted for examining and analyzing the data for deriving audit conclusions.

Audit Approach

- One of the characteristics of auditing is the *normative perspective* where discrepancies between ‘the norms and the reality’ – the actual findings – are expressed explicitly, and assessments and recommendations are provided as ‘normative’.
- Performance auditing is usually descriptive, and may also include *analytical elements*.
 - A performance audit may, for instance, ascertain the causes of the difference between the conditions and the criteria.

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- The assessment in these three performance audit approaches might be derived
 - Normatively (based on deviations from norms or criteria) or
 - Analytically (based on analyses of the specific causes of problems).
- It is the independent analysis that characterizes the problem-oriented approach, while the results-oriented approach is mainly characterized by its impartial assessment of whether given norms or criteria have been met (even though it may involve analytical elements as well).

Result-oriented Approach

- In this approach, the auditor studies performance concerning economy, efficiency, and effectiveness
- Relates observations to the given norms i.e., goals, objectives, regulations, etc.
- Or the audit criteria which is more or less precisely defined before the main study begins

Result-oriented Approach

- If the criteria are difficult to determine, the auditor may need to work with experts in the field to develop credible criteria that, when applied, are objective, relevant, reasonable and attainable.
- The audit criteria make it possible to provide assessments on the findings.
- In this approach, shortcomings are likely to be defined as deviations from norms or criteria. Recommendations, if presented, are often aimed at eliminating such deviations.

Result-oriented Approach

- The results-oriented approach deals mainly with questions such as:
 - What is the performance
 - What results have been achieved,
 - Have the requirements or the objectives been met?’

Problem oriented approach

- The problem-oriented approach deals primarily with problem verification and problem analysis, normally without reference to predefined audit criteria.
- In this approach, shortcomings and problems – or at least indications of problems – are the starting point of an audit, not the conclusion.

Problem oriented approach

- A major task in the audit is to verify the existence of stated problems and to analyze their causes from different perspectives (problems related to economy, efficiency, and effectiveness of government undertakings or programs).

Problem oriented approach

- The problem oriented approach deals with questions such as:
 - Do the stated problems really exist and, if so, how can they be understood and what are the causes?
 - Hypotheses about possible causes and consequences are formulated and tested.
 - The perspective is analytical and instrumental
 - The aim is to deliver updated information on the stated problems and how to deal with them.

Problem oriented approach

- In order to assess a problem one must first understand it and its possible intricate causes and implications. When it comes to analyses of complex problems of efficiency and effectiveness, it is not always possible to define the audit criteria in the planning stage.

Problem oriented approach

- Indications of problems concerning efficiency and effectiveness are often vague, subjective, and difficult to define and understand.
- Examples of possible indications of problems concerning the three Es (economy, efficiency, and effectiveness) can be:
 - Rising costs resulting in demands for more resources;
 - Stated imbalances between inputs and goals;
 - Lack of clarity in the allocation of responsibility between executive bodies involved;
 - Ambiguities and contradictions in regulation;
 - Lack of competence,
 - Large numbers of complaints or appeals by the public;

Problem oriented approach

- All possible material causes are considered, so proposals to amend laws, regulations, and structural design of government undertakings are not excluded, if shown that the existing structure give rise to severe and verified problems.

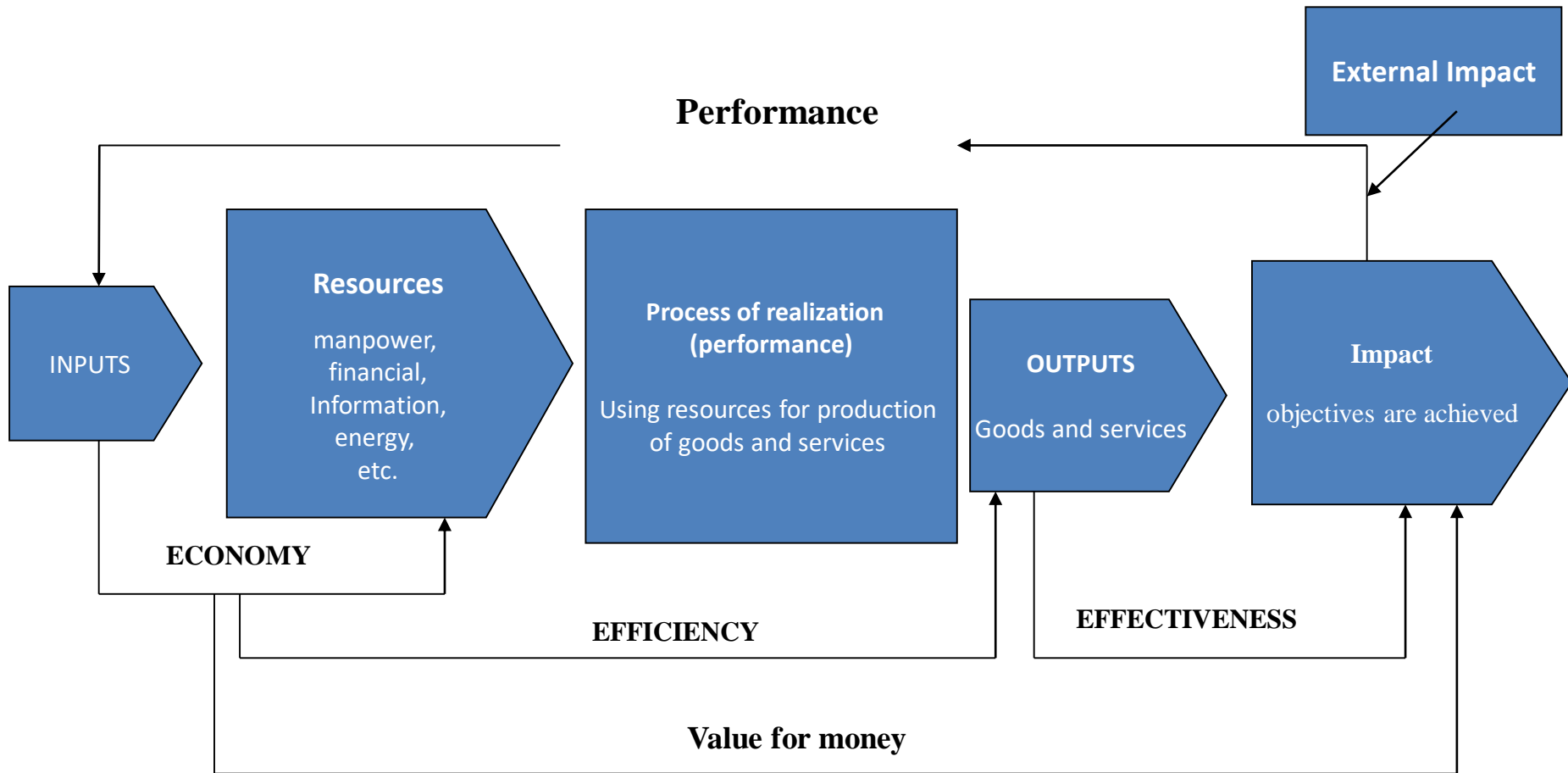
System- oriented approach

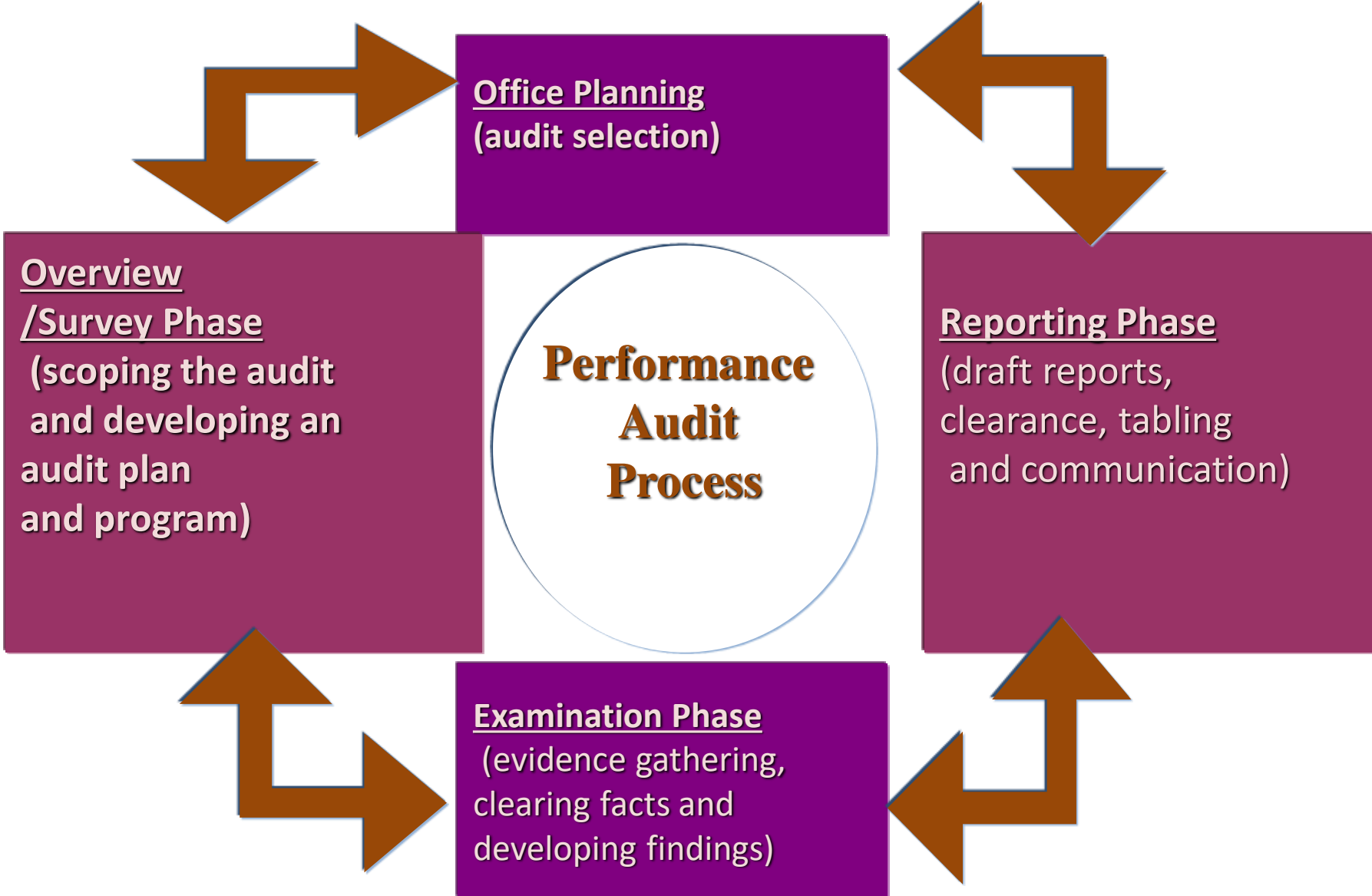
- This approach is designed to determine if the organization has adequate control system to provide reasonable assurance that the intended results will be achieved
- The Performance Audit is designed to carryout analysis, review and testing of the key components of the control system to ensure that it is appropriately designed and implemented.

System- oriented approach

- Only high- risk components of the system are reviewed in depth based on their significance in the achievement of results.
- This approach provides a solid foundation for making recommendations to improve the systems and practices and for identifying unnecessary controls.

Performance Audit Framework





The diagram illustrates the Performance Audit Process as a continuous cycle of four phases. At the center is a white circle containing the text 'Performance Audit Process'. Surrounding this circle are four purple rectangular boxes, each representing a phase. The phases are: 'Overview / Survey Phase' (top-left), 'Office Planning (audit selection)' (top-right), 'Reporting Phase' (bottom-right), and 'Examination Phase' (bottom-left). Large, brown, L-shaped arrows connect the boxes in a clockwise direction, indicating a sequential flow from one phase to the next.

Office Planning
(audit selection)

Overview
/Survey Phase
(scoping the audit
and developing an
audit plan
and program)

Reporting Phase
(draft reports,
clearance, tabling
and communication)

Examination Phase
(evidence gathering,
clearing facts and
developing findings)

**Performance
Audit
Process**

Planning Phase

- Understand the Audit Entity
- Identify key activities systems & controls
- Determine Audit approach ---Specify Audit Criteria
- Conduct preliminary assessment (Check feasibility)
- Identify issues of potential significance
- Specify Audit Objectives
- Develop PSR

THANK YOU