





# Performance Auditing Guidelines 2014

Comptroller and Auditor General of India

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# Preface

*The Performance Auditing guidelines 2004 helped the Department to adopt the prevalent International Standards of performance auditing and bring about rigour and discipline in selection of topics through risk based planning and scientific conduct of audit. However, with the passage of time, a need was felt for revision of these guidelines in order to stay aligned with the new International Standards for Supreme Audit Institutions (ISSAIs) and also, at the same time, contextualize it to the IA&AD based on the lessons learnt by us during conduct of performance audits in various sectors and governance environments. A stringent process of circulation of exposure drafts, their examination through workshops, discussions and obtaining written feedback from officers at all levels was undertaken which has culminated in the new Performance Auditing Guidelines. I am pleased to release it as the 'Performance Auditing Guidelines 2014'.*

*These guidelines have several distinguishing features. They lay down a strong conceptual foundation of the principles of Performance Auditing and emphasise the need to organically link the strategic planning at the headquarters level with the planning process at the field audit level. The guidelines elucidate different audit approaches that can be adopted. A new Audit Design Matrix that is to be used and constantly reviewed throughout the period of audit and linked to the Audit Findings Matrix has been prescribed. The forceful articulation and mandating of a stringent documentation process that is to be observed is another notable feature of these guidelines. While outlining the methods of reporting and making recommendations it focuses on the need for continuous interaction with the audited entities to ensure balanced reporting. Further, the need for following up the Performance Audit reports to bring about improvement in governance has been highlighted. An attempt has also been made to make the guidelines more concise and focussed.*

*This version supersedes the Performance Audit Guidelines 2004 and will come into force immediately.*



***Shashi Kant Sharma***
*Comptroller & Auditor General of India*
*June 2014*

# 1. Introduction

1.1 These guidelines contain the framework for the process of performance auditing within the Indian Audit and Accounts Department (IA&AD) headed by the Comptroller and Auditor General (C&AG) of India hereinafter referred as the Department. They provide the best practices that the officers and the staff of Department must follow in planning, implementation, reporting, observing follow-up processes and obtaining quality assurance in performance audits. They outline principles, objectives, approach, methodology, techniques and procedures for conducting performance audits. These guidelines are based on the existing guidelines of C&AG of India and International Standards of Supreme Audit Institutions- (ISSAI) 100, 300 and 3000 and ASOSAI Performance Auditing Guidelines. These Guidelines contain comprehensive implementation instructions and replace the Performance Auditing Guidelines, 2004.

## Scope for individual initiative and professional judgement

1.2 While these guidelines are prescriptive in nature, these are not intended to supersede the professional judgement of the Accountant General[1], relevant to the individual sectors of entity operations and within each sector, to the individual subjects. The Accountant General is expected to make situation or subject specific adjustments to the provisions set out in these guidelines. However, Accountants General will be expected to document the rationale of all significant departures from the guidelines and obtain authorisation from the competent authority.

## Performance Auditing

1.3 Regulations on Audit and Accounts, 2007 provide the appropriate guidance for audits undertaken by the Department. The Department performs its auditing functions as per C&AG Auditing Standards, 2002 which have been adapted from ISSAIs (100-400). C&AG's Auditing Standard 4.9 defines the scope of audit as under:

"The term 'Audit' includes financial audit, regularity audit and performance audit".

[1] *The term Accountant General includes all heads of field audit offices of the rank of SAG and above within the IA&AD.*

The auditing standard further adds that in pursuance of the constitutional responsibility, the Department is empowered to decide the nature, scope, extent and quantum of audit to be conducted by it or on its behalf.

> *"Performance audit is an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively."*
>
> *Regulation 68 of Regulations on Audit and Accounts, 2007*

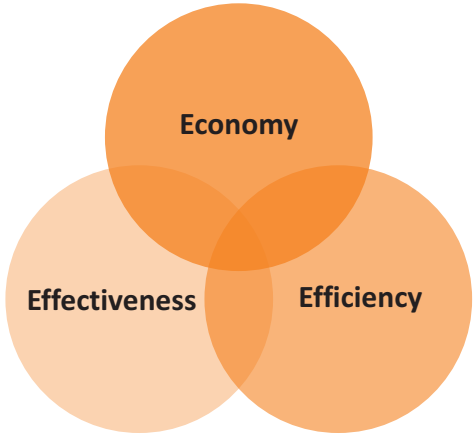
1.4 Performance auditing carried out by the Department is an independent, objective and reliable examination of whether government undertakings, programs, systems, activities or organisations are performing in accordance with the principles of economy, efficiency & effectiveness and whether there is room for improvement.

1.5 Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by:

- providing new analytical insights (broader or deeper analysis or new perspectives);
- making existing information more accessible to various stakeholders;
- providing an independent and authoritative view or conclusion based on audit evidence;
- providing recommendations based on an analysis of audit findings.

1.6 Typically, Performance Audits address the issues of economy, efficiency and effectiveness.

## Economy, Efficiency and Effectiveness




### Economy

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| **Economy** | Minimising the cost of resources used by acquiring them in due time, appropriate quantity and quality and at the best price. |

1.7 Judging economy in itself implies forming an opinion on the resources (human, financial and material) deployed. This requires assessing whether given the context, resources have been acquired, held and used economically and acquired in due time, in appropriate quantity and quality at the best price. The performance auditor needs to examine whether the means chosen represent the most or at least a reasonable economical use of public funds.

### Efficiency

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| **Efficiency** | The relationship between resources employed and outputs delivered; in terms of quantity, quality and timing. |

1.8 The principle of efficiency means getting the most from the available resources. Efficiency exists where the use of financial, human, physical and information resources is such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output. The main issue to be examined here is whether the resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources. It refers to the relationship between the quality and quantity of goods and services yielded and the cost of resources used to produce them, in order to achieve the results.

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

1.10 Auditing efficiency embraces aspects such as whether:

- human, financial and other resources are efficiently used;
- public sector programmes, entities and activities are efficiently managed, regulated, organised and executed;
- services are delivered in a timely manner; and
- the objectives of public sector programmes are met cost-effectively.

## Effectiveness

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| **Effectiveness** | Meeting the objectives set and achieving the intended results. |

1.11 Effectiveness is essentially a goal-attainment concept. It addresses the issue of whether the programme/activity has achieved its objectives. When focusing on effectiveness, it is important to distinguish between the immediate outputs or products and the ultimate impacts or outcomes. Outcomes are important to the effectiveness of programmes/activities but may be more difficult to measure and assess than the inputs

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

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

- assess whether the objectives of and the means provided (legal, financial, *etc.,*) for a new or ongoing public sector programme are proper, consistent, suitable or relevant to the policy;
- assess and establish with evidence whether the observed direct or indirect social and economic impacts of a policy are due to the policy or to other causes;
- identify factors inhibiting satisfactory performance or goal-fulfilment;
- assess whether the programme complements, duplicates, overlaps or counteracts other related programmes;
- assess the adequacy of the management control system for measuring, monitoring and reporting a programme's effectiveness; and
- identify ways of making programmes work more effectively.

## Two basic questions

1.13 Performance auditors may find answers to the following two basic questions:

- **Are things being done in the right way?**
- **Are the right things being done?**

The first question means, broadly speaking, whether policy decisions are being carried out properly. This question is usually associated with a assessment *vis-à-vis* norms *i.e.*, the performance auditor wants to know whether the executive has observed the rules or the requirements consistent with the programme. Up to this point, performance auditing is mainly concerned with different aspects of the economy or the efficiency of operations. The scope for analysis becomes considerably greater by posing the second question, *i.e.,* whether the right things are being done. In other words, effectiveness of the operations would be examined by asking questions whether the adopted policies have been suitably implemented. A performance auditor might, for instance, find a chosen measure ineffective and inconsistent with the policy objectives.

1.14 In the effort to find answer to the second question, adequate caution should be exercised by not going beyond the audit mandate by respecting the roles assigned to executive and audit. However, the correctness of the information or inputs that were considered while framing the policy and sufficiency of the programmes and resources to fulfil the policy objectives may be assessed and reported.

## Objectives of Performance Audit

1.15 The main objective of performance auditing is to constructively promote economical, effective and efficient governance. It also contributes to accountability and transparency. Performance auditing promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, but examines whether any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved. Performance auditing focuses on areas in which it can add value for citizens and which have the greatest potential for improvement. It provides constructive incentives for the responsible parties to take appropriate action. Performance auditing promotes transparency by affording parliament, taxpayers, those targeted by government policies, media and other stakeholders an insight into the management and outcomes of different government activities. It thereby contributes in a direct way to providing useful information to the citizen, while also serving as a basis for learning and improvements.

## Elements of Performance Audit

1.16 Public Sector audits have certain basic elements (i) Three parties in the audit i.e. the auditor, the responsible party, intended user, (ii) the subject matter information and (iii) criteria to assess the subject matter.

### The three parties

1.17 Public sector audit involves at least three separate parties: the auditor; the responsible party and the intended user. These are briefly described below:

1.18 **The auditor:** In public sector auditing, the role of auditor is fulfilled by the Department and by the persons delegated with the task of conducting audits. However, clear-cut demarcation of roles and responsibilities of officers and staff for various functions and processes is done through a hierarchical structure. Auditors in performance audits typically work in a team with different and complementing skills.

1.19 **The responsible party:** Responsible party would typically mean audited entity and those charged with governance. The role of responsible party may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter in some cases at different points in time. Some parties may be responsible for actions that have caused problems. Others may be able to initiate changes to address the recommendations resulting from a performance audit. Still others may be responsible for providing the auditor with information or evidence.

1.20 **Intended users:** The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users. A responsible party is also an intended user.

## Subject matter

1.21 The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences). The subject matter is determined by the objective and formulated in the audit questions.

## Audit Criteria

1.22 Audit criteria within the context of performance audit are audit specific, reasonable standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed. The auditor may sometimes be involved in developing or selecting the criteria that are relevant to the audit as further discussed in para 2.7 to 2.11 under Chapter 2.

## Assurance and confidence in performance auditing

1.23 As in all audits, the users of performance audit reports seek confidence about the reliability of information in the reports. The performance auditors should, therefore, in all cases provide findings based on sufficient and appropriate evidence and actively manage the risk of inappropriate reports.

1.24 The level of assurance that a performance audit report provides should be communicated in a transparent way. Whether economy, efficiency and effectiveness have been achieved may be conveyed in the performance audit report in different ways:

- through an overall view on aspects of economy, efficiency and effectiveness, when the audit objectives, the subject matter, the evidence obtained and the findings reached allow for such conclusions; or
- by providing specific information in the report on different points, including the audit objectives, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions.

However, the performance auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness on the level of the audited entity in the same way as the opinion on financial statements.

1.25 The decisions made in drawing up a balanced report, reaching conclusions and formulating recommendations frequently need to be elaborated in order to build user confidence. Performance auditors should specifically describe how their findings have led to a set of conclusions and, if applicable, an overall conclusion.

This means explaining the criteria developed and used and why, and stating that all relevant viewpoints have been taken into account. The principles on reporting give further guidance for this process.

## Outcomes of performance audits

1.26 Performance audits provide entities and stakeholders with information and assurance about the quality of management of public resources and also assist public sector managers by identifying and promoting better management practices.

Performance auditing may, therefore, lead to better accountability, improved economy and efficiency in the acquisition of resources, improved effectiveness in achieving public sector programme objectives, a higher quality in public sector service delivery and improved management planning and control. It is an important responsibility of the auditor to ensure that through each performance audit one or more of these objectives are met.

1.27 Performance auditing is a means to an end and not an end by itself. Performance audit should be aimed at adding value to the Management by way of reliable, objective and independent information, highlighting the shortcomings in programme planning, implementation, information systems affecting the outputs and outcome specifically and quality of expenditure or management generally. In addition, performance audit reports provide valuable information and independent assessment on programme management and the extent of fulfilment of the policy objectives to the stakeholders including the Parliament, the State Legislatures and the general public. Thus, good quality performance audit contributes to good governance.

1.28 The users of performance audit reports expect reliable reports. All performance audits should, thus, be planned and performed keeping in view the expected outcome. It is a good practice to evaluate the real impact of performance audit on entity policies and programmes.

## General outlay of Performance Auditing Guidelines

1.29 These guidelines are presented in a sequence as the process of performance audit. The Department has to deal with a variety of subjects of performance audits and conduct audit in diverse entity environments. Besides, different structures for audit management exist in the Department for the Union Government (civil, defence, railways, communication, revenue and commercial audits) and the audit of State Governments. It may, therefore, be necessary to adjust the actual process of planning, field audits and consolidation of the performance audits in the context of the entity environment and composition of audit offices.

**Chapter 2** of these guidelines deals with the Mandate and General Principles for Performance Audits.

**Chapter 3** deals with the strategic audit planning and selection of subjects.

**Chapter 4** enumerates how to plan individual performance audits.

**Chapter 5** discusses various elements of implementing the performance.

**Chapter 6** deals with aspects relating to evidence and documentation.

**Chapter 7** deals with the reporting process of draft performance audit report.

**Chapter 8** deals with follow-up procedures.

# 2. Mandate and General Principles for Performance Audits

## Mandate for Performance Audit

2.1 The audit mandate of the Department is derived from the Constitution of India. Article 151 of the Constitution of India provides that the reports of the Comptroller and Auditor General of India relating to the accounts of the Union or a State government shall be submitted to the President or the Governor of the State respectively, who shall cause them to be laid before each House of Parliament/ Legislature of the State. The statutory position is established under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service), Act 1971. The mandate of C&AG of India for performance audits is described in Sections 13, 14, 15, 16, 17, 19 and 20 read with Section 23 of this Act. Chapter 7 of the Regulations on Audit and Accounts, 2007 provides the specific guidance on this subject. Regulation 68 defines performance audit as an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively. The mandate is further strengthened by practice and convention drawn from 50 years of performance audits relating to the receipts and expenditure of the Union and State governments, government supported autonomous bodies and other public sector undertakings on a variety of subjects carried out by the Department.

## General Principles

2.2 The General Principles of performance auditing give guidance on those aspects of performance auditing that are relevant throughout the audit process as implemented in the Department.

## Ethics and Independence

2.3 **Auditor should comply with the relevant ethical requirements and be independent.**

The Code of Ethics adopted by Department spells out the ethical requirements on the part of the auditors while discharging their professional obligations. The Code of Ethics

envisages appropriate ethical behaviour on part of the head of the Department, all members of the Department and all individuals working for or on behalf of the Department who are involved in auditing and accounting work. The Code of Ethics requirements have to be kept in mind while conducting performance audits.

## Audit Objective

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

The audit objective determines the approach and design of the engagement. Audit objectives could be descriptive (How are the things?), normative (are things as they ought to be?) and analytical (why are things not as they ought to be?). Normative and analytical audit objectives are more likely to add value. In all cases, the auditors need to consider what the audit pertains to, which organisations 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, programmes, activities or organisations.

Audit objectives can be sub-divided into more precise sub-objectives. These should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit objective.

## Audit approach

2.5 **Auditors should choose a result, problem or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.**

The overall audit approach is a central element of any audit. It determines the nature of the examination to be made. It also defines the necessary knowledge, information, data, the audit procedures and analysis required. 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 programmes and services are operating as intended;

- a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

2.6 Audits 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. A bottom-up perspective focuses on problems of significance to people and the community.

## Audit Criteria

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

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.

2.8 The 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 Department's audit team and with Department's 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).

Diverse sources can be used to identify criteria, including performance measurement frameworks. It should be transparent, which sources were used, and the criteria should be relevant and understandable for users as well as complete, reliable and objective in the context of the subject matter and audit objectives.

2.9 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 criteria in advance; instead they will be defined during the audit process.

2.10 Whereas in some audit types there are unequivocal legislative criteria, this is not typically the case in performance auditing. 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.

2.11 In a problem-oriented performance audit, the starting point is a known or suspected deviation from what should or could be. The main objective is, therefore, not just to verify the problem (the deviation from the criterion and its consequences) but to identify causes. This makes it important to decide how to examine and verify causes during the design phase. Conclusions and recommendations are primarily based on the process of analysing and confirming causes, even though they are always rooted in normative criteria.

## Audit risk

2.12 **Auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.**

Many topics in performance auditing are complex and politically sensitive. While simply avoiding such types of audits may reduce the risk of inaccuracy or incompleteness, it could also limit the possibility of providing important feedback for better governance and adding value by audit.

2.13 The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors. Consequently, audit will not being able to provide users of the audit report with knowledge or recommendations that would make a real contribution to better performance. Important aspects of risk may include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to complete and quality

information, relying on inaccurate information (*e.g.* because of fraud or irregular practices), being unable to put all findings in perspective, and failing to collect or address the most relevant arguments.

2.14 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.

## Communication

2.15 **Auditors should maintain effective and proper communication with the audited entities and other parties sharing the responsibility of the subject matter throughout the audit process and define the content, process and recipients of communication for each audit.**

There are several reasons why a regular communication is of particular importance in performance audit:

- As performance audits are not normally conducted on a regular (*e.g.* annual) basis on the same audited entities, channels of communication may not already exist. While there may be contacts with the legislature and government bodies, other groups (such as academic and business communities or civil society organisations) may not have been engaged with previously.
- Often there are no predefined criteria (such as a financial reporting framework), and therefore an intensive exchange of views with the audited entity is necessary.
- An active effort is required to obtain insight into the points of view of the various stakeholders to bring out a balanced report.

2.16 Auditors should identify the responsible parties and other key stakeholders and take the initiative in establishing effective two way communication. With good communication, auditors can improve access to information sources and to data and opinions from the audited entity. Using communication channels to explain the purpose

of the performance audit to stakeholders also increases the likelihood that audit recommendations will be implemented. Auditors should, therefore, seek to maintain good professional relations with all relevant stakeholders, promote a free and frank flow of information as far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding for the role and responsibilities of each stakeholder. However, care should be taken to ensure that communication with stakeholders does not compromise the independence and impartiality of the Department.

2.17 Auditors should inform audited entities of the key aspects of the audit, including the audit objective, audit questions and subject matter. Communication 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 different findings, arguments and perspectives are assessed.

2.18 Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the Department issues its audit report. 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.

## Skills

2.19 **Collectively, the audit team should have the necessary professional competence to perform the audit. This would include in addition to the knowledge of the domain of the audited entity, 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.**

2.20 In performance auditing, specific skills may be required, such as knowledge of evaluation techniques and social science methods, and personal abilities such as communication and writing skills, analytical capacity, creativity and receptiveness. Auditors should have a sound knowledge of government organisations, programmes and functions. This will ensure that the right areas are selected for audit and that auditors can effectively undertake reviews of government programmes and activities.

2.21 There may also be specific ways of acquiring the necessary skills. 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. An open attitude to learning and an encouraging management culture are important conditions for enhancing individual auditors' professional skills.

2.22 In specialised areas, external experts can be used to complement the knowledge of the audit team. Auditors should evaluate whether and in what areas external expertise is required, and make the necessary arrangements. The procurement of the services of the expert or using their work will be as per the general guidelines approved by the C&AG office from time to time.

## Professional judgment, due care and scepticism

2.23 **Auditors should exercise professional scepticism, but also be receptive and willing to innovate.**

It is vital that auditors exercise professional scepticism 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. At the same time, they should be receptive to views and arguments. This is necessary in order to avoid errors of judgement or cognitive bias. If they are not receptive, they may miss important arguments or key evidence.

2.24 As auditors work to develop new knowledge, they also need to be curious, reflective and resourceful in their efforts to collect, interpret and analyse data. A willingness to innovate is equally important. Innovation applies not only to audit process, but also to the audited processes or activities.

2.25 A high standard of professional behaviour should be maintained throughout the audit process, from topic selection and audit planning, *via* the audit proper, to reporting. It is important for auditors to work systematically, with due care and objectivity and under appropriate supervision.

## Quality control

2.26 **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.**

A robust quality management system facilitates conducting of effective performance audits. High quality of performance audits can only be expected if a sound quality management system exists within the Department. The key elements of Audit Quality Management Framework of the Department have been embedded in these guidelines.

In the conduct of performance audits 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 and discretion concerning the relevant issues. 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. If there is a difference of opinion between supervisors and the audit team, appropriate steps should be taken to ensure that the audit team's perspective is given sufficient consideration and that the Department's policy is consistent.

- 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.

2.27 A motivated and skilled audit team is required for conducting high quality performance audits. Control mechanisms should therefore be complemented by support, such as on the job training and guidance for the audit team.

## Materiality

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

Materiality can be understood as the relative importance of a matter within the context in which it is being considered. The materiality of an audit topic should have regard to the magnitude of its impact. It will depend on whether the activity is comparatively minor or whether shortcomings in the area concerned could influence other activities within the audited entity. 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 or otherwise minimal.

2.29 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 or politically significant and bear in mind that this varies over time and depends on the perspective of the relevant users and responsible parties. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation, that perspective may vary from one audit to another. Assessing it requires careful judgement on the part of the auditor. Materiality concerns all aspects of performance audits, such as the selection of topics, definition of criteria, evaluation of evidence and documentation and management of the risks of producing inappropriate or low impact audit findings or reports.

## Documentation

2.30 **Auditors should document the audit in accordance with the particular circumstances thereof. 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.**

2.31 As in all audits, performance auditors should keep an adequate documentary record of the preparation, procedures and findings of each audit. However, the purpose and context of documentation are somewhat specific in performance auditing.

- Frequently the auditor will have acquired specialised knowledge about the audit topic that is not easily reproduced in the Department. Since, the audit methodology and criteria may have been developed specifically for a single engagement, the auditor carries a special responsibility to make his reasoning transparent.

- In performance auditing, the report describes the framework, perspective and analytical structure that were adopted and the process that was followed to arrive at the conclusions in addition to findings and recommendations. To some extent, the report performs functions that in other types of audits are provided by general standards of 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 within the report.

2.32 Maintaining adequate documentation is not only part of safeguarding quality (*e.g.* by helping to ensure that delegated work has been performed satisfactorily and that the audit objectives have been achieved) but also of the Department and individual auditors' professional development, as it can shape good practice for similar audits in the future.

# 3. Strategic Audit Planning and Selection of Audit Topics

## Strategic Audit planning

3.1 Strategic Audit planning is the process of determining the long term goals for the Department and the best approach for attaining them. It consists of strategic goals (mission statement), strategic objectives (more specific and detailed statements) and strategic measures to attain them. Strategic plan for performance audit is a subset of the strategic audit plan of the Department. In the context of performance audits, the Department may define its long term mission statement consisting of goals to be achieved through the performance audits, statements of detailed objectives expected to be accomplished through performance audits and the subjects of performance audits to be carried out in pursuance of the strategic goals and objectives. The field audit offices are also required to prepare their audit plans with reference to the Department's strategic audit plan. While formulating their audit plans, the fields offices should ensure that the plans are consistent with Department's strategic audit plan and help in accomplishment of long terms objectives as enumerated in the Strategic audit plan of the department as a whole besides addressing the audit risks in their respective areas of jurisdiction.

3.2 While no uniform time frame for the planning of performance audits by the field audit offices can be determined since there could be variation in the requirement of different audit offices in charge of various types of entity audits, a reference frame of five years may be considered for performance audit planning. However, the planning drill would be reviewed every year at the time of preparation of the annual audit plans as a rollover exercise. The annual audit plan of the field audit offices would depict various stages of all performance audits under the captions of 'brought forward', 'to be taken up', 'to be completed' and 'carried forward'.

## Objectives of strategic audit planning

3.3 Strategic Audit Plan of the Department sets out a vision that provides an important starting point in deciding what to audit; sets out the outcomes that we are trying to achieve and in general, better managed government programs and better accountability to Parliament and the public. A well structured strategic audit planning process, based on

a sound rationale, is necessary to ensure that the resources of the Department are used in the most efficient and effective manner.

The objectives of strategic audit planning are to:

- Provide a firm basis for the Department's Management to give strategic direction for future audit coverage;
- Identify and select audits with the potential to improve public sector accountability and administration;
- Understand entity risks and take them into account in audit selection;
- Provide a basis for Department's accountability; and
- Produce a work programme that can be achieved with expected/available resources

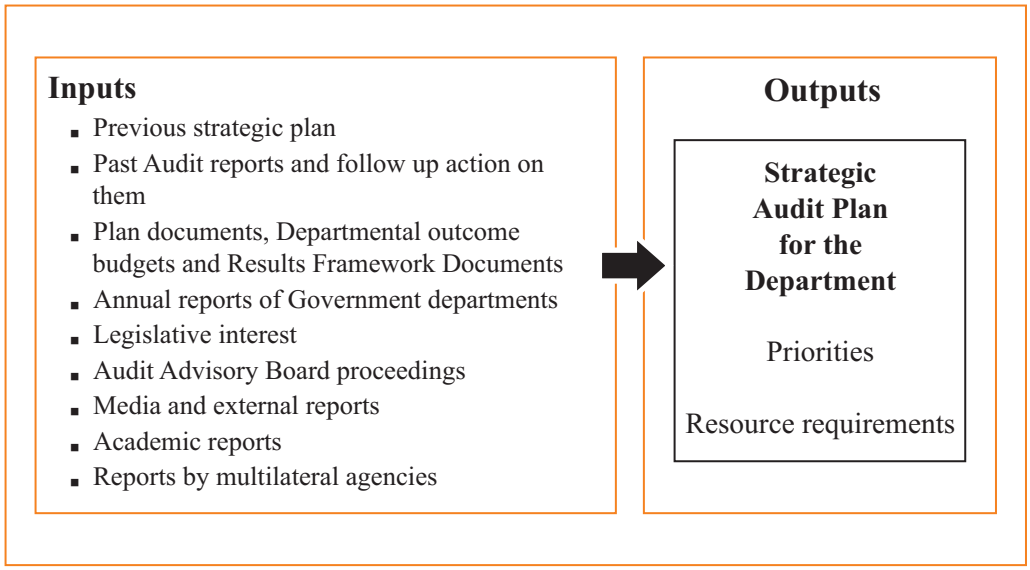
## Strategic audit planning process

3.4 Before preparing the strategic audit plan, it would be useful to develop a sound understanding of:

- general economic and social conditions;
- government priorities, goals and programmes; and
- the regulatory and accountability frameworks within which the audited entities operate.

3.5 The Department's Senior Management[2] may conduct brainstorming meetings with Accountants General from time to time in respect of strategic audit and annual audit plans to select the subjects which address the Department's concerns for high risk programmes and activities.

[2] *Senior Management comprises C&AG of India, Deputy C&AsG and Additional Deputy C&AsG.*




## Annual Audit Planning Process

3.6 Once the Strategic audit plan for the Department is in place, the process of preparing the annual audit plan is taken up by the field audit offices. Annual audit plan of the field audit office would include performance audits, compliance audits and financial audits to be taken up during the financial year. It is an exercise of balance between the audit priorities and the resource availability. One of the important components of audit plan is the selection of specific subjects for performance audits to be undertaken in the audit cycle. The audit plan component for the performance audit would typically include subjects relating to specific sectors or the states under their audit jurisdiction and also certain audits with All-India scope. Timely intimation of the All- India performance audits as approved by headquarters would enable participating field audit offices to prepare their plan appropriately. It has to be ensured that quality of performance audit does not suffer because of undertaking too many audits. The concerns of the stakeholders may be obtained and given due regard while selecting topics of performance audit at the time of preparation and finalisation annual plans of field audit offices.

## Selection of audit topics

3.7 The selection of audits to be taken up requires serious deliberations as the potential areas for audit could be considerable and the Department's capacity in terms of effort and time is limited. This means that choices must be made with care. It is not always necessary to conduct performance audits of the entity or the programme as a whole. Accountants General should select a mix of performance audit subjects covering either the programme or activities of the entity comprehensively and the subjects for which the scope and audit objectives are confined only to significant aspects of the programmes or activities. The selection of the components or parts of the programme may be guided by the materiality and risk profiles. This will enable the Accountant General to increase the coverage to a large number of relatively more important and contemporary issues, which may be expected to enhance the perceived and actual value addition through performance audits.

3.8 Where desirable, the subjects of performance audit may be selected cutting across various departments or entities. This will provide a platform for performance audit on a theme or thrust area over a cross section of entities, who are entrusted with the responsibility for the programme, activity, *etc.* Performance auditors may, quite often, find it necessary to extend the scope of audit to other agencies/departments to assess the effectiveness/impact of a programme, irrespective of the fact that their allocation of business is in different sectors (civil, railways, communications, social, economic and service sectors, *etc.*) or their status may be different (government department, government funded institute and government companies, *etc.*).

3.9 Emerging issues like environmental challenges, sustainable development and information technologies should also find a place in the performance audits of various entities. Programmes, schemes *etc.* Finally, the problems of significance to people and the community should also be given appropriate emphasis while selecting the subjects of audits.

Some considerations for selection of subjects are:

***(a) Assessing risks:*** Since all the entities and all activities of the entities cannot be audited because of resource constraints, awareness of entities or areas that put the programme or public resources at risk from the point of view of economy, efficiency and

effectiveness helps focus audit attention on them. Risk profiling of audited entities, sectors and programmes help in deciding the selection of subjects.

***(b) Materiality and Significance:*** Auditors should consider materiality in all stages of the audit process and in doing so consider not only financial, but also social and political aspects of the subject matter and how to add the most value possible through the audit. Significance of a topic is its importance in the context of the organization, programme or subject. A topic will have a high significance if the project or activity it addresses is central to the functioning of the entity.

***(c) Visibility*** of a subject is an assessment of the interest it generates in the general public and the legislature. While no uniform index of visibility can be prescribed, legislative debates, media reports or articles and subjects of workshops and seminars could serve as an index of visibility.

***(d) Past audits*** *by* the Department could provide an index of significance, materiality and risk of the subjects.

***(e) Estimated impact*** of the performance audit is also a criterion for prioritisation. This could be the impact of improved economy, efficiency and effectiveness of the entity, project or activity which is the subject of performance audit. Impact can be assessed through an understanding of the entity's risk profile and the areas proposed to be addressed by the topic.

***(f) Coverage*** refers not only to previous audit coverage by the Department but also to other independent reviews of the activity. Such reviews may have been conducted by internal audit, external consultants or government committees or the activity could have been subject to programme evaluation. When there has been a substantial review of the activity in recent past, the activity will attract low ranking. Whereas, a higher ranking would be warranted where the audit has been requested by the legislature or by the government and the previous performance audit indicated that such a follow-up should occur; and

***(g) The stage of the programme development*** should also be kept in mind when assessing management performance.

This process would provide the Accountant General with a list of subjects which may be taken up for performance audits for the period under consideration.

## Interaction with audited entities and other stakeholders

3.10 The Accountant General may elicit suggestions from the Executive or those charged with governance of the audited entities for the subjects or areas which could be selected for audits. Holding of seminars, conferences and discussions with other stakeholders at the time of audit planning can also be considered as means for associating stakeholders with planning process. This will also help in understanding the concerns of the audited entities and would also supplement the risk assessment exercise being undertaken in the Department for finalisation of topics of Performance Audit. It would also give the Department a chance to appreciate the governance and regulatory issues concerning the audited entities.

## Periodic updating of the data and the risk profile

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

# 4. Planning individual performance audits

4.1 A performance audit has to be planned 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. A well thought out plan is indispensable in performance auditing. Before implementing the performance audit, it is important to identify the audit objectives, the scope and the methodology to achieve the objectives of a particular performance audit. This is often done in the form of a pilot study. The purpose of this study is to establish whether the conditions for carrying out a performance audit exist and, if they do exist, to produce an audit proposal. It provides background knowledge and information needed to understand the entity, program, or function. At the end of the study, it may be clearly stated whether performance audit is feasible or not. Pilot study should normally be carried out in a fairly short period. In selecting audits through this process, the Accountants General would have to use their preliminary knowledge of the subject area to form a reasonable basis for believing that the audit can be completed in accordance with the performance audit guidelines.

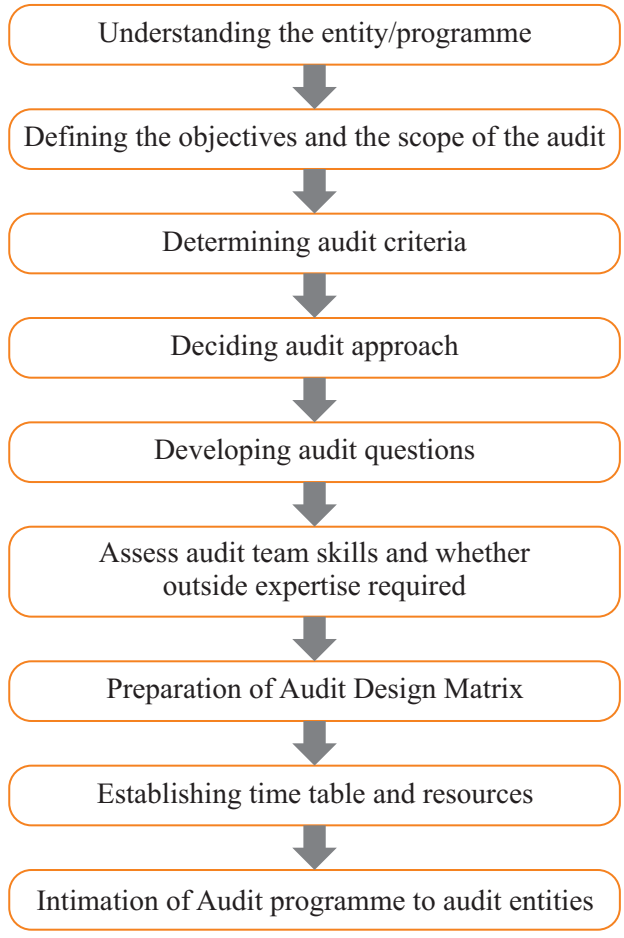
4.2 Planning consists of developing guidelines and assessing resources. The audit guidelines should be detailed, including information on the audited entity's environment, audit materiality and risks, and description of the audit scope, objectives and methodology as discussed in subsequent paragraphs. Planning consists of developing a detailed approach for the expected nature, timing and extent of the audit. Adequate planning of the audit helps to ensure that appropriate attention is devoted to important areas of the audit, potential problems are identified and the work is completed expeditiously. Planning also assists in proper assignment of duties to team members and coordination of work performed by other offices within the Department and those of the experts.

4.3 Audit planning should lead to the development of a detailed audit proposal that identifies the specific audit tasks to be undertaken. An appropriate audit proposal makes it easier to ensure that the performance audit coverage is comprehensive and realistic. It is pertinent to mention that adequate time and effort should be spent on planning a performance audit. Planning documents could also indicate the expected impact of the performance audit.

4.4 The important steps in drawing up an audit proposal are the following:

- Defining the specific issue to be studied and the audit objectives,
- Developing the scope and the design of the audit,
- Determining the timetable and the resources.

The following chart indicates the process involved in planning an individual performance audit in practice. These steps cannot always be strictly separated and they do not necessarily take place in the same order through.



## (a) Understanding the entity/programme

4.5 Understanding the entity/programme is the starting point for planning individual performance audit. The following can be the sources for understanding the entity:

- ***Documents of the entity****:* documents on administration and functions of the entity, policy files, annual reports, budget and annual plan documents including the files on them, accounts, minutes of internal meetings, operating manuals/ guidelines, management information systems, information on the website, programme evaluations and internal audit reports, electronic databases and MIS reports, proactive RTI material *etc.*;
- ***Legislative documents*** *:* legislation, parliamentary questions and debates, reports of the Public Accounts Committee, the Committee on Public Undertakings, the Estimates Committee and the Department-Related Standing Committees and letters from Members of Parliament;
- ***Policy documents:*** documents of Planning Commission, Ministry of Finance etc;
- ***Academic or special research:*** independent evaluations on the entity, academic research and similar work done by other governments and other SAIs;
- ***Past audits:*** past financial and performance audits on the entity provide a major source of information and understanding. Follow-up requirements, perceived non compliance to recommendations and increased risk and materiality may also provide significant inputs;
- ***Media coverage***: both print and electronic media - their systematic documentation on regular basis in a transparent manner; and
- ***Special focus groups:*** Audit Advisory Committee concerns, issues emerging from national or international workshops/seminars, annual and special reports of World Bank, IMF, UN agencies, Reserve Bank of India, reports by special interest groups, NGOs, *etc.*

## (b) Defining audit objectives

4.6 The most important stage in the performance audit process is defining the audit objectives. These are the basic audit questions that performance auditors seek answers to.

These are usually expressed in terms of questions about performance *i.e.,* achievement of economy, efficiency and effectiveness of an entity, programme or activity under audit. The audit objectives should be defined in a concise manner, as they will impact the nature of the audit, govern its conduct and affect audit conclusions.

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

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

4.8 Audit objectives are the reasons for conducting audit and therefore should be clearly spelt out. The objectives should be limited in numbers, ideally three to five, to provide appropriate focus to the audit. They must be defined in a way that will allow the audit team at the end of the audit to conclude against each of the objectives. Since, the entire audit effort is directed toward answering the questions raised in the objectives, these should be, therefore, be defined as precisely as possible. Objectives should not be expressed in broad terms, as it makes them difficult to achieve. Once detailed design of the audit begins, the team should identify the full hierarchy of issues and sub-issues that need to be covered against each audit objective.

## (c) Scope of audit

4.9 The scope is the boundary of audit. Scope narrows down the audit to significant issues that relate to the audit objectives. Defining scope focuses the extent, timing and nature of the audit. Answers to the following four questions help in defining the audit scope:

### What?

4.10 What specific questions or hypotheses are to be examined? What kind of audit approach and methods seem to be appropriate? This part of the scope has a relationship with the audit objectives, the depth to which the subject matter is going to be examined and the methodology which has to be adopted.

### Who?

4.11 Who are the key players involved and the audited unit(s)? While determining the audit scope it is useful that the responsible parties dealing with the subject matter and their roles are recognised.

### Where?

4.12 Which are the selected units/locations to be covered? Often the entity, programme or activities under performance audit may be broad. It may be necessary to limit the segments/locations that the audit will cover and to which the conclusions will apply. Where it is not feasible to analyse the entire population, sampling techniques have to be used. Sample size may be selected statistically, as far as it is feasible.

### Which period?

4.13 Which is the period to be covered under audit? The time period of the operations to be audited may vary widely with reference to the type of programmes or subjects undertaken for audit. Apart from the type of the programme, this will depend upon risk parameters, audit objectives and sufficiency, competence and the reasonableness of evidence to be collected.

4.14 Scope determined on the basis of the above aspects would have following important implications:

- audit programmes generally increase in size and complexity (more detailed procedures, questionnaires and checklists) with increases in the scope of the audit and size of the programmes to be audited;

- dispersion and location of sites to be visited can markedly affect the audit programme. Detailed procedures may be required to ensure consistency when different personnel are carrying out the same audit at different locations; and
- sample size has an impact on scope of audit as the selected sample may have different geographic locations and the risk perceptions.

### (d) Determining the audit criteria

4.15 Audit criteria give direction to the assessment (helping the auditor to answer questions such as 'on what grounds is it possible to assess actual behaviour?', 'what is required or expected?' and 'what results are to be achieved and how?'). Audit criteria are standards used to determine whether a program meets or exceeds expectations. Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of programmes and activities can be assessed. The criteria which may be general or specific and reflect everything from what should be according to laws, regulations or objectives; and what is expected, according to sound principles and best practice; to what could be (given better conditions). In audits covering complex issues it is not always possible to predefine the criteria; instead they will be defined during the audit process. The nature of the audit and the audit questions determine the relevance and the type of suitable criteria. The credibility of the findings and the conclusions of the performance audit depend largely on the criteria as such due care must be exercised while determining the audit criteria.

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

4.16 In examining performance information, auditors should:

- ascertain whether the performance measures in place are complete, relevant and justified on a cost benefit basis;
- consider whether the entity has sufficient and reliable procedures in place to measure and report on performance such as Key Performance Indicators (KPI) and Results Framework Document (RFD) *etc.;*

- examine procedures to determine if they relate to the entity's corporate goals; and
- consider whether the performance measures are incorporated into the management decision making processes, *i.e.*, are they reported and used within the agency.

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

## Sources of criteria

4.17 It is unrealistic to expect that activities, systems or levels of performance of the audited entity will always fully meet the criteria. It is important to appreciate that satisfactory performance does not mean perfect performance but is based on what a reasonable person would expect, taking into account the circumstances in which the entity operates. Therefore, audit criteria must be sought to be obtained from the following sources:

- enabling and related legislation which governs the operations of the audited entity;
- entity operating and procedure manuals;
- entity policies, standards, directives and guidelines;
- multilateral international accords signed by India;
- criteria used previously in similar audits;
- performance standards used by the entity for the programme / activity to be audited, or previous inquiries by the legislature;
- criteria used by the same entity or other entities in similar activities or programmes;
- criteria used or developed by professional organisations and standard setting bodies;

- independent expert advice and know how;
- new or established scientific knowledge and other reliable information;
- criteria published by other SAIs; and
- general management and subject matter literature and research papers.

4.18 For establishing the basis of the audit criteria, depending on the case in point, the most authoritative sources will be official standards (such as goals laid down in laws and regulation, decisions and policies taken by the legislature or the executive branch). Specialist scientific literature professional standards and best practices also form an acceptable basis of criteria. In some cases it might be helpful to arrive at criteria through discussions with stakeholders and decision makers. Sharing sources of criteria with audited entity especially in cases where sources are other than the official regulations *etc.* would be a good practice.

### Services of expert for developing criteria

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

### Refining the criteria and acceptance by the entity

4.20 While informing the Secretary and/or the Chief Executive Officer of the intent to carry out performance audit, the audit objectives and criteria, if already developed could be shared with the entity with a request to communicate acceptance of the criteria. Acceptance of all audit criteria used in performance audit by the entity is a desirable condition and contributes to the effectiveness of performance audit. Yet, there could be occasions when the entity expresses a reservation about the validity of one or more criteria. While it is not mandatory or possible, that entity must always agree with the

criteria, Accountants General should make efforts to resolve the disagreements, as far as possible and document their efforts.

### Characteristics of good criteria

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

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

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

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

***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; and

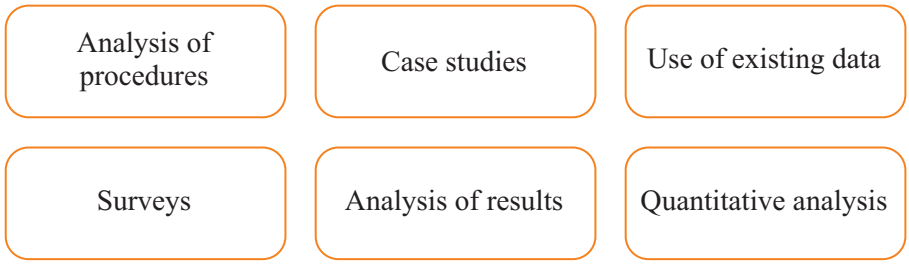
***Completeness****:* completeness refers to the development of all significant criteria appropriate to assessing the performance in the given circumstances.

## (e) Deciding audit approach and methods

4.22 Performance auditing generally follows one of three approaches in examining the performance of the audited entity (ies). The audit may take:

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

4.23 No uniform audit approach can be prescribed that is applicable to all types of subjects of performance audits. Selection of approach also determine methods and means used for conducting the audit. Some of the methods which could be used in conducting performance audits include:




### (i) Analysis of procedures

4.24 It consists of review of the systems in place for planning, conducting, checking and monitoring the activity being audited. This would involve examination of documents such as budgets, financial reports, programme guidelines, annual or other plans, procedure manuals, delegations and reporting requirements. The performance auditors should assess the appropriateness of the procedures, the quantum of resources and the accountability relationships highlighted in the programme guidelines. Procedures would be tested against the criteria or a desirable control model. This would typically mean that procedures would be checked, among other things, for completeness, relevance against the legislation and administrative instructions, internal consistency, practicability and compliance.

### (ii) Case studies

4.25 A case study is a descriptive, exploratory or explanatory analysis of an entity, scheme or a programme. It is a method for learning about a complex issue, based on a comprehensive understanding of the particular instance. It involves an extensive description and analysis of the particular issue within the context of the whole area under review.

### (iii) Use of existing data

4.26 It is important for audit staff to investigate the data held by entity management and by other relevant sources. This may include the information systems used to manage entity programmes/activities and/or the data collected on individual programmes. One of the important sources of data could be the data generated from voucher level compilation (VLC). The confidence level of audit conclusions is enhanced by testing the available data for correctness and completeness with reference to the basic documents maintained by the entity. The audit team will maintain evidence of tests carried out to ensure correctness of data maintained and furnished by the entity.

### (iv) Surveys

4.27 Another method of obtaining insight into an agency's activities, including the outputs and outcomes and their quality is by the conduct of a survey. This is a method of collecting information from members of a population to assess the incidence, distribution and interrelation of events and conditions. In social sector programmes, credible surveys on predetermined parameters can supplement the audit findings and conclusions, which add value to the performance audits. The nature of some programmes or activities selected for performance audits could be such that a focussed survey of a limited sample during the planning stage may provide more insight for setting the audit objectives and criteria. The decision to conduct survey and design of the survey will be approved by the Department's Senior Management on the proposals initiated by the Accountant General. It may, however, be kept in mind that the results of survey alone cannot be the primary evidence for audit findings. Surveys can be used as corroborative evidence for audit findings established with the help of primary evidence.

### (v) Analysis of results

4.28 Analysis of results from examining a number of instances of entity activity in a particular area will help decide whether entity performance in that area conforms to audit criteria and is generally satisfactory. This will also require the auditor to assess the output-input model designed in the programme and carry out actual output-input analysis to determine the efficiency of the programme. The analysis of results would also call for analysis of impact of the programme against the expected impact.

### (vi) Quantitative analysis

4.29 Quantitative Analysis is a way of measuring things. It involves examination of data available in any form, it could be the data relating to financials like earnings, revenue, market share or data relating to programme implementation like details of beneficiaries *etc.* The audited entities' data can be analysed by auditors to illustrate or corroborate a statement. Mathematical, economical, computational and statistical analyses are some of the quantitative techniques which can be used by the auditors while analyzing complex data of the audited entity. It is quite possible to analyze the whole population with the help of the various IT tools available. Data analytics and other techniques can be used for these purposes. The quantitative analysis can provide trends, explanation for a particular behaviour and other results.

4.30 However, when it comes to substantive testing, it may not be possible to work with the complete data due to the high volume of data and information associated with a progarmme or entity. In such cases, sampling techniques are required to be used. The nature of the population should be examined to decide the most appropriate sampling methodology. The sample selected and the sampling approach and methodology should be documented and shared with the entity.

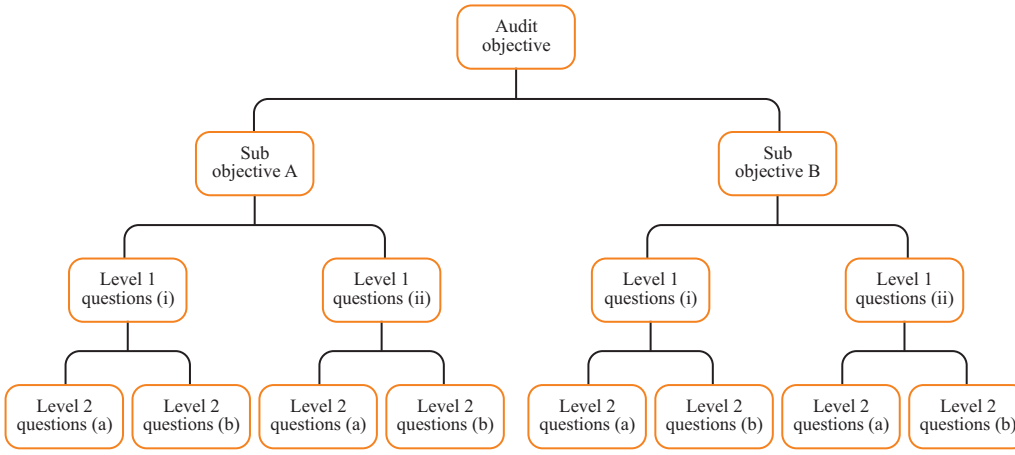
4.31 When selecting an audit sample, specific audit objectives and the attributes of the population from which the sample is to be drawn should be taken into account. In determining the sample size, it should be considered whether sampling risk would be reduced to an acceptable low level. The sample items are to be selected so as to have a reasonable expectation that all sampling units in the population have an equal chance of selection. The extrapolation of audit findings based on substantive testing of audit sample to the whole audit universe has to be considered keeping in view homogeneity of the population, audit objectives and the analytical tools applied.

4.32 The selection of audit methods is an important part of planning a performance audit. The selection of audit method has to be done considering the audit approach, the objectives, the complexity of the assignment and the resources involved in implementing the audit. Audit team should consider the nature and cause of any errors identified and their possible effect on the particular audit objective and on other areas of the audit.

## (f) Developing audit questions

4.33 Following the design of audit objectives and the identification of audit criteria, the audit team should prepare a list of questions to which they would seek answers. There could be many ways to develop and frame audit questions. The performance auditors should frame a comprehensive and detailed list of questions.

4.34 Under each audit objective there can be two or more sub objectives. Under each objective/sub objective there could be a detailed hierarchy of questions, resulting in a pyramid structure. The last level audit questions should result in a yes or no answer. Breaking down of audit objectives into audit sub-objectives, level 1 questions and level 2 questions should result in at least 2 questions at each level. If not, then the validity of the question and the possibility of its incorporation with some other questions at any level should be considered. Detailing the audit objectives into the manageable audit questions has multifarious advantages. It helps in creating link between the audit question and evidence to be collected and the audit conclusions arrived. This analysis will lead to the creation of Audit Design Matrix discussed later.



## (g) Assess audit team skills and whether outside expertise required

4.35 Performance audit is a knowledge based mission. It is, therefore, necessary that the performance auditors possess special aptitude, skill and knowledge. The Auditing Standards of C&AG of India provide that the audit institution should develop and train the auditors to enable them to perform their tasks effectively and should prepare manuals and other written guidance notes and instructions concerning conduct of audits. The performance auditor must possess the range of skills and experience necessary for effective discharge of audit mandate. Programme for imparting training and skill development for the performance auditors to enhance and reinforce the understanding of the principles, methodology and techniques should be accorded high priority.

4.36 Given the diverse range of subjects of performance auditing, the Accountant General and the performance audit team may need to develop sound understanding of the programme or entity proposed to be audited in the form of reports, opinions, valuations and statements of an expert. They would have to decide at the planning stage on which aspect expertise is required. This could be at the stage of outlining the scope of audit, formulating audit objectives, or identifying the criteria for assessment. Although, the Accountant General may use the work of an expert, he/she retains full responsibility for the conclusions in the audit report. The procurement of the services of the expert or using their work will be as per the general guidelines approved by the Department's headquarters from time to time.

## (h) Audit Design Matrix

4.37 Having determined the audit objective, audit approach, audit criteria, data collection and evidence gathering method etc, audit teams should prepare a Audit Design Matrix. Audit Design matrix is a rigorous, structured and highly focused approach to designing a performance audit study, based around the audit objectives, associated sub-objectives and lower level detailed questions. As such, it provides a framework for fieldwork and further analysis. Having determined audit questions that require answers, the performance auditor is also expected to append to the audit design matrix, the procedure to find answers to audit questions. It also highlights the data collection and analysis method as well as the type and sources of evidence required to support audit opinion/findings with reference the defined audit objectives. The Audit Design Matrix is to be considered throughout planning, examination and reporting phases to ensure that all

identified audit issues are covered. Once the examination phase is over, the audit team should suitably link Audit Design Matrix to the Audit Findings Matrix as discussed in chapter 5. The specimen of Audit Design Matrix is also given hereunder:

**Audit Design Matrix**

| Audit Objective/sub objective (1) | Audit questions (2) | Audit criteria (3) | Evidence (4) | Data collection and Analysis method (5) |
|---|---|---|---|---|
| | | | | |

The Audit Design Matrix is prepared on the basis of information and knowledge obtained in the planning phase during the course of pilot study. Audit teams are encouraged to update the Audit Design Matrix as and when it acquires more in-depth knowledge of the audit subject matter. A well-designed Audit Design Matrix leads to efficient planning and resultant effective audits thereby providing highest assurances to the audited entities and those charged with governance. It is desirable to prepare ADM for each of the audit objectives.

### (i) Establish the timetable and resources

4.38 The outcome of any performance audit will depend on the audit team and the activity plan. It is important to determine the timetable and the resources needed. Relevant factors include the manner in which the audit is organized and the expected completion time. Selection of appropriate audit team is the most important component in planning an audit. Considerations for selection of a particular team should be recorded in the planning documents along with the proposed timelines for various activities to be undertaken as part of the audit process. Progress against these timelines should be monitored. The Accountant General would be responsible for ensuring that performance audit is completed on time. The time required and actual time spent should be compared and variations thereof got approved from the competent authority.

4.39 The key milestones established for the audit will form the basis for assessing progress. It is strongly advisable that the team build time for translation, approval and possible delays in their own schedule in order to meet the deadlines.

## (j) Intimation of audit

4.40 Audited entities must be informed about the intention of taking up the planned performance audit with scope and extent of audit well before the commencement of Audit. The intimation should also include the constitution of audit team, the selected sub units, if already decided and the tentative time schedule. The intimation may also refer to the management's responsibility and request their cooperation for successful completion of audit assignment. Acknowledgement of this may be requested and placed on record.

## Refinement or narrowing of objectives and criteria

4.41 In view of the difficult environment in which we operate, for gathering the information needed to fulfill the audit, it may be necessary to refine to refine an audit's objectives as the audit progresses. The reasons for such changes in the objectives/criteria should be recorded and the approval of the competent authority taken. The revised objectives and the criteria should also be suitably brought into the notice of audited entity or those charged with governance.

## Flexibility in the audit programme

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

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

# 5. Implementing the performance audit

5.1 This chapter contains the practices and procedures to be followed by the audit team during the implementation of the performance audit. It covers the stages of performance audit during the field audit process, *i.e.,* after the audit planning and up to the stage of developing the audit findings and recommendations. The process of implementation of the performance audit steers through entry conference, issuance of audit engagement letter, data collection process, collecting audit evidence, developing audit findings and conclusions and developing recommendations.

## Entry conference

5.2 Entry conference at the commencement of performance audit is to be held with Secretary of the department concerned by the Accountant General. Wherever, more than one department/agency is involved, representation from such agencies/departments should be insisted upon. The purpose of this conference is to inform the entity about the areas to be audited along with audit objectives, the audit approach and the time-frame within which the audit is expected to be carried out. Audit criteria/parameters/norms against which performance audit will be benchmarked should be also discussed. A protocol for conduct of audit is to be set up during this conference including nomination of liaison officers, production of records, arranging joint inspections, authentication of audit evidence including photographs etc, issuing of audit observations, time period for replies to be received and other logistic arrangements. This conference also gives the opportunity to discuss the concerns of the audited entity on the subject matter. The entry conference should be followed by preparing minutes of the proceedings which should be shared with the audited entity and acknowledgement requested.

## Issuance of engagement letter

5.3 The Accountant General and the audit team are expected to be in communication with the entity at different levels throughout the performance audit cycle. Before initiating the audit, the Accountant General should send an engagement letter to the Secretary/Chief Executive of the entity, communicating the launch of the audit along with details of the entity units tentatively selected for audit and the timeframe for audit and request him/her to issue necessary directions to the functional officers and field units to

provide documents and information to the audit team. This will also serve as an opportunity to confirm the essence of the minutes of the entry conference. In case the entry conference could not be held for unavoidable reasons, the engagement letter would also provide a media for communicating the expectations from the entry conference.

## Field audit process

5.4 The field audit process comprises the efforts made to collect, interpret and analyse data in relation to stated audit objectives and evaluating them against the pre-determined criteria. The steps involved in field audit process are discussed in succeeding paragraphs.

## Entry Meeting

5.5 Besides entry conference, the audit parties should also hold entry meeting(s) with the heads of the units before commencement of the audit of selected auditable units. During these meetings, the audit party should narrate the purpose, objectives of audit, timelines and cooperation expected from the head of the selected auditable unit. The minutes of such entry meeting should be prepared and shared with the audited entity and acknowledgement requested

## Data Collection & Analysis

5.6 Data collection may be performed once, at repeated intervals or through continuous measurements as warranted. Information may be gathered on the basis of physical evidence, documents (including written statements), oral testimonies (interviews), or by other means depending on the objectives of the audit. The types of data to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance and reasonableness. A great deal of data (material produced by others specifically by the audited entity) is often used however the auditors may also produce certain data (its own source material) with the aid of questionnaires, surveys and direct observation.

5.7 Quality in data collection and documentation is vital. It is important that the auditors seek information from different sources, since organisations, individuals in an organization, experts and interested parties have different perspectives and arguments to

put forward. Data, information and knowledge are, broadly speaking, similar, linked concepts. Data is the primary facts. Data, which has been compiled, is transformed into information. Information, which is analysed and understood, will become knowledge. Data may be collected for different purposes during an audit, as part of the learning process, or in order to describe and analyse an outcome or a problem.

5.8 The audit party has to call for the records from the audited entity in the form of executive and administrative files and other information essential for accomplishment of audit objectives. Records required should be called in a timely fashion from the authority responsible to provide the same in terms of the protocols defined in the entry conference and entry meeting. Information given by the audited entity (like filling up of Annexures in Performance Audit report) may be test checked with reference to the source and documented accordingly. File examination forms the basis of performance audits. Files contain a wide range of types of evidence, such as the decisions of officials, the 'case records' of program beneficiaries and the records of government programs. It is important to establish the nature, location and availability of records at the outset of a performance audit so that they can be examined effectively.

5.9 Based on general experience, it is important to distinguish between the following components in the information gathering process:

- Records in form of documents, files *etc.*
- Questions formulated to be answered by the audit.
- Data-collection techniques needed in order to answer the questions set (study of documentation, meetings, questionnaires, interviews *etc.*).
- Audit programs, i.e. the type of investigation that is needed for the data-collection (such as sampling, case studies, secondary analysis, inquiries, 'before- and after analysis', comparable evaluations, *etc.*).
- Quantitative and qualitative analysis, applied to the data collected (for deeper analysis of the information collected).

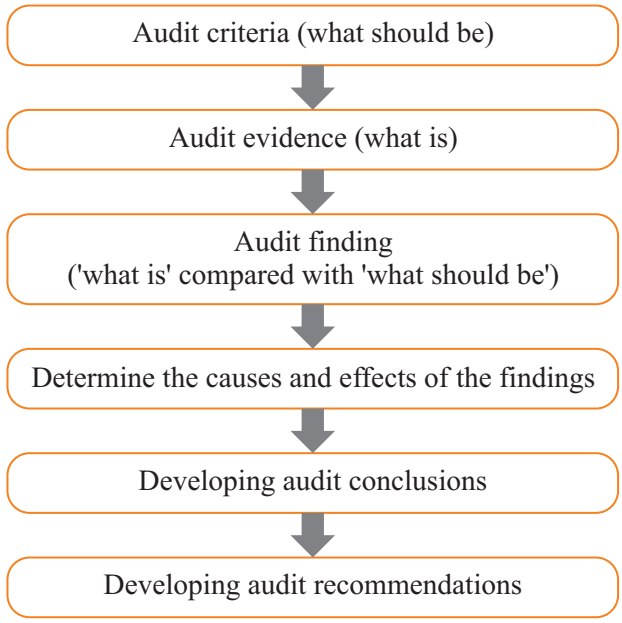
5.10 Most audits involve some type of analysis in order to understand or explain what has been observed. This could be done in the form of more detailed statistical analysis, discussions on the findings within the audit team, studies of documentation and working

papers *etc.* The analysis might sometimes also require comparisons of findings between, for instance, subjects that work well and those that work less well; one or more subjects and an overview; and the audited area and a similar audit area in other states. Some methods of data analysis have been discussed in Chapter 4. The final stage in the analysis of data involves combining the results from different types of sources. Audit teams should refer to the Audit Design Matrix while carrying out data analysis and the adopting technique or tool thereof.

## Developing audit findings and conclusions

5.11 Audit findings are the specific evidence gathered by the auditor to satisfy the audit objectives. Audit findings contain the following elements: *criteria* ('what should be'), *condition* ('what is'), and *effect* ('what are the consequences' – observed as well as 'reasonable and logical future impact'), plus *cause* ('why is there a deviation from norms or criteria'), when problems are found. However, all four elements are not always required in an audit; the element 'criteria' is for instance not always specifically addressed in the problem-oriented approach. Conclusions are statements deduced by the auditor from those findings after analysis of causes and effects of these findings. And finally, the recommendations are courses of action suggested by the auditor relating to the audit objectives.

5.12 The Audit Design Matrix should be suitably updated at each stage of audit as the same was initially prepared based on the limited knowledge acquired during the pilot study and also to be linked with the audit findings matrix as defined in para no. 5.19. While developing the audit findings and conclusions, the reference is made not only to number of deviations but also to total number of cases test checked and the population size. The process of analyzing evidence, developing findings and producing recommendations to resolve identified areas of poor practice is summarised in the following diagram.




5.13 Audit findings are arrived at by comparing the evidence to the criteria. These are based on the analysis of information collected during the audit. Further analysis of the nature and magnitude of the issue, will lead to the development of audit conclusions. These conclusions should be based on objectives, rationality and project-specific standards and criteria. Audit conclusions should be developed and evaluated throughout the various phases of performance audit. Potential conclusions identified in the planning stage or during the pilot study should be followed up in the detailed examination phase of the audit. Further, the audit team must determine whether the deficiency is an isolated instance or represents a generic or systemic problem. Conclusions may also require the application of significant judgement and interpretation in answering the audit questions, due to the fact that audit evidence may be persuasive ("points towards the conclusion that...") rather than conclusive ("right/wrong") in nature. The need to be exact should be weighed against, what is reasonable, economical, and relevant for the purpose of involvement of Senior Management.

5.14 The audit team may identify a cause-and-effect chain and have the option of reporting the findings and conclusions at different points in the chain. In this situation, the auditor should highlight the most critical deficiencies in the chain.

5.15 Audit conclusions will confirm whether the entity's performance, with reference to the criteria laid down, was satisfactory or not. If it was not adequate, they will point either to the systemic deficiency or to the person(s) responsible, the cause and, if determinable, effect of the problem on the subject matter of the audit.

## Developing recommendations

5.16 All performance audits ought to conclude with well thought-out recommendations, which should transcend inverted versions of audit conclusions or truisms and clearly spell out possible solutions, without taking over management's responsibilities. For developing recommendation, the underlying cause(s) of a finding should be identified, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings.

5.17 Recommendations emerge from identification of the 'cause' of audit findings, which ought to be addressed by the entity or those charged with governance. Recommendations should be well-founded and add value. It should be clear who and what is addressed by the recommendation, who is responsible for taking initiative and what the recommendations mean, i.e. how they will contribute to better performance. Recommendations should be practical and be addressed to the entities having responsibility and competence for their implementation.

5.18 The recommendations should be clear and be presented in a logical and rational fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report they should make it possible for the reader that they are likely to significantly improve the conduct of government operations and programs, *e.g.* by lowering the costs and simplifying the administration of the services, by enhancing the quality and volume of the services, or by improving the effectiveness, the impact or the benefits for the society of the services. Sometimes, the cause may be outside the control of the entity under audit, in which case the recommendation should direct attention outside the audited entity, the governance structure. In some cases it is also important to present the arguments for and against various alternative proposals. By following the underlying arguments, the reader will be better able to understand the final recommendations emerging from identification of the 'cause' of audit findings, which ought to be addressed by the entity.

## Audit Findings Matrix

5.19 The audit teams are encouraged to prepare an Audit Findings Matrix indicating the audit findings *vis-à-vis* good practices and the potential audit recommendation along with the expected benefits in case the recommendation is implemented. It is meant to provide a link between the audit objectives, criteria, the audit observation and the recommendations emerging there from. The audit teams should link the Audit Findings Matrix with Audit Design Matrix and highlight the Para number as well as chapter number of the draft report against each of the audit objective where the observations are reported. This will help audit teams and those responsible for reviewing their work to ensure that the audit work completed aligns with the work planned.

The specimen of the Matrix is given hereunder:

**Audit Findings Matrix**

| Findings | | | | | | Conclusions | Recommendations |
|---|---|---|---|---|---|---|---|
| Objective/ Sub objective | Audit Questions | Criteria | Evidence | Cause | Effects | | |
| | | | | | | | |

## Exit Meeting

5.20 The audit team leader or the Group Officer in charge should hold an exit meeting with the officer in charge of audited unit at the close of audit to seek his observations on the audit conclusions and recommendations, if not already received in response to the audit memos. The minutes of such exit meeting should be prepared and shared with the audited entity and acknowledgement requested.

## Supervision

5.21 Supervision of the implementation of the performance audit of the selected subjects will ensure that the audit is performed in accordance with the audit plan and the provisions of these guidelines. It will also ensure that the process is focused on the audit

objectives and audit criteria and that the refinement of the criteria and audit programme is carried out as and when required. Concurrent supervision by group officers will fulfil this objective and make sure that their intervention is promptly applied, where necessary. The Accountant General should conduct mid-term appraisal to ensure that the work is being performed as per plan to avail the opportunity of providing timely guidance to the field audit parties.

5.22 In cases, where the performance audits are conducted by different teams, within the administrative and technical control of one or more Accountants General, one or more mid-term workshops may assist in ensuring consistency of approach and techniques. Where necessary, a workshop on the results of performance audits conducted by a large number of teams across dispersed areas and under different audit control may be held to finalise consistent audit findings and recommendations.

5.23 The quality control and supervision on the implementation of the performance audit by the Department's Senior Management is provided through approval of the audit implementation guidelines, periodic work-in-progress reports and guidance during the mid-term workshops.

# 6. Evidence and documentation

6.1 Audit evidence is the information collected and used to support audit findings. It provides a factual basis for developing observations and concluding against audit objectives. As such, it is evidence which must support the contents of an audit report, including all observations leading to recommendations.

## C&AG of India's auditing standards

6.2 Standard 3(e) in chapter-III of the Auditing Standards of C&AG of India state:

'Competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organisation, programme, activity or function under audit.'

The auditing standards further emphasise that:

(i) data collection and sampling techniques should be carefully chosen;

(ii) the auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence; and

(iii) the evidence should be competent, relevant and sufficient and as direct as possible.

The concept of competence, relevance and sufficiency of evidence, particularly in the context of performance audits, is elaborated below.

## Competence

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

- If the piece of evidence is corroborated with help of different types of evidence obtained from other sources;

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

## Relevance

6.4 An evidence is relevant if it bears a clear and logical relationship to audit objectives and to the criteria. The relevance of the evidence in the performance audits can be ensured by linking the evidence and the audit procedure with each of the audit objectives, sub-objectives and then to each of the criteria. Relevance is measure of *quality* of audit evidence.

## Sufficiency

6.5 Sufficiency is a measure of *quantity* of audit evidence. Evidence is sufficient if the test is carried out on a reasonable representative of the population, the sample being selected objectively. In performance audit the evidence may be persuasive. Thus, evidence is sufficient or reasonable, when there is enough relevant and reliable information to persuade a reasonable person that the performance audit findings, conclusions and recommendations are warranted and are fully supported.

6.6 Considerations that determine the strength of evidence required are:

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

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

## Factors affecting the evidence

6.7 Some factors that may affect the competence, relevance and sufficiency of the evidence are:

- Samples selected are not representative (*sufficiency*);
- Evidence collected relate to an isolated occurrence (*sufficiency*);
- Evidence is incomplete and does not establish a cause and effect relationship (sufficiency, relevance);
- Evidence is conflicting (competence); and
- Evidence is biased (competence).

## Types of evidence

6.8 Evidence can be categorised with reference to their type as physical, oral, documentary or analytical.

- ***Physical evidence*** is obtained through observation, photographs, charts, maps, graphs or other pictorial representations, *etc.*. It is desirable to corroborate physical evidence, particularly if it is crucial to any audit findings (linked to the audit objectives), with other types of evidences.

- ***Oral evidence*** is the statement in response to audit inquiries or interviews. The statements made can either provide a background or a lead for further examination that may not be available through other forms of audit work or may provide corroborating evidence (*e.g.* beneficiary survey). The statements can be by the employees of the entity, beneficiaries, experts and consultants contacted to provide corroborative evidence, *etc.* It will be essential to corroborate the oral evidence, if the oral evidence is itself to be used as primary evidence rather than simply as a background or lead for further examination.

The corroboration of oral evidence could be:

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

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

- ***Documentary evidence*** in physical or electronic form is the most common form of audit evidence. These could be both internal as well as external. Some examples of internal documentary evidence are accounting and information records, copies of outgoing correspondence, plans, budgets, annual reports and internal audit reports, *etc.* Some examples, of the evidence from external sources are documents originating from other entities (*viz*. notes or reports of other ministries, coming correspondence, external evaluations and surveys). Internal documentary evidence originates within the entity. In most cases, the external evidence is also obtained from the records of the entity.

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

- ***Analytical evidence*** stems from analysis and verification of data, which can involve computations, analysis of rates, trends and patterns, comparisons against standards and benchmarks*, etc.* The analysis and comparisons can

be both numerical and non-numerical. The source of data analysed to develop an evidence should be indicated to facilitate acceptance by the entity.

## Sources of evidence

6.9 The sources of evidence may vary from case to case. The following are however some illustrative sources of evidence:

- *Policy statements and legislations* - policy documents, operating guidelines and manuals, administrative orders, *etc.* along with the background papers leading to their promulgation.
- *Published programme performance data* - budget, accounts including VLC outputs, plan documents, performance budgets and reports, programme documents, annual reports and replies or statements placed before Parliament and legislature.
- *Management reports and reviews* - internal reports and reviews, minutes of meetings, management information chain and information/performance reports, *etc.*
- *Files of the entity on the subject* - provide strong evidence to support audit findings. It may not be possible to examine all files of the entity due to time constraint. The selection of the files for examination will be guided by the audit objectives or the purpose of the investigation. Depending upon the subject of performance audit, the audit team may examine a sample selected at random. Some of the more important files that can provide the desired evidence are:
  - Strategic and operational planning files;
  - Budget files;
  - Management control, monitoring and review files;
  - Internal audit reports, internal and external evaluations;
  - Complaints and disputes *etc.*;
  - *Databases* - maintained by the entity are important source of audit evidence; and
  - *External sources* - independent surveys, evaluation, research, *etc.*

- Website of audited entities, the regulators and other related entities. It may be ensured the website from which the audit evidence is being taken is reliable and updated. The source of such information should be shared with audited entity and suitably depicted in the audit report.
- Department's sources – evidence collected in previous audits and during finalisation of strategic plan could provide evidence in many cases.
- Auditors' observation – could form an important source of evidence, particularly when supported and corroborated by photograph, video recording, *etc.* and attested by the representative of the entity. The audit team should record a detailed description of the results of observation.
- Physical verification/inspect*ion* is an important source of evidence. Accountants General may make an assessment based on the nature of the subject of performance audit and the audit objectives as to whether physical verification/inspection is required to achieve the audit objective and document the results of their assessment. Accountants General should be conscious of the relatively lower levels of acceptability of evidence when the physical inspection/verification is carried out by auditors alone. Some of the measures to transform the observed evidence into competent evidence could be joint inspection in which the result of such inspection is certified by the representative of the entity holding responsible position, out-sourcing the physical observation to an agency of repute and supplementing the observed results with photograph*, etc.* attested by the representative of the entity.

## Documentation

6.10 Meticulous documentation of the evidence supports the audit conclusions and confirms that the audit was carried out in accordance with relevant standards. C&AG of India's Auditing Standards (paragraph 8, chapter III) state:

"Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant findings and conclusions."

6.11 The Standards further add:

"Adequate documentation is important for several reasons. It will:

- confirm and support the auditors' opinion and report;
- increase the efficiency and effectiveness of audit;
- serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- serve as evidence of the auditor's compliance with Auditing Standards;
- facilitate planning and supervision; and
- provide evidence of work done for future reference."

6.12 Good documentation of evidence helps ensure that:

- an adequate and defensible basis exists for the audit's observations, conclusions and recommendations;
- an effective link exists between successive audits; and
- appropriate basis exists for quality control in carrying out an audit and for subsequent third-party reviews.

## Working papers

6.13 All relevant documents and information collected and generated during a performance audit constitute the working papers. They include the documents recording the audit planning including the audit objectives, determination of criteria including the process of their determination, field audit and evidence gathering procedures, evidence analysis, the nature, timing and the extent of audit procedures performed and the process of arriving at the results of the audit tests *i.e.,* audit findings and conclusions. Ideally the working papers should consist of three sections – each linked to the other: planning; execution and reporting.

6.14 Working papers also serve as a connecting link between the fieldwork and the audit report. These should, therefore, be complete and appropriately detailed to provide a clear trail of the audit. The confidentiality of the working papers should be maintained and they should be retained for a period sufficient to meet the professional, legislative and legal requirements.

6.15 Some of the broad characteristics which working papers should have are set out below:

- Completeness and accuracy: Provide support to audit conclusions and recommendations.
- Clarity and conciseness: Anyone using these papers should be able to understand the entire audit process without need for any supplementary examination.
- Ease of preparation: While the audit teams will be called upon to collect large volumes of working papers, to the extent they can use the entity prepared documents and reports, pre-printed standard audit stationery and automatically generated standard working paper formats, the time and effort may be optimised.
- Legibility and neatness: Applies particularly to photocopies.
- Relevance: Working papers should be restricted to matters, which are important, pertinent and useful for the purpose.
- Ease of review: The working papers should contain cross-references to the audit memoranda, discussion papers, audit observation, field audit report and performance audit report, as the case may be, to enable Accountants General and the supervisory authority to link the working papers to audit conclusions and recommendations.
- Organisation and ease of reference: The working papers may contain an omnibus, easy to follow, index with proper narration for all volumes in an audit summary file and an index for each of the working paper files.
- Complete audit trail of analysis: The working papers should be so organised so that even an uninitiated person can follow the trail of how the subject was selected, how evidence was gathered, what was the evidence collected and how audit conclusions were formulated. This should include evidence for the positive findings as well.

## Audit file

6.16 Documentation in a performance audit requires maintenance of audit file along with set of working papers. Audit file refers to one or more folders or other storage media,

in physical or electronic form, containing the records that describe the audit documentation for a specific engagement.

6.17 Normally, the audit file should include the audit strategy, scope and methodology, the sample selection, nature, timing and extent of procedures performed, results of such procedures and the evidence obtained. It should also mention significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions. Audit file should also include discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed and when and with whom the discussions took place. Besides, a reference about as to why a particular audit team was chosen for a performance audit may be made clear in planning documents.

6.18 Audit file should be properly indexed, referenced with and supplemented by the set of working papers. The auditor should summarise the audit documentation in an audit file and complete the administrative process of finishing the audit file on a timely basis. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature. In case of multiple audit files, a master index of the files may be maintained in addition to the index of each audit file**.** The responsibly of ensuring documentation of evidence in support of all facts, figures and comments included in the audit report rest with the field audit offices conducting the audit.

# 7. The reporting process

7.1 Every performance audit is to culminate in a report containing the audit findings and recommendations. Para 1.1 and 1.6 under Chapter IV of C&AG's Auditing Standards stipulate inter alia the following on reporting:

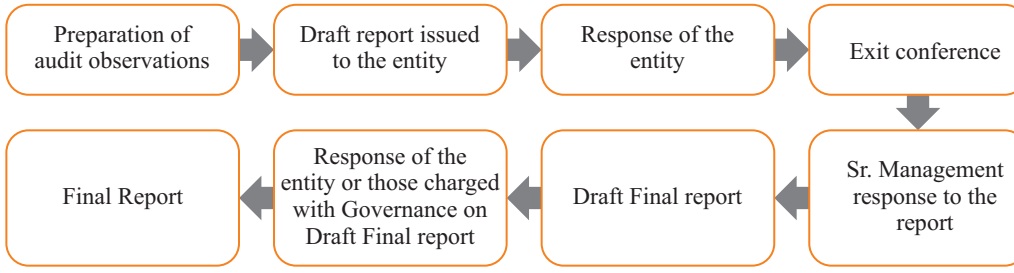
'On the completion of each audit assignment, the Auditor should prepare a written report setting out the audit observations and conclusions in an appropriate form; its content should be easy to understand, free from ambiguity and supported by sufficient, competent and relevant audit evidence and be independent,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

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

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

## The Reporting Process

7.3 The reporting process is illustrated in the following diagram:



## Audit observations

7.4 An Audit Observation is defined as an area of potential control weakness, policy violation, financial misstatement, inefficiency in programme implementation and achievement of programme objectives, or other problematic issue identified during the audit. These reflect the specific evidence gathered by the auditor to satisfy the audit objectives, in order to be able to answer the audit questions and verify the stated hypothesis, *etc.* These serve to confirm the facts with the entity and help in development of audit findings and recommendation by exploring significant early findings and recommendations with the entity and obtaining its preliminary response. They assist the performance auditor to detect at an early stage possible mistakes in understanding the subject, possible weaknesses in audit findings and the supporting evidence or the logic rather than wait till the entity points these out on receipt of the draft report.

7.5 It is a good practice to develop audit observation in a modular fashion, containing the audit findings, conclusions and recommendations (where applicable) along with details of evidence, their sources and analysis, so that the portion containing audit findings, conclusions and recommendations can be used directly in the draft performance audit report. The audit teams should be encouraged to use Audit Design Matrix (Para No. 4.37) as well as Audit Finding Matrix (Para No. 5.19) for cross reference to ensure that nothing is left out and they have completed the work inconsonance with the Matrices *ibid.*

## Draft audit report

7.6 The draft audit report is to be prepared upon conclusion of the field audit of the controlling unit of the entity and all field units selected for audit. The purpose of preparation of the draft report is to seek formal response of the entity-in-chief (Secretary of the ministry/department). A reference to the auditing standards followed for conduct of audit should suitably be made in the draft report.

7.7 It is important that the draft report describes the objectives and scope of the audit to enable the reader understand the purpose of the audit. Any limitation imposed on the scope of the audit, the reasons thereof and efforts made to resolve it should be indicated in the draft report.

Accountants General may forward the draft performance audit report to the government with a demi-official forwarding letter to the Secretary with a copy to the Financial

Adviser to the ministry, which should contain the following:

- subject of the performance audit and reference to previous dialogues;
- gist of major audit findings and recommendations along with the risks and materiality of the issues;
- time limit for formal response;
- invitation to a formal discussion and presentation of the audit findings and conclusions; and the expected value additions to the programme management, if the recommendations are implemented.

## Response of the entity

7.8 It is important that the entity is persuaded to provide written response to the draft audit report. This may be achieved through correspondence, personal meetings and presentation of the draft audit report. Since the audit report is presented to the Parliament/state legislature, it is crucial that the response of the entity has the approval of the Secretary of the ministry/department. The attempt should be to get the audited entity to respond directly to each audit finding and recommendation so that these can be published in final audit report.

## Exit conference

7.9 The performance audit should be concluded with an exit conference with the Chief executive of the audited entity *e.g.* Secretary/ Pr. Secretary to the Government concerned as the case may be. Wherever, more than one department/agency is involved, representation from such agencies/departments should be insisted upon. The draft Audit report including the responses of the audited entity must be issued before the holding of the exit conference. The Accountant General or the Group officer should lead the exit conference. All audit findings, conclusions and recommendations are to be discussed and as far as possible direct responses of the audited entity are to be solicited and recorded. It is also a platform to arrive at an agreement with audited entity about audit conclusions and recommendations. It will also allow the audit team to clarify any point of doubt that the entity may like to raise. The minutes of exit conference should be recorded and endorsed to the entity with a request to acknowledge the minutes within two weeks stating that in case of non receipt of acknowledgement with in stipulated period, it will be presumed that

audited entity concurs with the minutes. In case, head of the audited entity does not respond to audit's request for holding exit conference, Accountant General should try to convince the head of the entity to hold the conference. In case, the exit conference could not be held even after pursuance, this fact should be recorded in the report.

## Third party consultations

7.10 While third parties may not generally be the audited entities, their activities affect the program and service delivery, and audit reports often include commentary about their responsibilities and performance. Auditors should not communicate to third parties, neither in writing nor orally any information they obtain in the course of audit work, except where doing so is necessary to discharge the statutory or otherwise prescribed responsibilities. In case any information is required from third parties, audited entity would requisition the same from the third party and provide to Audit. Further, where role of identified third parties is considered very significant to the audit conclusions and recommendations, the audited entities may be encouraged to bring out the concerns of those parties in their replies to audit.

## Observations of the headquarters on draft report

7.11 The supervision and review by the headquarters of the audit report prepared by field audit offices with particular reference to the audit findings and conclusions, recommendations, evidence, drafting, *etc* is a measure of quality control. The observations and suggestions for improvements by headquarters, which has not been involved on day-to-day basis with the conduct of the audit, provide assurance on the logical development of findings and conclusions, quality and validity of supporting evidence and objective approach. Review by the Department's Senior Management ensures that appropriate procedures have been followed by Accountants General in implementation of the audit. The modifications brought out in the report due to this process should be documented by highlighting the reasons thereof.

## Draft Final report

7.12 A revised Report may be prepared after incorporating the responses received from the audited entity to the draft audit report and modifications suggested by

Headquarters. If the changes to the audit conclusion and/or recommendations are considered substantial or material necessitating further response from the audited entity, the revised report may be shared with the audited entity or those charged with governance to provide them an opportunity to respond to the revised audit findings and conclusions. In such cases the concerned AG with the approval of the controlling DAI/ADAI may issue the revised report. A period of two weeks shall be given for providing responses, if any, which shall be incorporated in the final report.

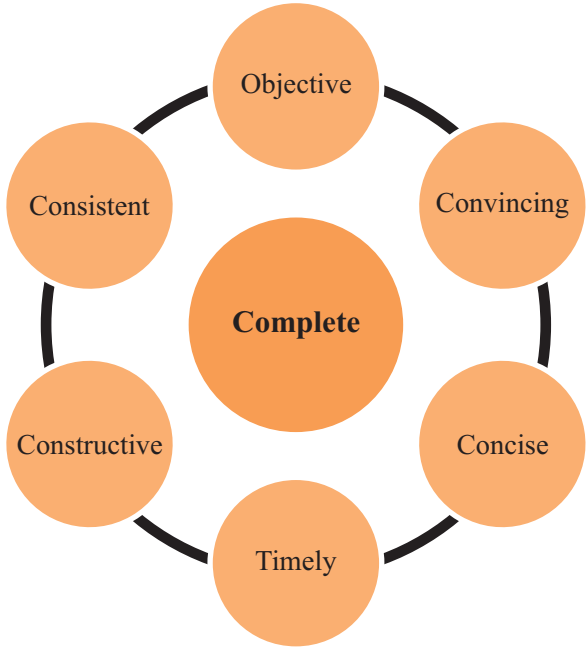
## Final report

7.13 On approval of the report by Department's Senior Management, the Accountant General may send the bond copy of the report with appropriate annotations for the approval of the report by Comptroller and Auditor General, after which the report stands cleared for printing of the prescribed number of copies, signature copies for signature of the Comptroller and Auditor General in ink and others with his facsimile signature.

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

## Characteristics of a good report

7.15 The following points need to be emphasised in regard to performance audit reports:




- The audit report should be complete i.e. all pertinent information required to satisfy the audit objective, including the information relating to the scope, criteria, evidence, conclusions and recommendations should be available in the report;
- The objectivity of audit report is ensured through fair conclusions and balanced content and tone. A report is balanced if it does not focus on criticism alone but contains fair assessment or evaluation, which would mean that good performance should also be reported;
- The audit report is convincing if the results of audit are presented persuasively and the conclusions and recommendations follow logically from the facts presented;
- The report should be easy to read and understand; it should be concise, no longer than necessary to convey the audit opinion and conclusions;
- Consistency of the report is secured by ensuring that it does not contain contradictory findings or conclusions in similar contexts or the conclusions on the same segment in different sections or parts of the report are not incompatible;

- The report is constructive if it manifests a remedial approach rather than a critical approach and includes appropriate recommendations;
- The report adds value to the entity, if it is timely.

## Structure of the report

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

- Title: the subject of the performance audit;
- Executive summary: It provides the précis of the main report. The summary should not be very long and should contain only essential information. It should be a free flowing narrative that tells the reader the story, keeping the principal message at its core. Hence it need not be in the sequence of audit objectives.
- Introduction: It consists of a brief description of the subject of study, information on programme, activity, or institution, its objectives, inputs, implementation structure, expected outputs and outcome, *etc.* The introduction should be brief, yet sufficient to enable the reader understand the context of the programme;
- Audit objectives: They are the pivots of the performance audit, which set out the reason for undertaking the audit. The entire exercise of performance audit is built around the audit objectives. These should, therefore, be stated in simple and clear terms. It is useful to set out the audit objectives and sub-objectives within each audit objective in the form of complete statement/question;
- Scope of audit: It is defined in terms of the period of the programme covered in audit and segments of the programme audited should be set out precisely;
- Audit methodology: It describes methods used for data collection/ evidence gathering and testing may be stated in brief. This adds to the acceptability of the audit findings and forms a statement for transparency of the audit procedure;
- Audit criteria: to arrive at the audit findings and conclusions with reference to each audit objective and sub-objective which should be stated with appropriate explanations;

- Audit findings and conclusions made during an audit with reference to each objective should be stated;
- Recommendations: They should be presented along with the conclusions wherever applicable in a box or highlighted print;
- Acknowledgement: it may be useful to indicate or acknowledge in brief the co-operation, acceptance of the criteria/findings and recommendations by the entity. In case the co-operation or response was not forthcoming at any stage it may be indicated if it has resulted in any limitation along with its implication and the special efforts made by the Accountant General to seek cooperation or response;
- Glossary of terms: It is helpful to the reader if explanations are provided in a glossary or easy-to-find footnotes. Glossary should be comprehensive, explaining all technical and uncommon terms used in the report.

## Enhancing the presentation and readability of the reports

7.17 Readers tend to focus on contents page, headings and subheadings, the executive summary, conclusions and recommendations and distinctive figures such as tables, charts, diagrams, maps, text boxes and photographs. These are to be used to full effect to draw the reader to the most important messages that the Department wants them to receive.

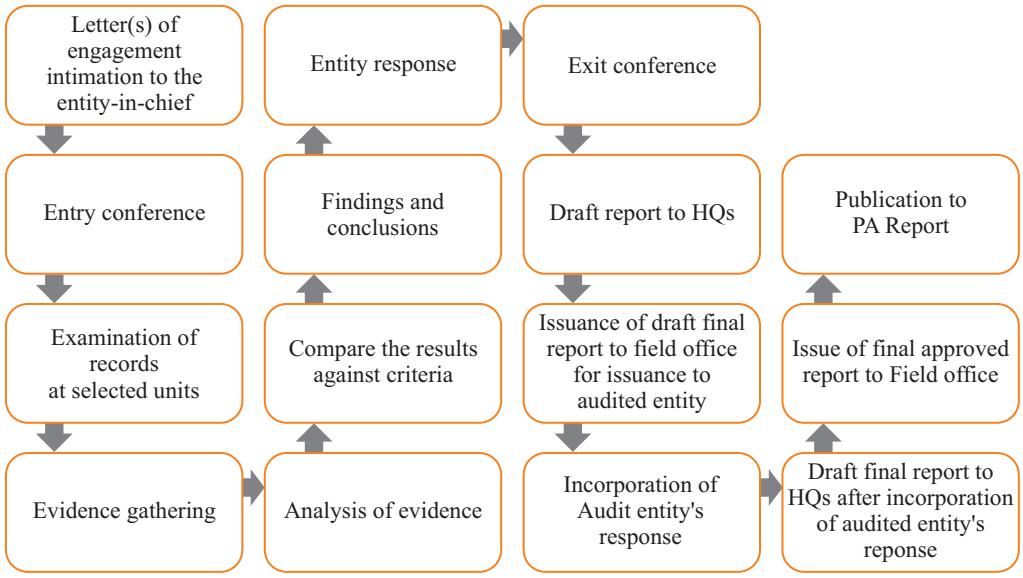
7.18 Significant audit conclusions can be highlighted in box form. The audit findings should be illustrated with the use of graphs and charts and improve the visibility of the analysis and findings. Photographs can also be used to corroborate findings. Facts, findings and conclusions may be reported in different paragraphs to clearly distinguish them.

7.19 Titles for chapters and sections in the reports should be assertive rather than descriptive as this allows the reader to steer through the report better. The audit team needs to consider what data and information will help the reader understand the evidence or arguments. While designing a table, graph or chart, the explicit point that needs to be highlighted will lead to displays that are specific and meaningful. Titles and labels should be clear and concise. All data graphics and other illustrations should be self-explanatory, so that readers should not have to refer to the main text to understand them. Tables and

other graphics containing data sourced from outside (including the audited entity) should have an acknowledgement of the source of such data.

## Audit implementation cycle

7.20 The following diagram depicts the Audit implementation cycle of a performance audit:




## Timelines of Performance Audit

7.21 In order to ensure the timely completion of the performance audits and also that the topics may not lose their importance, all the performance Audits should ideally be completed within a period of ten months. The audit implementation cycle i.e from the date of entry conference to the finalisation of the audit report by the headquarters should be completed preferably within this period. However, some additional time may be required for the complex All India performance audits or performance audits undertaken with the help of outside experts.

# 8. Follow-up of Performance Audits

8.1 Performance audit reports are essentially a means to improving public sector performance and accountability. This can be achieved through implementation of the recommendations contained in the performance audits. Consistent and systematic follow-up process in the Department may contribute significantly to the effectiveness of performance audit in improving the programme management.

Follow-up refers to the situation where the auditor examines the corrective actions the audited entity, or another responsible party, has taken on the basis of the results of previous performance audits. It is an independent activity that increases the value added by the audit process by strengthening the impact of the audit and by improving future audit work. It also encourages the user of the reports and the audited entities to take the reports seriously and provides a useful learning basis and performance indicator for the auditors. A follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problem and remedied the underlying conditions after sufficient time has been allowed for this process. When conducting a follow-up of audit reports, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow up and adopt an unbiased and independent approach.

## Objective of the follow-up programme

8.2 The follow-up of performance audit reports is aimed at the following objectives:

- *Assisting the legislature:* follow-up reports may provide valuable information to the committees of Parliament/state legislature for their examination of the Reports;
- *Achieving improvements in performance of the public sector program:* the prime reason for following up audit reports is to increase the probability that recommendations will be implemented and help in improving the performance of the audited entity;
- *Evaluating the Department's performance:* follow-up programme and outputs may be a good measure for assessing and evaluating Department's

performance and improvements in programme management, *etc.* anticipated at the time of planning the audit; and

- *Providing an input* to the strategic planning of performance audit by the Department.

## Assisting the Legislature

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

- The performance audits which are selected by the Committees of the Parliament/State Legislatures for detailed examination and oral evidence should be pursued in the context of the decisions of the respective Committees, if any recommendations have been issued. Good quality of performance audit being assured with the help of the quality assurance measures adopted by the Department, it would be expected that the recommendations of the Committees of the Parliament/State legislature would not only support but also strengthen the recommendations by audit. However, even in cases selected by the Committees where the examination and issue of recommendations by the committees of the Parliament/ State Legislature have not taken place, Accountants General may continue to pursue the follow-up on recommendations as in the cases where the subject is not selected for detailed examination;
- In cases of the performance audits that are not selected for detailed examination, Accountants General will carry out follow-up procedures to examine the extent of the implementation of the recommendations, particularly those which had been accepted by the entity. As regards, recommendations not accepted by the audited entity, Accountants General may persist with further discussions and persuasion to either accept or implement the recommendation or transfer recommendations to the audited entities for further action.

8.4 While the orders of the government, generally issued on the recommendation of the legislative committees, in the context of follow-up Action Taken Notes by the entities may vary from state to state, the model applicable to the Union Government, issued at the instance of the Public Accounts Committee may be kept in view.

8.5 As per the extant procedure, applicable in case of the reports on the Union Government, the ministries and departments are to forward the 'Action Taken Note' (ATN) against all matters included in the report of the Comptroller and Auditor General to the Parliamentary Committees within the prescribed time. The ATN is vetted by Accountants General for correctness of facts and figures, adequacy of the remedial measures and explanations for underperformance before they are submitted to the Committees of the Parliament. The ministries and departments submit the ATNs after attending to the comments of Accountants General. In exceptional cases, they may include the vetting comments of Audit along with a response to the comments before submission of the ATNs to the Committee.

8.6 In vetting the ATNs, the substantive action on the recommendations, rather than the form, is the focal point. While no uniform model can be suggested for securing the implementation of the recommendations and the procedure outlined above may be one of the models, the ultimate objective should be to ensure prompt and effective implementation of the recommendations.

## Effectiveness assessment

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

- the expected outcome of each performance audit anticipated at the time of planning *vis-à-vis* actual outcome; and
- the reasons for significant variation between the expected value addition and the actual. The variations may be attributed to under assessment or over assessment, deficient entity response and deficient quality of performance audit. The evaluation will include the remedial measures also.

8.8 The follow up or evaluation of Performance audits can be performed by:

- carrying out a desk review, which involves more detailed review of the implementation of the recommendations, including meeting, discussions and presentations, but does not necessarily comprise extensive field work; and
- detailed follow-up review consisting of comprehensive field work in relation to the action taken by the entity on Audit's recommendations with the objective of preparing a report to the legislature.

## Continuous Improvement

8.9 Continuous improvement is also one of the important outcomes of follow-up procedures. This can be achieved by the following:

- **Quality assurance review programme**

  An annual plan of the activities to be performed by the 'Quality Review Group' may be drawn up, which may have the approval of the Department's Senior Management. Only a sample of completed audit engagements should be selected for review by the group. Once the audits are selected, the quality review team may review the audit documentation and meet some of the staff members who worked on those engagements.

- **Peer Review**

  A peer review is performed by an independent team which may be internal or external to the Department to evaluate whether an organization's internal quality control system is suitably designed and operating effectively to provide the entity with reasonable assurance that established policies, procedures and applicable government auditing standards were being followed. The peer review involves testing the entire quality control system and not work in process. The Inspection and Peer Review Wing of Department is responsible for carrying out internal peer reviews. Besides, external peer reviews can also be arranged to seek assurance of robustness of the processes.

- **Dissemination of Lessons Learnt**

  Regular meetings, workshops and seminars should be organized to deliberate on audit experiences, methodologies adopted, and any changes needed in them in the light of experiences gained so that appropriate steps are initiated for improvement.

## Inventory of recommendations

8.10 The starting point for follow-up procedures could be a comprehensive inventory of recommendations maintained in appropriate data base by all Accountants General. The inventory, maintained performance audit wise should consist of all recommendations,

with appropriate grading under 'vital or critical', 'significant' and 'important'. The database should also contain other relevant information *viz*. the year of audit report, status of acceptance *viz.* accepted, partially accepted, not accepted and not replied, nominal implementation reported by the entity and the time of such reporting, risk associated with non-implementation or poor implementation, besides follow-up reviews. This inventory should be maintained as a permanent database, which may assist in performance audit planning in future.

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

## Annual follow-up programme

8.11 Auditors should follow-up on previous audit findings and recommendations when appropriate. The follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of the corrective actions taken where relevant.

8.12 Follow up results may be reported individually, or as a consolidated report. Consolidated follow-up reports may include an analysis of different audits, possibly including common trends and themes across a number of reporting areas. Follow-up can contribute to a better understanding of the value added through performance auditing in a given time period or subject matter area.