



Royal Government of Cambodia  
Nation Religion King

Ministry of **Economy and Finance**  
Department of Internal Audit

# INTRODUCTION TO PERFORMANCE AUDITING

Prepared by General Department of Internal Audit  
Presented by Peter Muaray, PFMMP



# Introduction to Performance Auditing

Hosted by GDIA, MEF

Prepared and Presented by: Peter Murray PFMMP

Slide 1



## Session 1: Training objectives

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# Training Objectives



By the end of the training participants will be assisted to:

- Understand the meaning, importance and the benefits of performance auditing
- Understand the performance auditing process;
- Plan a performance audit
- Conduct a performance audit
- Report and follow-up on a performance audit
- Apply these principles in practice.

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# Workshop Structure



**Participants:** Senior and junior staff responsible for managing the provision of audit services

**Planned number of participants:** Approximately 100

**Course Duration:** 2 Days (plus travel)

**Timing (excluding travel):** 06 & 07 October 2015

**Trainers:** Staff of Ministry of Economy and Finance, General Department of Internal Audit (MEF, GDIA), supported by international and local consultants of the Public Financial Management Modernization Project (PFMMP).

**Medium of instructions:** Consultant and GDIA Staff

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# Training approach

- Practical in nature
- Initial key theory then 'How to....'.
- Short exercises included to help focus on practical implementation of performance auditing
- Designed to build upon and support reform initiatives e.g. the implementation of programme budgeting, budget entities, and revenue stream improvement
- Needs to be accompanied by changes to internal processes and procedures
- At any point please feel free to ask questions and/or debate the points raised.

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# Some key messages

- The role of internal audit is to help management to achieve its objectives. The introduction of PFM reforms is a key management objective.
- As PFM reforms are implemented, the audit environment is changing. Changes in the audit environment require the application of new audit techniques.
- Traditionally audit resources have been focused upon Departments but there is an increasing need to re-orientate audit focus towards assessing the performance of service delivery programmes, budget entities, and related automation initiatives.
- PFM reforms are designed to increase the economy, efficiency and effectiveness of the planning and delivery of public services.
- The use of performance auditing by IADs will enable auditors to provide management with assurance about the economy, efficiency and effectiveness of public services.

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# Questions

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## Session 2: Performance auditing framework

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## Session outline

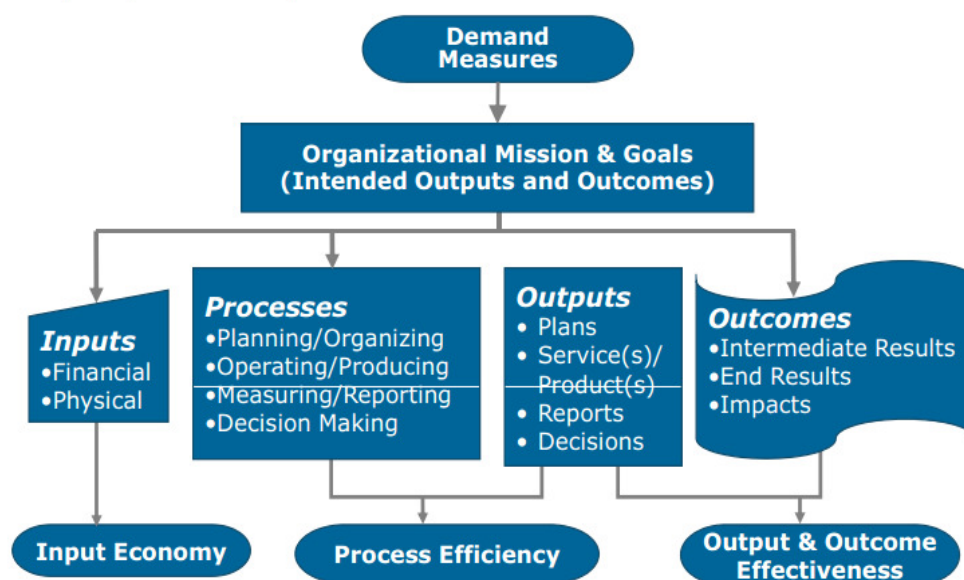
- Government service delivery model
- Performance auditing mandate
- Definition of performance auditing
- Benefits of performance auditing
- Objectives of performance auditing
- Responsibility for PA
- Auditors' role
- Challenges of introducing performance auditing
- Getting started
- Building sustainable performance auditing

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## Government service delivery model



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# Concepts of organisational performance

- Economy (purchase of inputs at minimum cost)
- Technical efficiency (cost per unit of output)
- Quantity of outputs
- Quality of outputs
- Speed
- Reliability
- Effectiveness
- Cost effectiveness
- Probity
- Equality
- Equity

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## Performance auditing mandate

- Overview: Wide discretion as to what, how and when to audit particular areas (taken to include performance audit).
- LoA Chapter 9 – Article 42: 'Internal Auditing is an independent function to examine and evaluate the **effectiveness, economy and efficiency** of the systems of internal controls established within the institution, ministry and enterprise.'
- Anukret 40, Article 7: Scope of Audit: 'Determine the appropriateness and adequacy of the internal control system in respect of administration, accounting and operation of the entity'. (Note wide ranging).
- CAP 3: Emphasis upon introduction of performance auditing to support reforms.

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# Definition of performance audit



For the purposes of this course performance auditing means...

‘.....an independent examination of a program, function, operation or the management systems and procedures of a governmental or non-profit entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources. (INTOSAI & GAO).’

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## What is performance auditing



- Evaluating whether an agency, or the operations or activities of any part of the public sector, is:
- achieving its objectives **effectively**; and
- doing so:
  - **economically**;
  - **efficiently**; and
  - **in compliance** with all relevant laws and regulations.

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# Performance auditing (PA)



## PA – what?

More succinctly -

*“Achieving the desired level and quality of service at the most economical cost”*

Therefore:

- not **just** cost cutting (quantitative)
- concerned with **quality** and **desirability** too

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## Nature of performance auditing



- Not usually possible to apply performance auditing to a whole department
- Usually directed towards specific functions, activities, programmes or operations of the entity
- Not a random assortment of various financial and regularity audit findings but an assessment of either the whole or the part of the programme/subject/function/system

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# Regularity v PA

## Regularity Audit

Attestation (opinion on)  
financial accountability

Audit of internal control for  
safeguarding assets and  
completeness and accuracy of  
accounts

Audit of propriety of  
administrative decisions

Focus on financial matters.

## Performance audit

Audit of economy, efficiency  
and effectiveness

Audit of internal controls that  
ensure economy, efficiency and  
effectiveness

Assessment of compliance in  
the context of audit objectives

Extends to non-financial /  
governance subjects

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# Programme Evaluation v PA

## Activity

## Alternative Policies

Programme Evaluation



Performance Audit



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# Benefits of performance auditing



## External benefits

- Independent evaluation of the outcome of decisions and the performance of public services
- Contributes to transparency and accountability.
- Non-political

## Internal benefits

- Enhances cultural diversity, creativity and learning
- Increases auditors' visibility and motivation
- Promotes approval of audit resources

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# Objectives of PA



- To improve public sector administration and accountability by adding value through an effective programme of performance audits
- To assist management in exercising effective legislative control and oversight over the policy objectives and their implementation
- Assure management that:
  - programme objectives and targets have been determined with a view to fulfilling policy objectives
  - stated programme objectives have been met.

NB: PA not limited what has been done but to examine what has not been done to meet policy.

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# Responsibilities for performance



- Primarily lies with line managers
- Senior management may appraise the achievement of vfm
- Internal Audit role is twofold:
  - As an integral part of its responsibility to evaluate internal control system IA examines and evaluates the controls established by management to secure good Vfm
  - May conduct, or participate in, special Vfm reviews
- Internal Audit also need to demonstrate that they provide good Vfm in the services they provide

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# Typical audit roles



- During financial audit work be alert to opportunity to add value
- May be asked to examine local topics
- May be asked to examine national topics
- Auditing Performance Indicators (set by government)
- Drawing client attention to good practice
- Encouraging clients to recognise similar organisations and/or processes and make contact with each other

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# Potential for conflict with Internal Auditor's role



- PA work may overlap with normal IA work
- Need to be clear of the distinction between evaluating controls and examining results
- Internal Audit should define their definition of PA (Performance Audit) and agree with senior management

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# Challenges of introducing performance auditing



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# Getting started



Small scale  
pilot

Determine  
resources

Raise  
awareness

Avoid detailed  
systems

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# Organisation for performance auditing



- Options
  - Performance Auditing Team in GDIA
  - Multi-office team for training as trainers in their own offices
- Either of the above could be combined with pilot audits

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# Building the capacity for sustainable performance auditing



- Start small (e.g. pilot PA audit)
- Progressively build performance auditing capacity (years not weeks)

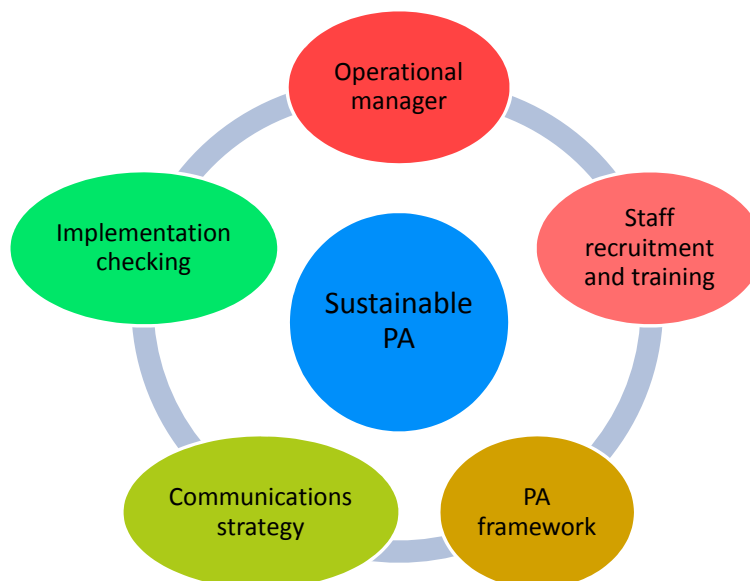
## Consider:

- Management commitment
- Operational management (development of PA function)
- Recruitment and training
  - academic qualifications (social science or broader investigative and evaluation work)
  - personal qualities (integrity, creativity, judgement, analytical skills and oral and written communication skills)
- PA framework (incl. policies, and quality assurance)

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# Building sustainability



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# Questions

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## Exercise E2-1

Individual activity (group discussion optional)

Make notes about the following:

- 1 What, if any, barriers (at least 3) are there to the introduction of performance auditing within the internal audit service in general and your organisation in particular?
- 2 For at least 3 challenges suggest actions to mitigate the risks.

Duration: 15 minutes

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# Exercise E2-1: Feedback



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## Session 3: Components of performance auditing



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# Session Outline

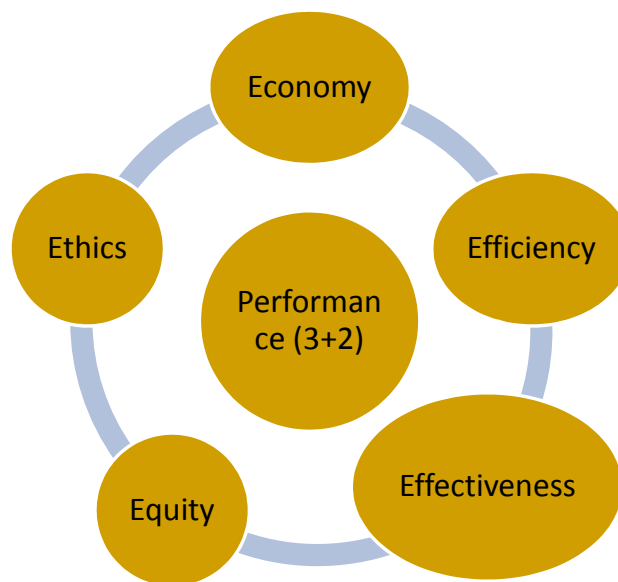


- Components of performance
- 3+2
- Components in detail
- Compliance

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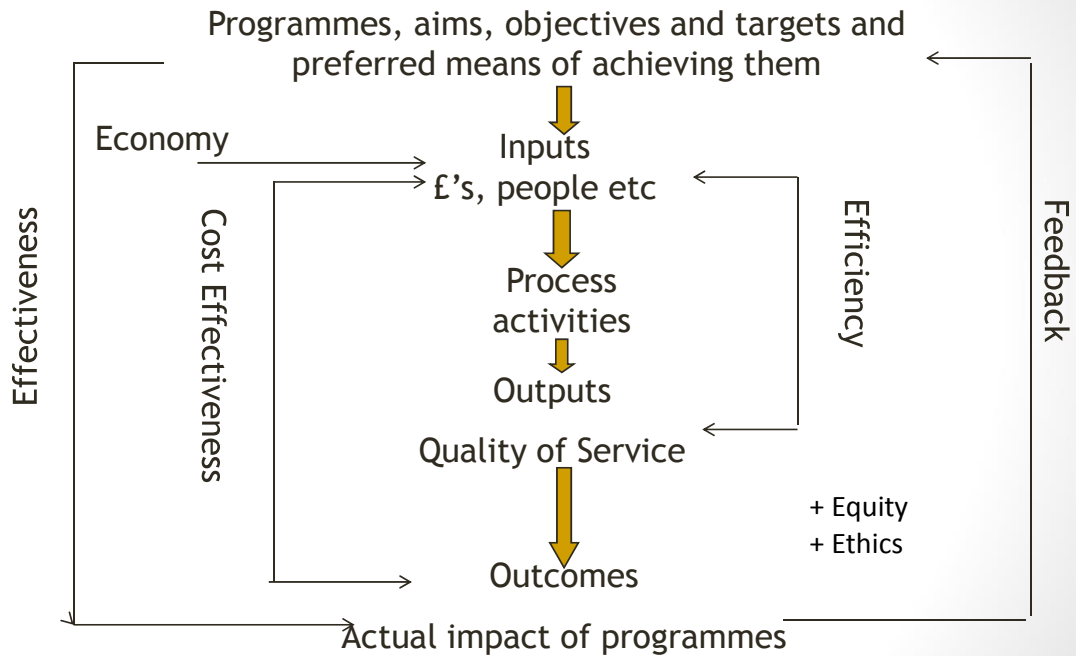
## Components of performance



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# 3 + 2



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## Economy



- Minimising the cost of resources used for an activity
- **Obtaining inputs of the right quality at the lowest possible cost**
- Acquiring resources of defined quality and quantity at the lowest cost

Examples:

- reduction in costs through better contracting, bulk buying;
- reduction in costs through economies on usage of personnel or other resources;
- introduction or revision of charges;
- rationalisation of facilities.

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# Efficiency



- The relationship between outputs and inputs in terms of goods, services and the resources used to produce them
- **Producing the greatest useful output from the given level of inputs**
- Required outputs for minimum level of inputs

## Examples:

- greater outputs from same inputs;
- remedying duplication of effort or lack of coordination;
- Were waiting times reduced, at no extra cost and with no reduction in quality of service?

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# Effectiveness



- The extent to which objectives have been achieved and the relationship between the intended impacts and actual impacts of an activity
- **Achieving the objectives of the activity or programme**
- Achieving intended outcomes or policies

## Examples:

- better identification/justification of need;
- clarifying objectives and policies;
- introducing better sub-objectives and targets;
- better achievement of objectives by changing the nature of outputs or improved targeting

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# Equity



- fairness and impartiality in use of public funds

Examples:

- Are outputs/services made available to intended groups without discrimination? Does everyone have access to the benefits due to them?
- Has management acted with fairness and impartiality

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# Ethics



- Honesty and integrity in personal conduct and devotion to the duty as manager of public funds.

Examples:

- Intentional unauthorised siphoning of resources for other purpose than for which these are provided;
- negligent/incorrect production or use of performance information.

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# Compliance



- Not forgotten
- When laws, regulations, and other compliance requirements could impact on audit questions, then the audit should address these issues
- Auditors should, within the audit objectives, report all significant instances of non-compliance and significant instances of fraud. Key questions:
  - are the right things being done?
  - are things being done in the right way?

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# Exercise E3-1



Individual exercise (10 mins)

Note on each of the following slides whether the scenario is about:

- Economy, or,
- Efficiency, or,
- Effectiveness

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## Exercise E3-1(a): Which “E”?



“The department has done well to improve its purchasing of goods and services in recent years. But further financial savings can be achieved by streamlining procurement activities, reducing stock levels and maximising the benefits of the department’s purchasing power through central contracts and locally negotiated contracts covering several prisons. The weaker performing departments need to learn from the success of the best.”

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## Exercise E3-1(b): Which “E”?



“About a third of call centres’ calls cost the department less than £1 per call minute. The auditors identified three centres whose calls cost more than £5 per minute. Call centres need to collect full and reliable information about their services”

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## Exercise E3-1(c) : Which “E”?



- “The strategy for helping young people to find work achieved its target of placing 250,000 young people into work in September 2000, and by October 2001 had helped 339,000 into jobs.”

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## Session 4:

# The performance auditing process

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## Session outline



- Performance auditing standards
- Stages of a performance audit
- PA strategic planning
- PA assignment planning
- PA execution
- PA reporting
- PA Implementation checking

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# Performance auditing standards

## A Internal Audit

- GAO: Generally Accepted Government Auditing Standards (GAGAS), known as the Yellow Book
- IIA: International Professional Practices Framework (IPPF), known as the Red Book
- European Court of Auditors (ECA) performance auditing manual
- RGC: Internal Control Policy

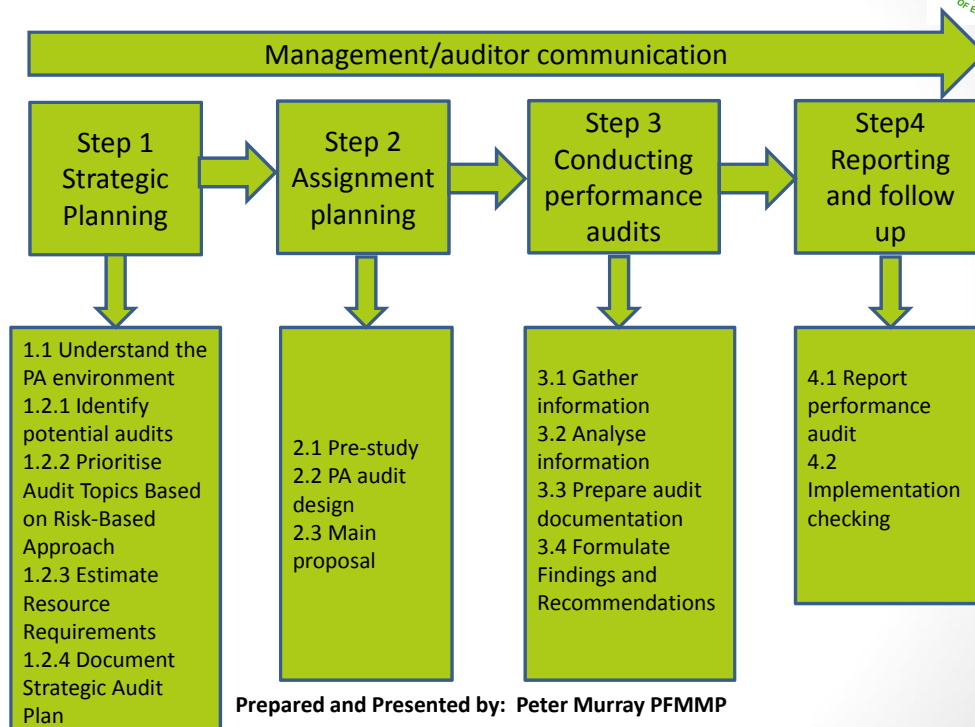
## B External Audit

- INTOSAI Implementation Guidelines for Performance Auditing

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# Stages of a performance audit



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# Strategic Audit Planning Phase



## Steps:

- 1.1 Understand the PA environment
- 1.2 Identify Potential Audit Topics
- 1.3 Prioritise Audit Topics Based on Risk-Based Approach
- 1.4 Estimate Resource Requirements
- 1.5 Developing and Documenting the SAP

Product: Strategic Audit Plan includes performance auditing

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# Assignment Planning Phase



## Steps:

- 2.1 Conduct pre-study
- 2.2 Designing the audit
- 2.3 The main proposal

Product: Audit proposal/work programme

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# Audit Execution Phase



## Steps:

- 3.1 Gather information
- 3.2 Analyse information
- 3.3 Prepare audit documentation
- 3.4 Develop Findings and Recommendations

Product: Findings

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# Audit Reporting Phase



## Steps:

- 4.1 Prepare Draft Audit Report
- 4.2 Discuss with Auditee
- 4.3 Address Comments
- 4.4 Develop Findings and Recommendations
- 4.4 Conduct Internal Quality Review
- 4.5 Conduct Exit Conference
- 4.6 Issue Final Report

Product: Final Audit Report in Standard Audit Format

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# PA Follow-Up Phase



## Steps:

4.2.1 Establish Follow-Up Plan

4.2.2 Assess Progress of Recommendations

4.2.3 Address Comments

Product: Follow-Up Audit Report

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# Exercise E4-1

Match the activity to the corresponding stage of a performance audit (15 Mins):

Reference	Activity	PA Stage (1-5)
1	Analyse information	
2	Prioritise Findings based upon Risk-Based Approach	
3	Communicate audit scope objectives and criteria with auditee	
4	Assess Progress of Recommendations	
5	Develop Findings and Recommendations	
6	Refine audit objectives and scope	
7	Estimate Resource Requirements	

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# Exercise E4-1: Model Answer

Reference	Activity	PA Stage (1-5)
1	Analyse information	3.2
2	Prioritise Findings based upon Risk-Based Approach	1.3
3	Communicate audit scope objectives and criteria with auditee	2.3
4	Assess Progress of Recommendations	5.2
5	Develop Findings and Recommendations	4.4
6	Refine audit objectives and scope	2.1
7	Estimate Resource Requirements	1.3

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## Session 5: Stage 1.1: Understanding programme budgeting and budget entities

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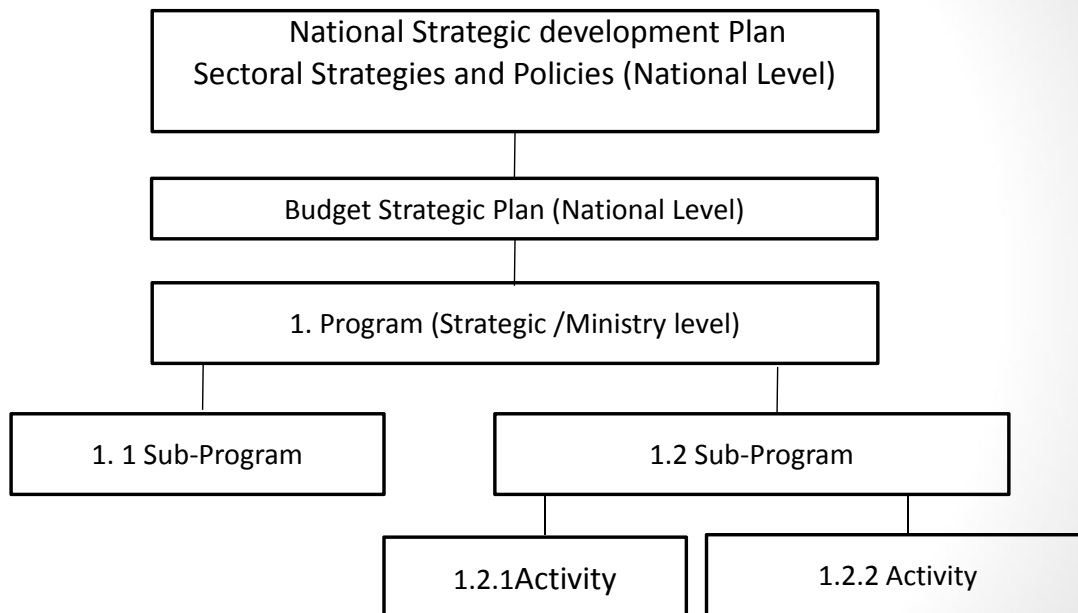
## Session outline

- Policy and budget formulation framework
- Budget strategy and programme budgeting
- The budget entity framework
- Establishing budget entities

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# The budget formulation framework



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## Budget Strategic Plan



- Identifies policy programmes
- Identifies sub-programmes for each programme (auditable level)
- Identifies output indicators (should be included in PA)
- provides financial data for materiality

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# Example Programs (MAAF)



To achieve its strategic targets each Ministry will implement programmes. Example MAAF:

Program 1: *Enhancement of agricultural productivity, diversification and commercialization*

Program 2: *Promote animal production and health*

Program 3: *Sustainable fisheries resource management*

Program 4: *Sustainable forestry and wildlife resource management*

Program 5: *Strengthening institutional capacity, enhancing efficiency of supporting services and human resource development*

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## Programme objectives



Each program has specific objectives for implementation in 5 years since 2014-2018. Example:

- Program 1: Enhancement of agricultural productivity, diversification and commercialization
- Objective : “Promote production growth of all crops around 10% per year through improvement of agricultural research and extension to increase more yields, enhance product quality, strengthen agricultural communities’ capacity by aligning with agricultural production with contract and increase the effectiveness of land management and use sustainably”.

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# Sub-programs (auditable areas)



Policy Objective	Program/Priority Strategy
<b>Policy Objective 1:</b>  Help people to have a proper job to earn the money for their living. Create more job opportunity at rural community such as roads, electricity and other resources to reduce immigration.	Pro 1: Continue building and development of human resource
	Sub-pro 1.1 Strengthening rural development statistic and planning data
	Sub-pro 1.2 Strengthening program budgeting execution
	Sub-pro 1.3 Capacity building and training
	Sub-pro 1.4 Strengthening internal audit and general inspection
	Sub-pro 1.5 Strengthening administration management and women in development

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# Linking programme budgeting and budget entities



Policy Objective	Program/Priority Strategy	Budget Entity/Executive Entity
<b>Policy Objective 1:</b> Help people to have a proper job to earn the money for their living. Create more job opportunity at rural community such as roads, electricity and other resources to reduce immigration.	Pro 1: Continue building and development of human resource	General Department of Administration and Finance
	Sub-pro 1.1 Strengthening rural development statistic and planning data	Dept. of Planning and Public Relations
	Sub-pro 1.2 Strengthening program budgeting execution	Dept. of Finance and Procurement
	Sub-pro 1.3 Capacity building and training	Dept. of Training and Research
	Sub-pro 1.4 Strengthening internal audit and general inspection	Dept. of Internal Audit
	Sub-pro 1.5 Strengthening administration management and women in development	Dept. of Administration and Personnel

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# Budget Entity Framework

- Established by Sub-decree of government and Prakas of Ministry
- Must be capable of owning activity implementation and budget implementation
- Promote de-centralization of financial management

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## Establishing budget entities



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# Phase 1: Identify Ministry objectives

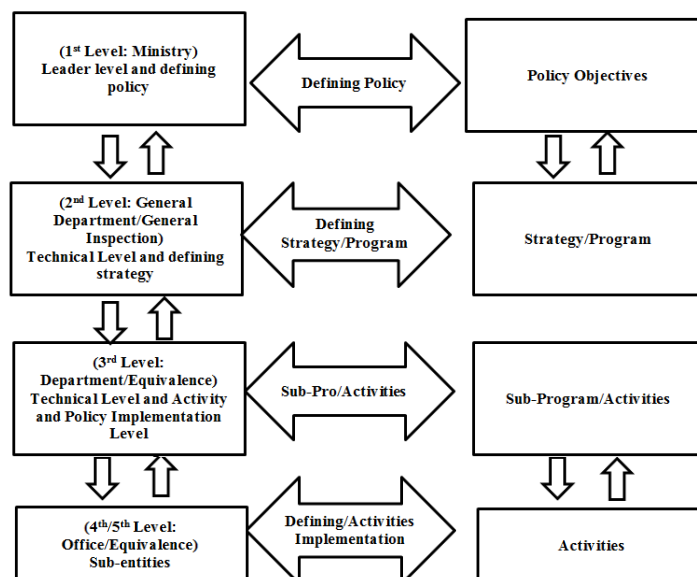
## Example (MAFF):

- **Policies per Rectangular strategy:**
  - Enhancement on agricultural productivity, diversification and commercialization
  - Enhancement on husbandry
  - Land reform, mine clearance and residual of bomb from war
  - Sustainably natural resource management
- **May be adjusted by management**

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# Phase 2: Management and policy structure



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## Phase 3: Identify budget entities: MEF Criteria



1	Entity established based on policy goal of ministry and listed in 3rd level* of ministry institutional structure and having its duty and role set with clear accountability lines
2	Entity having performance, output and outcome in level that can be measured.
3	Entity which size is proper (size of work, staffs requirement and budget) and sustainable
4	Entity having self-reliance, responsibility, management, accountability, transparency, effectiveness and efficiency.
5	Entity having capacity to prepare action plan, BSP and annual budget, manage action plans and implementation, and can manage budget execution
6	State entity receiving budget through state budget system
7	Entity that receives or grants an annual budget and may responsible on implementation and budget tracking

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## Phase 4: Preparing budget entities



- Allocate responsibilities
- Implement awareness and other training
- Align developing partner contributions
- Consider provincial pilots

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## Phase 5: Establishing budget entities



- Allocate responsibilities for timetable and implementation
- Confirm budget entities for 2015
- Manage risks of implementation, for example:
  - Taking long time or inaction in preparing and adjusting legal documents
  - Lack of staff participation
  - Weakness of cash flow (cash)
  - Late reporting of cash flow issues.

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## Phase 6: MEF Monitoring



- Monitoring and approval of LM requests for budget entities is made by MEF, General Department of Budget (MEF, GDB)
- MEF, GDB
  - prepares a report on the result of monitoring
  - obtains senior MEF approval of requests for the establishment of budget entities
  - prepares inter-ministerial Prakas between MEF and LM to implement approved budget entities.

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# Review of case study



[See Handout H5-1](#)

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## Exercise CS5-1:

Group activity (delegates from each LMs should be in the same group)

Exercise: Examine the Budget Entity Report and BSP for a LM. Identify the policy programmes, objectives and sub-programs. Select three sub-programs for further analysis.

Duration: 15 minutes.

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## Session 6

### Stage 1: PA Strategic Planning

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# Session outline



- Audit standards
- Objectives of PA Strategic Planning
- Stages of Strategic Planning for PA
- Identifying potential audit topics
- Prioritising audit topics
- Estimating resource requirements
- Documenting the Strategic Audit Plan

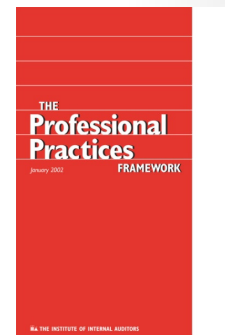
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# Audit Standards



"The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management ..... should be considered in this process" (IIA standards 2020.A1)



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# Objectives of PA Strategic Audit Planning



- provide a firm basis for management to give strategic direction for future audit coverage
- identify and select audits with the potential to improve public sector accountability and administration;
- provide a platform for communication with other agencies
- produce a work program that can be achieved with expected available resources;
- understand agency risks and take them into account in audit selection
- provide a basis for IAD accountability.

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## Stages of Strategic Planning for PAs



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## 1.2.1 Identify subject

- Identify subject through background research e.g:
  - Issues arising from main audit work
  - Recommended actions from audit report not implemented
  - Unexpected/unexplained increases in expenditure
  - Issues of concern raised in Management papers e.g. board minutes
  - Interviews with line managers
  - Aim to identify one subject per year from each operational system

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## What makes a good PA examination?

- A suitable topic
- Chosen after initial background research to understand nature/importance of subject
- Chosen after clear consideration of risk
- Focus defined carefully, with clear set of issues, and agreed with senior management
- Auditable within budget and expertise available
- Can be delivered within time frame

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# Clarity of focus

Essential that focus is clear

For example, a hospital can be examined from many aspects:

- Usage rates
- Cleanliness
- Frequency and causes of cancelled operations
- Availability of staff for each operation
- Availability of appropriate surgical tools
- Throughput of patients
- Backlog of patients
- Quality of construction and lifetime costs
- Design and suitability for purpose
- Location with respect to support functions

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# Sources of potential PA topics



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# General PA selection criteria

## Added value

- Potential to add value

## Important problems or problem areas

- Evidence that public service delivery deficient

## Risks

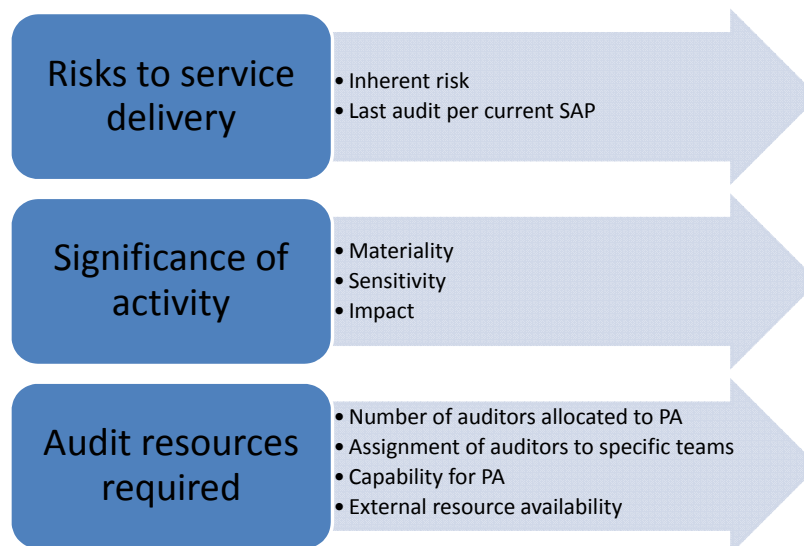
- Materiality
- Significance
- Auditability

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## 1.2.2: Prioritising PAs: Risks



NB: Wise to prioritise 130% of audit time for late starts

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# Checking the risk universe



Check:

All objectives are addressed

Processes necessary to achieve objectives have been identified

Process levels are appropriate

Each risk is allocated to a process

Risks have been properly filtered



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## 1.2.3 Estimating the supply of audit resources (dedicated PA function)



	Managers	Auditors	Totals
Notional PA resources (annual)	365	1095	1460
Less weekends	104	312	416
Less public holidays	27	81	108
Less sick (5% of Notional PA Resources)	18.25	54.75	73
Available PA resources	215.75	647.25	863
Assumptions:			
{1} 1 x Manager responsible for PA			
{2} 3 x Auditors working full-time on PA			

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# Estimating the supply of audit resources (no dedicated PA function)



	<u>Managers</u>	<u>Auditors</u>	<u>Total</u>
Per person			
Notional PA resources (annual)	365	1095	1460
Less weekends	104	312	416
Less public holidays	27	81	108
Less sick (5%)	18.25	54.75	73
Totals per person	215.75	647.25	863
Per IAD			
Managers (x 4 x 5%)	43.15		43.15
Auditors (x 20 x 10%)		1294.5	1294.5
Total for IAD			1337.65
Assumptions:			
{1} x 4 Managers work 5% on PA			
{2} x 20 Auditors work 10% on PA			

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## Demand for audit resources



Estimate the number of days required to complete each audit

For each plan year total the days required to audit all the controls over the risks and compare to the resources available.

If sufficient staff are not available, management and the audit committee should be informed of risks that cannot be audited due to resource constraints and given the opportunity to decide on their preferred option (provide more audit resources or tolerate risks).

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## 1.2.4: Developing and documenting the SAP



### Activity

1.4.1 Documenting the SAP

1.4.2 Obtaining approval

1.4.3 Modifying the SAP

### Notes

- Apply PA risk factors to prioritise
- Document within the framework of the procedures as per the Guidelines for the preparation of SAPs

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## Approval and publication



Discuss with senior management and audit committees, amend as appropriate, obtain approvals and publish to agreed stakeholders

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# Questions

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## Exercise CS6-1

You have identified the following potential performance audits:

- Sub-pro 1.2 Strengthening program budgeting execution
- Sub-pro 1.4 Strengthening internal audit and general inspection
- Sub-pro 1.5 Strengthening administration management and women in development
- Document search and interviews provide the following information

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# Exercise CS6-1

	Risk scores (1-3)						
	Service delivery		Significance			Auditability	
	<u>Date of previous audit</u>	<u>Inherent risk</u>	<u>Materiality (\$m p.a.)</u>	<u>Significance</u> Selected users <u>Users</u>	<u>Impact</u> (Opportunity to add value)	<u>No. of skilled PA audit days available to audit area</u>	<u>External resource availability</u>
<u>Programme</u>							
1 Sub-pro 1.2 Strengthening program budgeting execution	2013	M	50	Selected users	Medium	2	1
2 Sub-pro 1.4 Strengthening internal audit and general inspection	2014	M	20	Selected users	Medium	2	1
3 Sub-pro 1.5 Strengthening administration management and women in development	2000	M	100	Business critical	High	4	0

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# Exercise CS6-1: Model Answer

		Preliminary survey							
		Service delivery		Significance			Auditability		Totals
		<u>Date of previous audit</u>	<u>Inherent risk</u>	<u>Materiality</u>	<u>Significance</u>	<u>Impact</u>	<u>No. of skilled PA audit days available to audit area</u>	<u>External resource availability</u>	
	<u>Programme</u>								
1	Sub-pro 1.2 Strengthening program budgeting execution	2	2	2	2	2	2	1	13
2	Sub-pro 1.4 Strengthening internal audit and general inspection	1	2	1	2	2	2	1	11
3	Sub-pro 1.5 Strengthening administration management and women in development	3	2	3	3	2	3	1	17

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## Session 6: Step 2: Planning individual PA assignments

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## Session Outline

- Objective of planning PA assignments
- Stages in planning individual PA audits
- PA pre-study
- Refining audit objectives and scope
- Defining audit criteria
- Quality assurance, timetable, and resources
- PA Main Proposal

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# Objective of planning individual PA assignments



To ensure that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

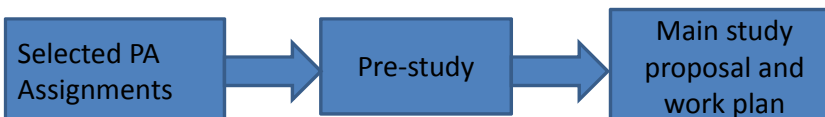
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## Stages in planning individual PA assignments



Before starting the main study in performance auditing, it is important to refine the audit objectives, the scope, and the methodology to achieve the objectives. This is done in form of a pre-study.



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# Purpose of a pre-study

To establish whether the conditions for a main study exist and, if they do exist, to produce an audit proposal with a work plan.

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## Stages of Pre-study

2.1.1 Refine the specific issue to be studied and the audit objectives



2.2.1 Develop audit scope, criteria and design



2.3.1 Determine the timetable, audit resources



2.4.1 Design quality assurance

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## 2.1.1 Refining the issue

*What?* What is the audit question or the problem to be studied?

- Difficult but decisive step
- Sources
  - relevant literature,
  - documents and statistics,
  - interviews with major stakeholders and experts etc.

Note: even minor changes to the audit question or the problem to be studied may have a major impact on the general scope of the audit.

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## Refining audit objectives

*Why?* What are the audit objectives?

### Considerations

- Audit objectives relate to the reasons for conducting the audit and
- The roles and responsibilities of the IAD
- Expected net impact of the audit

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## 2.2.1 Audit scope

- **Objective:** systematically direct attention to what the auditors need to know, and from where and how they can obtain the information.
- **Key questions**
  - *What?* What specific questions are to be examined?
  - What kind of study is appropriate?
  - *Who?* Who are the key players involved and the auditee(s)?
  - *Where?* Are there limitations to the locations to be covered?
  - *When?* Are there limitations on the time frame?

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## Some alternative PA approaches

- Process-based studies: Basic question: How does the program work?
- Impact studies: Basic question: What are the net effects of the government program?
- Cost-benefit studies and cost-effectiveness studies: Basic questions: Do the program benefits exceed the costs, and are the objectives met at the lowest possible costs?
- Benchmarking studies: Basic question: Are things being done in accordance with best practices?
- Meta-evaluation studies: Basic question: Is the quality of the conducted evaluation acceptable?
  - Organizational studies: Studies of whether organizational structures, processes and programs, etc., correspond to best practice.
  - Specific service and quality-management studies: Studies of service-capacity and quality-assurance systems.

Note: Most likely: A PA will include elements of several of the above.

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# Audit design



## Key activities:

- Define the overall approach
- Define the specific questions to be answered (the plausible causes of the problem)
- Identify data collection techniques to be applied, for example,
  - Surveys
  - Interviews
  - Observations
  - Studying written documents
- Write audit program (the type of investigation that is to be carried out).

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# Defining audit criteria



- Objective: To set standards to determine whether a program meets or exceeds expectations

## Considerations:

- The general concepts of economy, efficiency, and effectiveness need to be interpreted in relation to the subject matter
- When criteria are compared with what actually exists they should generate audit findings
- May require revision at fieldwork stage
- Most authoritative sources:
  - Official sources
  - Best practice.

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# Characteristics of PA audit criteria

- Reliability: Yield consistent conclusions
- Objectivity: Free from any bias of the auditor or management
- Usefulness: Result in findings and conclusions that meet users' information needs.
- Understand ability: Clearly stated and not subject to different interpretations.
- Comparability: Consistent with those used by similar agencies
- Completeness: Development of all significant criteria appropriate to assessing performance.
- Acceptability: Independent experts, audited entities, legislature, media, and general public generally agreeable to.

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# Possible sources of PA criteria

## Official sources

- ☐ laws and regulations, decisions of the executive, key performance indicators (KPIs)
- ☐ criteria used previously in similar audits
- ☐ general management and subject-matter literature
- ☐ Previous enquiries by legislature

## Professional and best practice

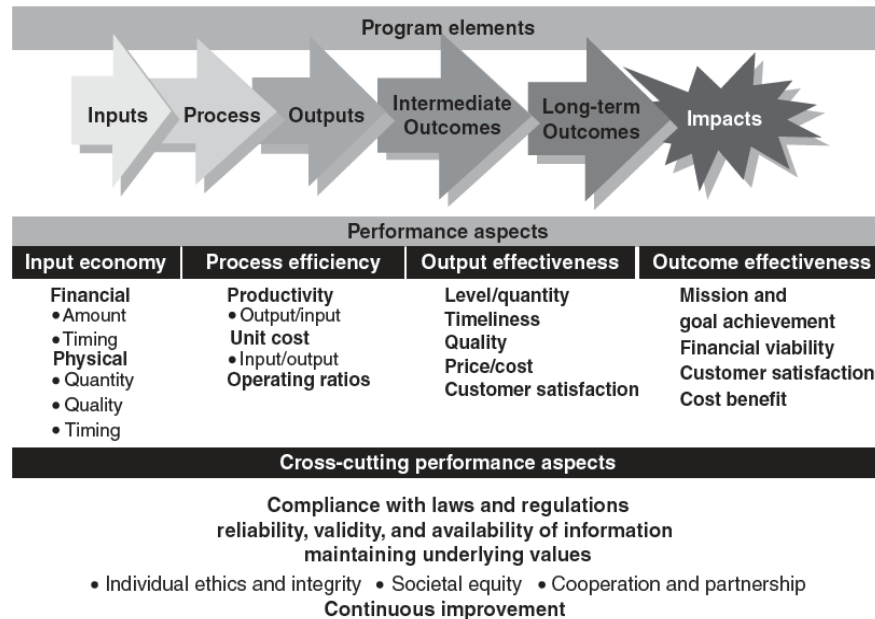
- ☐ professional standards, experiences, and values
- ☐ independent expert advice and know-how
- ☐ historical or best practice comparisons
- ☐ experience of similar organizations
- ☐ new or established scientific knowledge and other reliable information.

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# Audit areas for designing PA criteria



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# Examples of simple PA criteria

- Government assets should be used only for authorised purposes
- Ministry financial instructions should be complied with
- Goods and services are only procured after an objective competitive evaluation of the most likely possible suppliers

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## 2.3.1 Determining timetable, and audit resources



Relevant factors:

- Manner in which the audit is organized,
- Expected costs (for both staff and equipment)
- Expected completion time
- Monitoring progress
- Exception reporting.

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## 2.4.1 Quality assurance



Quality assurance framework:

- Ex Ante (e.g. continuous management review)
- Ex Post (e.g. independent review of audit reports)

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## Possible contents of Main Proposal (1)

- The needs of potential audit report users
- The legal and regulatory environments
- Significant findings from previous audits and investigations
- Problems to be scrutinized.
- Audit objectives and scope
- The basic audit questions – as well as the more specific questions to be answered
- Audit criteria against which the audit evidence will be judged.
- Audit evidence that will answer the audit question and the relevance, reliability and sufficiency of existing data.

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## Possible contents of Main Proposal (2)

- Consider, if needed, help from experts (consultants, other auditors) concerning how to secure quality in the audit. It is important to evaluate the professional knowledge and skills required by the audit team to carry out the audit.
- Provide sufficient staff and other resources to perform the audit and prepare a written plan. Select a suitable audit team.
- Decide upon a budget for the resources needed to carry out the examination and the timetable.
- Consider the possible conclusions and impacts of the examination. The proposed outcome should be judged in terms of 'usefulness' and 'feasibility'. The auditor should consider the views and interests of the stakeholders.

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# Questions

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## Exercise CS7-1: PA Criteria

Group activity

Apply the 'Audit Areas for designing PA criteria' model to the selected sub-program and formulate PA criteria for each of:

- Input Economy
- Process Efficiency
- Outcome Effectiveness
- Output Effectiveness
- Cross-cutting goals.

Duration: 20 minutes + Feedback

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# Exercise CS7-1: Feedback



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## Session 8: PA Fieldwork



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# Objectives of fieldwork



Objective: To implement the main study, work plan, conduct the audit and provide the basis for a high quality audit report.

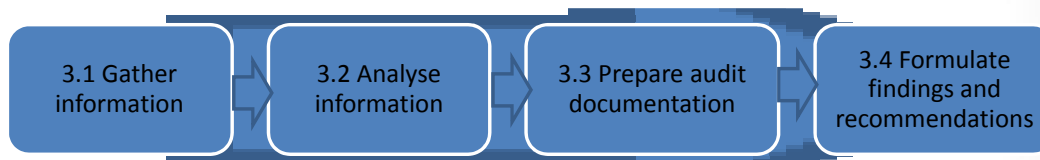
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## PA fieldwork process



### PA Fieldwork



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## 3.1 Gathering information

Objective: To collect information about the control performance environment for future comparison with audit criteria (what is generally expected).

Key considerations:

Some information gathered for strategic planning might be useful

Auditors likely to need a mixture of data gathering techniques

Some data gathering methods:

- Interviews
- File examination
- Surveys or questionnaires
- Documentation review
- Seminars and hearings
- Focus groups, focal groups, reference groups
- Experts
- Direct observations

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## 3.2 Analysing data (Audit evidence)

Objective: To compare the results of data gathering to audit criteria (what is generally expected).

Considerations:

- Work done in the pre-study phase constitutes part of the overall evidence
- Features of adequate evidence:
  - Sufficient
  - Competent
  - Reliable

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# Types of audit evidence



Evidence	Examples
Physical	Inspection or observation of people, property, or events
Documentary	Letters, contracts, accounting records, and management information on performance
Testimonial	Interviews or questionnaires
Analytical	Computation, comparisons, separation of information into components, and rational arguments

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## Procedure for collecting audit evidence



- Examine the characteristics of data required;
- Collect data relevant to achieve the audit objectives;
- Collect data outlined in the audit work plan;
- Collect data that is sufficient and persuasive to logically support the analysis, observations, conclusions and recommendations; and
- Apply the standard of evidence to build a successful case 'on the balance of probabilities'.

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## 3.3 Audit documentation

Main objective: To record the audit evidence in support of conclusions and decisions, to provide records to assist audit management and monitoring, and to enable work to be reviewed by senior officers.

Considerations:

- Working papers should cover planning, execution and reporting.
- Maintain the confidentiality and custody of working papers
- Retain the working papers for a period sufficient to meet the needs of the legal and professional requirements of record retention.

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## 3.4 Formulating Findings and Recommendations

Audit findings

Evidence gathered by the auditor to satisfy the audit objectives

Conclusions

Statements deduced by the auditor from those findings

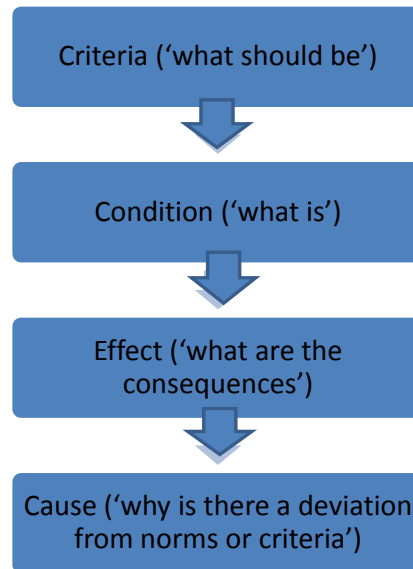
Recommendations

Suggested courses of action

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# Elements of audit findings



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## PA Recommendations



- Clearly related to economy, efficiency and effectiveness
- Co-developed with management
- Included in Corrective Action Plan
- Address root causes of problems
- Mitigate risks efficiently
- Add value
- Practical
- Innovative

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# Questions

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## Exercise CS8-1: Formulating audit recommendations



Individual activity

[See Handouts H8-1](#) and [H8-2](#)

Duration 20 minutes + Feedback

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## Session 9:

# Step 4.1 Communicating the results of performance audits

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## Objectives

To communicate the results of PAs to all levels of government, make the results less susceptible to misunderstanding, control distribution, and facilitate follow-up to determine whether corrective actions have been taken.

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# Key PA reporting considerations



- In many ways reporting a PA is no different from reporting any other audit type but there are special considerations
- The audit report is the final product of the performance audit cycle and the performance audit function will be judged by its content
- Unlike, for example, compliance audit, auditees may doubt both the mandate and ability of auditors to comment on performance (particularly outcomes)
- It is essential that auditors have generated senior management commitment at the outset and co-develop expectations with senior auditees throughout the audit.

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# Key PA reporting principles (Contd.)



- Results documented and reported timely.
- Well communicated to senior auditees
- Well-founded, objective and complete information, analyses and assessments that add value for decision-makers and other stakeholders.
- Objective, well written, well structured, comprehensive, reliable, and contain relevant and usable conclusions.
- Published and followed up in an objective manner.

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# PA Reporting procedure



- Meet with team to discuss evidence, likely conclusions and shape of report
- Important to have meeting with management to discuss findings and also likely shape of report early on
- Follow up areas of concern/gaps that management identify in discussions
- **Modify standard audit report format**
- Draft report using clear language, graphics sparingly, avoid jargon or use glossary
- Put data in appendices or exclude
- Use executive summary to focus on recommendations and impact
- Allow opportunity for management to comment on report.

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# Exercise CS9-1



[See Handout H9-1](#)

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# Exercise CS9-1: Model answer



[See Handout H9-2](#)

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## Session 10: 4.2 PA Implementation checking

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## Session outline

- Audit standards
- Benefits of implementation checking
- Objectives of PA Implementation checking
- Stages of PA Implementation Checking
- Establishing a Follow-Up Plan
- Assessing the progress of Recommendations
- Addressing comments

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# Implementation checking standards



'The chief audit executive should establish a follow up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.'

**IIA Performance Standard – 2500**

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## Some benefits of implementation checking



- Promotes beneficial change
- Reduces risks to management (responsible for all unmitigated risks)
- Increases IAU productivity by reducing the likelihood of repeating recommendations in the next audit

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# Objective of implementation checking



To determine and report upon the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings

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## Stages of PA Implementation Checking



4.2.1 Establish a PA Follow-Up Plan



4.2.2 Assess the progress of Recommendations



4.2.3 Address comments

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## 4.2.1 Pre-requisites for effective implementation checking



- Agree policy on implementation checking with management
- Budget IAU time for follow-ups
- Agree 'realistic' timings for audit actions reflecting risks and implementation complexity
- Relate follow-up timing more closely to the significance of recommendations

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## Practical constraints on implementation checking



- Some sites difficult to revisit
- **Budget pressures**
- May be lack of specific IAU time provision for implementation checking
- Auditees may expect long time scales for implementation

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## 4.2.2 Sample implementation checking procedure



- 1: IAD management notes timing of follow-ups on the Management Action Plan in Audit Assignment File
- 2: Follow up review allocated to a lead auditor
- 3: Lead auditor copies recommendations in the Final Audit Report to an Implementation Checking Form (ICF)
- 4: Implementation discussed with management
- 5: Results of discussions recorded in ICF
- 6: Internal IAD discussions of completed ICF
- 7: ICF retained on Audit Assignment File

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## Evidence of implementation



- IADs must obtain evidence that the client has implemented recommendations in a way that achieves the desired improvement
- In many cases IADs will need to retest controls

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## Example multiple follow-up timing



### Significance of recommendation

### Timing of follow-up

Fundamental

Promptly after the agreed date for implementation

Significant

Before the next scheduled audit visit

Advisable

During the next scheduled audit visit

NB: All recommendations followed up within 12 months

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## 4.2.3 Example IAD responses to ICF results



- Satisfactory implementation
  - Confirm in writing to client
  - Close audit
  - Update risk profile
- Not or partially implemented
  - Discuss non - compliance with management
  - Take agreed action

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# Questions

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## Exercise CS9-1: Model answer



[See Handout H10-1](#)

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# Session 11: Examples of possible pilot performance audits

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## Objectives

- To provide IADs with potential PA topics capable of audit in a wide range of Ministries
- To promote discussion about possible pilot audits
- To facilitate cooperation of IADs from multiple ministries for the planning, conduct, reporting and implementation checking of 'common themes'.

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## Examples of topics

- Training strategy
- Procurement of materials or equipment
- Management and utilisation of assets e.g. accommodation
- Energy usage of different offices
- Transport strategy or fleet management
- IT strategy
- Communications strategy
- Treasury management
- Business planning and forecasting
- Quality and effectiveness of services to the public
- Debt management

Note: Consider combining with Project Financed by Development Partners (PFDP) (WB request)

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## Exercise 11-1: Possible pilot audits

- 1 In Groups (approx. 10 per Group) discuss the example PAs and note 3 of them that could form the basis of a pilot audit within your organisation.
- 2 From your experience note any additional PAs that are might improve public administration, are significant and auditable.
- 3 Note any PAs that are thematic and could be carried out in cooperation with other IADs.

Time (20 minutes)

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## Exercise 11-1: Feedback

Group	Possible pilot audits		
	1	2	3

(Time 15 Minutes)

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