



Performance Audit Guide



**Office of the Auditor General
Anamnagar, Kathmandu, Nepal
2023**

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Foreword

It is my immense pleasure to release the Performance Audit Guide of the Office of the Auditor General of Nepal. This guide will be applicable in undertaking respective financial, compliance, performance audits of the entities as per the Audit Act, 2075.

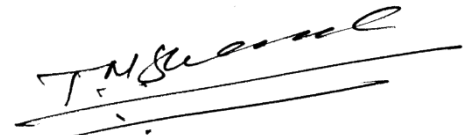
this guide provides a clear picture of methods and approaches to audit that the audit staff is required to comply with in imparting their duties. It has been built around the prevailing Audit Act, Nepal Government Auditing Standards (NGASs), and office policies that require conducting a high-quality audit. Since NGASs are based on INTOSAI framework for Professional Pronouncement (IFPP), this guide seeks to incorporate the Nepal audit practices at par with the international best practices.

This guide provides guidance and direction in all phases of the audit from pre-panning to follow-up including audit requisites, topic selection, pre-engagement, planning, execution, reporting, follow-up and quality control with necessary annexures which encourages professional judgment where it requires. The guide does not override the legal requirements and conditions of NGASs. Likely, it shall not limit the professionalism of the officials entrusted with the responsibility of conducting audits.

Our knowledge, skill, and experience with auditing practices continue to evolve, and so will this guide. This guide is expected to be updated for the continuous improvement of audit practices to meet legal provisions, audit standards, and practices to address emerging risks.

my special thanks to all staffs who prepared the guide and provided their valuable feedback and comments to make this guide implementable which, I do hope, will be of use to conduct audits efficiently and effectively.

May 15, 2023



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Auditor General

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List of Abbreviations

Abbreviation	Full form
AAG	Assistant Auditor General
AG	Auditor General
AQ	Audit Questions
ASOSAI	Asian Organization of Supreme Audit Institutions
AT	Audit Tool
CCU	Central Coordinating Unit
CSFs	Critical Success Factors
DAG	Deputy Auditor General
GUID	INTOSAI Guidance
IFPP	INTOSAI Framework of Professional Pronouncements
INTOSAI	International Organization of Supreme Audit Institutions
ISQC	International Standard on Quality Control
ISSAIs	International Standards of Supreme Audit Institutions
KPIs	Key Performance Indicators
MIS	Management Information System
NAMS	Nepal Audit Management System
OAGN	Office of the Auditor General of Nepal
PAC	Public Accounts Committee
PARF	Public Audit Restructuring Framework
PMF	Performance Management Framework
QAR	Quality Assurance Review
QCA	Quality Control and Assurance
SAI	Supreme Audit Institution
SAQs	Sub Audit Questions
VfM	Value for Money
WPs	Working Papers

Glossary of Terms

ASOSAI

ASOSAI (Asian Organization of Supreme Audit Institutions) is one of the Regional Groups representing the Asian region of the International Organization of Supreme Audit Institutions (INTOSAI). It is an international and independent body which aims promoting the exchange of ideas and experience between Asian Audit Institutions in the sphere of public auditing.

Audit Approach

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

Audit Criteria

Audit Criteria are the benchmarks used to evaluate the subject matter. Performance audit criteria must be reasonable. Criteria are audit-specific standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated. Criteria help evaluating the evidence, developing audit findings, and conclusions. Criteria can be qualitative or quantitative and should define what the audited entity will be assessed against.

Audited Entity or Auditee

The organization, agency, program, activity, area, or function which is the subject matter to audit by the Office of the Auditor General Nepal (OAGN).

Audit Evidence

Information that forms the foundation which supports and established the auditor's opinions, conclusions, or reports.

Audit Mandate

The auditing responsibilities, powers, discretions, and duties conferred on the Supreme Audit Institution of Nepal (OAGN) under the constitution and the Audit Act.

Audit Methodology

Audit Methodology is how the audit is conducted in accordance with the applicable standards, principles, and practices to be followed by auditors in carrying out audit works.

Audit Objective

A precise statement of purpose indicating what the audit intends to accomplish and/or the question the audit will answer. Audit objective of Performance Audit may include how the concepts of the 3E's are to be examined during the Performance Audit.

Audit Planning

Defining the audit objectives, setting the audit questions, determining the nature, scope, extent and timing of the audit processes, procedures and tests to be carried out during the audit to address the audit objectives.

Audit Procedures

Tests, evidence gathering procedures, instructions and other relevant details included in the audit program to be carried out systematically during the audit. Audit Procedure's may include:

- ▶ Test of Control
- ▶ Analytical Procedures.

-
- ▶ Test of Details.

Audit Program

Audit requirements and procedures necessary to implement the audit objectives and to make assessments against audit criteria.

Audit risk

Audit risk is the risk that the audit report may be inappropriate. The auditor performs procedures to reduce or manage the risk of reaching inappropriate conclusions, recognizing that the limitations inherent to all audits mean that an audit can never provide absolute certainty of the condition of the subject matter. When the objective is to provide reasonable assurance, the auditor should reduce audit risk to an acceptably low level given the circumstances of the audit. The audit may also aim to provide limited assurance. The acceptable risk that criteria are not complied with is greater than in a reasonable assurance audit. A limited assurance audit provides a level of assurance that, in the auditor's professional judgment, will be meaningful to the intended users. The auditor must manage audit risk to avoid incorrect or incomplete audit findings, conclusions, and recommendations.

Audit Sampling

Statistically based techniques that extrapolate from specific cases to make assertions about the population as a whole and are used when it is not feasible to analyse entire population e.g., users group, grant provided, elements of internal control systems, agency units, etc.

Audit Scope

The activities to be covered in the audit with time limits relating to the subject matter of the audit.

Auditing Standards

Auditing standards provide the applicable guidance for the auditor that helps determine the audit steps and procedures that should be applied to fulfil the audit objective. They are set of concepts and principles that defines public sector auditing. They are the criteria or yardsticks against which the quality of the audit results is evaluated. The ISSAIs are the authoritative international standards on public sector auditing which enables to:

- ▶ ensure the quality of the audits conducted
- ▶ strengthen the credibility of the audit reports for users
- ▶ enhance transparency of the audit process
- ▶ specify the auditor's responsibility in relation to the other parties involved
- ▶ define the different types of audit engagements and the related set of concepts that provides a common language for public sector auditing.

Control Environment

The control environment is the set of actions taken by management that set the tone for how employees engage in their day-to-day activities comprising all policies and procedures and actions regarding the internal control system.

CAATs

Computer Assisted Audit Techniques and Tools are computer-based tools and techniques which permit auditors to increase their productivity as well as that of the audit function in gathering audit evidence by exploiting the power and speed of computer.

Due Care

The appropriate element of care and skill which a trained auditor is expected to apply having regard to the complexity of the audit task, including careful attention to planning, gathering, and evaluating evidence, and forming opinions, conclusions and making recommendations. Auditors should exercise due care to ensure that their professional behaviour is appropriate.

Documentation

Documentation is the material forming the working paper prepared by and for or obtained and retained by the auditor in connection with a performance audit.

Economy

The principle of economy means minimizing the costs of resources. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price. Minimizing the cost of resources used for an activity, having regard to the appropriate quality.

Effectiveness

The principle of effectiveness concerns meeting the objectives set and achieving the intended results. It shows the extent to which the objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

Efficiency

The principle of efficiency means getting the most from the available resources. It shows the relationship between resources employed and outputs delivered in terms of quantity, quality, and timing. The relationship between the output, in terms of goods, services or other results, and the resources used to produce them.

Expert

An expert is a person or firm possessing special skill, knowledge, competence, and experience in a particular field other than accounting and auditing.

Engagement

The term engagement refers to the work carried out in exercising the audit functions of the SAI such as a performance, compliance, or financial audit.

Financial Systems

The procedures for preparing, recording, and reporting reliable information concerning financial transactions.

Findings, Conclusions and Recommendations

Findings are the specific evidence gathered by the auditor to satisfy the audit objectives; conclusions are statements deduced by the auditor from those findings; recommendations are courses of action suggested by auditor relating to the audit objectives.

Inherent Risk

Inherent risks are the risks that something could go wrong that would prevent an audited entity from achieving a goal. Auditor evaluates the internal risk including inherent risk before considering the effectiveness of internal control.

Internal Control

The whole system of financial and other controls, including the organizational structure, methods, procedures, and internal audit, established by management within its goals, to assist in conducting the objectives of the audited entity in a regular economic, efficient and effective manner. It ensures adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information and information and communication technology systems.

INTOSAI

The International Organization of Supreme Audit Institutions (INTOSAI) is an umbrella organization for the government audit community. It is a non-governmental organization with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations. It is an independent body aims at promoting the exchange of ideas and experience between Supreme Audit Institutions in the sphere of public audit and financial control.

Legal Authority

Legal Authority means laws, regulations, orders, directives, circulars, or other documents having the force of law.

Materiality and Significance (Material)

Auditors should consider materiality at all stages of the audit process. Materiality means not only financial but also social and political and other relevant aspects of the subject matter. Materiality indicates the relative importance of a matter and depends on whether the activity is comparatively minor and whether shortcomings in the area could influence other activities within the audited entity. An issue will be considered material where it has a significant impact. In performance audit, materiality by monetary value may not, be a primary concern and the auditor should consider also what is socially or politically significant. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation, careful judgement is important. 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 low-impact audit findings or reports.

Materiality is often considered in terms of value, but the inherent nature or characteristics of an item or group of items may also render a matter material--for example, where the law or some other regulation requires it to be disclosed separately regardless of the amount involved. In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to the overall view given by the accounts; the total of which it forms a part; associated terms; the corresponding amount in previous years. Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures.

Opinion

The auditor's written conclusions on a set of financial statements as the result of a financial or regularity audit or audit conclusion or opinion on the subject matter of performance audit linking to the audit objectives and audit questions.

Performance Audit

Performance auditing is an independent, objective, and reliable examination of whether government undertakings, systems, operations, programmes, activities, or organizations are operating in accordance with the principles of economy, efficiency, and effectiveness and whether there is room for improvement.

Public Accountability

The obligations of persons or entities, including public enterprises and corporations, entrusted with public resources to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them.

Quality Assurance

Quality assurance is an assessment process focusing on the operation of the quality control system. It is a review completed after the audit by persons who are independent of the audit under review. Quality assurance necessarily involves the examination of specific audits. However, the purpose of the review is not to criticize specific audits. Rather, it is to determine what controls were intended to be applied to those audits, how those controls were implemented, any gaps in the controls, and other ways of improving the audit quality system.

Quality Control

Quality control is a process through which an SAI seeks to ensure that all phases of an audit (planning, execution, reporting, and follow-up) are carried out in compliance with the SAI's rules, practices, and procedures. A quality control system should ensure that audits are timely, comprehensive, adequately documented, and performed and reviewed by qualified staff.

Residual Risk

The level of risk that remains after taking in to account the mitigating effect of related controls.

Report

The auditor's written report containing audit opinion and other remarks on a set of financial statements as the result of a financial or regularity audit or the auditor's findings on completion of a performance audit including audit conclusions and recommendations on the subject matter.

Stakeholder

Parties that are affected by the entity, such as shareholders, the communities in which the entity operates, employees, customers, and suppliers.

Supervision

An essential requirement in auditing which entails proper leadership, direction, and control at all stages to ensure a competent, effective link between the activities, procedures and tests that are carried out and the aims to be achieved.

SAI

Supreme Audit Institution is a public body mandated to conduct public audit of a State or Nation. The duties and powers of SAI are defined in the statutes. SAI exercises its audit engagements by virtue of its mandate established by law. SAI is the highest public auditing functionary of a nation.

Subject Matter

The subject matter of a performance audit means specific programmes, entities or funds, activities (with their outputs, outcomes, and impacts) or existing situations (including causes and consequences). Examples include service delivery by the responsible parties or the effects of government policy and regulations on administration, stakeholders, businesses, citizens, and society. The subject matter is determined by the audit objective and formulated in the audit questions.

Working Paper

Working paper is a record of the auditor's planning, nature, timing and extent of the auditing procedures and the conclusion drawn from the audit evidence obtained

About the Guide

1. Overview

The Office of the Auditor General of Nepal (OAGN) conducts the audits following the International Organization of Supreme Audit Institutions (INTOSAI) Framework of Professional Pronouncements (IFPP). The guidance provided in this guide is aligned with the performance audit principles, standards and guidance issued by the International Organisation of Supreme Audit Institutions (INTOSAI). The International Standards of Supreme Audit Institutions (ISSAI) are a benchmark for auditing public entities. These guidelines contain the framework for the process of performance auditing.

OAGN prepared its first Performance Auditing (PA) Guide in 1995 under the support of UNDP and was revised in 2000 with the technical assistance of the World Bank. The PA Guide was subsequently revised in 2012. As OAGN strives to update its audit practice in accordance with the latest international standards and best practices, the current Performance Audit guide issued in 2012 has been further revised due to ensuing changes in ISSAIs, PA principles, standards and guidance issued by INTOSAI subsequent from 2012 till date.

This Performance Audit Guide is developed based on the latest international best practices, applicable ISSAI principles, standards and guidelines, viz.

- ▶ *ISSAI 100 Fundamental Principles of Public-Sector Auditing*, inter alia provides with the framework for public-sector auditing.
- ▶ *ISSAI 300 - Performance Audit Principles* deals with the fundamental principles of ISSAI 100 to contextualize PA.
- ▶ ISSAI 3000 - Performance Audit Standard is the authoritative standard for performance auditing and must be used in conjunction with ISSAI 100 and ISSAI 300; and non-mandatory guidelines contained in the following:
 - ▶ GUID 3910¹- *Central Concepts for Performance Auditing*, and;
 - ▶ *GUID 3920 - The Performance Auditing Process*.

It contains detailed guidelines and procedures to be followed by the audit parties in performance audit planning, execution, report preparation, and follow-up. The guideline outlines the professional standards of audit to be maintained by the audit personnel. It is intended to serve as an effective resource to provide main principles for conducting performance audit activities. These guidelines have also been aligned with Nepal Audit Management System (NAMS) that shall be used by OAGN to carry out various audit activities.

The Performance Audit Guide is intended to provide professional guidance, tools and information for managing the performance audit conducted by OAGN auditors and sets out the principles, policies and procedures that govern the performance audit practices and processes to be followed. The guide contains comprehensive implementation instructions and has been prepared to establish a minimum requirement for smooth operation of performance audit by OAGN.

2. Purpose and objective of the PA guide

The purpose of this guide is to provide the best practices that auditors of OAGN must follow in planning, implementation, reporting, observing follow-up processes and quality control in performance auditing.

Performance Audit is complex and challenging since its objective is to provide appropriate recommendations for improvements after examining whether prudent use of available public resources has achieved economy, efficiency

¹Note: GUID 3910 and 3920 are non-mandatory guidelines but they provide the updated guidance to the auditor to conduct Performance Audit.

and effectiveness. The objective of the PA Guide is to provide a framework to establish policies and guidance on the general principles and approaches to conduct PA, that shall be followed by OAGN's auditors involved in Performance Audit. The framework applies to all PAs undertaken by the OAGN. The guide shall attempt to achieve the following objectives:

- ▶ Promote professionalism and competence of auditors in carrying out performance audit;
- ▶ Establishing a basis for the further development of performance audit methodology and professional development; and
- ▶ Establish consistency in audit approaches, provide guidance, help achieve high quality in performance audits;
- ▶ Setting out a basic framework within which auditors can make sound decisions in analyzing performance and reporting conclusions.

3. Scope for individual initiative and professional judgement

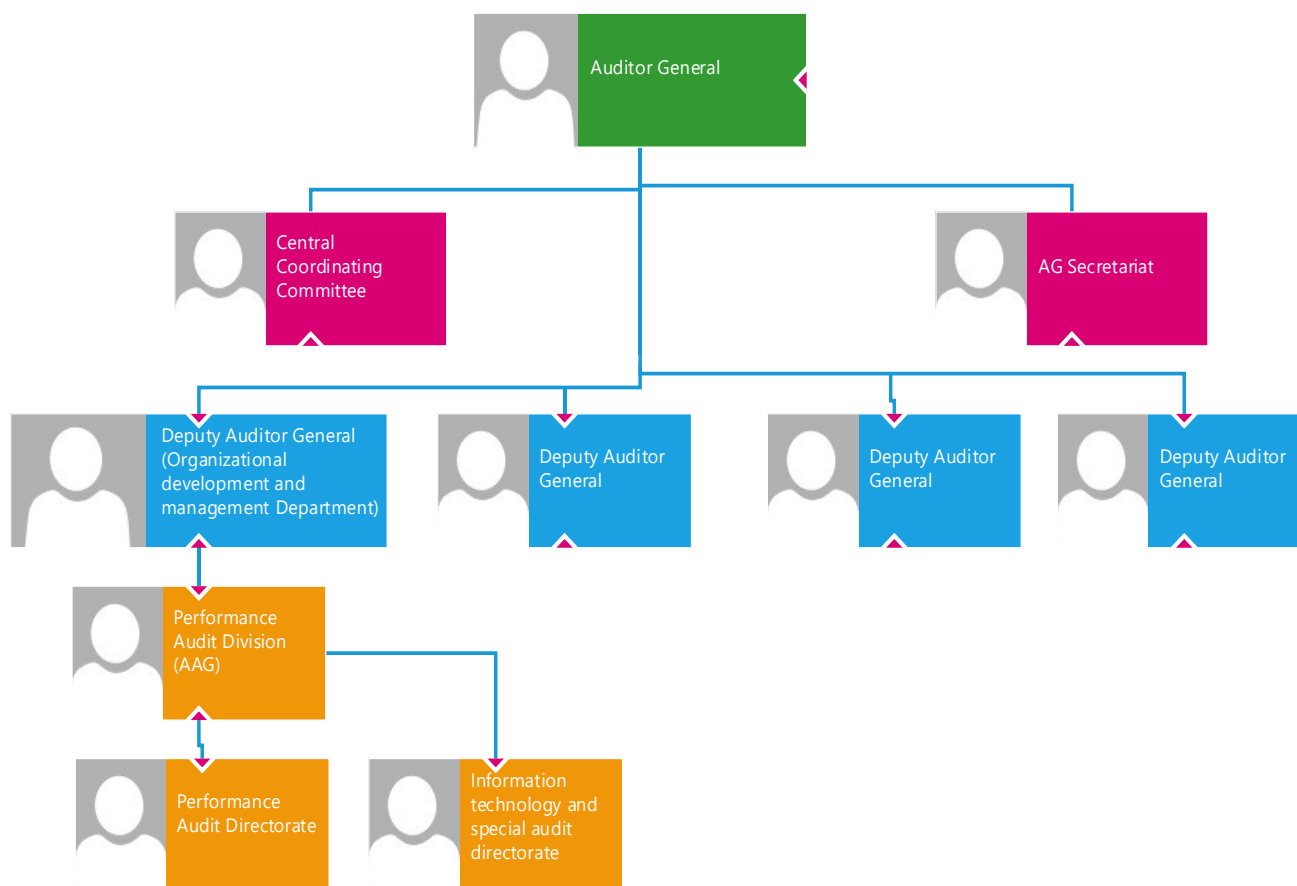
It should be recognized that no guidance or policy of general application could suit all circumstances. Therefore, the auditors are required to exercise their professional judgment in using the Guide. If an approach, method, process, or procedure is found inappropriate for a specific auditee and a more suitable and practical alternative can be used, then the alternative way should be used after obtaining the approval from the Assistant Auditor General or appropriate authority in charge of the assignment. The approved departure from PA guide shall be documented.

4. Implementation responsibility

The Assistant Auditor General - Performance Audit Division has direct management responsibility for implementing performance audit engagements and has a coordinating role with other Assistant Auditor General to achieve a higher level of professional performance. The Assistant Auditor General - Performance Audit Division is assigned to develop and recommend plans and programme for improving the efficiency and effectiveness of performance audit engagements. This includes conducting appraisals to evaluate the organisation, personnel management, objective, methods and accomplishment against policies, procedures and accepted standards of professional performance, and the follow-up to assure that understood and accepted recommended improvements have been accomplished.

Presented in the figure below, is the position of Performance Audit Division in the organizational hierarchy of OAGN.

Figure 1: Performance Audit Division in the Organizational hierarchy of OAGN



The **Central Coordinating Unit (CCU)** under the AG is mandated to play a decisive role in the formulation of strategic plan and selection of audit topics or issues for PA. CCU reviews the topics or issues or projects proposed by the directorates, requests for additional topics, decides weightages to be applied to the topics, decides resource requirement and strategic focus, prepares selection matrix criteria and finalizes the topics for inclusion in the strategic planning of PA. CCU monitors the progress of the audit by reviewing the progress report submitted by PA Directorate and suggests way forward if necessary for the achievement of target set in the strategic plan.

PA Division provides logistic support and facilities to this process. The Assistant Auditor General (AAG) assigned to the PA Division holds the responsibility to initiate the plan formulation and selection process.

5. Regarding future updates of PA guide

As the PA standards and guidance documents (GUIDS) are dynamic in nature, the PA Guide shall be suitably amended as and when there are changes in the applicable standards made by INTOSAI IFPP.

6. Structure of the guide

Chapter 1 - Introduction

- Describes the background of Performance Audit, purpose & objectives of PA, applicable international standards, etc.

Chapter 2 - Audit Prerequisites - Topic Selection

- Describes the process and tools for selection of topics for PA along with an example

Chapter 3 - Audit Pre- engagement

- Describes the pre-engagement activities such as team composition, signing of code of ethics, record of activities, and terms of engagement

Chapter 4 - Audit Planning

- Describes the process for design of audit plan/programme through understanding of entity, risk assessment, audit design matrix, etc.

Chapter 5 - Audit Execution

- Describes the process for audit field-work and arriving at audit findings and conclusions

Chapter 6 - Audit Reporting

- Describes process for forming recommendations, and types of performance audit reports, format of final performance audit report, etc.

Chapter 7 - Audit Follow-up

- Describes the process for follow-up on audit recommendations

Chapter 8 - Audit Quality Control

- Describes the audit review process for quality control in line with applicable standards for QC

1. Introduction

1.1. Performance Audit Definition

Performance audit is defined as ‘an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organizations are operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there is room for improvement²’.

ISSAI 3000.18/19 further adds that PA aims to achieve improved economy, efficiency and effectiveness in the public sector. Its objective is to contribute to good governance, accountability and transparency. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. It often includes an analysis of the necessary conditions which influences the principles of economy, efficiency and effectiveness. 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.

1.2. Objectives and Scope of Performance Audit

1.2.1. Objectives of Performance Audit

The objectives of Performance Audit (PA) are to audit the economy, efficiency and effectiveness of auditees and to evaluate the discharge of accountability and due care of probity in the use of resources.

Performance auditing promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance. It does so by examining whether decisions by the legislature or the executive are economically, efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. Performance auditing promotes transparency by affording the legislature, the executive, taxpayers and other sources of finance, and those targeted by government policies and the media, an insight into the management and outcomes of different government activities. (ISSAI GUID 3910).

1.2.2. Scope of Performance Audit

The scope of the performance audit is to independently assess the economy, efficiency, and effectiveness in the use of public resources. However, it also examines aspects of discharging accountability and due care in the use of resources by the auditee agencies. The performance audit shall not question the intentions and decisions of the legislature but shall examine if any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved.

PAs focus on one or more of following interrelated elements:

- ▶ to provide objective assessment of the extent to which the auditee is currently pursuing the 3Es;
- ▶ to identify major deficiencies in management and control practices;
- ▶ to encourage improvement in the system of performance reporting;
- ▶ to provide information and propose recommendations that can lead to better internal control and public accountability.

²(ISSAI 3000/17)

PA covers a wide variety of issues to arrive at the conclusion relating to the 3Es. It examines and evaluates the systems, procedures, operation and result related to:

- ▶ planning, budgeting, accounting and reporting systems;
- ▶ development, appraisal and utilization of resources;
- ▶ acquisition and utilization of property, equipment, plant, inventory and other assets; and;
- ▶ development, production and use of information.

PAs contribute to good governance, accountability and transparency and seeks to provide new information, analysis, insights, and recommendations for improvement. It often includes an analysis of the necessary conditions which influences the principles of economy, efficiency and effectiveness.

The scope of performance audit would be different in different situations and circumstances with varying emphasis on various factors, depending upon the actual situation. The scope of performance audit defines the boundaries of the audit clearly specifying the period, elements, or aspects of the subject matter to be covered in the performance audit.

1.2.3. Audit Approach and Audit Methodology

All PAs are based on analysis of risk. This means audit universe is segregated into categories based on identifying risks. This helps to target audit resources in high risk area. Further, the risk identification process makes the audit team aware of the audit environment and team gets in depth knowledge of the entity to be audited. The audit approach should be flexible because of the nature of each audited entity. Different techniques can be used for both in depth and desk review under following audit approaches:

- i) **Process oriented approach:** This approach focus on compliance with establish criteria, best practices or desirable control. It deals on the questions how a government programme works? How does it produce the results? What are the process and procedures to execute the programme? Are the resources managed and utilized economically and efficiently? An analysis of procedures is often a starting point of audit. The auditor would review the system in place for planning, conducting, checking and monitoring of activity being audited. This would involve different audit techniques like observation, interviews discussion and examination of documents.
- ii) **Result oriented approach:** Analysis of results from examining a number of instances of agency activity in a particular area will help to decide whether agency performance in that area conforms to criteria and is generally satisfactory. The approach assesses the extent to which a programme achieves its outcome, goals or objectives. Common questions under this approach are: How the programme goals established? What is the status of the programme progress? Will the goal be achieved within the times specified? This approach is common in performance auditing. It is mainly used to examine whether set goals are reached. Any deviations can be established by relating outcome and effects to the stated goals and demands. Performance auditor uses such studies primarily when the goals are clearly defined and measurable. Suggested techniques for this approach are interviews, observation, and examination of documents and data analysis.
- iii) **Problem oriented approach:** In the problem oriented approach, emphasis has to be given on how to define and investigate problems. Usually, the audit begins with problem indicators of some kind (shortcomings in service, complaints, rising costs etc.) Auditors try to relate and link the different problems to each other and attempt to test the possible causes of the problem. Interview, focus group discussion, observation and document review techniques are under this approach.

The performance auditor shall choose a result-, problem or system-oriented audit approach, or a combination thereof. The audit approach determines the nature of the examination to be made and is an important link between the audit objective(s), audit criteria and the work done to collect the evidence.

A result-oriented approach assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended. It can be used most easily when there is a clear statement of desired outcomes or outputs (e.g. in the law or a strategy decided upon by the responsible parties).

A problem-oriented approach examines, verifies and analyses the causes of particular problems or deviations from audit criteria. It can be used when there is a clear consensus on a problem, even if there is no clear statement of the desired outcomes or outputs. Conclusions and recommendations are primarily based on the process of analysing and confirming causes rather than comparing audit evidence with audit criteria

A system-oriented approach examines the proper functioning of management systems. Frequently, elementary principles of good management will be helpful in examining the conditions for efficiency or effectiveness even when there is a lack of a clear consensus on a problem or when outcomes or outputs are not clearly state³d.

Cost benefit and cost effectiveness analysis is a useful that can be used in all the three approaches to determine the value for money or benefits derived by the targeted beneficiaries. :

Cost benefit analysis investigates the relationship between cost and benefits of government projects. It analyses the basic question whether programme benefit exceed the costs and are the objective met at the lowest possible costs? Cost effectiveness analysis is the relationship between project cost and outcomes expressed as costs per unit of outcome achieved. This methodology is used to evaluate the value for money which is the essence of performance audit.

1.3. International standards on Performance Audit

1.3.1. Applicable international standards on Performance Audit

Performance Audit standards and guidelines are issued by the International Organization of Supreme Audit Institutions (INTOSAI), as part of INTOSAI Framework for Professional Pronouncements (IFPP).

³ ISSAI 3000/40-44

Table 1: International standards applicable to Performance Audits

Particulars	Name of the standard	Endorsed in year	Purpose
ISSAI 100	Fundamental Principles of Public-Sector Auditing	2019	Inter alia provides with the framework for public-sector auditing.
ISSAI 300	Performance Audit Principles	2019	Deals with the fundamental principles of ISSAI 100 to contextualize PA.
ISSAI 3000	Performance Audit Standard	2019	The authoritative standard for performance auditing that must be used in conjunction with ISSAI 100 and ISSAI 300
GUID 3910	Central Concepts for Performance Auditing	2019	Largely based on concepts of ISSAI 3000-implementation guidelines for performance auditing with further details regarding the audit objective, the selection of audit topics and the audit process.
GUID 3920	The Performance Auditing Process	2019	The guideline is structured according to the different phases in the performance audit process such as planning the audit and conducting the audit

1.4. Legal mandate for Performance Audit

OAGN has constitutional and legal mandate to conduct Performance Audit.

Constitution

Article 241(1) of the Constitution of Nepal state that, 'the accounts of public sector offices shall be audited by the Auditor General in accordance with law, having regard to, inter alia, the regularity, economy, efficiency, effectiveness and the propriety thereof. Therefore, constitution specifically mandates two basic areas of compliance audits namely, regularity and propriety.

Audit Act

- ▶ Section 4 of the Audit Act provides the mandate of determining the audit scope, process and duration. As per Section 5 of the Act, OAGN can decide which aspect(s) (regularity, economy, efficiency, effectiveness and propriety) would be considered while planning, executing and reporting of any audit.
- ▶ Section 5 of the Audit Act provide the matters to be audited considering regularity, economy, efficiency, effectiveness and propriety. Of the various matters (Section 8, the following provisions relate specifically to 3Es auditing. In this context, audit is required to determine whether:
 - the organization, management and job allocation of the Office are sufficient and proper and are that operating accordingly;
 - any function is being unnecessarily performed in duplication by any employee or agency or any essential function is being omitted;

- the available resources, means and assets are properly utilized and the maintenance and preservation thereof against any loss or damage has been properly arranged;
- the progress has been achieved within scheduled time and the quality and quantity of the work is satisfactory;
- the objective and policy of the office is explicit and the programme is delineated conforming to the specified objective and policy;
- the programme is being implemented within the limits of approved cost estimate and the proceeds received in comparison to the cost is reasonable;
- the arrangements for maintaining data relating to target, progress and cost are adequate and reliable;

- ▶ Sec 8 of the Audit Act lists the areas to be audited taking into account, the regularity, economy, efficiency, effectiveness and the propriety.

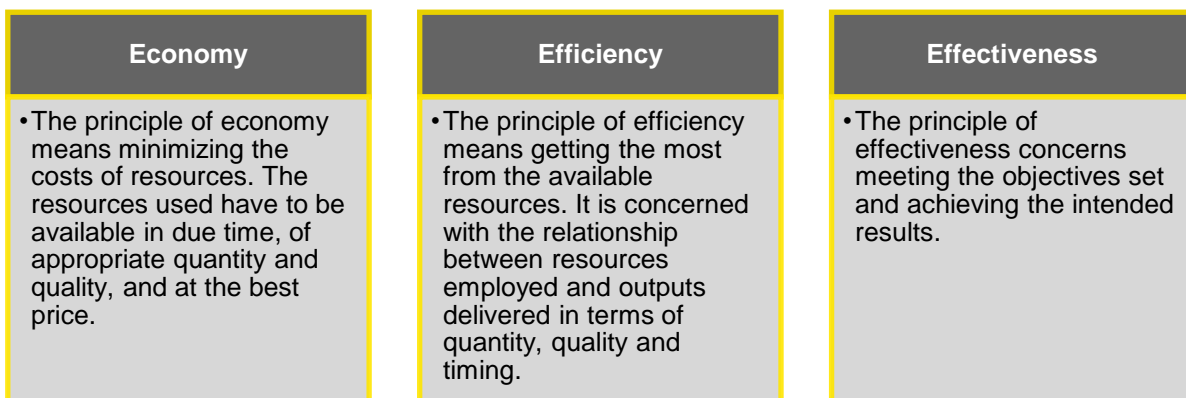
Based on the constitutional and legal provision, OAGN conducts financial, compliance, performance audits and some specialized audits such as audit of public debts, information technology audit, environmental audit, disaster management audit, forensic audit, sustainable development audit etc.

OAGN has the authority to audit "economy, efficiency and effectiveness" of the financial management of the Executive, Judiciary and Legislative-Parliament and all corporate bodies going beyond the traditional framework of financial statements, regularity or compliance audit.

1.5. The three Es in Performance Audit

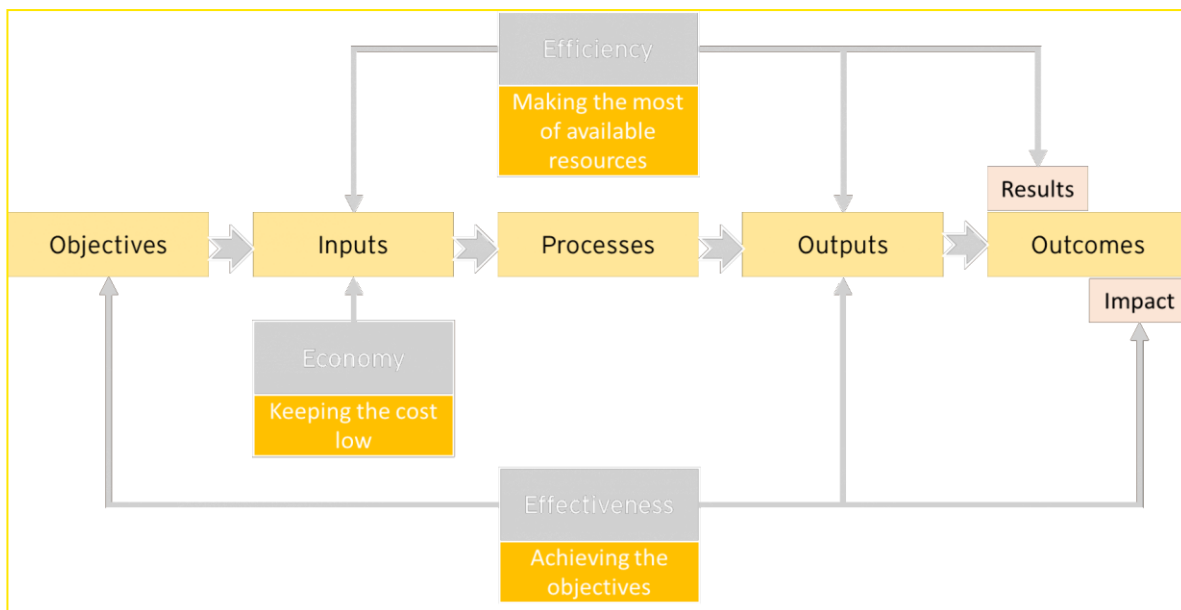
The three Es in performance audit have a central place, since the aim of performance audit is to evaluate the performance in terms of economy, efficiency and effectiveness and to provide recommendations to improve the performance. The concept of three Es is explained below.

Figure 2: The three Es in PA



Performance audit is guided by programme logic model of any programme/scheme/theme which establishes the relationship between objectives, inputs, processes, outputs and outcomes of the programme/scheme/theme. This is explained with the help of diagram below.

Figure 3: Programme logic model and three Es



Performance Audit must focus on inputs, outputs, results and impacts. If the performance achieved is satisfactory, there is little risk in implementation of the activity or control systems. For example, PA in such cases should assess whether the adopted policies were effectively implemented; and whether the intended objectives, targets, outputs and outcome were achieved; and whether there are undesirable financial, economic, social and environmental consequences of policy decisions taken. Suitable criteria must be used in PA to examine performance to measure quantity, quality and cost of inputs, outputs, results and impacts. Where performance achieved is unsatisfactory, the activity and control systems must be examined to identify the root causes.

1.5.1. Auditing Economy

Auditing economy focuses on how the audited entity could minimize the cost of inputs/resources of appropriate quality and quantity. The question asked is:

- ▶ “Are the resources used, available in due time, of appropriate quantity and quality, and at the best price?”

Quality is an important aspect of the input both in economy and efficiency.

Assessing Economy – General risks	Economy –General issues
<ul style="list-style-type: none"> ▶ Resources used to obtain desired outputs or results are not required / necessary ▶ Resource used could have been obtained at lower cost ▶ Paying for a higher quality of input than that required to achieve the desired outputs or results. 	<ul style="list-style-type: none"> ▶ The program/activities not acquires the appropriate type, quality and amount of resources at the minimum cost; ▶ The program/activities not manages its resources with a view to minimizing overall outlay; ▶ The program/ /activities could have been designed or implemented in another way which would have resulted in lower costs.

An auditor conducting performance audit needs to examine whether the means chosen to represent the most or at least a reasonable economical use of public funds.

- ▶ **For Audit of Economy of resources**, Auditor shall examine if the acquisition of resources had happened at the

lowest cost keeping in view the objectives of the organization. It implies that the resources should be acquired at the right cost, at right time, at right place, in right quantity and of right quality.

- ▶ **Economy also applies to physical resources** such as space used with reference to the prescribed norms, number of vehicles, number of computers and photocopiers to be used with reference to applicable norms. Performance audit measures economy in the use of physical resources against audit criteria, which could be diverse.
- ▶ **Methods for measuring economy** include comparison with benchmark costs, such as private sector charges, historical costs, costs incurred by a similar public-sector organization or budget allocation. Economy can be achieved when an entity or activity could reduce the costs of inputs significantly for a given level of outputs or results.
- ▶ **General risks in this area can include:**
 - Keeping the costs low:
 - waste, i.e. using resources which are not necessary for the achievement of the desired outputs or results;
 - overpaying, i.e. obtaining resources which are used, but could have been obtained at a lower cost; and
 - gold-plating or paying for a higher quality of input than that required to achieve the desired outputs/results/objectives. An audit of economy is therefore concerned with determining whether the most appropriate cost inputs are chosen to achieve the given objectives.
 - the audited entity acquires the appropriate type, quality and amount of resources at the minimum cost;
 - the audited entity manages its resources with a view to minimise the overall outlay;
 - the entity could implement in another way that can result in lower costs.

For example, for determining the economy of office space used, it could be space standards prescribed by of the government for various functionaries; for economy in the use of vehicles, computers, and photocopiers, it could be the prescribed norms, ratios of inputs and outputs such as kilometres per I litter of petrol, number of photocopiers per cartridge or computers, vehicles, photocopiers to an office based on the number of staff strength in the office, etc.

Examples of audit questions related to economy Auditing performance directly

- ▶ Have best prices been obtained for consultancy services for support programmes?
- ▶ Is there potential for reducing the cost of goods procured for construction?
- ▶ Auditing control systems – is there internal control system in place?
- ▶ Does the management include monitoring costs?
- ▶ Are there procedures in place to reduce costs of procurement of goods and services; such as food grains procured for midday meal program at the lowest available cost?
- ▶ Are there adequate procedures in place to effect economy?

1.5.2. Auditing Efficiency

Auditing efficiency focuses on whether the resources used have been put to optimal/satisfactory use for the same/similar results in terms of quantity, quality and turn-around time. Could the results be achieved with fewer resources?

Efficiency assesses the input output relationship raising the key questions:

- ▶ “Are we getting the most output – in terms of quantity and quality – from our inputs?”
- ▶ Or; “Could the same output have been achieved with less input?”

Efficiency is the relationship between the output, in terms of goods, services or other results, and the resources used to produce them. Efficiency will imply optimum utilization of resources keeping in view the organization objectives, the ideal implication of maximizing output from the given resources or minimizing input for given output. General questions on audit of Efficiency are as below:

Assessing Efficiency – General risks

- ▶ Resources used do not lead to the desired outputs
- ▶ Non-optimal input/output ratios (e.g. low labour efficiency ratios);
- ▶ Slow implementation of the intervention; and
- ▶ Failure to identify and control externalities, i.e. costs imposed on individuals or entities falling outside the boundary of the program or organization.

Efficiency –General issues

- ▶ Outputs or results have not been produced cost-effectively;
- ▶ Avoidable bottlenecks or unnecessary overlapping.
- ▶ The human, financial, and other resources are not used efficiently ;

Audits of efficiency can be aimed at **technical efficiency** like processes to be streamlined to improve performance, allocative efficiency by allocating resources differently, for example by moving them to instruments that can produce the maximum output, or scale or synergy efficiency by examining whether the same output can be realized with less input by sharing processes, or merging organizations.

Efficiency is a relative as a process or an instrument or programme can be more or less efficient than another. For an audit on efficiency, some kind of comparison is required. Comparisons can be made between similar activities in comparable entities, comparing process in one entity with the same process at an earlier point in time, comparing a process before and after adaptation of policy or procedure, comparing the efficiency of an organization with an accepted set of characteristics of efficient organizations. Efficiency oriented audits examines the processes leading from input to output to expose shortcomings in the processes or in their implementation.

Audit of Efficiency will include examination of information systems, performance measures and monitoring arrangements and procedures followed by auditee agency's management for remedying identified deficiencies. As audit of Efficiency entails analysis of input and output, an auditor must first assess the standards of input and output and identify audit criteria.

The principle of efficiency means getting the most from the available resources. Efficiency exists where the use of financial, human, physical and information resources in such a manner that output is maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output. Auditors have to examine 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. Audit of Efficiency will also entail examining cost overruns and time overruns in the project, timeliness in submission of proposals, timely fund availability to the project, timeliness and competitiveness in procurement, etc.

General risks relating to efficiency includes:

- ▶ leakages, i.e. resources used do not lead to the desired outputs due to diversion of resources;
- ▶ non-optimal input/output ratios (e.g. low Labour efficiency ratios compared to the norms);
- ▶ slow implementation of the intervention; and
- ▶ failure to identify and control externalities, i.e. costs imposed on individuals or entities falling outside the boundary of the intervention or organisation.

An audit of efficiency examines whether the best relationship exists between the resources employed and the outputs produced. Efficiency is related to "productivity". Efficiency looks at whether outputs have been maximised in terms of quantity, quality and timing with the resources used. The audit examines whether:

- ▶ outputs have been produced cost-effectively;
- ▶ there are any avoidable bottlenecks/overlapping

Examples of efficiency indicators/measures include:

- ▶ Number of transactions processed per employee per hour – indicates processing efficiency in term of outputs; calculation can be done for different employees and can be compared; calculation can be done for different times, can be compared with good practice benchmark
- ▶ Number of licenses or permits issued per day in any department / office /
- ▶ Number of inspections conducted – Can be compared with best practice / norms / standards / benchmark
- ▶ Administration costs in relation to total program costs (as a percentage to total costs)- Can be compared with norms/standards/benchmark
- ▶ Office space per employee - To indicate efficiency in use of space

Examples of efficiency auditing:

- ▶ Cost per job compare with similar costs per job with comparable benchmark
- ▶ Could the projects be implemented which would result in improved timeliness and quality?
- ▶ Auditing control systems
- ▶ Are there adequate procedures in place to ensure the maximum benefits/impact from funds? Are the criteria used appropriate?
- ▶ Do the institutions use key management information about the size, condition, utilization, and cost of their office space for decision making?

1.5.3. Auditing Effectiveness

Effectiveness is about the extent to which policy objectives are met in terms of the output. It is concerned with the relationship between goals or objectives and outcome. Effectiveness consists of two parts:

- ▶ “first, to what extent are the objectives met and
- ▶ second, can this be attributed to the output of the policy pursued”.

Effectiveness is an examination of the extent to which objectives are achieved and the relationship between the intended impact and the actual impact. It is concerned with the relationship between goals or objectives, outputs and impacts. Audit of Effectiveness will entail seeking answers on the following concerns:

Assessing Effectiveness – General risks	Effectiveness –General issues
<ul style="list-style-type: none">▶ Inadequate assessment of needs▶ Unclear objectives, inadequate means of programs▶ Impracticability of implementation of the project, activities, process and programs▶ Objectives not being met, management not prioritizing the achievement of objectives▶ Inadequate monitoring being done by the management.	<ul style="list-style-type: none">▶ Stipulated objectives not being with the means employed,▶ The outputs produced and the impacts observed as not in accordance with the set objective▶ The overall impact not created as expected to the target groups.▶ The extent of instruments used have in fact not contributed towards the achievement of the policy objectives

In a result-oriented audit, the focus is on the specific and measurable objectives and comparison between the actual output and/or outcome and the planned objectives. Measurement and comparison of outputs/outcomes against objectives give an indication of effectiveness but does not provide information on the reasons for performance.

The second part of the effectiveness question addresses the contribution of the programme to achieve the objectives. When auditing effectiveness, one must identify the relationship between the achievement of objectives and the implemented programme by applying the 'theory of change' given in the box.

Theory of change

Describes how and why an initiative or programme is expected to work. It is more than a schematic description of expected input, output and results linked with arrows as presented in the figure above.

It describes the assumptions behind the arrows on how the input will lead to the desired output and how this output will lead to the desired outcome. In other words, how change will occur. Identifying the theory behind a programme or a policy can be done by analyzing key documents in which the policy is described or by interviewing those responsible for the policy or programme. It can help the auditor (and sometimes also those responsible) to obtain a clear description and better understanding of the assumptions on the causal relationship between the output and the intended outcome (objectives) of a policy or programme. GUID 3910/44

Audit of Effectiveness will entail auditing the actual impact of activities compared with the intended impacts. This will fulfil examining the effectiveness of performance in relation to achievement of the objective of the auditee entity/theme/program/scheme.

In auditing effectiveness, Auditors shall distinguish among outputs, outcomes, and impacts. The outputs pertain to results of certain inputs produced by the organization. They are generally within the organization. The outcomes relate to the results external to the organization over a short to medium term. And Impact refers to the effect of the outcomes on the society in the long run.

In performance auditing, the auditors are supposed to examine all four elements: inputs, outputs, outcomes and impact. However, it is impractical to expect auditors to provide concrete findings on impact as that can be measured over a longer period. There are several performance measurement aspects auditor can examine. For example,

▶ What is the quality of the output?

Quality requires in all aspects of PA: economy, efficiency and effectiveness and equity as well. Equity is a dimension of effectiveness, which involves fairness, objectivity and non-discriminatory provision of goods and services to the targeted beneficiaries in accordance with the applicable regulations. Quality is an essential ingredient of Equity. Along with the concept of Equity, Environment and Ethics as well form part of effectiveness. Ethics in public services is of paramount significance and unethical practices violate the applicable rules, elements of natural justice and professional code of conduct, moral and ethical practices. Environment is a key concern in all development projects. Sustainable development can be achieved only when the trade-off between environment, economic development and social development issues are balanced in a sustainable way. Environmental adverse impacts may be ascertained by environmental impact assessments and appropriate environmental management systems and plans must be put in place to mitigate the adverse impact of any project/program/scheme or activity.

▶ What is the rate of error?

▶ How reliable is the service?

▶ How do users rate utility of an output?

Examples of audit questions related to effectiveness Auditing performance directly

- ▶ Has PM's employment program been effective by resulting in increasing jobs and reducing unemployment in the country?
- ▶ Has PM's modernization of agriculture program been implemented effectively resulting in increasing crop productivity of the crops covered in the targeted areas?

-
- ▶ Have infrastructure projects like road development contributed to increasing traffic flow while reducing journey times and improving safety?
 - ▶ Have the provinces effectively implemented measures to monitor and mitigate environmental impact due to flooding as envisaged in the flood control project?
 - ▶ Have the provinces carried out effective assessment of needs and possible benefits of the Education programme to support the funding decision? Has budgeting and funding of the program been effective considering all relevant factors?

Performance measures

- ▶ The measures of economy, efficiency and effectiveness are necessary to assess the productivity of resource use by the audited entity in government. Government spends its resources to deliver various services and development of infrastructure to the population, and spend funds for socio-economic development, health education, wellbeing, and community development. Prioritizing budget allocations improves the relationship between expenditures inputs, actions, outputs, and their outcomes. The prices of output can be used to value them, define the profit, and specify allocations guided by calculations. However, no suitable market prices are available to value the outputs produced by government. So, one alternative is to account the public involvement in the planning, implementation, and review of expenditures to deliver infrastructure and services.

Economy:

- ▶ The economy of use of inputs is a measure of how accurately the planned budget relates to actual spending and is used to procure transparently the best human resources and the best tangible and intangible assets and inputs or products or services required. Fundamentally the performance auditor must examine whether proper procurement and accounting procedures are in place. The budget is spent with economy if 100% of the planned spending is achieved, by following the procurement rules. Inaccuracy normally draws attention to ineffective planning, fraud, or error. Variance should not exceed 10%.
- ▶ Economy can be measured by using indicators of cost effectiveness and saving in use of resources by procuring right quantity of inputs or products or services used by government at right prices, savings in budget allocation etc.
- ▶ Economic infrastructure can be measured in terms of the minimum thresholds to be met and demand profiles: For example, Sanitation, minimum thresholds to be met and demand profiles,
- ▶ Roads: minimum thresholds to be met and demand profiles,
- ▶ Energy/electricity: minimum thresholds to be met and demand profiles,
- ▶ Budget profile: In terms of Revenue, Expenditure – (recurrent expenditure and capital expenditure, wages, emoluments, materials, and minor equipment, goods and services etc. and Budget balance or savings.

The use of quantitative measures is intended to improve costing. Allocations are translated into inputs, which include both resources and demand:

Labour – staff,

Capital –space, equipment, and intermediate goods and services etc.

Outputs include

1. Services
2. Infrastructure built
3. Surplus or profit

Efficiency measures:

This is an operational concept indicating value for money. Efficiency of the budget outputs is judged qualitatively by the extent to which specifications are achieved and delivered on time. If delivery takes more than 15 years instead of a 3 year-delivery schedule, then the efficiency is 20%. If it takes twice as long, efficiency is 50%. If the work plan has 20 items and 16 are fully completed, then the efficiency rate is 80%.

A quantitative measure of technical efficiency of the budget output is the ratio of the output to the maximum possible output. If in each time 100 units can be delivered per dollar of expenditure and only 80 units are delivered, then the efficiency is 80%. If the work plan delivers only 20 work items and 25 are possible, then the efficiency rate is 80%.

Thus, input and output prices are needed to compute efficiency. The projects must be properly costed. The financial allocation is not an adequate guide. Economic costing is more appropriate, Economic costs depend on the technology of the activity – technical efficiency; the scale of the activity – scale efficiency; environmental effects related to use of natural resources; the time used by full-time monthly paid staff and unpaid voluntary work. The amount of time worked must be recorded and valued. Cost minimization does not mean shifting the expenditure of resources from paid work to voluntary work. Important in the total costs are the costs of using natural resources. This is an increasingly important aspect of environmental cost and should be estimated even when no market transaction is involved. Natural and environmental costs are important for infrastructure projects which often have significant environmental impacts.

Some important costs of a project are linked to the failure of the project to deliver the planned outcomes, and to the associated shortages of opportunity. These issues can be incorporated into quantitative measures of efficiency and effectiveness.

Effectiveness measures:

Effectiveness shows the best possible relationship between an expenditure and the benefits it generates for the public. The effectiveness of impact is measured by the extent to which the original problem has been solved, whether funding goes to the highest priority areas. Suppose money is spent on necessary infrastructure for a tourism project intended to grow the occupancy rate by 50%. Then, if the occupancy rate grew by 50%, the budget has a 100% effectiveness, and if it grew by only 10%, then the budget has a 20% impact; and so on. Similarly, if a sports facility is built and then used only 50% of what was planned – 50% occupied – then the effectiveness is 50%. If money is spent to improve education performance, then comparing actual performance against the checklist of standards will indicate if the expenditure is 100% effective or less.

In numerical evaluations of effectiveness, the important questions are still whether the actual expenditure and the infrastructure and services purchased:

1. Promoted equality among all groups in society?
2. Reached the target beneficiaries, especially the poor?
3. Delivered adequate citizen and community satisfaction?
4. Achieved the economic development goals?

Quantitative indicators for the first three of these questions can be obtained from Citizen Report Cards and Community Score Cards as well as by public expenditure tracking surveys. Answers can also be delivered by disaggregating the household data obtained from living standard measurement surveys. However, the answer to the fourth question must be evaluated with economic data from microenterprises and the industrial sectors. Audit questions can be whether:

- (i) the infrastructure and services promoted investment in skills and technologies, and in physical capital assets; and

(ii) the acquisition of these assets caused the targeted firms to grow their resource productivity and build up their claims on foreign exchange while increasing their exports at a rate sufficient to achieve the target. The performance measures help to target infrastructure and services to promote efficiency.

Unintended effects of programme, whether positive or negative, can also be relevant in PA. Unintended effects can be found out by interviewing the target group of an intervention, critics of the audited programme or other relevant stakeholders. Addressing unintended effects becomes relevant if the auditee seems unaware of these effects or if the effects are not included in the key documents on the audited policy or programme.

1.6. Other concepts in Performance Audit

1.6.1. Equity in PA

Some SAs recognize equity as a fourth E. Equity describes the principle that everyone should be able to exercise their civil rights such as freedom of expression, access to information, freedom to associate, freedom to vote, gender equality, and their political and social rights including access to health, education, housing, and security. Public policies of protection and social development play a critical role in building equity. Equity issues can be included in PA as an additional 'E' or as an effectiveness issue where it is an explicit policy goal or programme objective. Equity assessment may include, for example, equality of access to services, distributional impacts, and impact on regional disparities.

In PA sometimes when fourth E – Equity is used besides the three 3Es that are commonly used. PA addresses the concerns relating to equity while assessing the effectiveness of a program/activity. Equity concept can be derived from effectiveness of public policy as a dimension of effectiveness. It is also based on the principle that recognizes the need for differential treatment to certain marginalized sections as per the law. To provide genuine equality of opportunity, the society must cater more to those born with fewer skills and living in backward and socially disadvantaged areas. Unequal treatment is fair and equitable only when it is done as per the applicable regulations and benefits the neediest individual as intended. Therefore, public policies of protection and social development play a key role in building equity.

The examination of equity may involve, for example, research of criteria for resource allocation vis-à-vis the spatial distribution and the socioeconomic profile of target population; strategies adopted by the public administrator to adjust the supply of services or benefits to different needs of the audience; strategies adopted by the manager that consider gender issues; strategies that benefit minorities

Examples of government programs that consider equity include:

- ▶ sanitation program that allocates more financial resources to the poorest regions of the country;
- ▶ housing program that registers the women as the owner of the property;
- ▶ employment program that reserves some places for disabled people or backward communities.

For example, the government of Nepal implements various policies that can be broadly grouped into:

- (1) provision of public goods and services;
- (2) tax/subsidy policies;
- (3) asset management policies, such as issuing bonds; and
- (4) regulatory policies.

Equity in provision of public goods and services refers to fairness, application of rule of law with non-discrimination and inclusiveness. Certain public goods are supplied free (such as national defence, police activities, and roads), while other public goods are supplied for fees, depending on use (such as medical care, public facilities, and expressways). Resources, when used wastefully result into inefficiency. Persons who use public goods may benefit more by misusing authority or powers.

When evaluating policies concerning provision of public goods from the viewpoints of equity, auditor must examine the in-equality in benefits from free public goods (uneven distribution of policy benefits); inequality in benefits from non-free public goods (uneven distribution of policy benefits); user fees set inequitably; regional inequality in the provision of public goods (problems of “regional equity”); selection of the people who benefit from public goods; rights to use public goods, such as telecommunications satellites or frequency bands, are given to certain companies free or for extremely low charges so that they gain significant benefits and make big profits. If two people with the same ability-to-pay tax live in different regions and pay the same amount of national tax but benefit differently in amounts of public goods provided by the national government, there is inequity.

1.6.2. Quality

In the definition of 3Es the quality of output is important. Quality is essential factor in all aspects of PA: economy, efficiency, and effectiveness and equity as well. Qualitative parameters are defined by specification of the product or services besides quantitative and numerical indicators. When the costs of products or services decline with decrease in quality, question is whether economy, efficiency of effectiveness are being achieved. Auditor must assess how quality is affected when striving for economy, efficiency and/or effectiveness. Quality is a dimension of output and outcome impacting the project results. When criteria for quality are defined for specific products/services, such as specification of services in qualitative terms like grades or category of product or services like category of inputs used such as cement and steel in construction or quality of rice or other food grains procured for public distribution. Thus, quality assessment can be made as a dimension of the effectiveness or outcome. One way of assessing the quality of products or services is by finding out level of customer satisfaction.

Ethics and equity are important aspects of performance.

To hold public bodies accountable for a good use of public resources, the performance auditor must see whether the public entity’s activities are in accordance with the applicable rules, professional standards, code of ethics and in line with the principles of honesty, integrity, fairness, objectivity, justice, and equality. Ethics, integrity, public sector ethics/public integrity, organizational ethics, ethical/integrity culture, ethics management, ethics management system, management controls (hard and soft controls), internal control system, preventing corruption etc. are different aspects of ethics determining the performance.

Environment

Environment is a key factor in PA. The inputs and products must be environment and eco-friendly. Economy should not mean procuring or producing toxic or environmentally unsustainable inputs or products by-products or services.

PAs are done with an environmental perspective termed as environmental audit and include in its scope⁴ the following audits:

- i) the performance of environmental programmes;
- ii) the environmental impact of other programmes;
- iii) environmental management systems and environmental reporting;
- iv) evaluations of proposed environmental policies and programmes; and
- v) addressing cross-cutting environmental issues.

While undertaking PA, the concepts of the three Es are to be used. Additional factors impacting the 3Es are ethics, equity and environment and sustainable development issues. Environmental dimension must be kept in view while conducting PA and the impact on environment must be examined wherever applicable and commented with recommendations wherever deemed necessary.

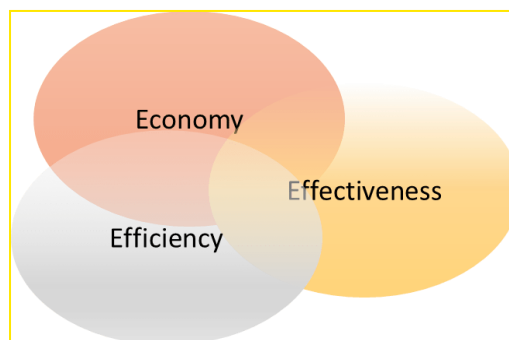
⁴ GUID 5200- Activities with an environmental perspective.

1.7. Interconnections between three Es of PA

The principles of Economy, Efficiency and Effectiveness overlap in certain areas in Performance Auditing as the concepts are interconnected and absolute segregation of each of them from other concepts may not be feasible. It needs practice to draw a clear line between economy and efficiency, on the one hand, and between efficiency and effectiveness, on the other. There can be some overlaps which is natural as the concepts are interrelated.

PA can focus on only one of the three Es, since auditing all Es is time consuming requiring specific expertise. However, economy or efficiency or effectiveness of activities must not be examined in total isolation. For instance, looking at economy without considering the fact that the outcome of a policy might be ineffective. In an audit of effectiveness, the auditor must consider aspects of economy and efficiency.

Auditor must examine if the outcomes of an audited entity, activity, programme or operation had the desired outcome, and were the resources used costly? Some PAs may cover more than one of the three Es. to address causes to problems to suggest improvement. The three Es represent different perspectives in PA, even when they are combined focusing on different questions.



A variety of topics can be selected to conduct performance auditing in the country. A few examples are given briefly explaining how different performance measures can be used to evaluate the outcome:

<ul style="list-style-type: none"> ▶ Availability of teachers (teacher to student ratio) indicates the teaching efficiency. It is a measure of availability of teacher per number of students. 	<ul style="list-style-type: none"> ▶ Management of public debt- To conduct PA of a subject matter such as the management of public debt, debt-to-GDP ratio - the ratio of a country's debt to its gross domestic product (GDP) is an acceptable measure of public debt. Expressed as a percentage, the ratio can gauge a country's ability to repay its debt. The debt-to-GDP ratio compares a country's public debt management to its annual economic output.
<ul style="list-style-type: none"> ▶ Efficiency in health care services – Ratio of number of hospitals to number of households or number of populations; ratio of doctors to number of populations are measures for level of health care services. 	<ul style="list-style-type: none"> ▶ Management of water distribution – Innovative technology and techniques can improve management of water distribution including the quality of water and the quantity. Before and after comparison of quality and quantity of water distributed by the entity audited under PA can provide the level of performance.
<ul style="list-style-type: none"> ▶ Distribution of medical drugs –The availability of drugs as per the specific program – should be as criterion can be compared with what is actually available to show the performance of drug distribution. ▶ Effective procurement can be evaluated by using the 3Es, assessing the cost effectiveness, timely procurement, and over all effectiveness of the procurement including the quality of products or services procured, for instance, medicines procured by a hospital. 	<ul style="list-style-type: none"> ▶ Management of solid waste – In a PA on management of solid waste by municipalities, performance can be evaluated by determining the per capita household waste generation and segregated and disposed as per the rules. Estimate the quantity and composition of household, institutional and commercial wastes and how they are segregated and disposed of as per the extant laws and rules. Total quantity of solid waste and the current practices of municipal SWM in the municipalities selected for PA can be assessed by examining the quantity of segregation, collection,

	<p>treatment, and final disposal to the total waste generated in each category covering the level of services and allocation of financial and human resources in SWM to be covered as per the audit objectives.</p>
<p>▶ Distribution of schoolbooks-The performance can be evaluated the cost effectiveness of distribution, the equitability or non-discrimination in distribution across sections of the population and regions or territories covered in PA, the quality of the schoolbooks distributed in contents updates and relevance etc. timeliness of distribution and the number of students who should have received books as per the scheme but not received the books etc. are measures to evaluate the performance of the entity responsible for the task.</p>	<p>▶ Construction and maintenance of roads – PA will cover construction, maintenance, and repair of roads. The concerned ministry has budget and executes road construction, may be through PPP and other modes. Problems can be delays, cost overrun, time over run and quality deficit. The weaknesses in quality control system of the road works results into early wear and tear necessitating untimely repair and unwarranted cost of maintenance. PA can assess whether the government entity responsible for the road projects has an effective policy, planning, system and procedures, rules and regulations for road works and it implements road works economically effectively and efficiently with timely monitoring and taking corrective and preventive actions.</p>
<p>▶ Processing time of passports - Taking into account the entire process from receipt of application till the issue of passport measuring key performance indicators like time taken, delay in issue of passports, processing mistakes, effectiveness and performance gap what should be and what is actually achieved can be commented.</p>	<p>▶ Management of national parks- The audit objective of the PA is to assess the effectiveness of the management of the national parks selected for the audit. To form an audit conclusion against the audit objective, PA must use the criteria from the applicable legislation to test and verify the following aspects:</p> <ul style="list-style-type: none"> • Are appropriate governance arrangements in place to support risk management and operational planning? • Are national park management and operational plans effectively implemented? • Does the management effectively measure, monitor and report on park operational activities?
<p>▶ Forest management – PA will be conducted with reference to the policy, objectives of the scheme, goals, and targets both in quality and quantity. The outputs and milestones can be evaluated with reference to the targets and outcome or impact can be evaluated by conducting surveys and evaluating whether the benefits as envisaged in the scheme was achieved. with reference to the applicable policies, laws, and rules.</p>	<p>▶ Maintenance of government vehicles - In a PA on the theme of maintenance of government vehicles audit must conduct an in-depth analysis of the use and maintenance of government vehicles by the government agencies/officers. If there are no standard rules on use of vehicles, PA can provide standardization procedures for use of vehicles. This can be inputs for the legislature to make laws for use of motor vehicles. The audit reports will provide inputs for how to purchase and use vehicles with need assessments and setting criteria for use of vehicles.</p>

1.8. Applying concept of three Es in PA

Application concept of three Es in performance audits requires a basic understanding of the concepts of economy, efficiency and effectiveness. The concepts will also help auditors to focus on different Es of the PA. Examples of applying concept of three Es in PA are provided in the box below.

Figure 4: Example of applying concept of three Es in PA (Vaccination Program)

Example: The application of the 3Es is on a vaccination program
The objective is to vaccinate 10,000 children under one year during the next six months.
<p>The Ministry of Health had a budget to buy the vaccines.</p> <ul style="list-style-type: none"> ▶ Economy: If, after a market research, the agency/person responsible for the acquisition of vaccines manages to buy it at cheaper than expected rate (with the same quality), we can say that economy was achieved. ▶ Efficiency: Let's say in health unit A, the nurse has vaccinated 10 children per day. In health unit B, the nurse has vaccinated 12 children per day. So, the nurse from health unit B was more efficient. ▶ Effectiveness: If, by the end of six months, 10,000 children (or more) received vaccine, the program was effective regarding the outputs. If the measles case has decreased among vaccinated children less than one year, the program has been effective regarding outcomes.

Figure 5: Example of applying concept of three Es in PA (Traffic Police)

Example: Application of concepts of three Es in case of traffic police
Economy – Keeping the cost low
<p>An audit of the traffic police based on economy may ask the following questions:</p> <ul style="list-style-type: none"> ▶ Has the traffic police department recruited and employed officers with appropriate competence for the best possible salary as per the applicable norms/rules? ▶ Has necessary equipment for traffic inspections of the appropriate quantity and quality, and procured at the lowest cost? ▶ Have the requisite resources procured with right price, quality and quantity and time been procured and used without leaving waste or idling? ▶ Is expenditure within budget?
Efficiency – Making the optimum use of available resources
<p>An audit of traffic police based on efficiency may ask the following questions:</p> <p>As efficiency is measured as an input and output ratio. Traffic police is given training and modern equipment and devices were used in traffic police. The number of traffic personnel used for controlling and regulating traffic flow in terms of vehicles before the training and after the training can be compared to know the efficiency of the training.</p> <ul style="list-style-type: none"> ▶ Whether the equipment/devices provided have been put to optimal use. For example, traditional traffic signals have been replaced by intelligent traffic signals; the number of traffic police required to regulate the traffic before and after the modern signalling system is a measure of efficiency achieved. ▶ Whether the same or similar output in terms of quantity, quality and/or turn-around time could have been achieved with fewer resources. When modern traffic system is adopted, number of traffic cops needed will be reduced; number of traffic signal failures will be reduced; number of accidents and traffic signal violations should be reduced. All these measures before and after introduction of the modern traffic signal system will indicate the outputs or results and outcome. Outputs are the number of traffic violations after the system; outcome is the reliability of the system and reduction in time for change of

signals as intelligent signals will measure the volume or density of traffic and accordingly change the colour codes.

- ▶ Is the department getting the most output – in terms of quantity and quality – from the inputs and actions? Trained traffic police in the modern techniques of traffic management must be more efficient. Outputs in terms of quantity is number of traffic violations, accidents, reduction in traffic jam, time reduction at traffic junction etc. due to efficient handling of flow of vehicles. Number of cops required at signals having modern intelligent or SMART systems will be reduced, indicating the output in terms of quantity or number.
- ▶ Could the same output have been achieved with less input?

The questions link the quality with quantity of services provided, and the activities and cost of resources used to produce them, to achieve results. The main immediate output of traffic police can be the number of traffic inspections. As the objective of traffic police is to reduce the number of accidents and deaths caused by road accidents. The auditor may analyse inspections after the issues they address and how they are performed to capture quality dimensions of the output.

Questions that may be relevant in the efficiency analysis of the traffic inspections are:

- ▶ How has the volume of traffic inspections developed over time?
- ▶ Are there differences in the volume of inspections with a similar use of resources in different regions or districts?
- ▶ To what extent do traffic inspections address the main causes of accidents?
- ▶ What is the cost per inspection relevant for road safety?
- ▶ Have the Traffic Police a clear policy and overall planning of inspections based on the risks for accidents?
- ▶ Are inspections carried out where and when the risks for accidents are the greatest?
- ▶ Do staff members have the necessary equipment to carry out inspections related dangerous behaviour by drivers?
- ▶ What incentives do staff members have to carry out inspections related to dangerous behaviour by drivers, rather than other types of inspections?
- ▶ Are the methods used for traffic inspections meeting standards or best practices?
- ▶ Do different units cooperate properly to avoid unnecessary bottlenecks?
- ▶ Are the inspections cost-effective compared to comparable states or countries?

Effectiveness - Achieving the stipulated aims or objectives

An audit of the traffic police based on effectiveness may ask the following questions:

- ▶ Does the reduction in accidents and deaths caused by road accidents meet the intentions expressed in goals and objectives?
- ▶ Do the inspections target offences relate to accidents?
- ▶ Do sanctions have a deterrent effect, making drivers change their behaviour because of the inspections and the sanctions in case of offenses?
- ▶ Is the achieved outcome in terms of the number of accidents and deaths caused by road accidents significantly affected by factors other than the program (i.e. better roads)?

Note: Different perspectives may be used in the same audit. In assessing efficiency, the auditor must consider whether the resources have been acquired and used economically and ask whether the resources employed have been acquired economically and used efficiently. The auditor must choose a focus in the audit and cover some of the most important aspects, given the context and their understanding of the problems in the area.

1.9. Central concepts of Performance Audit

Central concepts of performance audit are based on ISSAIs 100, 300 and 3000. GUID 3910 . These will apply to performance audits carried out by OAGN. With the establishment of the Intosai Framework of Professional Pronouncements (IFPP), GUID 3910 was issued in 2019 elaborating the central concepts for Performance Auditing.

1.9.1. Independence and Ethics

Applicable standards:

- ▶ The performance auditor should comply with OAGN's procedures for independence and ethics, which is in sync with ISSAIs on independence and ethics.
- ▶ The auditor shall remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users.
- ▶ Good practices related to independence contain 8 core principles and on five fundamental principles: integrity; independence and objectivity; competence; professional behaviour; confidentiality and transparency. During the PA process, the auditor must confirm his/her independence and establish effective communication with the responsible party. Any threat to maintain independence must be considered before and during an audit.

Independence comprises of two elements; first, independence in fact; and, second, independence in appearance. Independence in fact demands the auditor to perform activities without any influences that compromise professional judgment and to act with integrity, objectivity and professional scepticism. Independence in appearance requires to avoid circumstances to reasonably doubt the integrity, objectivity or professional scepticism of the auditor or to conclude that they have been compromised. The auditor should be aware of any issues or situations which might impact the SAI's independence and/or the members of the audit team.

Independence is important during PA process because of the decisions made by the auditor, including:

- a) identifying and selection of an audit topic
- b) defining the audit objective
- c) designing audit criteria
- d) determining audit methodology and approach
- e) evaluating audit evidence and formulating audit findings and conclusions
- f) deliberating on audit criteria and audit findings with the audited entity
- g) judging the positions of various stakeholders; and
- h) preparing a fair and balanced report.

Performance auditor must exercise independence from the selection of topic and during the entire audit cycle till preparing the report. Auditor will engage the stakeholders in the entire audit process, but the auditor should be independent and objective and should not compromise the independence.

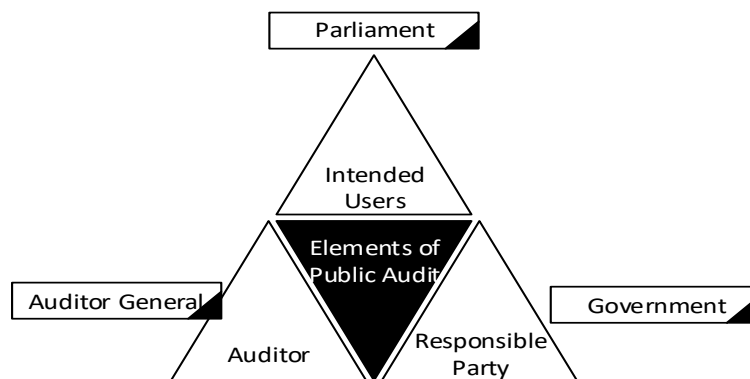
1.9.2. Intended users and responsible parties

Three parties are in the public audit are: the auditor i.e. Auditor General, the responsible party i.e. the auditee / government and intended users i.e. parliament, private and public institutions, scholars, investigators and general public.

Applicable standards:

- ▶ The auditor shall explicitly identify the intended users and the responsible parties of the audit and throughout the audit consider the implication of these roles.
- ▶ While the needs and interests of the intended users and responsible parties must be factored in PA so that the audit report is most useful and understandable to these entities. It must not in any way undermine the independence of the auditor. Audit focus must be public interest.
- ▶ The auditor must exercise hid judgement to identify the subject matter of a performance audit.

Figure 6: Three parties in the public audit

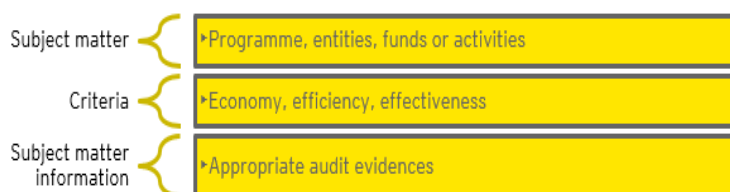


- Intended users:** The intended users are the persons for whom the PA report is prepared such as the legislature, the executive, government agencies, third parties concerned by the audit report, and the public. A responsible party may also be an intended user. The legislature or the executive will be the primary intended user. Citizens, interest groups, organizations involved in implementing policies, the academic community, media, experts in a specific audit field are also intended users. The intended users of PA must be identified in early stages of the audit. Authoritative PA reports are benefitted from the support of experts and PA reports can lose authority when experts challenge audit conclusions and recommendations.
- Responsible party:** The responsible parties are primarily the ones who act upon the conclusions and recommendations in PA report. Different issues of PA report may be addressed by a range of individuals who share the responsibility. Accountability is vested with a responsible party. For example, a minister may be held accountable by the legislature for performance in a certain area.

The performance auditor has discretion in the selection of the subject matter and identification of criteria. This may change the responsible parties and intended users. The auditors must consider the roles of the intended users during PA process while maintaining their independence.

1.9.3. Subject matter in Performance Auditing

The subject matter of PA deals with the topic “what is audited” and is defined in the audit scope. It may be specific programmes, undertakings, systems, entities, funds, activities with their outputs, outcomes and impacts or existing situations, including causes and consequences. The audit scope defines the boundary of the audit and is directly connected to the audit objectives. The



audit scope determines the subject matter of PA, the record to be examined with the period reviewed and the locations to be included. [2]

Applicable standards:

- ▶ The auditor shall identify the subject matter of a performance audit. (ISSAI 3000/29)

The subject matter are issues or audit question as defined in the scope of audit based on OAGN's strategic (and/or operational) planning process by analysing potential topics and conducting research to identify risks and problems. Many topics in PA can be politically sensitive assessing performance of public programmes of the government and looks at whether the legislature or the executive are efficiently and effectively prepared and the programme was implemented adhering to 3ES principles, and whether the taxpayers/citizens have received the value for money. PA does not question the intentions and decisions of the legislature but finds out the shortcomings of the laws and regulations during their implementation linking to the achievement of the planned objectives.

Applicable standards:

GUID 3910 PA subject matter:

- ▶ Subject matter of PA includes specific programs, entities, funds, activities, existing situations including causes and consequences.
- ▶ Examples of subject matter of PA can be any service delivery by the responsible public authorities or the effects of government policy and regulations on administration, stakeholders, businesses, citizens, and society. The subject matter is decided by the audit objective and formulated in the audit questions.
- ▶ OAGN may not have the mandate of reviewing the policy of government programs and in such cases, PA will not question the merit of policy. PA will examine actions taken to design, implement, or evaluate the results of the policies, which may show the adequacy of data and information for taking policy decisions.
- ▶ The subject matter will reflect the risk and materiality within the audit area. This adds value and ensures that the relevance of PA. Identification of the subject matter of PA is done based on a risk analysis. The scope of PA defines the boundaries of the subject matter.

1.9.4. Confidence and assurance in Performance Auditing

Applicable standards:

- ▶ The auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way.

Assurance enables the users to be confident in the findings, conclusions and recommendations in the report by explaining how findings, criteria and conclusions were developed in a reasoned manner. The auditor must transparently communicate the audit objective(s), scope, methodology and data gathered and any significant limitations in the report to avoid misleading the users.

GUID 3910 requirements

All type of audit is an assurance service; because auditor provides reliable and valid information to the intended users, generally, the legislature or the executive about the performance of a responsible party which may be, generally, a government agency. Reliable and valid information requires that the conclusions on the subject matter are logically

derived to the audit objectives and criteria; and supported by sufficient and appropriate audit evidence. Audit conclusions must be formulated to enhance the degree of confidence of the intended users about the subject matter evaluated against the criteria to provide assurance to the intended users. Audit conclusions must be written to enhance the degree of confidence of the intended users about the evaluation of the subject matter against criteria.

The process of arriving at an audit conclusion is an inferential exercise demanding judgement. All aspects of the conclusions must be supported by evidence-based findings relevant to the audit criteria. All findings must be considered to reach the conclusion.

For example, audit conclusions must be written logically such as 'based on the findings A, B, C and D compared to the audit criteria X, the logical conclusion is as follows:

- ▶ Audit findings must be based on sufficient and appropriate evidence. If the evidence is flawed, the findings and conclusion will also be flawed.
- ▶ The intended users must be provided with the requisite links on how audit findings,
- ▶ Criteria and conclusions are developed in a balanced and reasonable manner, establishing why and how the audit findings and criteria lead to logically the given audit conclusions.
- ▶ This can ensure confidence of the intended users about the validity of the conclusions with assurance.

Forms of providing assurance

Assurance can be expressed in different ways. Some examples are given below:

- ▶ An overall assessment of economy, efficiency and effectiveness of the audit objective, the evidence and the findings allow such a conclusion; or:
- ▶ Specific information can be provided on a range of points including the audit objective, the questions asked, the evidence obtained, the audit criteria used, the findings reached establishing the specific audit conclusions.

It is good practice to make an informed choice while communicating assurance. A formal attestation of opinion explicitly conveys the level of assurance (ISSAI 300/21). As formal opinion as in case of financial statements is not feasible in PA, assurance is conveyed falls under the "In other forms" described in ISSAI 100/32 (Ref Box below).

Applicable standards:

ISSAI 100/32

- ▶ Depending on the audit and the users' needs, assurance can be communicated in two ways:
 - Through opinions and conclusions which explicitly convey the level of assurance. This applies to all attestation engagements and certain direct reporting engagements.
 - In other forms. In some direct reporting engagements, the auditor does not give an explicit statement of assurance on the subject matter. In such cases the auditor provides the users with the necessary degree of confidence by explicitly explaining how findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the combinations of findings and criteria result in a certain overall conclusion or recommendation.

1.9.5. Communication

Applicable standards:

- ▶ The auditor shall plan for and maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process. (ISSAI 3000/55)

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- ▶ The auditor shall take care to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI. (ISSAI 3000/59)
 - ▶ The SAI shall clearly communicate the standards that were followed to conduct the performance audit. (ISSAI 3000/61)

GUID 3910 requirements

Proper external relations are key factor in PA. The progress and outcome of PA will improve by good contact that fosters confidence and by maintaining a professional approach during the audit. Auditor must access the sources, data and arguments with effective communication.

- ▶ The auditor must maintain good professional relationships with all the stakeholders involved in the audit, 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 of the respective role and responsibilities of each stakeholder. However, these communications must not affect the independence and impartiality of OAGN.
- ▶ Effective two-way communication with the audited entity and stakeholders can facilitate the auditor's access to information and data and gain better insights into the perspectives of the audited entity and the stakeholders. The auditor must communicate to the audited entity about the audit subject matter, audit objective(s) and/or audit questions, audit criteria, the time period to be audited and the government undertakings, organizations and/or programmes to be included in the audit. A sound dialogue throughout the audit process with the audited entity is essential to improve governance and impact of the audit. The auditor must interact with the audited entity by sharing audit findings, arguments and perspectives when they are developed.
- ▶ The communication process between the auditor and auditee begins at the planning stage of the audit and continues throughout the audit process through constructive process of interaction, as different findings, arguments and perspectives are assessed.

1.9.6. Professional judgement and skepticism

Applicable standards:

- ▶ The auditor shall exercise professional judgment and skepticism and consider issues from different perspectives, maintaining an open and objective attitude to various views and arguments. (ISSAI 3000/68)
- ▶ PA requires significant judgment and interpretation as audit evidence for PA is more persuasive than conclusive in nature.
- ▶ Professional judgment requires application of collective knowledge, skills and experience to the audit process and reasonable care in the conduct of the audit and the diligent application of all relevant professional standards and ethical principles.
- ▶ Professional skepticism requires maintaining professional distance from the audited entity and a questioning attitude when assessing the sufficiency and appropriateness of the audit evidence throughout the audit.
- ▶ Professional judgment and skepticism allow the auditor to be receptive to different views, arguments, perspectives, and maintain objectivity while evaluating the audit evidence. It also ensures the auditor to avoid errors of judgment, bias to draw objective conclusions based on a critical assessment of all of the audit evidence.

1.9.6.1. Risk of fraud

Applicable standards:

- ▶ The auditor shall assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process. (ISSAI 3000/73)

Fraud is intentional and involves deliberate concealment of the facts involving one or more members from the audited entity or third parties. Those charged with governance and management of the audited entity have the primary responsibility for prevention and detection of fraud. The auditor's responsibilities are identification and evaluation of areas of significant risk of fraud. Auditor must use audit procedures in response to those risks.

Auditor must maintain professional skepticism in the entire audit cycle because, management and employees involved in fraud will be inclined to conceal fraud from the auditor and others inside and outside the audited entity. When conducting PA, auditor must be aware the possibility of fraud related to the subject matter like in the case of contracting or grants and contributions. If auditor suspects or encounters fraud, he/she must bring the matter to the supervisor and the relevant authorities for further action.

1.9.6.2. Standards of professional behaviour

Applicable standards:

- ▶ The auditor shall maintain a high standard of professional behaviour. (ISSAI 3000/75)

Professional behaviour requires that the auditor must:

- ▶ apply high professional standards in carrying out PA work competently and impartially,
- ▶ undertake work only where the auditor is competent to perform,
- ▶ follow applicable laws, regulations, conventions, policies, procedures and practices,
- ▶ understand the constitutional, legal and institutional principles and standards governing the operations of the audited entity,
- ▶ not to behave in any way to discredit OAGN,
- ▶ adhere to ethical principles and requirements

1.9.6.3. Innovation

Applicable standards:

- ▶ The auditor shall be willing to innovate throughout the audit process (ISSAI 3000/77)

The auditor must be creative, flexible, and resourceful to develop innovative audit approaches for collecting, interpreting, and analyzing information. Different stages of the audit process provide innovation opportunities. During the planning stage, the auditor may have the greatest opportunity to innovate the best audit approaches and techniques applicable to the audit. OAGN shall use NAMS for conducting Performance Audit, including selection of topics, which is an innovative way for working.

1.9.7. Materiality

Applicable standards:

- ▶ The auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter with the goal of delivering as much added value as possible. (ISSAI 3000/83)
 - ▶ Perspective of the intended users and responsible parties.
- ▶ Materiality is the relative importance of a matter, in the context in which it is being considered, that can change or influence the decisions of users of the report such as legislatures or executive. Materiality can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the interests expressed by intended users or recipients. In addition to monetary value, materiality includes issues of social and political significance, compliance, transparency, governance and accountability. Materiality can vary over time and can depend on the perspective of the intended users and responsible parties.
- ▶ **Qualitative factors** may include such things as:
- Whether a finding is the result of an intentional act (fraud) or is unintentional.
 - Whether a particular aspect of the programme or entity is significant with regard to the nature, visibility and sensitivity of the programme or audited entity.
 - Whether the health or safety of citizens is affected.
 - Whether a finding relates to transparency or accountability.
- ▶ **Quantitative factors** relate to the magnitude of the findings that are expressed numerically. The auditor needs to consider the aggregate effect of individually insignificant findings.
- ▶ The consideration of materiality is relevant in all aspects of performance audits. Therefore, the auditor needs to consider materiality when selecting the audit topics, determining the audit objective(s), questions and scope, defining the criteria, evaluating the evidence, documenting the findings and developing the conclusions and recommendations.
- ▶ Findings are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions taken by intended users on the basis of the auditor's report. The auditor's consideration of materiality is a **matter of professional judgement** and is affected by the auditor's perception of the common information needs of the intended users.

1.10. Common Audit Activities

The common activities in audit process are documentation and review.

1.10.1. Documentation

1.10.1.1. Applicable polices and standards for documentation

Applicable standards:

- ▶ Auditors should prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained, and conclusions reached (ISSAI/100/42).
- ▶ The auditor shall document the audit in a sufficiently complete and detailed manner. (ISSAI 3000/86)
- ▶ 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 (ISSAI-300/34).
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- i) The auditor must prepare the audit documentation in a timely manner; keep it up to date throughout the audit; and complete the documentation to the extent possible before issue of the audit report.
 - ii) Documentation must be sufficient to enable an experienced auditor with no previous connection to the audit to understand:
 - The nature, timing and extent of the work conducted;
 - The findings of the audit work, and the audit evidence obtained; and
 - Significant matters arising during the audit (for example changes in the scope or approach of the audit, decisions regarding a new risk factor identified during the course of the audit, actions taken as a result of disagreement between the audit entity and the team), the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
 - iii) Auditor must keep all relevant documents collected and generated during a performance audit. Examples of the types of records to be documented for PA include:
 - details of the audit plan and methodology,
 - results of fieldwork and analysis,
 - communications and feedback with the audited entity, and
 - supervisory reviews and other quality control safeguards.
 - iv) However, the circumstances of PA will indicate the purpose and context of the audit documentation. This includes substantive e-mail communications sent to, or received from, an official in an audited entity or an outside party that are relevant to PA report. Documentation records the auditors who performed the audit work with details like name, date when the work was completed.
 - v) If an auditor collects personal data or information, he/she must ensure that it is adequately safeguarded. The nature and sensitivity of the information determine the level of security.
 - vi) More audit documentation is needed when:
 - the risk is high (the risk associated with conducting the audit or when the finding is significant, sensitive or contentious);
 - more judgment is needed in performing the work or evaluating the results; and
 - the evidence is more significant (i.e., the evidence is critical to conclude on the objectives of the audit).
 - vii) It is advisable for the documentation to include a system that cross- references the audit report to the working papers.
 - viii) The auditor needs to adopt appropriate procedures to maintain the confidentiality and safe custody of the working papers. The auditor also needs to retain the working papers for a period sufficient to meet the needs of the legal, regulatory, administrative and professional record retention requirements and to conduct audit follow-up activities.
 - ix) The significant policies in respect of Audit Documentation are as follows:
 - ▶ the Audit Director should ensure that audit files exist, contain appropriate and sufficient evidence, are complete and easily retrievable.
 - ▶ all working papers are confidential documents belonging to the OAGN. Audited organizations and the public have no right of access to the OAGN's working papers.
 - ▶ audit staff should not disclose information gathered during the audit to third parties.

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- ▶ audit files should support reports issued.

1.10.1.2. Characteristics of Working Papers

Audit working papers should exhibit the following characteristics:

- ▶ completeness and accuracy - to show the nature and extent of audit work performed and to provide proper support for contents of the audit report
- ▶ clarity and conciseness without requiring supplementary oral support. The legend to tick marks or other symbols used to document performance of audit tests should be explained.
- ▶ ease of preparation
- ▶ legibility and neatness with adequate space for additional data, notes and comments
- ▶ relevance - should contain information that is important and useful with respect to the objectives established for the examination
- ▶ organization - files should be systematically organized, indexed, and cross-referenced ease of review

1.10.1.3. Contents of Audit Working Papers

Audit working papers should contain the following:

- ▶ basis and extent of planning(the objective, scope and methodology, including any sampling criteria used)
- ▶ documentation of work performed to support significant conclusions and judgments. These include audit programmes, schedules supporting information contained in the audit report, third party confirmation, reliance placed on the work of other auditors, other evidence contributing to auditor's findings, etc.
- ▶ evidence of supervisory work performed
- ▶ draft reports
- ▶ details of discussion with management
- ▶ management responses
- ▶ copies of photographs that form part of the audit evidence

The ultimate test on audit working papers is to ensure whether they contain appropriate and sufficient evidences and are complete enough to withstand knowledgeable scrutiny.

1.10.1.4. Audit file structure

- ▶ Information gathered should be separated between two audit files, namely the current audit file and the permanent audit file.
- ▶ The permanent audit file consists of information of a permanent nature. The information contained here will be useful when conducting financial audit of the same auditee or when conducting performance audit in a different area of the same auditee.
- ▶ Some examples of main or permanent file documents are as follows:
 - Policy of the audit entity
 - Laws/Rules - legal framework
 - Organizational Structure
 - Details of closely related entity and programme.
 - Project Memorandum/Appraisal
 - Resource Management (Agreement of Loan/Grant)
 - Project Documents
 - Mid-term and other evaluation
 - Target and Achievement

- Major Audit Findings of Previous years, which were incorporated in to the Annual Report
 - Decisions of Public Accounts Committee
 - Cuttings of Matters of Public Concern Published in Magazines/Newspapers
 - Other Relevant Documents and Statements (Useful for more than one Fiscal Year)
- ▶ Current audit file should be established for each audit and should contain the working papers developed during that audit. Materials contained in current files should be arranged in a logical sequence in accordance with the planned file structure developed as part of the overall audit plan. The structure and contents of the current audit file is illustrated in 'Audit Tool13' in Annexures.

Alignment with NAMS

- ▶ Current audit file shall be captured in NAMS as part of Working Papers under an Audit Programme.
- ▶ Audit documentation shall only be accessible to authorized users in NAMS based on role-based access.
- ▶ Audit documentation shall be maintained in NAMS, for the number of years, as per policy of OAGN
- ▶ All audit documents shall be indexed and cross-referenced with the audit plan/programme for ease of use.

1.10.2. Completing and reviewing audit files

Applicable standards:

- ▶ The SAI shall establish and maintain a system to safeguard quality, which the auditor shall comply with to ensure that all requirements are met, and place emphasis on appropriate, balanced, and fair reports that add value and answer the audit questions. (ISSAI 3000/79)
- ▶ The SAI shall ensure that the work of the audit staff at each level and audit phase is properly supervised during the audit process. (ISSAI 3000/66)

Audit supervision must provide sufficient guidance to the audit team. The auditor who supervises the PA must be competent to apply audit methodologies; planning and monitoring work; project management; strategic thinking; foresight and problem solving. The supervision of the auditor may depend upon the proficiency of the audit team and the complexity of the subject matter of the audit.

Supervision is essential to ensure that audit objectives are met and the quality of the audit work. Proper supervision and control are necessary, regardless of competence of the auditor. Audit supervision provides sufficient guidance to staff assigned to the audit to address the audit objectives and to apply methodology,

Supervision includes:

- ▶ Ensuring that all team members fully understand the audit objectives;
- ▶ Ensuring that audit procedures are adequate and properly carried out;
- ▶ Ensuring that the audit evidence is relevant, reliable, sufficient and documented;
- ▶ Ensuring international and national auditing standards are followed;
- ▶ Tracking the progress of the engagement to ensure that budgets, timetables and schedules are met;
- ▶ Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;
- ▶ Addressing significant matters arising during the engagement,
- ▶ considering their significance and modifying the planned approach appropriately;
- ▶ Supporting the auditor as and when needed to overcome challenges in the audit;
- ▶ Providing hands-on support in solving issues that arise;

-
- ▶ Identifying matters for consultation or consideration by more experienced engagement team members during the engagement;
 - ▶ Reviewing the audit work.

The staff supervision, the review of audit work, and evidence of it depend on many factors including the size of the audit organization, significance and complexity of audit work and experience of the staff. All audit work must be reviewed by a senior member of the audit team during the course of audit. Review ensures that:

- ▶ The audit work has been performed according to the audit plan;
- ▶ The nature, timing, and extent of the procedures performed are consistent with the audit programmes;
- ▶ The results of the audit procedures and evidence obtained are clearly reflected in the audit documentation and the conclusions reached are consistent with the results of the work performed;
- ▶ Consultations have taken place, where appropriate, and the resulting advice documented and implemented;
- ▶ The evidence obtained is sufficient and appropriate to support the observations, conclusions, and recommendations in the report'.

The working papers must be made as per PA Guidelines and OAGN's instructions relating to policies and procedures with respect to what is expected to be included in the audit documentation. All audit working papers required for a specific PA engagement must be filed in the audit file (**Audit Tool 13**) for individual PAs. When assessing the documentation, the reviewer must check issues related to compliance with the general standards for independence, professional judgment, and competence, and make further inquiry as appropriate and test depending on the OAGN's policies and procedures.

The review process has been divided into the following levels:

- ▶ First level – lowest level of review, e.g. at field level by the team leader (The team leader is responsible for reviewing the team members' work and hence must ensure that the team members are completing the assigned work within the time with the expected quality);
- ▶ Second level – reviews done by the supervisor or head of the directorate;

Note: If head of the directorate or supervisor is the team leader for any audit, then next level of review shall be done by the official with a role higher than that of supervisor or head of directorate.

- ▶ Third level of review will be applicable in case of audit execution, where at first level, team leader will review the WPs prepared by team members, followed by second level of concurrent review by supervisor during the audit itself. Once the audit is completed, AAG, shall review the audit conducted, in its entirety.

All levels of review should consider the following fundamental issues when reviewing:

- ▶ All mandatory working papers and procedural steps have been adequately completed, signed (or signed off) by preparer and reviewer, dated and cross-referenced. When a working paper of procedural steps is omitted, adequate reasons are supplied;
- ▶ The audit subject matter, scope, criteria have been identified and clearly linked to the audit through the working papers;
- ▶ Knowledge of auditee and its environment obtained is adequate to inform the auditors' decision relating to the audit approach;
 - Conclusions were adequately drawn and supported by appropriate and sufficient audit evidence;
 - Significant deviations from the overall audit plan and any changes in the scope of the audit have been documented;
 - All significant professional judgements made have been documented and are supported by appropriate audit evidence;

- The audit was conducted in accordance with the relevant audit approach, guidelines and other directives;
- ▶ All significant audit matters have been resolved or have been appropriately reported to management in the management letter as well as in the auditor’s report;
 - The work performed and results obtained have been adequately documented;
 - Based on the underlying audit work and findings the correct audit conclusion has been reached; and
 - Reported findings are supported by adequate and sufficient audit evidence.
- ▶ Audit review checklist for reviewers is presented in **Audit Tool 14 in Annexures**.

Alignment with NAMS

- ▶ Audit review process shall be inbuilt in NAMS for audit steps, as applicable.
- ▶ Audit review checklist (Audit Tool 14) shall be captured in NAMS. During the review, reviewer shall comply with the checklist. This checklist is applicable for review after the audit has been completed and covers two levels of workflow.
- ▶ Process of signing-off documents shall be in NAMS, based on click of ‘Approval’ button by the reviewer. An audit trail for workflow steps shall be maintained in NAMS along with comments and timestamp. This process is not applicable for documents where, physical signature of documents is required as per law.

1.10.3. Note for Reviewer

By the act of signing off a working paper at every stages of audit, the reviewer is attesting that following has been ensured:

- ▶ All relevant information for the purposes of concluding on the stage of the audit process has been duly considered; and
- ▶ Reviewer agrees with the conclusions made on each working paper and all coaching notes have been addressed appropriately.

This manual ensures the compliance with INTOSAI Framework of Professional Pronouncements (IFPP) that include INTOSAI Principles, INTOSAI Standards (ISSAIs) and INTOSAI Guidance. Should the reviewer require additional material to ensure compliance with IFPP, the reviewer need to refer to the relevant INTOSAI principle / standard/guidance. IFPP applicable as on Baisakh 1, 2077 has been considered.

1.11. Linkage with CPA (Citizen Participatory Audit) guidelines

Since CPA is a method of audit under PA, the procedures for audit planning, audit execution, reporting, follow-up and quality control for PA shall apply to CPA as well. Process for topic selection and CSO selection will be as per CPA guidelines.

Alignment with NAMS

- ▶ In NAMS, CPA will be configured as a method of Performance Audits and shall have same procedures for audit planning, audit execution, reporting, follow-up, and quality control.
- ▶ Topics for CPA will be directly captured in NAMS, during the Annual Audit Planning process.

1.12. Overview of Performance Audit lifecycle

The various phases of performance audit lifecycle are presented in the figure below. These phases are explained further in subsequent chapters.

Various working papers (WPs) that shall be prepared under various phases of PA lifecycle are presented in the table below.

Figure 7: Overview of performance audit lifecycle

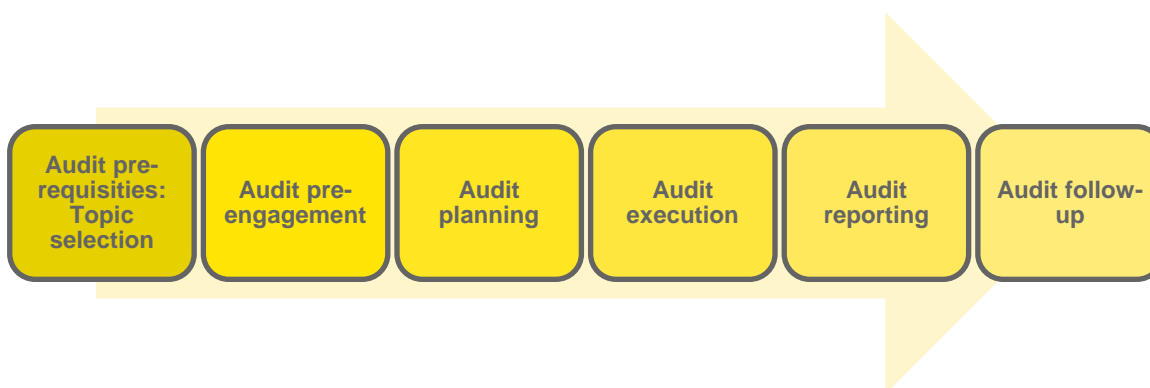


Table 2: Working papers for performance audit

S/N	Objective of WP	WP Number	WP Name
Audit pre-requisites – Topic Selection			
1.	Selection of topics/entities/activities/programmes for PA	Audit Tool 1	Selection criteria and matrix
221.	Monitoring progress on performance audits	Audit Tool 21	Performance Audit Progress Record Form
Audit pre-engagement			
2.	Composition of team for performance audit	Audit Tool 2	Team composition
3.	Ethical declaration to be signed off by team members	Audit Tool 3	Ethical declaration
4.	Report for planned versus actual audit hours	Audit Tool 16	Record of Activities
Audit planning			
5.	Understanding the entity	Audit Tool 6	Segment Operation Model
6.		Audit Tool 4	Entity Information Collection Form
7.		Audit Tool 5	Process Analysis Template
8.	Identity Audit Objectives, Risks, Criteria, Audit question	Audit Tool 7	Risk Assessment Process
9.		Audit Tool 8	Risk Assessment Form
9.	Designing of Audit programme Sector wise Key Performance Indicators	Audit Tool 9	Audit Design Matrix
10.		Audit Tool 10	
Audit execution			
112.	Format for recording minutes of entry meeting	Audit Tool 12	Entry Meeting Minutes

S/N	Objective of WP	WP Number	WP Name
111	Format for audit authorization letter	Audit Tool 11	Audit Authorization Letter
113	Format for recording of findings during audit execution	Audit Tool 13	Audit Findings Form
114	Format for recording minutes of exit meeting	Audit Tool 14	Exit Meeting Minutes
Audit reporting			
115	Template for Performance Audit Report. Template based report will be generated from NAMS	Audit Tool 15	Final Performance Audit Report
Audit follow-up			
116	Format for follow-up on audit recommendations including auditee's responses	Audit Tool 19	Follow-Up Template
117	Template which can be filled and uploaded on NAMS after incorporating PAC inputs	Audit Tool 18	Annual Report, Response & Decision of the PAC
Audit Quality Control			
18	A checklist for review of audit by the reviewer	Audit Tool 17	Audit Review/QC Checklist
119	Checklist for planning, execution, reporting and follow-up stages of audit	Audit Tool 22	Checklist for to be followed and completed during audit life-cycle
Audit documentation			
	List of audit working papers to be maintained as part of current audit	Audit Tool 20	Current Audit File documentation

**Audit tool have been presented in Annexures to Performance Audit Guidelines.*

Alignment with NAMS

- ▶ Audit tools shall be captured in NAMS. Please refer to Annexures for mapping of audit tools with NAMS.

2. Audit Prerequisites – Topic Selection

2.1. Objectives

The objective of this process is selection of topics or issues for performance audit that are auditable. While selection of topics following points should be considered:

- ▶ Assessing audibility is essential for selecting audit topic for PA.
- ▶ The topic must be within the audit mandate of OAGN;
- ▶ OAGN has the audit capacities to conduct PA on the topic. While designing the audit, audibility must be revisited again.
- ▶ All audit operations shall help achieve the objectives outlined in OAGN's strategic plan. CCU must consider the strategic plan of OAGN in formulating strategic plan for PA.

The selection of topic/issue for PA helps to:

- ▶ provide a basis through the preliminary identification of auditable population (the audit universe) from which the auditors make initial decisions on whether PA is warranted.
- ▶ add value by OAGN's external, independent audit in promoting economy, efficiency, and effectiveness. The process must be done without any form of outside pressure, maintaining OAGN's independence.

The selection of topics for PA is critical due to the following reasons:

- ▶ the size, complexity and diversity of the operations of the auditees make it normally impracticable to assess the overall performance of departments or agencies in the public sector;
- ▶ Save resources and time by concentrating on particular problematic area;
- ▶ Enhances relevance of audit findings;
- ▶ Timely completion and reporting facilitate initiation of corrective action.

Selected topics form part of OAGN's Strategic plan and Annual Audit plan, which helps in planning the individual audits (in-depth (larger) or basic (small) audits).

2.2. Applicable standards

Identification of subject matter

- ISSAI 300/36
- Designing the audit ISSIA/-37
- ISSAI 3000/29-31

2.3. Audit steps

Applicable standards:

- ▶ The auditor shall select audit topics through the SAI's strategic planning process by analyzing potential topics and conducting research to identify risks and problems. (ISSAI 3000/89)
- ▶ The auditor shall select topics that are significant and auditable, and consistent with the SAI's mandate. (ISSAI 3000/90)
- ▶ The auditor shall conduct the process of selecting audit topics with the aim of maximizing the expected impact of the audit while taking account of audit capacities. (ISSAI 3000/91)
- ▶

The auditor must understand OAGN's strategic planning process as the first step in topic selection. The strategic planning contains analysis of potential areas for PA audit. The techniques such as risk analysis or problem assessments are useful in the process; but professional judgment is essential to select significant and auditable audit

topics. Auditability is a critical in the planning process as it determines whether a topic is suitable for PA. The auditor must consider availability of relevant audit approaches, methodologies and audit criteria and whether they can be obtained. If reliable information is not available, it is a reason for selection of the topic for PA. The audit capacities in terms of human resources and professional skills and potential impact of the audit topic for public finance and administration, the audited entity, or the general public must be factored in topic selection process. The results and recommendations of previous audits and conditions in terms of timing are important factors to be kept in view.

2.3.1. Selection of topics

2.3.1.1. Introduction to Strategic planning

In this step, the audit topic is selected. The selection process is necessary because the number of entities, programs and schemes to be audited is very vast when compared to OAGN limited resources. The audit topics should be significant, auditable, and reflect the OAGN mandate. The audit should lead to important benefits to the public administration, the audit entity and the general public. To decide what to audit, it is necessary to establish criteria in order to guide the investment of resources and increase the likelihood of selecting audit objects that present opportunities to perform meaningful work. Some selection criteria could be: added value, materiality, relevance, risk, audit impact, previous audit work, auditability, complexity.

The objectives of strategic audit planning are to:

- ▶ provide basis for future audit coverage;
- ▶ provide future direction for performance auditing;
- ▶ identify and select audits with potential risks;
- ▶ establish monitoring mechanism to review the progress;
- ▶ promote accountability and governance in OAGN.

2.3.1.2. Strategic Planning Process for Topic Selection

A well-structured strategic planning process, based on a sound rationale, is necessary to ensure that the resources available at OAGN used in the most efficient and effective manner. The significance of wider performance audit areas incorporating government's overall and primary objectives will be established by analysing and understanding government policies, strategies, budgets and statements to identify critical aspects of policy implementation.

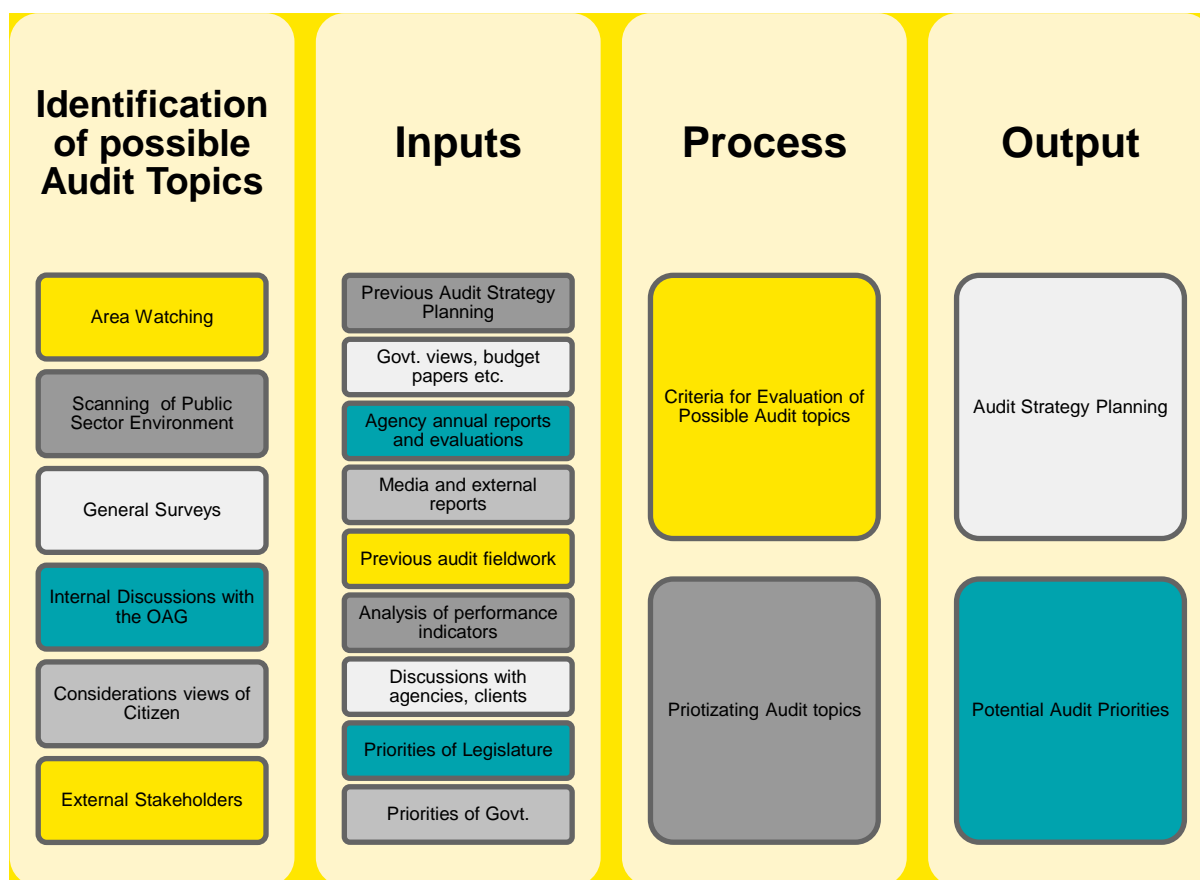
A proper consultation process forms the basis of understanding government's policies and priorities. This can involve appropriate stakeholders in government such as relevant ministers, (national assembly bodies that process legislation and have oversight of the departments mentioned in the title of the committee such as health, education, housing etc.), accounting officers, external experts and others. The consultation process should inform the decision on appropriate strategic and cross cutting/transversal performance audit topics. The ISSAIs also recognises opportunity for Parliament to request audits, it can for example be appropriate to have meetings to establish performance audit topics that are of interest to the legislature. Desk research of various kinds is also needed.

The strategic planning process will be achieved by:

- ▶ Environmental scanning relevant to performance audits
- ▶ Constantly reviewing the wider performance audit areas for relevance
- ▶ Facilitating a wider consultation process to obtain inputs from relevant stakeholders in government.
- ▶ Maintaining planning methodology for risk analysis and reporting.
- ▶ Identifying internal and external subject matter experts.

The strategic planning process is outlined in the figure below.

Figure 8: Strategic planning process for PA



2.3.1.3. Identification of Possible Audit Topics

The first step in the performance audit process is deciding what to audit. Performance auditing should be directed towards areas where an external, independent audit may support the oversight function in promoting accountability, economy, efficiency and effectiveness in the use of public resources. The aim is to select audit topics that are significant, auditable and can be expected to lead to important benefits for public finance and administration, the audited entity or the general public. Performance audit topics should be selected based on the risk assessment and significance (financial, social and/or political significance) of the topic, focusing on the results of applying public policies. The selection process should aim to maximise the impact of the audit while covering audit capacities. The auditors need to conduct some research to identify risks and problems and to be able to understand the topics and why potential audit entities seem to operate or perform as they do as a part of the selection and planning process. The selection of audit topics is done in the overall planning in the OAG.

OAG should use different tools to provide input to the selection of topics. The following paragraphs identify a number of tools:

a) Area watching

Area watching entails monitoring key issues in the public sector to keep abreast of developments. Its purpose is to identify possible audit areas for further scrutiny. It is carried out by reading relevant publications and previous reports relating to performance and compliance audits, listening to the experience of regularity auditors, listening to or reading transcripts of parliamentary debates, attending conferences and seminars, discussions with colleagues, stakeholders and specialists, listening to radio and television broadcasts, and reading newspapers and journals. Area

watching should be a continuous process that ensures that the SAI is always in possession of updated information about what happens in society and areas that may require further examination.

b) Scanning of public sector environment

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

- ▶ Standing Committee on Public Accounts Committee resolutions
- ▶ A speech from the president that marks the opening of the parliamentary year, usually attended by important political and government figures
- ▶ The Sustainable Development Goals
- ▶ National budgets and guidelines
- ▶ Other related policy documents
- ▶ Global developments such as the themes identified by INTOSAI
- ▶ Media including news, articles, concerns raised by the public

c) General surveys

General surveys may cover a whole entity, a group of related activities or particular major projects or programmes of expenditure or receipts. The general survey is aimed at providing an understanding of the organisation's objectives, its main activities and the level and nature of resources used in carrying out its functions. Information is assembled and evaluated on the background, objectives, activities, plans, resources, procedures and **controls** in the entities or areas concerned. The aim is to:

- ▶ identify and review those areas absorbing a significant level of resources.
- ▶ identify potential risks to achieving good value for money.
- ▶ highlight areas for continuing audit attention
- ▶ propose areas or subjects for inclusion in the performance audit programme

Much of the information for general survey work can be obtained through normal day to day work and contact with the public sector organisations. The information gathered and assessments made during general survey work should be recorded in working folders. Table below summarises the information required and the approach to general survey work. This can act as a checklist of the required background information covering the following:

- ▶ Background environment and information on the entity
- ▶ Significant legislative authority
- ▶ Objectives of audited entity
- ▶ Organisational arrangements
- ▶ Accountability relationships
- ▶ Activities carried out
- ▶ Nature and level of resources used
- ▶ Procedures and control systems in place
- ▶ Other relevant information or evidence.

General Survey key contents

The purpose of general survey work is to assemble information about an organisation or activity to assist in the preparation of the performance audit component of the OAG strategic plan. A survey requires information on:

Background

- ▶ Financial information on expenditure and receipts, major resources and significant holdings of assets
- ▶ Organisational structure
- ▶ Constraints under which the audited organisation operates

Objectives

- ▶ Policy objectives and their relative priority
- ▶ Operational objectives
- ▶ Activities
- ▶ Means by which the organisation aims to achieve its objectives (e.g. through grants, loan schemes, capital building programme etc.)

Resources

- ▶ The nature and characteristics of resources used by the organisation e.g. cash, manpower (staffing numbers and grades), land and buildings, plant and equipment

Procedures and Control

- ▶ Procedures and controls in operation to ensure that objectives are pursued with due regard to VFM (e.g. planning arrangements, financial controls, management information systems etc.)

Other relevant information

- ▶ Evidence of serious waste, inefficiency or ineffectiveness
- ▶ Internal or external reviews (e.g. by consultants, internal audit, management services etc)
- ▶ Previous Audit reports or other reports
- ▶ Areas of particular interest to Parliament or the press

The information collected enables an assessment to be made for each organisation of factors likely to have a material effect on VFM and the ways in which it could be at risk. These may involve:

- ▶ The clarity and adequacy of policy and operational objectives
- ▶ The adequacy of procedures and controls designed to ensure economy, efficiency and effectiveness in the use of resources
- ▶ Operations carrying inherently high risk to achieving VFM e.g. new activities or programmes, major or long-term capital projects
- ▶ Any apparent strengths and weaknesses in management and performance
- ▶ The effectiveness of the organisation in achieving its objectives.

d) Internal discussions and assessments within the OAGN

Internal discussions to debate and assess the risks associated with possible topics should take place within the OAG. The performance auditor should engage with other performance, financial and compliance auditors within the OAG to identify possible audit topics.

The Assistant Auditor General assigned to the Performance Audit Division holds the responsibility to initiate the plan formulation and selection process which involves organizing workshop and requesting to all Operational Divisions within Office of the Auditor General to suggest/ nominate significant organisation, topics or issues considered potential for performance audit.

Operational divisions are obliged to share the requested information on topics/issues such as:

- ▶ name of the Programme/Project/Organisation/Activity
- ▶ potential auditee/s
- ▶ year of commencement
- ▶ financial source - Donor assisted or Government of Nepal
- ▶ nature and brief description of activity
- ▶ location and geographical coverage (number of districts)
- ▶ designation and address of Chief Executive/ Programme/Administrator
- ▶ critical audit observations in previous years
- ▶ total cost of project/programme
- ▶ period to be covered by the audit
- ▶ suggested audit commencement and completion date
- ▶ major reasons for recommending the topic
- ▶ other matters of significance (media reports, public concern, requests, complaints, etc.)

Alignment with NAMS

- ▶ Form for requesting information on topics/issues shall be in NAMS

e) Considerations of views of citizens

The perspective of the citizen that is related to the performance of the audited entity should be taken into account where appropriate. It is important to consider the interests of citizens on performance audits. Citizens are the source of ideas for performance auditing, a source of demand for performance auditing and users of performance audit reports. OAG should maintain relevant information outlining views of the public on certain operations of government organisations or programmes.

f) External stakeholders

Relationships should be built with external stakeholders and frequent interaction should take place to identify and discuss possible topics. Inputs on topics may be obtained from relevant role players in government, subject experts and the department's internal auditors. Non-government organisations can be a useful source of ideas. They may have conducted their own research through surveys and case studies and may have a range of relevant contacts.

2.3.1.4. Compilation and recommendation of audit topics

Central Coordinating Unit (CCU) will monitor the process of recommending topics by different Divisions. The Performance Audit Division shall compile all the information received and shall indicate its preference or recommend the selection criteria of issues or topics to be considered for performance audit.

In compiling the topics, PA Division should consider preliminary issues pertaining to the broad areas of the auditee's operations, including:

- ▶ Relative size of expenditures or revenues;
- ▶ Trends in the entity's performance;
- ▶ Comparative indicators of performance for similar organizations;
- ▶ Compliance with relevant legislation;

- ▶ Potential risks;
- ▶ Matters of public interest;
- ▶ Complexity of operations; and
- ▶ Known unresolved problems from financial audits.
- ▶ Financial/ or budgetary amounts that are substantial, or significant changes to the budget.
- ▶ Areas traditionally prone to risk (for example IT systems, procurement, technology, environmental issues and health).
- ▶ New or urgent activities or when changes in conditions (e.g. requirements and demands) are involved.
- ▶ Management structures that are complex, with possible confusion about responsibilities.
- ▶ Lack of reliable, independent, and updated information on the economy, efficiency or effectiveness of a government programme.
- ▶ Associated challenges and probability of completing auditing in time;
- ▶ Maximizing the expected impact of an PA.
- ▶ Risk to performance in terms of economy, efficiency, and effectiveness or public trust;
- ▶ Adding value by providing new knowledge and perspectives by auditing policy fields or subjects not covered by audits.
- ▶ Capability of audit personnel to undertake audit;
- ▶ Potential impact of audit report; and
- ▶ Operating environment of potential organization.

Alignment with NAMS

- ▶ Compilation of audit topics shall be in NAMS

Table 3: Some examples of broad risk areas/issue to be considered while recommending and selection of subjects for PA

Broad Risk Area	Issues or Potential Areas
1. Asset/Inventory Management	<ul style="list-style-type: none"> ▶ Usage and safeguarding of assets ▶ Loss/pilferage/missing/loss due to fire/theft/unusable or obsolete assets ▶ Lack of timely repair and maintenance ▶ Inventory management ▶ Lack of physical inventory reports ▶ Idle plant and equipment ▶ Under capacity utilization ▶ Over and under stocking ▶ Unusable/obsolete assets/inventory
2. Human Resource	<ul style="list-style-type: none"> ▶ Recruitment of right personnel for the right job with proper qualification, background, and aptitude ▶ Training, orientation, and capacity development ▶ Frequency in transfer/Rotation of staff where required ▶ Human resource planning ▶ Timely filling of vacancies ▶ Fulfilment of required position ▶ Adequacy of technical manpower ▶ Hiring expert ▶ Hiring consultant ▶ Following applicable procedures for hiring human resources, consultants, experts etc.
3. Procurement management	<ul style="list-style-type: none"> ▶ Procuring without competition, direct procurement, non-compliance of applicable procurement act and rules ▶ Cost over run ▶ Time overrun, ▶ Procurement of defective goods/material not meeting the specified quality parameters

Broad Risk Area	Issues or Potential Areas
	<ul style="list-style-type: none"> ▶ Applicable procurement procedures including e-procurement practices as per the rules ▶ Adherence to Applicable Bid evaluation methods ▶ Lack of quality testing and controls of procurement of materials/goods ▶ Procurement packages ▶ Procurement plan and its compliance ▶ Year-end procurement/postponing and creating emergency/hurrying in procurement ▶ Delay in supply of essential goods ▶ Non delivery of prompt goods and materials on time
4. Contract management	<ul style="list-style-type: none"> ▶ Monitoring work schedule and progress ▶ Significant cost and time overrun ▶ Non achievement of outputs, targets, milestones ▶ Variation and price escalation ▶ Scope change ▶ Non-compliance to the quality control arrangement ▶ Supervision ▶ Lack of monitoring/inspection/site visits/measurement ▶ Review of completion of work ▶ Completion and handover
5. Project management	<ul style="list-style-type: none"> ▶ Feasibility study and cost benefit analysis ▶ Detail survey ▶ Environmental consideration ▶ Timely planning and obtaining needed approvals ▶ Resources' planning ▶ Adequacy of budget ▶ Timely release of funds ▶ Target and achievement ▶ Performance indicators and measurement of performance and milestones ▶ People's participation/stakeholder's participation ▶ Operation, inspection, repair and maintenance
6. Gender aspect and inclusion	<ul style="list-style-type: none"> ▶ Gender sensitive programme ▶ Gender budgeting/resources allocation ▶ Women participation and feedback ▶ Empowerment and capacity development ▶ Inclusion of ethnic and disadvantaged group ▶ Increased participation ▶ Advocacy and encouragement and creating conducive work ethics and environment
7. Programme implementation	<ul style="list-style-type: none"> ▶ Institutional arrangement ▶ Resources management ▶ Operational plan ▶ Achievement of output indicator ▶ Achievement of targets/milestones ▶ Monitoring and evaluation ▶ Achievement of outcome/expected results/impact

Broad Risk Area	Issues or Potential Areas
	<ul style="list-style-type: none"> ▶ Achievement of SDGs
8. Outcome	<ul style="list-style-type: none"> ▶ Internal rate of return ▶ Outcome indicator ▶ Service delivery access, equity, and quality, inclusiveness, ▶ Non-discrimination and compliance of applicable rules ▶ Access to health service ▶ Access to education facility ▶ Quality of education
9. Policy and legal arrangement	<ul style="list-style-type: none"> ▶ Execution of policy objective ▶ Compliance to the legal provision/applicable regulations ▶ Consistency between policy, programme, and budget

2.3.1.5. Prioritising audit topics

Audit topics could also be evaluated against qualitative aspects to determine whether the topics are significant. The following criteria reflected in table below are examples of aspects that may be considered when identifying topics. The relative importance of each criterion will depend on the unique circumstances at each level of government (Federal, province and local government).

Table 4: Selection criteria for identification of topics for PA

S. No.	Criteria	Factors
1.	Materiality	Is the topic important to government/the public/ the audited entity (national priority) and does it involve a critical area?
2.	Public accountability	Higher the need of public accountability in a topic, more is the priority score of the topic for audit.
3.	Possible impact	Will the topic have a powerful effect on enhancing the economy, efficiency and effectiveness of government undertakings?
4.	Improvement	Will the audit lead to improvements in government?
5.	Legislative or public interest	Will the topic address a legal concern or be to the advantage of the community?
6.	Risks to the OAG	Will the topic present risk (strategic or reputational) to the OAG?
7.	Departmental issues	Will subjects of departmental concern be addressed by the topic?
8.	Relevance	Does the topic have some bearing on, or importance for real world issues, present day events or the current state of society?
9.	Auditability	Can the topic be audited? Is it practical to audit? Does it fall within the legal mandate of the OAG?
10.	Timeliness	Is this the right or appropriate time to audit the topic?
11.	Previous audit work	Has the topic been audited in the past?
12.	Other major work planned or in progress	Is other work being planned or done on the topic?
13.	Developments likely to affect	Are there any events or processes of change that would probably affect the assessment?

S. No.	Criteria	Factors
	Assessment	
14.	Request for performance Audits	Have any special requests been made for performance audits to be done? Consideration should be given to the source of the request to determine the importance thereof e.g. interests from parliament versus requests from department.
15.	High political sensitivity	Does the topic involve a delicate subject that is of government concern?

2.3.1.6. Tool for prioritizing audit topics

Compiled list of topics shall be forwarded to CCU for prioritization. The CCU can request for additional topics for performance audits based on associated materiality, risk or other factors. The CCU apply the selection matrix and criteria on the complied list of topics for prioritization and selection. The CCU shall decide the weightage to be applied to each topic proposed by the PA division. The following questions mentioned in table below can be asked and scored to obtain overall score on each topic.

Table 5: Assessment of topics for prioritization

No.	Area	Question	Description
1.1	Internal assessment	Are there areas of such high-risk nature/great importance that it needs to be audited frequently?	Identify areas where frequent audits are necessary due to the high-risk nature/great importance of the topic and determine the potential improvement that the audit could have on the government and, as a result on the general public.
1.2		Has the specific entity been recently performance audited for the topic?	Determine whether the topic or the entity to be audited has featured in earlier audit reports. The longer the period since the topic/entity was last addressed in an audit, the higher the potential impact.
1.3		Is internal evidence indicating deficiencies at the entity available to the performance auditor?	To substantiate the relevance of the topic, determine whether internal evidence, such as findings from previous audit reports and management reports is available to confirm that shortcomings exist at the entity.
1.4		Risks to the OAG	Will the topic present risk (strategic or reputational) to the OAG? Higher the risk higher will be the priority for audit.
2.1	External Assessment	Does the topic have an economic and/or social impact, and does it affect a large section of society?	Establish whether the topic has: <ul style="list-style-type: none"> ▶ A positive impact on the reputation/status of the OAG; ▶ A special interest at legislatures; ▶ An impact on a large section of the public; ▶ A social impact; ▶ An economic impact; and/or ▶ Stakeholders' interest
2.2		Does the topic relate to crosscutting areas across	Determine whether the topic shares issues across the different areas and levels of government. If yes,

No.	Area	Question	Description
		different spheres of government?	the impact will be higher and hence the priority for audit will be high.
2.3		Does the Parliament or the public have a special interest on this topic?	Verify whether information on the topic will be to the advantage of Parliament or the community.
2.4		Are there known problems on this topic or is performance low?	Where working effectiveness is not satisfactory, determine whether there are recognised problems in the area covered by the topic.
3.1	Specific Matters	Does audit team have required competency and expertise to complete audit?	Determine if audit team has sufficient skills and competency in the subject matter. Lower the skills level lower will be the priority for audit.
3.2		Has the timing of the audit been considered, including tabling the report in the relevant legislature?	Determine whether the topic will be audited, and the final report tabled/presented at a relevant time considering the feasibility and the impact of the audit topic.
3.3		Has the availability of the information or auditable data been considered?	Ascertain whether information and data/records will be available for audit. Lower the availability of information, lower will be the assigned score.
4.1.	Materiality	Was or is major public investment or public expenditure involved?	Establish whether the government has invested substantially in the topic or whether the topic has entailed considerable cost.
4.2.		Is the topic important to government/the public/the audited entity (national priority) and does it involve a critical area?	The auditor's consideration of materiality is a matter of professional judgement and is affected by the auditor's perception of the common information needs of the intended users. As per GUID 3910 qualitative factors that can be considered while assigning score, are: <ul style="list-style-type: none"> ▶ Whether a finding is the result of an intentional act (fraud) or is unintentional. ▶ Whether a particular aspect of the programme or entity is significant with regard to the nature, visibility and sensitivity of the programme or audited entity. ▶ Whether the health or safety of citizens is affected. ▶ Whether a finding relates to transparency or accountability

A note on risk element in topic selection:

The element of risk has been inbuilt in the selection process, while assignment scores. Eg. While assigning score for "internal assessment" for question: "Are there areas of such high-risk nature/great importance that it needs to be audited frequently?", a topic will get higher score if it was previously audited 5 years ago or before that and a topic will get lower score if it was audited in the last year.

Each topic identified should be assessed and all factors included in the assessment should be measured/scored in a scoring matrix. The total scores should be indicative of the priority of the performance audit. The table below comprises of the scoring matrix to categorise possible performance audit topics.

Figure 9: Guidance for Scoring Criteria

Scoring Criteria			
1. Internal Assessment			
1.1 Topic Previously Audited	Score	1.2 Entity Previously Audited	Score
5 year or longer or never	3	5 year or longer	3
2-4 years	2	2-4 years	2
1 year	1	1 year	1
1.3 Internal Evidence that deficiencies Exists	Score	1.4. Risks to OAG	
Yes - Previously reported by the AG in Audit Report	3	High strategic or reputational risk	3
Yes - Previously reported by the AG in Management Letter	2	Medium strategic or reputational risk	2
No	1	Low strategic or reputational risk	1
2. External Assessment			
2.1 Impact - Positive Reputation Impact for the AG	Score	2.1 Impact - Impact on Large Section of the society	Score
High	3	High	3
Medium	2	Medium	2
Low	1	Low	1
2.1 Impact - Audit may have a social impact	Score	2.1 Impact - Audit may have a economic impact	Score
High	3	High	3
Medium	2	Medium	2
Low	1	Low	1
2.2 Cross cutting at departments or spheres of govt.	Score	2.3 Parliament or public have special interest	Score
High	3	High	3
Medium	2	Medium	2
Low	1	Low	1
2.4 Known problem exist at the auditee or performance is low	Score		
High	3		
Medium	2		
Low	1		
3. Specific Matters			
3.1 Audit team competency	Score	3.2 Timing of the audit, and reporting to relevant legislature	Score
High	3	High Priority	3
Medium	2	Medium Priority	2
Low	1	Low Priority	1
3.3 Availability of information of auditable data			
Yes - In Existing Format	1		
Yes - Data need to be processed	2		
No	3		
4. Materiality			
4.1. Public investment	Score	4.2. Importance of Topic	Score
High (above XX%)	3	High	3
Medium (Between YY% and XX%)	2	Medium	2
Below YY%	1	Low	1
Justification for XX% and YY% used			

*The format along with guidelines on scoring, has also been presented in Annexures as Audit Tool 2. CCU may add additional criteria and change weightage of the criteria.

Alignment with NAMS

- Risk assessment template for prioritization of audit topics for PA will be in NAMS. The template will be configurable with functionality to add, delete or update the criteria and respective weightages.

Once the topics are ranked/graded after risk assessment, they shall be included in the OAGN's Strategic plan and Annual Audit Plan. Finalized topics also form part of operational plans of various divisions.

2.3.1.7. Strategic Audit Plan

The strategic plan should include:

- ▶ a description of the OAGN environment;
- ▶ a summary of the long-term strategic view on PA;
- ▶ broad risk profile of the issues or topics;
- ▶ list of potential areas for PA for the next two or three years etc.

The strategic plan is updated each year in the beginning of the fiscal year i.e. June or July considering the agency's environment.

2.3.1.8. Annual Audit Plan

- ▶ The selected topics along with type of audit, shall also form part of annual audit plan, that helps in preparation of audit calendar, and planning of individual field audits (Audit Plan).
- ▶ **Implementation of the plan:** The biggest test of any plan is how it is implemented. What needs to be done is usually well defined in these plans but there is often a need for further guidance on how to make the provisions operational. Plans at directorate/unit level or work-plans should include more detail on how each activity is going to be carried out.

Alignment with NAMS

- ▶ Process for recommendation of topics by operational divisions shall be in NAMS.
- ▶ Format for compilation of topics shall be in NAMS
- ▶ Roles based access to members of CCU, and authorized users from PA directorate, PA division and operational divisions shall be given in NAMS for managing the audit steps as mentioned above.
- ▶ NAMS shall also assist in selection of compiled topics. Audit Tool 2 (Selection matrix and criteria for Performance Audit) shall be configured in NAMS.
- ▶ CCU shall finalize the topics for inclusion in Annual Audit Plan (AAP) along with type of audit (in-depth (larger) or basic (small) audits)
- ▶ Risk assessment criteria in NAMS shall be configurable and can be updated by CCU as required.

Performance Audit Progress Record Form

Alignment with NAMS

- ▶ Audit tool 1 (Performance Audit Progress Record Form) will be available in web-form where information can be auto-populated based on availability of data in NAMS. This form shows completed works in various stages of performance audit lifecycle.
- ▶ This shall assist CCU in review of performance audit progress.

3. Audit Pre-engagement

3.1 Objectives

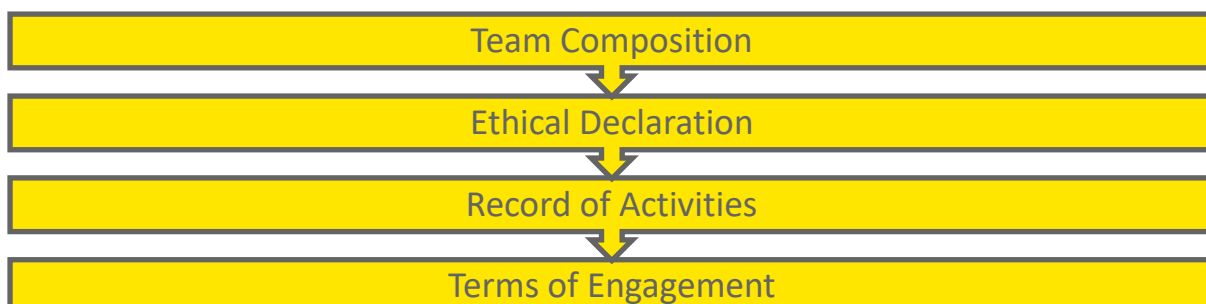
Auditors are required to undertake pre-engagement activities at the beginning of the current audit engagement to assist the auditor in identifying and evaluate events or circumstances that may adversely affect the auditor’s ability to plan and perform the audit engagement. The auditor shall undertake the following activities at the beginning of the current audit engagement:

- a) Evaluating compliance with relevant ethical requirements, including independence; and
- b) Establishing an understanding of the terms of the engagement.

3.2 Working papers and applicable standards

Team composition	<ul style="list-style-type: none">• ISSAI 300/36-37• ISSAI 3000/63-67
Ethical declaration	<ul style="list-style-type: none">• ISSAI 130; OAGN Code of Ethics• ISSAI 3000/21-24, 48-49, 51; 75
Record of activities	<ul style="list-style-type: none">• Audit Tool 18 (presented in Annexures)
Terms of engagement	<ul style="list-style-type: none">• ISSAI 100.44• ISSAI 3000/63-67

3.3 Audit steps



3.3.1 Team composition

Applicable standards:

- ▶ The SAI shall ensure that the audit team has collectively the necessary professional competence to perform the audit. (ISSAI 3000/63)
- ▶ GUID 3900 requirements further elaborate on skills required to conduct performance audit.

- ▶ Professional competence in performing PA includes sound knowledge of auditing, research design, social science methods, investigation, evaluation techniques, analytical capacity, writing skills, communication skills, creativity and receptiveness to views and arguments. The auditor must have sound knowledge of government organizations, programmes, and functions related to the subject matter and expertise in social, physical, computer, or other sciences and legal expertise.
- ▶ If external expertise is required to complement the knowledge of the audit team, the auditor may consult with individuals, within and outside OAGN, who have the specialized knowledge. The external experts

engaged with PA must also be independent from situations impairing the external experts' objectivity. The auditor may use the work of experts, but the auditor is responsible for the audit work and the conclusions in the audit report.

- ▶ **Use of external experts:** Experts are required in PA to complement the skills set of the audit team and to improve the quality of the audit. An expert is a person or firm having special skills, knowledge, and experience in a particular field other than auditing. Before using experts, auditor must ensure that the expert has the necessary competence required for PA, and that he/she is informed about the conditions and ethics required in PA, rules of confidentiality. Any external experts engaged with PA must be independent from situations and relationships that could impair objectivity. Although auditor may use the work of an expert as evidence, he or she retains full responsibility for the conclusions in the audit report. When the work of an external consultant (independent expert or specialist) is used to support the performance audit team's findings, reasonable assurance should be obtained on the consultant's reputation for competence by:
 - evaluate whether the consultant's findings are reasonable based on the auditor's knowledge of the organisation/agencies operations and knowledge of the methods, assumptions and sources of data used by the consultant;
 - assess whether all relevant documentation was provided to the consultant and whether the consultant's findings are based on adequate information.

- ▶ The designated person responsible for the audit should form the audit team, including with external experts (if required) and ensure that collectively have the competence and capabilities to:
 - Carry out the audit in accordance with the relevant standards and the applicable legal and regulatory requirements; and
 - Enable the audit team to issue an audit report that is appropriate in the circumstances.

- ▶ The names of the team allocated to the audit and their respective competencies (experience) in relation to the specific audit shall be recorded during audit planning stage at the directorate level. Any gap in relation to required capacities such as experience and expertise can be mitigated by way of the following:
 - Self-study of manuals, standards, legislative or accounting frameworks for team members who are not familiar with these;
 - Assigning coaching responsibilities to more senior team members;
 - More frequent reviews of work performed; and
 - Providing short courses on specific problem areas; this could even mean going through the financial reporting framework together as a team and resolving misunderstandings.

- ▶ Capacity of the audit team should be documented and signed by the person responsible for the audit. OAGN auditors are expected to possess appropriate competence to discharge the terms of the audit mandate under the legislations.

Note: OAGN auditors are recruited through the public service regulations and are expected to possess knowledge and skills required for the audits. Discrepancies generally can be in the extent of experience in audit of a particular sector.

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- ▶ Teaming module shall be in NAMS
 - ▶ Teaming will be done at the individual directorate level
 - ▶ OAGN's employee master data shall be in NAMS that shall be used for Teaming
 - ▶ Audit tool 17 for team composition has been presented in Annexures

3.3.2 Ethical declaration

OAGN has Code of Ethics⁵ that is aligned with ISSAI 130, Code of Ethics (CoE). The code is designed to prevent internal conflicts of interest and corruption and ensure the transparency and legality of their operations, as well as actively promoting ethical behaviour throughout the organisation. The ethical requirements cover obligations of auditors, other OAGN staff and others working on behalf of OAGN. The ethical principles in the code are:

- Integrity
- Independence and Objectivity
- Competence
- Professional behaviour
- Confidentiality and Transparency

All auditors, other staff and other person(s) working on behalf of OAGN need to comply with the ethical codes and need to give compliance declaration in the manner prescribed in OAGN Code of Ethics.⁶

AAG and Audit Director should ensure that team leader and members of the team have complied with ethical requirements OAGN Code of Conduct including integrity, objectivity, professional competence and due care, confidentiality and personal behaviour. Code of ethics declaration must be signed as prescribed in the guidelines.

Alignment with NAMS

- ▶ The template for ethical declaration (Audit Tool 3) as per OAGN Code of Ethics shall reside in NAMS and auditors shall confirm to the compliance to the declaration in the NAMS. These declarations shall be auditee specific where the auditors shall be involved in audit.

3.3.3 Record of activities

The Record of activities should be used to record the planned budgeted hours (or days) for all the activities which relate, and the budgeted time allocated to each audit unit. The budget time may be estimated or based on actual time spent on the audit activities in the previous year. The budget should be reviewed from time to time to reflect any changes to estimates, for example after the risk assessment.

Throughout the audit the actual days taken shall be documented. If used correctly, this working paper will allow audit management to monitor the progress of audit work and take corrective action where necessary and provide insight for time planning in the subsequent years. Reasons for variances between actual and budgeted hours should be documented.

Alignment with NAMS

⁵OAGN Code of Ethics, 2020 and ISSAI 130

⁶ISSAI 2200.14

-
- ▶ Budgeted time or planned dates for activities indicated in the record are to be given as inputs, the actual dates shall be auto generated from NAMS once the activity/process is completed and signed off. The variance is then auto calculated.
 - ▶ This shall be available in NAMS in form of a MIS report (Audit Tool 18 is presented in Annexures).

3.3.4 Terms of engagement

Auditors should ensure that the terms of the audit have been clearly established even when audits may be required by statute or initiated by OAGN. In all cases the auditor, the audited entity's management, those charged with governance and others as applicable should reach a common formal understanding of the terms of the audit and their respective roles and responsibilities. Important information may include the subject, scope and objectives of the audit, access to data, the report that will result from the audit, the audit process, contact persons, and the roles and responsibilities of the different parties to the engagement⁷.

⁷ ISSAI 100.44

4. Audit Planning

4.1 Policy and procedure - Pre-engagement phase

- ▶ After selection of the topics, during the pre-engagement phase, audit team is constituted for a specific PA. A team is constituted with audit officer as team leader, who is responsible for preparing the planning document (as discussed under Team Composition).
- ▶ In planning an audit, it is important to consider:
- ▶ the background knowledge and information required for an understanding of the audited entities to assess the problem and risk, possible sources of evidence, auditability and the significance of the area considered for audit;
- ▶ the audit objectives, questions, criteria, subject matter and methodology (including techniques to be used for gathering evidence and conducting the audit analysis);
- ▶ the necessary activities, staffing and skills requirements (including the independence of the audit team, human resources and possible external expertise), the estimated cost of the audit, the key project timeframes and milestones and the main points for control.
- ▶ Planning Policy also includes Materiality, Approach, Sampling ,communication strategy; which are explained below:

Materiality

Auditors should consider materiality during all stages of the PA process. Materiality of not only financial but also social, environmental, and political aspects of the subject matter must be kept in view. Materiality concerns all aspects of PA from selection of topics, definition of criteria, evaluation of evidence, documentation and management of the risks of low-impact audit findings or reports.

Approach

The auditor should choose a result-, problem or system-oriented audit approach, or a combination thereof for the selected subject matter of PA.

Sampling

As all units/data, documents and records cannot be verified in a PA, auditor must choose a representative sample by using the appropriate sampling techniques. Sampling technique will depend on the nature of data and audit objectives. Following principles must be followed:

Sample selected must be representative of the entire population,

- ▶ the sample is unbiased and each element of the population has an equal chance of appearing in the sample;
- ▶ the sample size is sufficient to extrapolate the result of audit test to the entire population within the confidence levels.

A sample may be statistical or non-statistical. Both require professional judgment of the auditor. Auditor must judge whether sampling is an appropriate way of obtaining some of the audit evidence required.

Factors determining the sample size are:

- ▶ the number and relative sizes of the items in the population;
- ▶ the complexity of the questions to be answered in the sample;
- ▶ the relevance and reliability of evidence produced with alternative tests and procedures, and the relative cost and time involved in each.

Communication Strategy

Auditor must maintain effective communication of all the key aspects of PA with the audited entity and relevant stakeholders throughout the audit process.

Audit Planning: Objectives

The objective of audit planning for PA is to establish guidelines and provide guidance on the methods and process of implementing performance audits in an organized manner. Audit planning involves developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit, in order to perform audit effectively.

Audit planning aims to define the specific issues to be studied, the audit scope and objectives, the methodology to be adopted and the estimated resources, costs and time needed for its realization. The main activities of the planning are:

- ▶ preliminary analysis of the audit topic;
- ▶ definition of the purpose and scope of the audit;
- ▶ audit criteria specification;
- ▶ planning matrix;
- ▶ development of tools for data collection;
- ▶ pilot testing;
- ▶ audit project

The output of this phase is to develop an Audit Plan/programme which will guide audit in the execution stage.

Audit plan is prepared to determine the best way of doing the work to ensure a satisfactory and quality result. Audit scope, time, objectives, techniques and criteria are determined during the audit planning stage, which ensure that major organizational activities, systems and controls are sufficiently covered by audit.

The Audit Plan shall be prepared after completion of detail study as explained below.

Audit Director must review and recommend the plan to AAG for approval of the Audit Plan .

4.1. Working papers and applicable standards

Audit Strategy

- ISSAI 300/37
- ISSAI 3000/96-105
- GUID 3920/50

Audit Plan

- ISSAI 300/37
- ISSAI 3000/104

4.2. Audit steps

Applicable standards:

- ▶ The auditor shall plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management. (ISSAI 3000/96)
- ▶ The auditor shall acquire substantive and methodological knowledge during the planning phase (ISSAI 3000/98)
- ▶ The auditor shall elaborate the audit objective(s) in sufficient detail in order to be clear about the questions that will be answered and to allow logical development of the audit design. (ISSAI 3000/36)
- ▶ If the audit objective(s) is formulated as audit questions and broken down into sub-questions, then the auditor shall ensure that they are thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall subject matter. (ISSAI 3000/37)
- ▶ During planning, the auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence that respond to the audit objective(s). (ISSAI 3000/101)
- ▶ It is important for the auditor to establish an appropriate strategy for the audit by combining study designs, methods and techniques in the audit to suit the context, objective(s), questions, criteria and the auditor's skills and resources, as well as the availability of data (GUID 3920/50).
- ▶ If the audit risk is significant it may be necessary to develop strategies for mitigating the risks and/or to modify the audit plan. The auditor can then develop and modify the evidence collection strategy to lower the audit risk (GUID 3920/62).
- ▶ The auditor shall submit the audit plan to the audit supervisor and SAI's senior management for approval. (ISSAI 3000/104)



4.2.1. Designing the Audit Strategy

- i) The overall audit strategy is the basis for making the audit execution possible. The overall audit strategy describes what to do, and the audit plan how to do it. The purpose of the overall audit strategy is to design and document the overall decisions.

-
- ii) After OAGN selects audit topics for PA, auditors must design the specific audit to produce a high-quality PA conducted economically, efficiently, effectively and timely complying with the principles of good project management.

For this purpose, Auditor must undertake a preliminary work which is called '*pre-study*'.

Pre-Study:

Before starting the PA, the audit objectives, the scope, and the methodology to achieve the objectives are defined. A pre-study could be done for this purpose. A pre-study establishes whether the conditions for a main study exist; provides background knowledge and information needed to understand the entity, program, or function; and whether a PA can be carried out in a fairly short period.

The purpose of the pre-study is to gain sufficient knowledge of the subject area for making sure that a PA can be conducted. It helps to develop an audit plan with an orderly, efficient and cost effective conduct of the audit. The survey is a broad-based appraisal of the operations without carrying out detailed verification. It helps the auditors gather information to fine-tune initial decisions about scope, cost, timing and skills and to propose audit objectives, areas for in-depth review, criteria and examination approach.

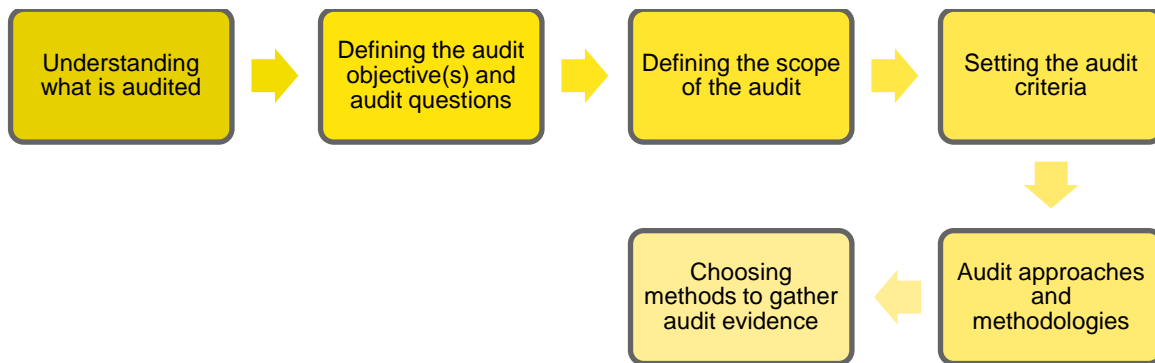
The audit team designs a pre-study to reduce the risk of making erroneous observations, conclusions and recommendations on the report audit. Data collection is done during the pre-study to gather sufficient information to assess alternative audit problems. A wide variety of procedures and techniques can be used to gather information including:

- ▶ Interviews with management;
- ▶ Review of authorities, policies, directives, Cabinet documents etc;
- ▶ Review of entity's performance/annual report and report on plans;
- ▶ Review of entity's internet site;
- ▶ Review of management and accountability reports;
- ▶ Observation of facilities;
- ▶ Walk through of major systems and control procedures;
- ▶ Analysis of the relationship between resource utilisation and results;
- ▶ Assessment of risks facing the entity;
- ▶ Consultation with advisors and outside organisations to identify best practices and opportunities for improvement;
- ▶ Previous audits and studies and audits conducted by others;
- ▶ Survey of the use of technology; and
- ▶ Review of spending trends.
- ▶ Other external sources that may be consulted include:
 - ▶ Studies by government, professional or interest groups;
 - ▶ Information held by sister entities;
 - ▶ Research held by academics or research organisations;
 - ▶ Similar works undertaken by other government agencies and non-governmental organisations;
 - ▶ Media coverage.

Design phase of PA helps in the following ways:

- The design phase establishes whether the conditions for PA exist and if so, produce an audit proposal with a work plan and a research design.
- The design phase must be completed in less than a month. If the topic is broader, it can be conducted within minimum possible period within <<three>> months so that maximum time can allocated for conducting the audit.
- Auditor must consider the needs and interests of the primary intended users, including the responsible parties when designing PA. Their concerns can influence the audit objectives and types of analysis. PA report must be useful to them.
- More importantly, auditor must be independent to focus on the interest of the citizens of Nepal.

Figure 10: Elements of design of Audit Strategy

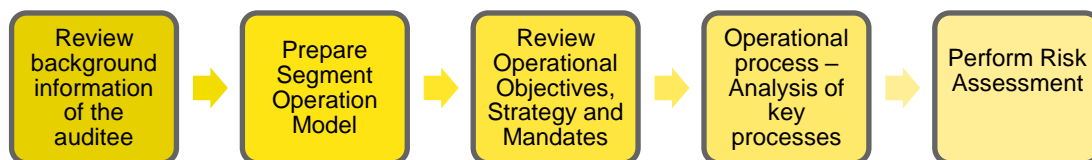


4.2.1.1. Understanding what is audited

In the beginning of the design phase, a sound understanding of the subject matter (‘what is audited’) must be developed with risks and challenges. As PA is a learning process, obtaining the required knowledge is a continuous process at all stages of the audit. Therefore, additional information must be gathered to test initial hypotheses in the design phase to decide on the approach to the audit. Auditor must weigh the costs of obtaining information against the additional value of it. It may be necessary that the information gathered in the planning phase may have to be adjusted to decide what is to be audited.

Following steps shall be undertaken for further understanding “what is audited”

Figure 11: Steps under understanding “what is audited”



a. Review background information of the auditee

An audit team is formed for gathering and updating background information on the auditee for use in the preparation of audit planning document. If financial audit team is different from performance audit, financial audit team members may be called upon to provide updated information about the auditee.

The process of reviewing background information includes review of:

- auditee - specific information
- entity's general information
- the auditee's historical performance record
- entity's prior audit reports
- the Segment Operational Model, which summarizes the input process output
- and specific information for the auditee

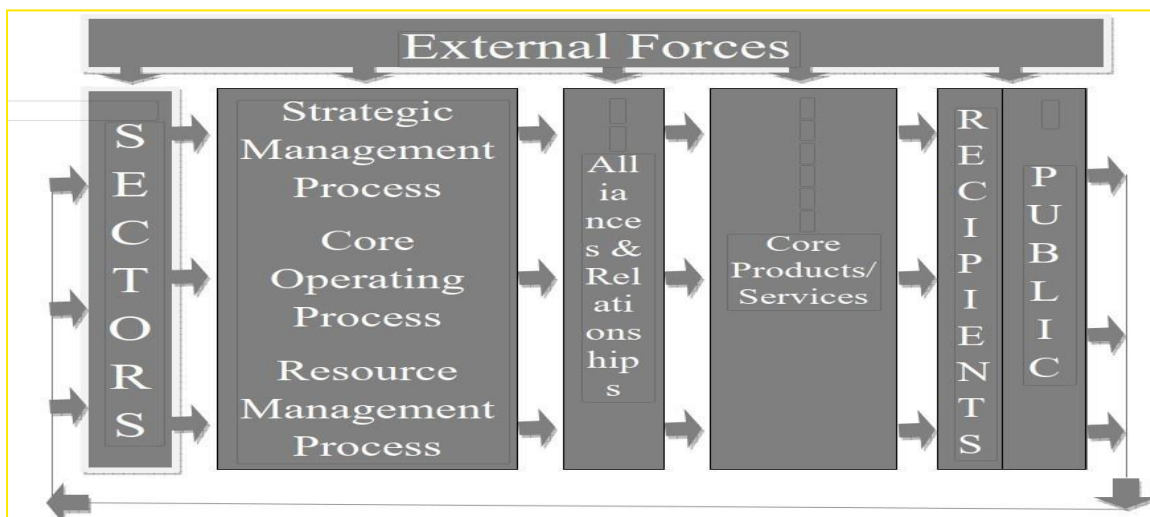
Where problems arise, Audit Director in consultation with the AAG should discuss with the functional responsibility leader in the auditee's department for access to the required background information. Problems in accessing information should be brought to the attention of the Audit Director immediately.

b. Prepare Segment Operation Model

Auditor should obtain information on the current status of the projects. Discussing issues that are of management's concern will help.

Auditor should review the auditee's historical performance over the last 3 to 5 years in order to obtain understanding of:

- auditee's capability to achieve its objectives as indicated by recent performance;
- past projects in strategic initiatives as an indication of management views on priorities;
- historical performance providing clues to management's philosophies on trade-off between long- and short-term objectives;
- how management measures and monitors performance;
- the auditee's current position in the entity/project operations.



Given **diagram** describes the auditee level components of the Segment Operational Model that is evaluated during the planning stage. Its knowledge helps to understand the auditee's operations.

Auditor must assess how the auditee respond to the external environment. Information must be gathered on the external environment the auditee operates to develop the Segment Operational Model.

The components of the Segment Operational Model are explained with examples in the table below:

Component	Description
External Forces	Current factors, pressures and influences that may keep the auditee from achieving its strategic objectives The external factors impact achievement of the strategic objectives of the audited entity; for example Covid19 pandemic has impacted achievement of programmes aims to achieve the Sustainable Development Goals such as 'no poverty', 'zero hunger', 'good health and wellbeing', quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth.
Sector	Major segments and sectors in which the auditee operates. For example, the subject matter may relate to sectors such as health, education or employment or water and sanitation.
Strategic management process	Strategic management process means defining the organization's strategy, the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. It is a continuous process appraises competitors; fixes goals to meet the present and future strategy. SWOT analysis helps to understand strengths, weaknesses, opportunities and threats by investigating internal and external factors. Internal factors include positive (strengths) or negative (weaknesses) factors that exist within the organization, while external factors include positive (opportunities) or negative (threats) factors that exist outside of the entity and cannot necessarily be changed by the organization.
Core operational processes	Basic value chain of recipient/customer requirements, as typically represented by core operational processes at the auditee level. For example; the core operations of public health care include prevention of epidemics and spread of diseases; protection against environmental hazards; promotion of healthy life style among the people; responding to disasters and assisting in recovery; assuring quality and access to health services.
Resource management processes	Resource management processes specific to the auditee. Resources include financial, technological, human resources information, materials, tools/ machines, energy, capital and time. Effective resource management is important for school administrators. Schools may receive funding from government and must allocate the resources to priority b programs and necessities. Effective management of human and capital resources is critical and must align with the vision, mission, and objectives. Some weaker or marginalizes sections of the society need additional support. Students with disabilities may need teachers with specialized training. School administration must manage the resources economically, efficiently and effectively.
Alliances and relationships	Role that alliances play in the operational sector. Alliances are relationships are reached by agreements between two or more entities to cooperate in the manufacturing, development, or sale of products and services, or other business objectives. For example, Company A and Company B combine their resources, and capabilities to design, manufacture, or distribute goods or services.

Core products and services	Characteristics of the major outputs or services. Core products and services must be identified along with competitors to identify the external threats.
Recipients/Public	Recipients/Publics requirements – For example; Social Security Allowance (SSA) system in Nepal includes cash-based transfers to the following categories of people: 1. children of Dalit under five years of age (or child grant) 2. widows and single women over 60 years of age (or single women’s allowance) 3. people with disabilities (or disability allowance) 4. senior citizens over 70 years of age (over 60 years of age in the case of Dalit) (or senior citizens’ allowance) 5. highly marginalized indigenous ethnic groups (janajatis) (or endangered ethnicities allowance)

Auditor accumulates the relevant information about the auditee’s environment, organisational structure, and strategy and records that information in the Model. The Model helps assessment of the control environment, both at the auditee and process levels. The analysis will assist the auditor to understand the controls and identify key operational processes.

Audit Tool 4 (presented in Annexures) provides details on the Segment Operational Model.

To perform effective performance audit, the audit team needs to understand how the auditee responds to external forces (or the environment). The information gathered on the environment the auditee operates in will help develop the Segment Operational Model. The components of the Segment Operational Model are:

Table 6: Components of Segment Operational Model

Component	Description
External Forces	Current factors, pressures and influences that may keep the auditee from achieving its strategic objectives
Sector	Major segments and sectors in which the auditee operates
Strategic management process	Key elements of the strategic management process
Core operational processes	Basic value chain of recipient/customer requirements, as typically represented by core operational processes at the auditee level
Resource management processes	Resource management processes specific to the auditee
Alliances and relationships	Role that alliances play in the operational sector
Core products and services	Characteristics of the major outputs or services
Recipients/Public	Recipients/Publics requirements

As auditor accumulates the information about the auditee’s environment, organizational structure, and strategy, the auditor records that information in the Model. The Model represents a high-level assessment of the relative strength of the control environment, both at the auditee and process levels. The results of that analysis will assist the auditor to understand the controls and identify key operational processes that require additional analysis at the planning stage.

c. Review Operational Objectives, Strategy and Mandates

Knowledge of the auditee's operations is a major input into the development of an audit plan. The performance audit team should gather sufficient auditee specific information to be aware of the risks of good management of the assigned agencies.

Sufficient information should be collected to:

- develop a good understanding of the auditee - for example, its objectives, resources, activities, contracts, procedures and control environment;
- understand how the auditee organizes its operations;
- gain an understanding of the preliminary risk areas (internal and external);
- understand the auditee's view on the essential processes in achieving its objectives.

Once a basic understanding of the auditee's past and present operations/ services is in place, the auditor begins to gain insight into where the auditee is going. The auditee's objectives and strategy will describe the directions the auditee is taking to achieve the auditee's objectives and goals. Understanding the auditee's direction helps the auditor focus the performance audit activities on the most significant areas of the auditee.

When identifying the auditee's objectives, the following three broad categories of objectives should be considered:

Table 7: Three broad categories of auditee's objectives

Category	Description
Operational	Operational objectives relate to the effective and efficient use of auditee's resources and include performance and profitability goals (if applicable).
Inputs	Various inputs in the form of goods and services are used by public entities for executing different activities. Inputs of the requisite qualities and quantities must be procured at the least cost complying with the applicable procurement regulations. Inputs must be of the specific quality and environmentally sustainable to achieve the envisaged outputs and outcome. For example, in a mid-day meal programme at the school, the quality of food grains and provisions to make the meals are of specified quality and quantity and must be procured at the least possible cost taking into account the prevailing prices in the market for the goods and services.
Process	Processing methodology, technique, innovation and new updated technology make a positive difference in the performance. For example, in a municipal solid waste management plant, if the practices, methodology, techniques and technology in processing waste disposal are innovated and update, the processing time, quality, output and outcome will be enhanced.
Output	The quality of output is dependent on inputs. For example, in thermal plant, if the quality of coal used is low having high ash content, the efficiency will be impacted. If the quality of the text books in a school are outdated, the students will not be able to learn new things. Quality of output can be enhanced by improving the inputs and processing techniques and technology. If quality inputs are used in road construction, the finished roads will be of quality. Output is dependent both on inputs and methods used in processing. If substandard rice is used for midday meal programme in a school, the quality of food cooked will be low. As efficiency is input output ratio, quality of input must be of good quality. Environmentally unsustainable inputs must not be used even though these inputs may be economical or more efficient. In PA, auditor must ensure that the applicable rules must be complied with.

Category	Description
Outcome	Outcome captures the impact, the benefit derived the beneficiary. Outcome goes beyond the output, as merely achieving the physical outputs or quantitative parameters will not ensure the envisaged results or outcome of a project. For example, in a programme for computerization, number of computers distributed among employees or at the school may not reflect the quality of outcome; because the computers can be outdated; may not be used by the beneficiaries; they might not have been trained to use them. Outcome is whether the school children are really benefitted and learned using the computers or the office employees use them and achieve enhanced efficiency in work. Another example can be in a toilet providing scheme, the government may construct many toilets but may not be used by the targeted beneficiaries and hence the outcome is not achieved.
Financial reporting	Financial reporting objectives relate to the preparation of reliable financial statements and related disclosures
Compliance	Compliance objectives relate to the auditee's compliance with: <ul style="list-style-type: none"> · established controls, · policies and procedures, · applicable laws and regulations · contracts and agreements

The auditor should understand the goals, objectives and strategy of the auditee. The goals and objectives can be used by the auditor as criteria for assessing programme performance. Understanding the auditee's strategy also enables the auditor to identify risk and focus efforts on areas of greatest operational risks.

Information on organizational structure, major responsibility centres or organizational components, their roles and responsibilities, and how they relate to programme and activities, can help in understanding the lines of accountability.

Gathering information on auditee's mandate for operation and its relevant rules and regulations enable auditor to confirm illegal transactions. Such information will aid to:

- examine the relationship between services provided and the authority for doing so
- specify audit criteria - mandate, rules, laws or regulations may describe level of service that programme are legally required to provide

Sources of information for understanding what is to be audited include the following:

- enabling legislation and legislative speeches
- ministerial statements, government submissions, and decisions
- the audited entity's risk profile
- recent audit reports, working papers from other auditors, reviews, evaluations, and inquiries
- scientific studies and research (including those from other countries)
- strategic and corporate plans, mission statements and annual reports
- current and medium-term budgets
- policy files, and management committee and board minutes
- organisation charts, internal guidelines, and operating manuals
- programme evaluation and internal audit plans and reports
- viewpoints from experts in the field

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- discussions with the audited entity and key stakeholders
 - management information systems or other relevant information systems
 - official statistics
 - reports from other SAIs
 - press coverage.
 - Past evaluations and audits are useful. They may highlight deficiencies not yet been rectified.

Audit Tool 5 (presented in Annexures) provides a checklist to obtain necessary information of an auditee.

Alignment with NAMS

- ▶ Certain entity related information shall be available in Entity master data in NAMS. E.g., entity general information, and prior audit reports (if created in NAMS).

d. Operational process – Analysis of key processes

Applicable standards:

- ▶ GUID 3910 (41): Efficiency-oriented audits can also examine the processes leading from input to output to expose shortcomings in these processes or in their implementation. This can lead to a better understanding of why processes are efficient, even without measuring efficiency itself.

Operational Process Analysis involves identifying and gaining an understanding of the auditee's key processes, the operational risks produced by those processes and how the auditee mitigates risk.

The scope of Operational Process Analysis is based on the auditors' assessment about the operational risks of each process and may vary from process to process.

The depth of the analysis depends on how critical the process objectives are in achieving the auditee's strategic objectives. Auditor's assessment of the auditee's strategic operational risks includes:

- their impact on the business processes; and
- the implications for our audit approach;
- regulatory and/or management mandates; and
- the degree and number of centralized support processes utilized by the auditee, and their significance to the other components of the auditee's audit universe.

Auditor must select key business processes from the auditee's perspective. The auditor performs this selection to give the audit team a starting point for discussion with management regarding those processes that are key to successful operations.

Audit Tool 6 (presented in Annexures) provides the Process Analysis Template that could be used as a tool in documenting the Operational Process Analysis of key processes and identification of risks.

e. Perform Risk Assessment

Applicable standards:

- ▶ ISSAI 3000 (74): The auditor needs to identify and assess the risks of fraud relevant to the audit objectives. If the risk of fraud is significant, it is important during the audit for the auditor to obtain a good understanding of the relevant internal control systems and examine whether there are any signs of irregularities that could hamper performance. The auditor needs to make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives.

i) The components of audit risk are:

- the subject matter's inherent risk (IR);
- the control risk (CR)—the risk that the relevant internal controls associated with the inherent risks are inappropriate or do not work properly;
- the detection risk (DR)—the risk that the procedures performed by the auditor will lead to an incorrect conclusion.

Audit Risk = Inherent Risk X Control Risk X Detection Risk		
If the inherent risk is	and the control risk is	then auditor can respond by
<ul style="list-style-type: none">• High• Medium• Low	<ul style="list-style-type: none">• No control• Weak control• Decent control• Strong control	<ul style="list-style-type: none">• Spending more time on it• Spending less time on it• Scanning it• Not consider it for audit• Writing a finding• Recommending few controls

The goals of identifying, assessing and responding to risk are at the core of every audit. • Identifying and assessing a client's specific risks drives the audit procedures you should perform and helps you avoid inefficient over-auditing.

- ▶ Risk assessment helps auditors avoid a failure to obtain sufficient appropriate audit evidence to support audit opinion.
- ▶ Risk assessment is crucial for a quality audit.

The auditor should perform risk assessment procedures to identify key risks. Some examples of possible risk questions as follows :

- ▶ What can go wrong?
- ▶ What can be the risk?
- ▶ What assets are at risk - property, resources, information, reputation, legality?; from what sources – internal or external?; at which level: internal, external, legal, strategic, operational, organizational or administrative?
- ▶ With whom does the risk lie?
- ▶ What factors are / can be constraining performance (effectiveness, economy, and efficiency)?
- ▶ What could be the cause (including weaknesses in controls)?
- ▶ What could be the consequences or the impact?
- ▶ How could this risk be managed?

-
- i) **Control environment:** The control environment is the entire system of policies, methods and procedures that is instituted to manage and control an auditee. Management is responsible for establishing a control environment appropriate to the risks the auditee faces.
 - ii) The auditor base their analysis of key operational processes, operational risks and controls on the auditee's perspective. Once the auditor understands how the auditee deals with process-level Operational risk, effectiveness of its risk management approach can be evaluated. This evaluation is completed during Risk Assessment process where **inherent risk levels** and **preliminary assessments on control effectiveness** are carried out.
 - iii) The auditor should consider the audit risks by addressing the inherent risk and the resultant residual risk, as explained below:
 - o "**inherent risk**" it is a measure of the auditor's expectation of risk before considering the effectiveness of internal controls.
 - o "**residual risk**" it is the level of risk that remains after taking into account the mitigating effect of related controls.
 - iv) The auditor performs the risk assessment by understanding of the auditee's operations and related operational risks and controls to make an assessment of:
 - o risk of significant operating errors;
 - o weaknesses;
 - o risk of misstatements, errors or fraud; and
 - o appropriateness of the control in relation to a cost/benefit consideration.

This enables the audit team to focus on areas of significant risks.

- v) The identification of inherent risk, the associated controls and residual risk can be performed by using either one of or more of the following methods:
 - o workshop
 - o interview
 - o case study

In the planning phase, the auditor can:

- identify conditions that significantly increase inherent and control risk; and Factors to consider in identifying risks and deficiencies are general in nature and require the auditor's judgment in determining
- the extent of procedures (testing) to identify the risks and deficiencies and
- the impact of such risks and deficiencies on the entity's performance.

Audit Tool 7 (SWOT analysis presented in Annexures) illustrates risk assessment process using SWOT analysis with example. Once the key risks have been determined, the controls that manage the exposure coming from each risk must be determined. There can be more than one control for key risk areas.

- vi) Alternatively, the auditor could perform risk assessment by obtaining up-to-date information on policies and administration procedures, significant programme accountability relationships, internal management of performance measurement/reporting systems, and planning and budgeting systems in use. The auditor should validate the results of risk assessment with the appropriate auditee personnel.

Alignment with NAMS

- ▶ Audit tool 8, in form of a web-based form, shall be in NAMS

- vii) The controls that manage the exposure coming from each risk must be determined. The controls for key risks are divided into three areas as follows:
 - primary controls (preventive);
 - secondary controls (detective);
 - mitigating controls.

- viii) Primary controls are preventive in nature, designed to prevent error or fraud from occurring. Secondary controls are similar to detective controls, designed to identify when an error or fraud has already occurred. Mitigating controls are controls in other areas that mitigate the risk exposure.

- ix) If the primary and secondary controls are weak, the mitigating controls may help. If the primary control is working effectively, a secondary control may result in over-control.

- x) Identification of risks and controls impact the audit approach. For example, if management:
 - fails to identify a significant risk or does not adequately consider risks, it is unlikely to have established control activities to manage those risks; or
 - does not consider environmental changes effectively, the control activities in place may no longer be adequate or appropriate.

- xi) After completion of the risk assessment process, **a risk profile** will be prepared for each segment of the auditee's operations. The auditor should discuss the risk profile with management and validate the assumptions on the auditor's assessment on strategic and process risks.

- xii) Upon determining the inherent risk rating, the auditor needs to determine the degree to which the control mitigates the identified risk. The auditor draws conclusion on the residual risk levels after consultation with management and decides whether they are acceptable in the context of the operational objectives to ensure that residual risk is maintained at an acceptable level in a cost-effective manner. If it is acceptable, then tests of control are designed to ensure that the controls are working as designed. If it is not, then the auditor has to decide whether to continue with detail audit work.

- xiii) Where the residual risk level is not acceptable, the auditor has to consider the control effectiveness of the control design to decide whether detail audit work is warranted. In situations where control effectiveness is weak, the auditor has no reason to perform testing and the concern needs to be raised with management at this point. Controls should be strengthened to a level where the residual risk is acceptable. Where controls are either satisfactory or contain some weaknesses, the auditor may use his judgment to pursue an in-depth audit by identifying the audit questions, specifying the audit scope and the audit criteria.

Audit tests or audit questions referred to the audit programmes are designed taking into account the residual risk levels to obtain appropriate evidence to meet the audit objectives.

The table below identifies exemplary situations where controls will need to be tested.

Inherent Risk	Control Effectiveness	Residual Risk	Testing/Audit questions
High	Satisfactory	Significant	Yes
Low	Satisfactory	Low	No
High	Weak	High	Yes

- xiv) The extent of audit testing or audit questions should be efficiently focused on the areas where important potential risks existent as well as controls are deemed adequate. The auditor has to make careful trade-offs on the extent of testing to make efficient and effective use of available resources and to minimize audit risks.

4.2.1.2. Defining audit objective (s) and audit questions

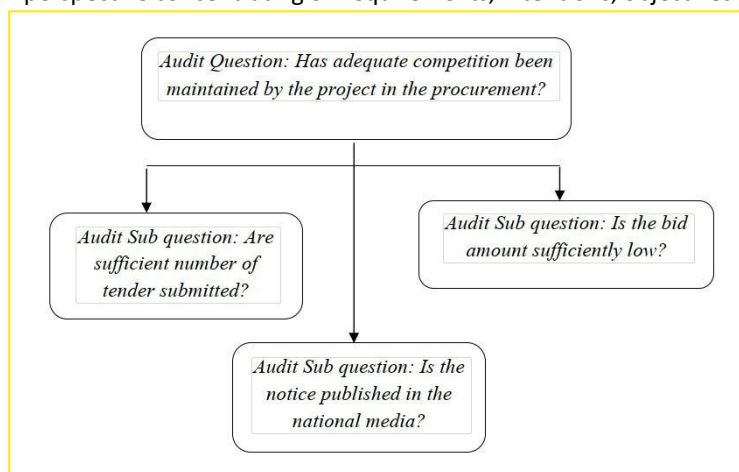
Applicable standards:

- ▶ The auditor shall set a clearly defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness. (ISSAI 3000/35)
- ▶ If the audit objective(s) is formulated as audit questions and broken down into sub- questions, then the auditor shall ensure that they are thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall subject matter. (ISSAI 3000/37)
- ▶ Defining the audit objectives and audit questions (GUID 3920)

- ▶ The auditor must articulate the audit objective(s) in sufficient detail to understand the questions to be answered and to develop the audit design.
- ▶ Audit objective(s) can be framed as audit questions about the subject matter on which auditor must obtain answers, based on the audit evidence. A well-defined audit objective(s) may pertain to government undertakings, systems, operations, programmes, activities, or entities, formulated in an iterative process to refine the questions taking into account relevant information and feasibility. Audit objectives framed as an audit question can be broken down into more precise sub-questions. Auditor can also develop several audit objectives, which need not to be broken down into sub-questions.

- ▶ The audit objectives determine the audit approach and the design of the audit. The audit objectives can be an overall audit issue concerning a government programme/activity to which PA seeks an answer. Audit objective must be framed clearly and unambiguously to reach an audit conclusion. The audit objective can be designed as overall audit question which is broken down into many detailed/specific sub-questions.

- ▶ The audit objective is based on an overall perspective concentrating on requirements, intentions, objectives and expectations of the legislature and central government of Nepal. A few client-oriented questions can be framed focusing on service management, waiting time and other issues relevant to the users. The audit objective may not be exclusively based on a retrospective (ex post) audit approach. Auditor can undertake a study of on-going programmes to assess the level of goal attainment or the progress made.



- ▶ Audit objective is based on rational considerations. In determining the audit objective, the auditor must concentrate on the greatest problems or risks, and where PA can add most value. For framing appropriate

audit objectives, auditor can conduct interviews with major stakeholders and experts and analyse potential problems.

- ▶ Audit objective must give sufficient information to the audited entity and other stakeholders about the intention of PA. Well-defined audit objective may pertain to a single audited entity or an identifiable group of government activities, systems, operations, programmes, activities or organizations.
- ▶ Audit objective must be simple, concise and clear to prevent undertaking unnecessary or overly ambitious audit work. Auditor must avoid multiple objectives where more than one main question is asked to reach clear conclusions.

- ▶ For example, while conducting risk assessment auditor finds that procurement and contract management has higher residual risk, the auditor should determine main audit objective as **"To assess whether the procurement has been made economically and contract were executed efficiently while implementing the project/programme."**
- ▶ Another example for setting of audit objective while conducting PA of community managed schools, it is found that school were handed over to the community for improving the quality of education and increase accessibility to the education. Control procedures and environment was designed but not implemented effectively to achieve objectives of the programme. In this regard, the auditor needs to set main audit objective as **"To assess the status of community managed school regarding physical infrastructure, learning environment, and access to education and identify whether the activity positively contributed to the education sector indicator"**
- ▶ The objective of PA is to assess whether the measures implemented by the public entity have helped to reduce the pollution load of the city X and the achievement of the expected results.
- ▶ The objective of PA is to evaluate whether the investments made by the public entity have helped to achieve the required reduction in air pollution quality in the city X.
- ▶ The objective of the audit was to assess whether the state's activities support the collection and recovery of packaging waste so as to meet the target recovery indicators established in the European Union Packaging Directive.

Creating audit questions

Auditor must create audit questions to address the audit objectives. This defines the structure of PA.

- Audit questions must be thematically related, complementary, not overlapping and collectively exhaustive in addressing the audit objectives.
- Specific audit questions must cover all aspects of the audit objective. All terms used in the questions must be defined.
- The questions must be stated in a neutral form, even if auditor finds problems in relation to the questions.
- Audit questions must be analytical, normative or descriptive. Descriptive questions can sometimes be useful in an area where information on economy, efficiency or effectiveness is lacking.
- The formulation of audit questions is an iterative process. Auditor repeatedly frames, specifies and refines the questions, factoring known and new information on the topic and keeping in view the feasibility of obtaining answers.
- During the planning stage, audit questions are framed to obtain what auditor needs to know to address the audit objective. Audit questions may have to be adjusted as auditor becomes more

knowledgeable during the audit. As the audit questions are communicated to the audited entity, changing them during the course of an audit may raise questions on professionalism, objectivity and fairness of the audit.

4.2.1.3. Defining the scope of the audit

The audit scope refers to the framework, boundary, limit subject and nature of the audit. Scoping narrows the audit down to a significant matter that relate to audit objective. The audit scope is:

- that part of the organization, programme, activity or function to be examined;
- the matters subject to the audit;
- the time period of the audit.

The audit objectives, audit questions and scope are interconnected and must be considered together. Any change in the objectives or the audit questions may impact scope of the audit. The scope determines the boundary of PA. The auditor must identify the entities/programs or aspect of a program to be included in the audit and define the boundary of PA. The scope indicates the period and, if relevant, the locations to be included excludes certain activities or entities from PA, even if the activities/entities in principle may be relevant to the audit objective. Audit scope must be discussed with the audited entity at the earliest opportunity as it clarifies the intention.

Scope of an audit is determined by answering the following questions:

- *What?* What specific questions or hypothesis are to be examined?
- *Who?* Who are the key players involved i.e. auditee?
- *Where?* Are there limitations in the number of locations to be covered?
- *When?* Are there limitations on the timeframe to be covered?

The scope of an audit and the audit objectives determine the procedures that will be required during the conduct of an audit, the resources needed and the matters that will be reported. The auditor should use his professional judgment to establish the audit scope in specific terms.

For example, in case of procurement the auditor can determine the scope a "*Audit will focus on the procurement of construction work made by the Project Coordination Unit. It will review the bid evaluation report of the evaluation committee and procurement decision made since the last 3 years. It also will review the execution of the construction contract focusing on work progress, estimated cost, variation, time extension and quality of work*"

The auditor establishes the audit scope based on information obtained throughout the planning process. The scope of audit should be explicitly stated in the audit plan to document decisions made on resource requirements and the general approach to the audit.

4.2.1.4. Setting the audit criteria

Applicable standards:

- ▶ The auditor shall establish suitable audit criteria, which correspond to the audit objective(s) and audit questions and are related to the principles of economy, efficiency and/or effectiveness. (ISSAI 3000/45)
- ▶ The auditor shall, as part of planning and/or conducting the audit, discuss the audit criteria with the audited entity. (ISSAI 3000/49)
- ▶ GUID 3910 requirements on audit criteria

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- i) Audit criteria are the benchmarks to evaluate the subject matter. While auditing complex issues, setting audit criteria in advance may not be possible. More detailed audit criteria may be found during the audit process like a best practice among comparable public entities. Unambiguous audit criteria are possible in otherwise in performance auditing. Audit criteria are not readily available to the auditor as they are based on knowledge of best practices of most economical, efficient and effectiveness. Suitable audit criteria are indispensable for assuring the quality of a PA to add value⁸.
 - ii) In PA, the general concepts of economy, efficiency and effectiveness must be interpreted contextualizing to the subject matter, and the criteria vary from one audit to another. However, established criteria can be used for other audits of the same audited entity or for audits of entities with a similar scope.
 - iii) Audit criteria are established by auditor; but they must be discussed with the audited entity and possibly with other stakeholders during the planning or in the conducting phase of the audit. Discussing the audit criteria with the audited entity helps to evolve a shared and common understanding of what criteria will be used as benchmarks when evaluating the audited entity. Criteria must be clearly defined to assess the audited entity or programme.
 - iv) The criteria can be qualitative or quantitative and define the benchmarks against which the audited entity will be evaluated. They may be general or specific, reflecting a normative model for the subject matter under review.
 - v) They represent best practice, or a legal position “**what should be**” according to laws, regulations or objectives. The audit criteria can also be “**what is expected**”, according to scientific knowledge and best practice, or “**what could be**” based on possible conditions. The nature of the audit and the audit questions decide which criteria are appropriate. Different sources provide audit criteria, for example:
 - vi) Audit criteria can be of two types:
 - ▶ General criteria which are broad statements of acceptable and reasonable performance. Such criteria are determined from the common sense or generally accepted practices. For example, general criteria could be *"All vacant posts should be fulfilled", "Constructed canal should be operated optimally"*
 - ▶ Specific criteria are more closely related to the entity's legislation, objectives, programmes and specific to the particular operations. Examples: *"Every year all vacant post should be fulfilled before the approval of the programme.", "The canal should irrigate 5000 hector of land in all seasons "*.
 - vii) Criteria can perform a series of important roles to assist the conduct of a performance audit. They are:
 - ▶ form a common basis for communication within the audit team and with the OAGN's management concerning the nature of the audit;
 - ▶ form a basis for communication with the auditee's management in that the audit team will often solicit the auditee's management understanding of and concurrence with the criteria and eventual acceptance of audit findings in light of those criteria;
 - ▶ link the objectives to the audit programme carried out during the implementation phase;
 - ▶ form a basis for the data collection phase of the audit, and the identification of key performance indicators to provide a basis on which to build and monitor procedures for the collection of audit evidence; and
 - ▶ provide the basis for audit findings, helping to add form and structure to observations.

⁸According to Section 4 of Audit Act, 2075, Auditor General may set the criteria for each audit depending upon the nature, timing and sector of the subject matter with available resources of OAGN
As per para 27 of ISSAI 100, Auditor need to consider relevance and understandability for the intended users, completeness, reliability and objectivity (neutrality, general acceptance and comparability with the criteria used in similar audits) for the criteria.

viii) The auditor can develop suitable audit criteria by looking at the following sources:

- ▶ laws, rules, regulations, manuals related to audited entity,
- ▶ decision made by the legislature and executive,
- ▶ Government policy and directions,
- ▶ key performance indicators set by the auditee or the government
- ▶ basic planning documents such as feasibility study report and approved plan,
- ▶ criteria used previously in similar audits conducted by the OAG,
- ▶ criteria published and used by other supreme audit institutions,
- ▶ performance standards used by the auditee, or previous parliamentary or other
- ▶ official inquiries,
- ▶ performance standards used by entities that are similar to the auditee, that is, organizations carrying out similar activities or having similar programme clients both local and abroad,
- ▶ performance standards used by professional organisation and standard-setting bodies,
- ▶ project documents,
- ▶ reference to historical comparisons or comparisons with best practice,
- ▶ organization (inside or outside the country) carrying out similar activities or having similar programme, and
- ▶ subject matter literature.

ix) The auditor should be satisfied that suitable criteria have been identified to achieve audit objectives. Characteristic of suitable criteria include:

- ▶ **Reliability:** Reliable criteria result consistency when used by different auditor in the same circumstance.
- ▶ **Objectivity:** Criteria should be free from any biasness. Interpretation and subjectivity are to be limited.
- ▶ **Understandability:** Understandable criteria are clearly stated and free from vagueness. Anyone can understand such criteria without misinterpretation.
- ▶ **Completeness:** Completeness refers to the development of all significant criteria appropriate to assessing performance of the entity.
- ▶ **Usefulness:** Criteria are to be useful for the users or beneficiaries.
- ▶ **Comparability:** Comparable criteria can be used consistently in previous and current performance audit of performance audit of other similar agencies.
- ▶ **Acceptability:** Acceptable criteria are those to which the audited agency, legislature, media, and general public accept. The higher degree of acceptance of the criteria, the more effective performance audit.

Good audit criteria ensure that they are:

- a) Relevant and logically or causally linked to the audit questions
- b) Understandable, short and clear i.e. unambiguous and easy to comprehend
- c) Complete, collectively exhaustive for each audit question – taken together, they are sufficient to answer the audit questions

d) Objective, free from any bias

e) Testable so that it is possible to identify what procedures and evidence are needed to provide an answer and to conclude against the criteria.' ISSAI 3920/41

- x) According to ISSAI 3000/51, the auditor must discuss the audit criteria with the audited entity and with the relevant stakeholders to identify disagreement about criteria and resolved at an early stage. When criteria are developed specifically for the engagement or where they are not self-evident, there can be disputes with the audited entity. The auditor must listen to good arguments from the audited entity when discussing the criteria but must be aware of their interest in hiding their weaknesses. It is necessary to analyse the facts and arguments presented by the audited entity and compare against other relevant facts and arguments from other sources, experts etc. The auditor may accept the audited entity's perspective after serious thought. The final decision on framing the criteria rests with the auditor. The auditor must be independent during the process.

4.2.1.5. Audit approaches and methodologies

Applicable standards:

- ▶ The auditor shall choose a result, problem or system-oriented audit approach, or a combination thereof. (ISSAI 3000/40)
- ▶ The audit approach determines the nature of the audit examination. It is an important link between the audit objectives, audit criteria and the work done. (GUID 3910 requirements)

The audit approach should be flexible because of the nature of each audited entity. Different techniques can be used for both in in-depth (larger) or basic (small) audits under following audit approaches:

A system-oriented approach

It evaluates the functioning of management systems using principles of good management for achieving economy, efficiency and effectiveness when there is a lack of a clear consensus on a problem or when outcomes or outputs are not clearly stated. An analysis of procedures is often a starting point of audit. The auditor would review the system in place for planning, conducting, checking and monitoring of activity being audited. This would involve different audit techniques like observation, interviews discussion and examination of documents.

This type of audit may use descriptive questions such as:

- ▶ What is the objective of the system?
- ▶ Who are the responsible actors within the system?
- ▶ What are the responsibilities of each actor?
- ▶ Which rules, regulations and procedures are relevant?
- ▶ What are the relevant information flows?

A result-oriented approach

It evaluates the outcome and output with reference to the achievement of the envisaged objectives. This approach is used when there is a clear statement of outcomes/outputs in the law/ strategy of the responsible parties. It is mainly used to examine whether set goals are reached. Any deviations can be established by relating outcome and effects to the stated goals and demands. Performance auditor uses such studies primarily when the goals are clearly defined and measurable. Suggested techniques for this approach are interviews, observation, and examination of documents and data analysis. A result-oriented approach deals mainly with questions such as:

- ▶ 'What is the performance or what results have been achieved, and have the requirements or the objectives been met?'

A problem-oriented approach

It analyses the causes of problems/ deviations from the audit criteria. This approach is used when there is an identified problem. Conclusions and recommendations must be based on analysis to find out causes based on audit evidence and audit criteria. Usually, the audit begins with problem indicators of some kind (shortcomings in service, complaints, rising costs etc.) Auditors try to relate and link the different problems to each other and attempt to test the possible causes of the problem. Interview, focus group discussion, observation and document review techniques are under this approach. The problem-oriented approach asks questions such as:

- ▶ What is the problem?
- ▶ What are the causes of the problem?
- ▶ To what extent can the government solve the problem?
- ▶ What, if any, is the programme of the government to solve the problem?

One of the tools used in PA is cost benefit analysis. In any of the 3 approaches mentioned above, Cost benefit analysis can be used to evaluate cost effectiveness and value for money. Cost benefit analysis is briefly explained below:

Cost benefit and cost effectiveness analysis:

Cost benefit analysis investigates the relationship between cost and benefits of government projects. It analyses the basic question whether programme benefit exceed the costs and are the objective met at the lowest possible costs? Cost effectiveness analysis is the relationship between project cost and outcomes expressed as costs per unit of outcome achieved. This methodology is used to evaluate the value for money which is the essence of performance audit.

4.2.1.6. Choosing methods to gather audit evidence

- ▶ The methods to be used to gather and analyse data are critical for PA. The audit objective(s), audit questions, audit scope, and the audit criteria guide what evidence is needed and the methods to obtain the evidence.
- ▶ The design phase focuses on what the auditor needs to know to answer the audit questions and address the criteria, and from where and how the information can be gathered. Pilot test is advisable to test the data collection method. PA must use the best methods and standards, but practical problems regarding data availability, feasibility and cost of collecting data may restrict the choice of methods. The auditor may have to accept the second-best solution.

If availability of secondary data is a concern, or the quality of the data is poor, the auditor must decide to collect primary data, by developing questionnaires, statistical records, observations etc. Primary data developed by the auditor is the most reliable. Secondary data collected and/or analysed by others for example performance evaluation reports, internal reports, etc., can be used in performance audits.

The auditors may have to change the audit design. The auditor has to decide methods appropriate to for the audit by analyzing the advantages and disadvantages and cost to use different methods with the expected outcome. The relevance and value added by changing the design must be considered, and changes must be made as early as possible in the audit.

Performance audits can draw upon a large variety of data-gathering techniques commonly used in the social sciences, such as surveys, interviews, observations and the collection of administrative data and written documents. Statistical sampling methods and surveys enable to project for the whole population and case studies combined with other evidence facilitate in-depth analysis.

- ▶ ISSAI GUID 3920 provides methods for collecting different types of audit evidence are illustrated in the table below.

Table 8: Types of audit evidence and different methods for collection

Types of Audit evidence	Methods of evidence collection
Testimonial evidence	<ul style="list-style-type: none"> ▶ Interviews ▶ Surveys, questionnaires ▶ Focus groups ▶ Reference groups
Documentary evidence	<ul style="list-style-type: none"> ▶ Document review ▶ File reviews ▶ Using existing statistics ▶ Using existing databases
Physical evidence	<ul style="list-style-type: none"> ▶ Observation of people ▶ Inspection of objects or processes ▶ Experiments, e.g., level of computer data ▶ Security
Analytical evidence	<ul style="list-style-type: none"> ▶ For instance: Quantitative data collection methods. DEA (Data Envelopment Analysis), regression analysis. ▶ Computations, comparisons, separation of information into components, and rational arguments

The auditor must adopt an appropriate strategy for the audit by combining study designs, methods and techniques in PA audit to suit the context, objectives, questions, criteria and the auditor's skills and resources and the availability of data.

4.2.2. Audit Plan/ Programme

Few activities need to be carried for preparation of Audit plan/programme, as mentioned below.

4.2.2.1. Audit design matrix

Audit design matrix can be used as a part of audit programme which helps the auditor in breaking down the audit objectives into sub-objectives or audit questions where appropriate methodologies are identified to answer the questions. Audit design matrix includes:

- ▶ audit sub-objectives concerning efficient, economical or effective operations
- ▶ audit question and sub audit questions to be answered
- ▶ audit criteria to be applied
- ▶ the specific tasks to be performed during the field work to determine whether audit criteria are met by the audited entity
- ▶ evidence to be collected, including audit sampling
- ▶ audit methodologies, procedures/techniques for collecting the evidence
- ▶ who is to perform the tasks, how, when and where they will be performed?
- ▶ special instructions if necessary

The Audit design matrix can be prepared by using Audit Tool 9 (presented in Annexures). The Annexure provides examples of audit design matrix for different sectors.

Table 9: An example of audit design matrix

Audit Objective	Audit Question(s) (AQ)	Sub Audit Question(s) (SAQ)	Audit Criteria	Audit evidence (Information Required and Sources)	Audit Methodology	Working Paper Ref:	Completed By and Date
1	2	3	4	5	6	7	8
To assess whether the procurement has been made economically and contract were executed efficiently while implementing the project/programme	Has adequate competition been maintained by the project in the procurement?	Is the notice published in the national media Are sufficient numbers of tender submitted?	Procurement Act 2063 clause 41 and Procurement Regulation 2064 section 5 and 7 stipulates about the provision.	Evidence: Procurement plan, procurement procedure, statement of direct procurement, sealed tender and tender.	Document review, discussion with management		
	Is the procurement economical?	Procurement Act 2063 clause 25 and regulation 2064 rule 61 states to award contract to the materially cost effective bidder.	Evidence: Report of tender evaluation committee, decision of awarding contract	Evidence: Report of tender evaluation committee, decision of awarding contract	Document review, discussion with management		

Alignment with NAMS

- ▶ Audit design matrix shall be part of Audit Programme and will be uploaded or created in NAMS as a checklist.

4.2.2.1. Logistic Management

Having identified the audit questions and planned the audit focus to gather audit evidence, the auditor should consider the logistical aspects of how the audit team may efficiently perform these tasks. As part of planning, the auditor looks at what resources the audit team requires as well as when and where the audit team needs them.

In considering the resources required for the audit, the auditor looks at:

- ▶ staffing and other resources required for the engagement, including specialists;
- ▶ other auditors involved;
- ▶ the availability of computers, internet and intranet facilities if planned to use Computer-Assisted Audit Techniques;
- ▶ the planned timing of the audit work;
- ▶ the location of the audit work;
- ▶ communication links such as telephones, facsimile and transportation links;
- ▶ the preparation of time cost budgets.

Planning the logistical aspects of the audit generally requires close co-ordination with the auditee. The auditor usually arranges meetings with management and the auditee's staff to discuss matters such as:

- ▶ timing of the audit and locations to be visited;
- ▶ schedules and information to be prepared by the auditee’s staff;
- ▶ the involvement of specialists;
- ▶ other auditee’s service issues, including management’s expectations

4.2.2.2. Audit Budget

The details of audit budget depend upon the complexity of the audit. The budget is developed based on an estimation of time required for each task to be performed. The audit team comprises individuals with varying seniority and experience. The determination of the size and quality of staff required on each particular audit depends on the complexity and extent of the audit work expected.

Time and cost savings may be achieved by having auditee personnel prepare information for the use of the auditor, for example, the information requested under Audit Tool5. In addition, the auditor also needs auditee personnel to obtain access to client facilities, records and documents.

4.2.2.3. Preparation of Audit Plan

The contents of the audit plan should include the followings:

Introductory
▶ introduction of entity
▶ background information
▶ rationality of topic selection
▶ policy
▶ laws
▶ objectives and target
▶ financial review
▶ operational status of project/programme
▶ segment operational model
▶ contact person
▶ approach and methodology of audit
▶ resources needed for examination and reporting phases – identify and allocate resource requirements including specialists/experts where necessary
▶ manpower for completion of the audit
▶ personnel engagement, estimated working man days of engaged manpower by level/skill or type
▶ detailed time and work schedule
Audit objective & Scope
▶ audit objectives
▶ scope of audit
▶ Audit question and sub questions
Risk assessment
Lines of audit enquiry
Audit management
The audit planning documents should contain:
• background knowledge to understand the entity to be audited, for assessment of the risk, possible sources of evidence, auditability, and the materiality and significance of the area (ISSAI 3100/2.4.1)
• the audit objective, questions or hypotheses, criteria, scope and period to be covered by the audit, and methodology including techniques to be used for gathering evidence and analysis (ISSAI 3100/2.4.1).
• staffing requirements, i.e. competencies (including the independence of engagement staff), human resources, and external expertise required for the audit, knowledge of the auditors in the subject matter (ISSAI 3000/2.2); and
• the estimated cost of the audit, project timeframes and milestones, and control points (ISSAI 3100/2.4.1).

4.2.2.4. Audit Programme

The main reasons for using audit programme are to:

- ▶ establish a clear relationship between audit objectives, audit questions, audit methodology, and the anticipated field work to accomplish those objectives
- ▶ identify and document the procedures to be performed, before commencement of testing
- ▶ facilitate delegation, supervision and review
- ▶ ensure that all planned procedures are performed
- ▶ document performance of procedures executed
- ▶ document the application of audit sampling to provide sufficient audit evidence.

The audit programme working documents should describe the nature, timing and extent of planned audit procedures required to implement the audit plan. The audit programme essentially translates the audit plan into detailed audit procedures designed to satisfy detailed audit objectives. It could be integrated with audit plan. The audit programme should be revised as necessary during the course of the audit.

Matters that should be considered in the design of audit programme are:

- ▶ size of task
- ▶ geographic dispersions
- ▶ audit environment
- ▶ the components of the system to be audited
- ▶ whether only broad issues have been identified or specific criteria available
- ▶ based on resources and other known constraints, select an approach that will best help achieve objectives
- ▶ identify the universe that needs to be reviewed select the appropriate sample
- ▶ a precise description of data that is needed, where it can be obtained, and the reliability of the data
- ▶ if the data necessary to conduct the audits has not been compiled, surveys, case reviews, or other means can be used to collect the appropriate data
- ▶ whether it is necessary to visit the auditees' field offices, regional programme sites, or recipient household during the field work
- ▶ Extent of test of controls
- ▶ depending on the nature and complexity of the auditee, the definition of certain terms may need to be agreed upon to avoid misunderstanding later in the engagement
- ▶ based on the professional proficiency of the collective staff, the audit may require special skills such as electronic data processing, engineering, legal, or another specialist.
- ▶ when and in what sequence various audit procedures should be performed?
- ▶ what type of recommendations will be expected to result from the engagement and in what level of detail

Above considerations enables the auditor to develop audit programme. Audit design matrix can be used as a part of audit programme which helps the auditor in breaking down the audit objectives into sub-objectives or audit questions where appropriate methodologies are identified to answer the questions.

Alignment with NAMS

- ▶ Audit plan/programme for PA shall be in NAMS based on uploaded checklist for selected topic
- ▶ Audit calendar shall be in NAMS
- ▶ Other documents relevant to entity may be uploaded in NAMS as part of audit plan/programme

4.2.3. Managing audit risk

Applicable standards:

- ▶ The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value. (ISSAI 3000/52)

Managing audit risk includes the following:

- ▶ Anticipating the possible or known risks, developing audit approaches to address them during audit planning and the selection of methods and documenting the risk management; and;
- ▶ Considering whether the audit team has competence to conduct the audit, has adequate access to accurate, reliable and relevant good quality information, considered new information and alternative perspectives.

Audit risk is the possibility that the auditor's findings, conclusions and recommendations may be improper or incomplete due to insufficiency or inappropriateness of evidence, inadequate audit process, intentional omissions or misleading information consequent to misrepresentation or fraud.

Dealing with audit risk is embedded in the whole PA process and methodology. Auditor must:

- a) Identify the risks
- b) Assess these risks
- c) Develop and implement strategies to prevent and mitigate the risks
- d) Monitor audit risk and mitigation strategies throughout the audit and make adjustments as needed to changing circumstances (i.e. apply a risk management approach when addressing audit risk).

It is important to discuss the specific audit risks and how the auditor plans to mitigate them in the audit plan or pre-study. Risk assessment can be done using many forms but must be done by addressing the following questions:

- a) Is there adequate good quality data available?
- b) Does the audit team possess the requisite skills and knowledge for the PA?
- c) Are the time frames and resources adequate to conduct the audit?
- d) Is the audit topic sensitive, highly visible or controversial in terms of political sensitivity, media sensitivity, parliamentary sensitivity?
- e) Is the audit and/or the topic complex?
- f) Is there a risk of management integrity or entity relations?

If the audit risk is significant, strategies for mitigating the risks and/or to modify the audit plan must be adopted. The auditor must then modify the evidence collection strategy to reduce the audit risk. For instance, the auditor may consider the following:

- a) Establishing a different staff mix – putting more senior staff
- b) Using internal or external specialists
- c) Adopting appropriate strategy and methods for data collection and analysis
- d) Establishing effective communication with the audited entity
- e) Setting up the required quality control measures.

4.2.4. Good project management practices and submitting the audit plan to supervisors and OAGN management

- ▶ Audit plan shall be reviewed and approved by the authority with a role higher than that of preparer. E.g. In case audit plan is prepared by a Director under PA directorate, it shall be reviewed and approved by the AAG PA division. Reviewer shall follow the supervision guidelines, audit review process and QC guidelines mentioned in this document before approval of the audit plan.

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- ▶ PA is time-consuming and costly, so it must be properly planned, and implementation of the plan regularly monitored for taking corrective action on time. The audit plan should be documented and submitted to PA Division of OAGN for approval.
 - ▶ Collectively the audit team must have the necessary professional competence to PA. All team members must understand the audit questions, the work assigned to them, and the responsibilities expected from them as per the OAGN's auditing standards. The most experienced/the highest-ranking auditor must be appointed as team leader. The team leader is responsible for executing the audit work and allocating tasks to the team members. The team leader must ensure high quality and timely output by the audit team. Staff development is essential as part of the PA work. For example, a less experienced auditor can be assigned as team leader with support and coaching from an experienced auditor.
 - ▶ When making an audit plan, the timetable and the resources needed must be determined. The auditor must consider whether consultation with internal or external experts such as consultants, other auditors is required to enhance the quality. A milestone plan may help in allocation of work breaking down the audit process into smaller parts. This enables the team to assess realistic the use of resources compared to the work needed. If the timelines are too tight in the plan, the timelines may have to be extended. The auditor must consider the most important audit question and spend time and resources accordingly. Less important questions may be answered by using less time-consuming data collection methods, using available secondary sources instead of using questionnaires or interview data.
 - ▶ It is important to document the use of budgeted resources and days worked and the milestones achieved. MIS reports for this shall be generated from NAMS. The audit working papers shall be captured in NAMS. Where more complex PA is to be conducted, it is OAGN may like to consider appointing an experienced supervisor or a steering committee to guide the audit team and to monitor the progress of the audit.
 - ▶ Audit supervisors provide guidance and direction to staff assigned to the audit to address the audit objectives. They must know significant problems encountered, review the work performed, and provide effective on-the-job training. The nature and extent of the supervision of staff and the review of audit work depend on a many factor, such as the size of the audit organization, the significance of the work, and the experience of the staff. The top management of OAGN must be regularly informed about the progress of the audit with findings, conclusions, and recommendations.

4.2.5. Communication during planning phase

- ▶ Communication with the audited entity and the relevant stakeholders during the design phase and throughout the audit process is essential to keep them informed of the audit's progress.
- ▶ OAGN has developed its stakeholder and communication strategies delineating the various communication practices to be followed. The communication with the audited entity must be in line with OAGN's strategies. During PA, communication of detailed information on the design of the study can reassure the audited entity and the responsible parties about the nature and scope of the audit. Discussions with the audited entity are critical to inform them about the PA and why it is undertaken. Discussions with managers and staff at the audited entity provide basic knowledge of the audit area and its functions and conditions. Misunderstandings can be avoided by these dialogues with the audited entity. Communication with the internal auditors can be beneficial by taking their inputs.
- ▶ The following topics are suggested by as examples for discussion with the audited entity during the design phase:

-
- Whether the audit is requested by others, e.g., the legislature, or is at the initiative of the SAI itself;
 - Whether the audit is addressing a general risk, involves a strategic assessment or whether it relates to economy, efficiency, or effectiveness issues, and if so on what grounds,
 - The purpose and the objectives of the pre-study,
 - The audit design, audit scope, timing, and methodology
 - The audit criteria,
 - The kind of information the SAI may need to get from the audited entity at this stage in order to build up knowledge, test potential designs, etc.’ (ISSAI 3920/65)

Alignment with NAMS

- ▶ NAMS shall have a communication module, through which OAGN can communicate with the auditee. All communications through NAMS will be available in NAMS for reference.

5. Audit Execution

5.1. Objectives

The objective of the audit execution is to perform the planned audit procedures, obtain audit evidence and to evaluate audit evidence and draw conclusions. Auditors must implement the work plan, conduct the audit and produce a high-quality audit report. Auditors perform the following key tasks during execution:

- ▶ Gather and evaluate information to compare actual condition with audit criteria,
- ▶ Obtain relevant, sufficient, and objective evidence to answer audit question.
- ▶ Develop conclusions and formulate recommendations which are well researched, practical and cost-effective.

Audit examination work takes place on the basis of audit planning already undertaken, and as per the developed planning documents, Audits should be performed with due care, with an objective state of mind, and with appropriate supervision.

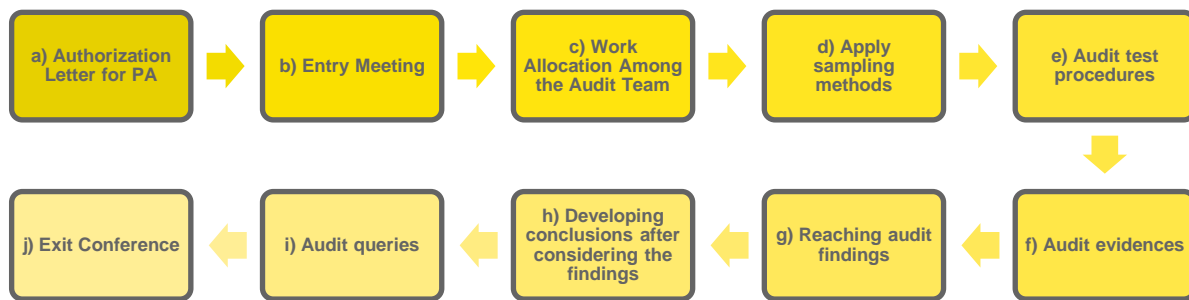
5.2. Working papers and applicable standards

Authorisation letter	• Authorization letter of OAGN
Entry meeting minutes	• ISSAI 100.43
Sampling	• ISSAI 3000/101 -103
Performing procedures	• ISSAI 300/24-37 • ISSAI 3000/106-115 & GUID 3920/68-105
Evaluate evidences	• ISSAI 300.38,39,40 • ISSAI 3000.66,79, 86, 87, 88
Exit meeting minutes	• GUID 3920/104

5.3. Audit steps

Audit steps involved in execution stage are presented in the diagram below. Performing procedures has been further broken into multiple steps.

Figure 12: Audit steps in execution stage



Alignment with NAMS

- ▶ After finalization of PA plan and programme in the audit planning phase, the relevant documents can be uploaded in NAMS and all the subsequent activities and audit processes will be facilitated through NAMS.
- ▶ Working papers/ documentation can either be generated or uploaded in NAMS. NAMS shall have repository of all relevant working papers/documentation.

5.3.1. Authorization Letter for PA

OAGN shall issue audit authorization letter for the audit team, addressed to the entity for conducting PA. The authorization letter shall include the following:

- ▶ When the audit shall commence
- ▶ Details of field audit team

In addition, the authorization letter shall include request to the auditee to provide the audit team with:

- ▶ Access to all information that is relevant to the audit subject matter such as records, documentation and other matters;
- ▶ Additional information that auditor may request from for the purpose of the audit; and
- ▶ Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Alignment with NAMS

- ▶ Authorization letter (Audit Tool 19) shall be configured in NAMS as per OAGN's requirement.
- ▶ There will be an option to send the authorization letter to entity via communication module of NAMS

5.3.2. Entry Meeting

Before the audit team arrives for field audit the requisite communication informing the topic of PA, audit objectives, scope, criteria, documents and information required for conducting the PA must have been sent to the auditee including fixing a date for entry meeting. The entry meeting must be conducted at the beginning of the field audit introducing the members and requesting necessary cooperation in producing the required documents for conducting the PA. Generally, such meeting can be organized in the premises of the auditee, in which all the responsible departmental or section head will participate.

It is essential that the audited entity be kept informed of all matters relating to the audit⁹. The entry meeting shall be conducted at the commencement of audit as a communication process. Among others, the audit entry conference can be used as a forum to discuss and communicate with the management and those charged with governance where appropriate on the terms and conditions of the audit engagement.

The entry meeting is conducted to achieve the following purposes;

- ▶ Introduce members of the audit team to management;
- ▶ determine appropriate persons within the entity, with whom to communicate;
- ▶ determine the matters that need to be communicated:
 - responsibilities of the entity management and the auditor team, as it has been agreed in the engagement letter and included in the audit authorisation letter;
 - planned scope and timing of the audit; and
 - auditor independence;
- ▶ establish the communication process (the process, form, timing and adequacy).

Documentation of communication may include a copy of minutes retained as part of the audit documentation where those minutes are an appropriate record of the communication.

Minutes of the meeting will be prepared and signed by the both party. The feedbacks of the entry meeting if necessary, should be consider and adjusted in the audit plan subsequently.

Alignment with NAMS

- ▶ Minutes of meeting from entry meeting shall be captured in NAMS

5.3.3. Work Allocation Among the Audit Team

Audit team leader shall allocate works among the field team members considering the experience and expertise.

Alignment with NAMS

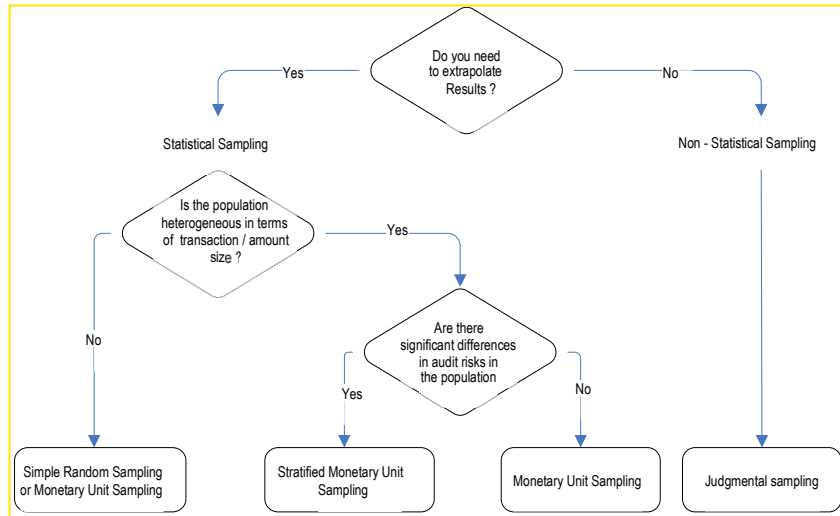
- ▶ Work allocation shall in NAMS
- ▶ Work will be allocated amongst the team already formed during planning stage in NAMS

5.3.4. Applying sampling methods

- ▶ Sampling methods will be selected during the design of audit programme as mentioned earlier in the guidelines. During audit execution selected sampling methodology shall be applied for selection of items for audit test procedures.
- ▶ Audit sampling is defined as the application of audit procedures to less than 100 percent of items within a population of audit relevance. The auditor shall use audit sampling, where appropriate, to provide a sufficient number of items to draw conclusions about the population from which the sample is selected. When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

⁹ ISSAI 100.43

- ▶ Audit sampling can use either a statistical or a non-statistical approach. The main aim of sampling is to reduce the audit risk to an acceptably low level. Selecting the methods of sampling depend upon the resources available, nature of the audit and policy guidance provided by the office. Auditor should be careful while selecting the methods of sampling consulting the expert in the office and/or management.



- ▶ With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected (based on laws of probability).
 - random selection – use of random numbers
 - systematic selection – using sampling intervals
 - monetary unit selection – every Rupee has equal chance of selection; therefore, larger amount has more chance of (getting hit) selection.
- ▶ With non-statistical sampling, judgment is used to select sample items.
 - judgemental selection – high value, key-items
 - haphazard selection – no structured technique
 - block selection – selection of a block within a population

Recommended sample size	
Level of reliance on controls	Sample size
• Low reliance	40-60%
• Moderate reliance	20-40%
• High reliance	10-30%

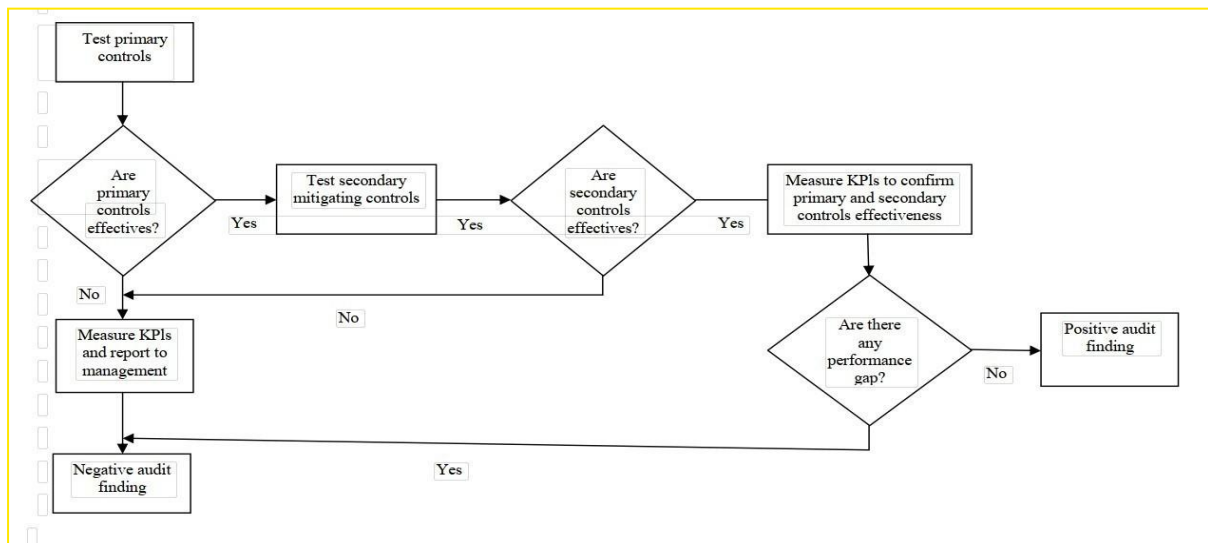
5.3.5. Audit test procedures

Once the audit programmes are drawn up and entry meeting is done, fieldwork can proceed. Carrying out an audit involves both analytical and a substantive test procedure.

The process of executing the procedures to test the controls and measuring control effectiveness involves gathering audit evidence in order to develop audit findings. This enables conclusions and recommendations to be formulated. During the Planning stage, the controls are identified as primary, secondary and mitigating. In testing these controls, the auditor seeks to:

- ▶ obtain evidence on whether the controls operated as documented in the planning stage; and
- ▶ confirm whether the controls functioned effectively throughout the period of intended reliance.

Figure 13: Audit execution (Control and Performance assessment) - Diagram



5.3.5.1. Control Assessment

The two stage of the Audit execution are control assessment and performance assessment. Control assessment essentially represents the qualitative assessment of the overall effectiveness of each control in meeting management’s objectives. It designs and develops the assessment procedures in with the assessed inherent and control risk in planning stage for reducing the audit risk.

Control assessment involves the following key stages:

- ▶ if necessary, develop further audit programmes by designing audit procedures and tests;
- ▶ execute audit test procedures and apply audit sampling to determine whether the controls are operating as intended;
- ▶ assess the control environment and optimize the controls
- ▶ design, perform and review appropriate control test procedures;
- ▶ determine if the controls provide reasonable assurance that management’s objectives will be met
- ▶ identify potentially excessive and/or ineffective controls
- ▶ identify and evaluate residual risks; and
- ▶ design and perform additional test of significant residual risk if applicable

The purpose of assessing control effectiveness is to perform a qualitative assessment of the overall effectiveness of each control in helping the auditee meet management’s objectives.

The findings from the review should be compared to the audit criteria.

The qualitative assessment is typically carried out using an analysis of procedural approach. This involves testing procedures against established criteria, best practices or a desirable control model. Recommendations are made by the auditor where controls are either deficient or ineffective.

The auditor examines the results or outputs of the programme, activities or organizational units concerned to determine the significance of control deficiencies. In this way, the likely causes and effects can be identified and assessed. In instances where it was found that the auditee had no KPIs to measure achievement, then the auditor could report the absence of knowledge about performance, rather from attempting work which may or may not answer the question.

Control assessment should focus on the performance audit areas. However, the internal control review findings from the financial audit should be reviewed to avoid duplication in carrying out performance auditing. For this purpose, auditors should be able to differentiate between financial and performance audit objectives.

5.3.5.2. Performance Assessment

Performance assessment involves a quantitative assessment of the effectiveness of activities within a process, or the outputs of a process, in achieving management's objectives. Apart from reviewing internal controls, the auditor should also assess the performance of the auditee. The assessment includes both financial and non-financial performance analyses.

The primary objectives of business unit for performance analysis are to:

- ▶ compare the auditee's process' or current performance to that of prior periods or peer groups to identify potential problems and/or opportunities;
- ▶ understand the cause-and-effect relationships between financial and nonfinancial measures; and
- ▶ provide insight to the auditee/ process on the effectiveness of its measurement and monitoring systems.

The performance assessment is carried out by measuring the key performance indicators (KPIs) identified during the planning stage. The key performance indicators measure how well a process is performing and confirm the effectiveness of primary, secondary and mitigating controls.

Some more examples of sector-wise KPIs are given in Audit Tool 10 (presented in Annexures).

5.3.6. Audit evidences

In order to answer the audit questions and to reach a conclusion on the audit objectives, the auditor must gather the required evidence. All audit findings and conclusions must be supported by audit evidence. Evidence should be placed in context and all relevant arguments (pros and cons) and perspectives should be considered before conclusions and recommendations are drawn. Data gathering process is selected during the audit planning stage indicating from where and how to collect the evidence. **Audit evidence is gathered using a variety of methods such as:**

- ▶ Observation - looking at a process or procedure being performed by others.

Direct observation is an audit evidence gathering technique for qualitative data collection. It helps to understand certain aspects of reality by seeing, hearing, examining facts and cross verifying. It helps to gather evidence about situations. This method is mainly used to gain insight into, and understanding of, the way an operation is run; to obtain the views of staff in the field and discuss and test ideas.

Inspection - examining books, records, documents etc. whether internal or external relevant to the subject matter to reach audit findings with reference to the audit criteria. Inquiry - seeking information from relevant persons, both within and outside the entity. Besides inspecting the documents relating to the project, scheme or entity under the audit, auditor may conduct interviews and surveys with the concerned officers in the entity responsible for implementation and the targeted beneficiaries and the stakeholders and focus group discussions and surveys. External confirmation - direct written response to the auditor from a third party. Confirmation from the third party is more authentic; for example to verify the bank balance in the books of the entity, the best method is to get written confirmation from the bank.

- ▶ Re-performance - independently carrying out the same procedures already performed. To make sure the audit findings, the auditor must re-perform the same audit procedures to ensure accuracy and credibility wherever deemed necessary.

-
- ▶ Re-calculation - of checking the mathematical accuracy of documents or records. Many audit findings are based on calculation of figures and adoption of appropriate statistical methods. Auditor must re-calculate and verify to ensure accuracy.

Substantive testing - testing detailed transactions or activities against the audit criteria. Substantive testing is required where auditor is convinced that the internal controls are missing or lacking. Substantive audit procedures are the audit processes/methods that auditor performs to detect material misstatement that could occur in financial statements or internal control weaknesses in an entity. Auditor must perform substantive audit procedures to obtain substantive evidence to support audit findings and audit opinions. Auditor shall perform substantive audit procedures after tests of controls to obtain evidence about various audit assertions. This can be done by various audit procedures such as inspection, confirmation, recalculation, and analytical procedures, etc. Test of key controls - testing the controls that management has put in place. A test of controls is an audit procedure to test the effectiveness of a control used by an entity to prevent or detect material misstatements. Depending on the results of this test, auditors may choose to rely upon an auditee's system of controls as part of their auditing activities. However, if the test reveals that controls are weak, the auditors will enhance their use of substantive testing.

The following are general classifications of tests of controls:

- *Reperformance*. Auditors may initiate a new transaction, to see which controls are used by the entity and the effectiveness of those controls.
 - *Observation*. Auditors may observe a business process, and in particular the control elements of the process.
 - *Inspection*. Auditors may examine the documents for approval signatures, stamps, or review check marks, which indicate that controls have been performed.
- ▶ A test of controls is conducted for a sample of documents related to transactions that occurred throughout the year to obtain evidence that the system of controls has operated in a reliable manner throughout the reporting period. The test is done to see if a control functions properly. If the auditors encounter an error in a test of controls, they will expand the sample size and conduct further testing. If additional errors are found, they will consider whether there is a systematic controls problem that renders the controls ineffective.
 - ▶ Analytical procedures - comparing data, investigating fluctuations, identifying relationships and their inconsistencies, if any. Analytical procedures include comparison of financial information (data in financial statement) with prior periods, budgets, forecasts, and so on. It also includes consideration of predictable relationships, such as gross profit to sales, payroll costs to employees, and financial information and non-financial information. Possible sources of information about the client include interim financial information, budgets, management accounts, non-financial information, bank and cash records, VAT returns, board minutes, and discussion or correspondence with the client at the year-end.

After obtaining audit evidence during execution phase, the auditor must assess the sufficiency and appropriateness of evidence to decide if more or different evidence is needed.

Applicable standards:

- ▶ The auditor shall obtain sufficient and appropriate audit evidence to establish audit findings, reach conclusions in response to the audit objective(s) and audit questions and issue recommendations when relevant and allowed by the SAI's mandate. (ISSAI 3000/106)
- ▶ Audit evidence should be both sufficient (quantity) and appropriate (quality) to persuade a knowledgeable person that the audit findings are reasonable. (ISSAI 3000/107)

Sufficiency - is a measure of the quantity of evidence needed to support the audit findings and conclusions and is related to the decision about the level of assurance.

Appropriateness - relates to the quality of evidence – its relevance, validity and reliability

- Relevance refers to the extent to which the evidence has a logical relationship with, and importance to, the issue being addressed.
- Validity refers to the extent to which the evidence is a meaningful or reasonable basis for measuring what is being evaluated
- Reliability refers to the extent to which the audit evidence is supported by corroborating data from a range of sources, or produces the same audit findings when tested repeatedly

5.3.6.1. How to obtain sufficient and appropriate evidence

- ▶ In PA, evidence is rarely conclusive with definite yes/no or right/wrong. Audit evidence is persuasive pointing towards the conclusion'. When evidence is persuasive rather than conclusive, the auditor must discuss in the planning or at the beginning of the conducting phase with the experts about the nature of the evidence and analysis and interpretation to reduce the risk of misunderstanding and speed up the process. The auditor must obtain information from different sources, since there can be different perspectives and arguments.
- ▶ The aim of the planning phase is to properly and thoroughly plan the audit to apply the data collection methods. While conducting PA, the auditor must identify potential sources of information that could be used as evidence because, all situations cannot be foreseen during the planning. The auditor may adjust the audit scope, questions, criteria and methods for data collection and analysis during the conducting phase. Radical changes to the audit design are not advisable unless unavoidable. Material changes must be approved by the relevant authority in PA division of OAGN and the audited entity must be informed about them.
- ▶ The auditor must evaluate whether the lack of sufficient and appropriate evidence is due to internal control deficiencies or other programme weaknesses or is it the basis for audit findings.

5.3.6.2. Assessing whether the evidence is sufficient and appropriate

- ▶ The following guidelines are useful to assess the appropriateness of evidence:

- a) Documentary evidence is more reliable than oral evidence, though the reliability is dependent on the source and purpose of the document.
- b) Testimonial evidence corroborated in writing is more reliable than oral evidence alone.
- c) Evidence based on many interviews collectively is more reliable than evidence from a single or a few interviews.
- d) Testimonial evidence obtained where people are free to speak is more reliable than evidence obtained from people who feel intimidated.
- e) Evidence obtained from a knowledgeable, credible, and unbiased third party is more reliable than evidence obtained from the audited entity or others who have a direct interest in the entity.
- f) Evidence collected where internal control is adequate may be more reliable than evidence obtained when internal control is deficient or non-existent.
- g) Evidence obtained through the auditor's direct observation, computation, and inspection is more reliable than indirect evidence.
- h) Original documents are more reliable than copied ones.

- ▶ The following presumptions help in assessing the sufficiency of evidence:

-
- a) As audit risk increases, the quantity and quality of evidence required increase.
 - b) Stronger evidence allows to use less evidence.
 - c) A large volume of audit evidence cannot compensate for absence of relevance, validity, or reliability.
 - d) More evidence is essential when the audited entity has a different view on the subject.

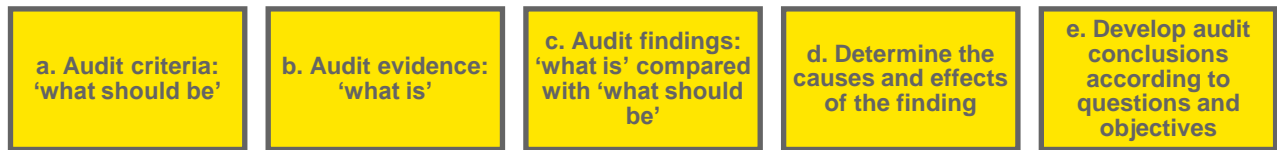
- ▶ In a PA, the audit evidence is determined by the subject matter, the audit objective(s) and the audit questions. The nature of the audit evidence must be specified for the individual audit.
- ▶ The analytical process in PA requires continuous consideration of the audit questions, audit evidenced gathered and methods employed. The process helps in drafting the audit report by answering the audit questions.
- ▶ When analysing collected information f, focus must be on the audit question and audit objective(s). The analytical process is iterative, so the auditor must revisit the audit objective(s) in the light of insights obtained during the audit and modify suitably.

5.3.7. Reaching audit findings

Applicable standards:

- ▶ The auditor shall analyse the collected information and ensure that the audit findings are put in perspective and respond to the audit objective(s) and audit questions; reformulating the audit objective(s) and audit questions as needed. (ISSAI 3000/112)

Figure 14: The analytical steps to reach audit conclusions



Audit findings are the results of analyzing and assessing specific evidence with reference to audit criteria to answer audit questions and to draw conclusions according to objectives as explained in audit design matrix under planning phase.

Audit findings normally contain the following elements:

- I. criteria ('what should be')
- II. evidence ('what is'),
- III. causes ('why is there a deviation from criteria'),
- IV. and effects ('what are the consequences').

Meeting or exceeding the criteria is a good practice leading to good performance. Failing to meet criteria demands that improvements are needed. The audited entity's performance may not necessarily meet all the criteria for testing economy, efficiency, and effectiveness. Satisfactory performance is not perfect performance, but is based on what a reasonable person would expect, taking into account the given circumstances. Criteria may not always be fully met. For instance, in case of some international agreements, it is difficult to comply with fully. Satisfactory performance may, in this context, must be understood as what can realistically be achieved to improve the situation towards meeting the criteria. Regardless of whether the audited entity meets the criteria or not, the auditor must consider materiality and apply professional judgment in interpreting how this affects the entity's performance.

Most audits use analysis to understand or explain the observations. When analysing information collected, the auditor must focus on the audit question and objectives to organize the data and provide the focus for analysis. Several methods of analysis are used depending on the objective of the audit and of the types of evidence used. Almost all PAs include different forms of document analysis. Depending on the documents and the criteria, the analysis varies. Most PAs include interviews with the audited entity or other stakeholders. These can be carried out in several ways depending on the objective of the interview: Structured interviews can be the basis for more advanced analysis whereas less formal interviews help exploring the views of the audited entity. Besides, different types of statistical methods can be used to analyse large volume of data, basic or advanced tools, depending on the type of data used. In all PAs discussion in the team and with colleagues and management provides essential input to draft findings and conclusions. Finally, discussions with the audited entity and in some cases with focus groups provide valuable inputs.

In a PA, it is important to find out the root causes for the audit findings. Root cause analysis (RCA) is a powerful tool for identifying the underlying causes leading to unsatisfactory outcome with a view to take remedial and preventive actions. Root cause analysis is a technique used for identifying the underlying key causes for the audit findings so that an appropriate action (or actions can be taken to prevent recurrence of negative outcomes. RCA is useful as a means to identify outcomes. RCA is a valuable technique to prevent recurrence of the same issues. RCA is for identifying the cause of an issue, rather than looking at the symptom of audit findings. It looks at addressing the underlying root cause with a view to reduce future recurrence. RCA is a well-structured approach to to bring about a successful result, addressing compliance failings.

Figure 15: Examples of some different methods and models of analysis

- a) Statistical analysis of data
- b) Analysis of documents or physical evidence
- c) Systematic analysis of interviews
- d) Studies of documents or physical evidence
- e) Discussions within the audit team, with experienced colleagues and management
- f) Discussions with the audited entity
- g) Discussions with focus groups

The analysis may require comparisons of findings, as illustrated below:

- a) benchmarking of different institutions so that the least successful institutions can learn from the most successful institutions, and
- b) comparing the audited area with a similar one in another country or jurisdiction to learn the better practices.

The comparison of observed conditions against audit criteria results in audit findings. Audit findings are based on the identification of performance gaps that is where controls are deficient or ineffective in mitigating risks.

The issues to be reported on should be identified. Once the issues have been identified the following components can develop the audit finding.

- ▶ *"Criteria"* ('what should be') Criterion is reasonable and attainable standard against which to existing standards of performance is assessed. The criteria would have been identified in the planning stage of the audit.
- ▶ *"Condition"* (What is) The condition refers to what is currently being done or the current situation. The condition should be compared to the criteria to assess if the condition falls short of the criteria beyond acceptable levels. The comparison between the criteria and the condition will form the basis of the audit findings.
- ▶ *"Cause and effect"* (Why is there deviation from norms or criteria?) The findings should also identify the cause and effects of the condition. Cause can be defined as the source or factor for the occurrence of an event. Identifying the cause provides information on accountability relationship and initiates measures of improvement.
- ▶ *"Consequence"* (reasonable and logical future impact) The result of an event i.e. the effect of the condition falling short of the criteria.
- ▶ *Corrective action* ('measures to improve the condition)- On the basis of evaluated audit evidence and response received by the auditee, possible recommendation should be issued in the audit report.

Where conditions fall short of the criteria, the reasons and the implications of this shortfall are examined. This step involves:

- examining relevant information
- defining the problem and collecting information on the
- causes of deficiencies
- critically evaluating the appropriateness of evidence to
- substantiate the findings
- collecting additional evidence on the causes and effects of deficiencies to illustrate the significance of the matter to be reported

It is the responsibility of the Audit Director and Audit team to ensure that the reasons identified for non-adherence to the criteria and the implications are discussed with the appropriate levels of management in the audited organization. The viewpoint of management must be given due consideration before the reporting phase of the audit begins.

Determining cause and effect of a finding

Explanations for deviations from criteria must be presented supported by sufficient and appropriate audit evidence. The audited entity's views on reasons for performance problems or weaknesses must be considered. If they are not based on sufficient and appropriate audit evidence, the auditor must not treat them as relevant or correct. If the views of the audited entity are not sufficiently supported by evidence, but reasonable according to the auditor's professional judgment, the view of the audited entity must be presented in the report.

The auditor must identify the possible effects of the criteria not being met. The actual situation must be compared with the ideal condition.

The effects could be identified either as what has occurred or as possible future impact based on logical reasoning. The nature of the findings determines whether the auditor presented actual or potential effects. Actual effects from past or current conditions demonstrate the consequences and provide the reasons why corrective action is needed. Potential effects are described as the logical consequences that follow when evidence does not meet the criterion. Potential effects are to some extent speculative, so the auditor must be discrete to use them.

The auditor must examine the relationship between cause and effect and focus on the possibility that other external factors influencing the observed effect. Use of enhanced analytical techniques may be useful to answer questions on cause and effect.

It is important to understand the relationships between cause and effect, for example, poor funding may not be the reason for worse conditions. The auditor must remember that many reasons exist for relationships:

- There can be a *direct cause-and-effect relationship*. For example, if a university has a definite intake every year, it increases its intake of part-time students, then it leads to reduced full-time intake.
- There may be a *reverse cause-and-effect relationship*; for instance, bad exam results might be because of poor attendance and poor attendance might be due to bad exam results.
- The relationship can be a *coincidence*. For example, there may be a relationship between the quality of health care in a local authority and exam results in the area, but it may be difficult to establish that one causes the other.
- There may be a *confounding effect*; for instance, the relationship between quality of health care and exam results may be because of effective use of resources by the local authority.

5.3.8. Developing conclusions after considering the findings

- ▶ The audit findings enable the auditor to reach a conclusion. Formulating conclusions requires the auditor's professional judgment and interpretation to answer the audit questions, deepening on the sensitivity and materiality of the audit issue; the context and all relevant pros and cons, arguments and perspectives before arriving at the conclusions. The conclusion must be precise, reasonable, economical and relevant to the purpose. The senior management must review the process.
- ▶ After establishing the findings and determining why the criteria are not met (causes), and possible consequences (effects), the auditor must draw conclusions. Conclusions are statements inferred from the findings. Since PAs point out deficiencies in application of principles of economy, efficiency and/or effectiveness, the conclusions must specify the reasons why aspects of economy, efficiency or effectiveness are not fully met.

-
- ▶ Audit conclusions add meaning to findings in PA report, going beyond restating the findings. The audit findings are identified by comparing 'what should be' based on the criteria with the audit evidence on 'what is', the conclusions reflect the auditor's explanations and views on the findings. Conclusions might identify a general topic or a pattern and an underlying problem that explains the findings.
 - ▶ The conclusions must flow logically from the findings, the performance problems, weaknesses, their causes and effects. All analytical steps taken beyond the findings must be explained and justified.
 - ▶ When drawing conclusions, the data analysis and the audit findings must be revisited to ensure that the conclusions are based on solid grounds. The analysis of data consists in combining results from different sources. Different methods can be used in the analysis. In a properly conducted PA, the arguments are balanced against the counter arguments, and the contrasting views are weighed against each other. The conclusions must be based on the objectives, criteria, evidence and findings.
 - ▶ While drawing conclusions, the auditor must regularly validate them against the evidence. Conclusions must be supported by different types of evidence to make them sound.
 - ▶ In developing conclusions, the auditor must adjust an audit question and on rare occasions even the audit objectives when it is clear during the analysis that it will not be possible to precisely answer the question from the evidence and findings obtained. Such difficulties must be identified, and necessary adjustments made, earlier in the audit process. If adjustments are needed, they must be discussed with PA Division and communicated to the audited entity.
 - ▶ The auditor must be goal-oriented, must work systematically with due care, objectivity and applying professional judgment when analysing evidence. The auditor must follow a critical approach and maintain an objective distance from the information put forward. The auditor must be receptive to views and arguments and able to see things from different perspectives and maintain an objective attitude to views and arguments. Receptive attitude helps to factor the best arguments and to arrive at rational assessments, by discounting own personal preferences and those of others. The auditor's involvement must be based on reflective and objective analysis rather than adhering to a conviction that certain standpoints are correct.

5.3.9. Audit queries (memos)

The auditor should communicate significant findings, including material weaknesses on a timely basis to (entity) management. The findings after having been reviewed by the audit team leader are presented to the auditee in the form of audit queries (memos). The auditee is required to respond to the audit queries, within the stipulated timeframe and auditor shall analyse this response for drafting the preliminary audit report / management letter and forming audit conclusions. Audit queries/findings can be sent batch-wise or in a single set as decided by the audit team leader.

Alignment with NAMS

- ▶ Audit evidence and findings shall be captured in NAMS

5.3.10. Exit Conference

A formal exit conference is held at the completion of the audit.

- ▶ Exit conference is held between audit team members and the entity's management group. On the entity's side, it is most useful if the officer attending has sufficient authority to commit the agency to agreements reached.
- ▶ Exit conference is carried out to discuss audit findings conclusion and recommendation and to validate the accuracy and completeness of information included in the draft report.
- ▶ Serve to communicate audit findings and recommendations to management and integrate prompt feedback for preliminary issues.

-
- ▶ The oral and written responses elicited from the agency by the exit conference audit findings should be documented by the audit team
 - ▶ The exit conference should be noted and signed by both the parties.

An audit exit meeting ensures that the audit findings discussed and agreed with management and, where relevant, those charged with governance. This meeting also reduces the risks of misunderstanding between the management and the auditor at a later stage on issues reflected in the final audit report. Some refer to this as the audit clearance meeting.

The auditor and management should maintain the minutes of the exit meeting detailing the discussions of the auditor's report and the specific audit findings, and the decisions reached on each discussion point.

Alignment with NAMS

- ▶ Minutes of exit meeting shall be captured in NAMS

Guidance on discussing the preliminary findings and conclusions – internally and externally

As the work progresses, PA report gets into shape. The notes and observations must be put into a structured order. As internal and external discussions progress, PA report must be drafted, assessed and rewritten; details checked and conclusions discussed. Communication is critical in the analytical process because the auditor must have to consider the context and all relevant arguments, and varied perspectives before drawing conclusions. The auditor must maintain an effective communication with the audited entity and relevant stakeholders. OAGN's communication and stakeholder strategies may guide in this context.

Internal discussions with senior auditors and experienced colleagues are useful in the analytical process, weighing findings and assessing preliminary findings and conclusions.

Externally there is a need to discuss key issues that have emerged during PA. It must be ensured that the factual basis of descriptions is accurate and fair, and that the analyses are comprehensive to address the causes of problems. Various arguments must be represented and findings put in perspective. Meetings with the audited entity is beneficial to confirm facts and develop audit findings and recommendations.

Meetings with senior managers/officials help. Focus group meetings are useful to involve various stakeholders and experts in discussion of preliminary findings, conclusions and recommendations. Discussion of issues with the main stakeholders add value to PA.

6. Audit Reporting

6.1. Objectives

At the end of performance audit the audit team shall prepare a report, setting out the finding in an appropriate form. The content of the report should be easy to understand and free from ambiguity, include only information supported by audit evidence. The report must be independent, objective fair and constructive.

Audit report should be prepared keeping view on the audit objective. Continuous report writing helps developing the main components of the audit report at the planning stage and periodically revising the draft report throughout the conduct of the audit. This approach allows the auditor to concentrate on the results of the audit. The objective of audit reporting is to communicate audit results conclusions and recommendations to the auditee management, Legislature and public for enhancing economy and efficiency with which resources are acquired and used and the effectiveness with which objectives are met.

A good audit report objectively lays out the audit findings and conclusions of the audit questions and offer practical recommendations, where needed. The reader should understand what was done to perform the audit, why it was done, and how and able to: understand the context of the audited activity or programme. The report must be structured showing each audit finding with the audit process and evidence. Editing must ensure that the entire report is consistent in style and tone. Supervisor must review the draft, looking in particular for areas where the evidence or logic appears lacking and must ensure that the evidence and logic support the conclusions. Reviews from outside the team can ensure clarity and independence.

Five attributes have to be present in a performance audit report regardless of the structure.

i) Comprehensive

It is important to be comprehensive including all the information and arguments needed to address the audit objective and audit questions in the report. The report must be detailed to provide an understanding of the subject matter and the audit findings and conclusions. The report must have sufficient and appropriate evidence to support the findings, conclusions and recommendations.

ii) Convincing

The reader must be convinced by argument in the report that leads to the conclusions and recommendations. For that the report must be logically structured and present a clear relationship between the audit objective(s) and audit questions, audit criteria, audit findings, conclusions and recommendations. The report must present the audit findings persuasively, address all arguments relevant to the discussion and be accurate. Accuracy requires that the audit evidence presented, and the audit findings and conclusions, are presented in a neutral, fact-based manner. Two main goals for a convincing performance audit report are:

- ▶ Logic: Report must be able to map the logic of the argument that leads to the conclusion and recommendations. There should be clear linkage from the audit criteria via findings to the conclusions and recommendations.
- ▶ Accuracy: Inaccurate reports can damage the credibility.

iii) Timely

A performance audit report must be issued on time to make the information available for use by management, government, the legislature and other interested parties. The audit report is intended to result in improvements within the audited entities.

iv) Reader friendly

Report must be objective, fact-based in a simple and clear manner, using language that is understood by all their stakeholders. The tone of the report must be professional and neutral with sufficient evidence. Conciseness ensures that the volume of the report is no longer than it needs to be.

Important tips for writing reports:

- ✓ Use short rather than long sentences
- ✓ Use simple sentence construction
- ✓ Break up the text with use of headings
- ✓ Use examples
- ✓ Use non text visuals such as pictures, graphs, illustrations, maps, charts, tables etc.
- ✓ Avoid technical jargons, terminology and rarely used words
- ✓ Avoid excessive use of cross referencing and acronyms.

v) Balanced

Report must be balanced means that the report is impartial in content and tone. All audit evidence must be presented in an unbiased manner, with both positive and negative findings. The full picture of the audit topic or activity must be presented. If the audited entity is doing something well, the report must include it along with deficiencies in performance.

Applicable standards:

- ▶ The auditor shall provide audit reports, which are a) comprehensive, b) convincing, c) timely, d) reader friendly, and e) balanced. (ISSAI 3000/116)
- ▶ The auditor shall identify the audit criteria and their sources in the audit report. (ISSAI 3000/122)
- ▶ The auditor shall ensure that the findings clearly conclude against the audit objective(s) and/or questions or explain why this was not possible. (ISSAI 3000/124)

6.2. Working papers and applicable standards

Performance audit report

- ISSAI 300.59
- ISSAI 3000.66, 79, 86, 87, 88

6.3. Audit steps

6.3.1. Types of report

Performance Audit team has to prepare three types of performance audit report:

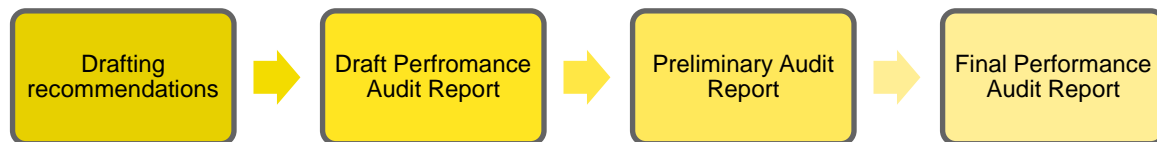
- ▶ **Preliminary Report:** Preliminary audit report is issued to the audited entity and line ministry and department after exit meeting.
- ▶ **Final Report:** Performance Auditor should be prepared final audit report after incorporating the response from the management for each subject of performance audit. All final audit reports shall be submitted to

the President as and when completed and a copy of it will be sent to the audited entity, line ministry and concern departments.

- ▶ **Annual Report:** Important findings of performance audit shall be communicated to the President and Legislative or Parliament through an annual report of OAGN

Various steps involved in audit reporting are presented in the figure below.

Figure 16: Steps involved in audit reporting



- ▶ The Performance audit final report and annual report submitted to the President has to be tabled in the Parliament and forwarded to the Public Accounts Committee for detailed deliberations

6.3.2. Drafting recommendations

Applicable standards:

- ▶ The auditor shall provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit, whenever relevant and allowed by the SAI's mandate. (ISSAI 3000/126)
- ▶ From the assessment of the audit findings and their possible causes and effects, the auditor draws conclusions. Tentative findings and conclusions should be tested against accumulated evidence and discussed with the auditee to get valuable input and to validate both correctness and completeness.
- ▶ Recommendations should be developed where unfavourable findings are made and significant adverse effects have been identified. High-quality recommendations highlight the problems in need of action and the corrective action needed to achieve desired results.
- ▶ The following questions should be considered in developing recommendations:
 - is it clear why a change is needed, why current conditions should not be allowed to continue and what the root cause of the problem is?
 - does the recommendation include specific actions that should be taken and results that should be achieved?
 - is the recommendation convincing?
 - will it correct the root cause of the problem?
 - have alternatives been adequately considered?
 - is the recommendation feasible and cost- effective?
 - is it clear who should take the corrective action?
 - is it clear when does it need to be done?

- ▶ Recommendation should be given to enable the auditee to rectify the weaknesses reported. Auditor's recommendation should contain actions to be taken and results that should be achieved. Recommendations should be directed to remedy root causes of problems.
- ▶ The conclusions should be based on objectives, rationality and project specific criteria. Recommendation should be argued in a logical, knowledge-based and rational manner. The cause of a finding forms the basis for the recommendation. The cause may be outside the control of the entity under audit, in which case the recommendation should direct attention outside the auditee. It is important to ensure that recommendations are practicable, add value and address the objectives of the audit. In some cases, it is also important to present the arguments for and against various alternative proposals.
- ▶ Whenever possible, positive audit observations should be reported to provide a fair and balanced report. This acknowledges the auditee's efforts and provides maximum leverage and value on the audit work done.
- ▶ The Assistant Auditor General is responsible to ensure that all recommendations are well researched, practical and cost-effective. The recommendations should also be consistent with those made by the OAGN in similar situations either in the past or elsewhere in government. If they are inconsistent, the reasons must be documented. The auditor should ensure that the recommendations address the objectives of the audit.

Alignment with NAMS

- ▶ Audit finding, conclusions and recommendations shall be recorded in NAMS

6.3.3. Draft performance audit report

- ▶ After confirming significant issues, the audit team should draft performance audit report which incorporating the criteria, condition, cause and effect and consequences, conclusions and recommendations in the audit issue papers, should be reviewed by the Audit Director and the Assistant Auditor General before being presented to the appropriate level of management a few days prior to the exit conference.
- ▶ Before issuing performance audit report, the auditee(s) involved should always be given the opportunity to examine its content. The draft report provides the first opportunity for the auditee to see the full context of audit findings, conclusions and recommendations in written form. Where responses provide new information, the auditor should assess this and be willing to modify the draft report.

Applicable standards:

- ▶ The auditor shall give the audited entity the opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report. (ISSAI 3000/129)
- ▶ The auditor shall record the examination of the audited entity's comments in working papers, including the reasons for making changes to the audit report or for rejecting comments received. (ISSAI 3000/130)

- ▶ Draft performance audit report shall be discussed with entity during the exit conference.

Alignment with NAMS

- ▶ Memos/findings (Audit tool 11-Audit Findings Form) shall be recorded in NAMS. Draft PAR shall be generated from NAMS.

6.3.4. Preliminary Audit Report

- ▶ Based on the exit conference, the audit team prepares a preliminary audit report. The purpose of preparation of the preliminary audit report is to seek formal response of the audited entity
- ▶ The preliminary audit report should be prepared exactly similar in form and content as the final report.

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- ▶ While writing PA report, the audit team, supervisors and quality control reviewers must critically consider the conclusions in relation to the audit findings, evidence, data, and audit criteria. Findings and conclusions must be validated by sufficient and appropriate evidence; and recommendations, if provided, must be linked to the findings and conclusions. Proper procedures for fact validation with the audited entity must be done.
 - ▶ The performance audit preliminary report should describe relevant facts and findings sufficiently.
 - ▶ The preliminary report should be forwarded to the audited entities. Copies of the report should also be forwarded to concerned departments and secretary of line ministry; it should be communicated to the responsible party that the response should be received in writing within 35 days. In the event this is not the case, the issues will be incorporated into the final report as it is, with mention that no response has been received. The response should address the issues raised in the audit report and include specific action plans with regards to implementing corrective action.

Supervisory review:

- ▶ The preliminary audit report is reviewed by the Audit Director and the Assistant Auditor General. Finally, the director signs off the report ensuring that the Office of the Auditor General standards are met.

6.3.5. Final performance audit report

- ▶ The published final performance audit report is the product on which the OAGN's performance audit function is judged by the legislature and the public.
- ▶ The auditor should review each response received to determine that timely corrective action and adequate detail have been provided for each finding of the report.
- ▶ Once the management comments are analysed, the more important issues should be identified to be included in the final report.
- ▶ The final report should have clarity and focus on the subject matter after incorporating the responses from the audited entity the OAG/Nepal shall published separate final report of each audited entities. The template for final performance audit report is given in Audit Tool 12 (presented in Annexures) which can be used in preparing draft report and preliminary report.
- ▶ The Audit Director shall review the audit files again to ensure that the evidence, working papers and other documents are sufficient to support the final report.
- ▶ The names of persons and institutions involved in transactions should not be mentioned in the final report. The AG reviews, challenges, approves and signs off the report ensuring that the OAG standards are met.

Alignment with NAMS

- ▶ Performance Audit Report (Audit Tool 12) shall be generated from NAMS

6.3.6. Distribution of the report

Applicable standards:

- ▶ The SAI shall make its audit reports widely accessible taking into consideration regulations on confidential information. (ISSAI 3000/133)
- ▶ Distributing PA reports widely promotes the credibility of the audit function. It must be distributed to the audited entity, to the executive and/or the legislature and to other responsible parties and made accessible

to other stakeholders and the general public directly and through the media, except for the classified information.

- ▶ The primary audience for PA reports is the legislature, executive, government agencies and the citizen. A good PA enables the legislature to effectively scrutinize government and agency performance and influence decision-makers in public service to make changes for better performance outcomes.
- ▶ Other stakeholders, such as the private sector and the media can have an interest in PA having a different focus in the outcome of a PA.

7. Audit Follow-up

7.1. Objectives

Follow-up means the auditor's examination of the corrective actions taken by the audited entity based on PA report. Follow up increases the value of the audit process and strengthens the impact of the audit by causing improvements. The process encourages the audited entity and other intended users to take the audit report and audit findings seriously. It provides useful lessons to the auditor, audited entity as well as of OAGN.

The objectives of follow-up are:

- ▶ to report on the progress made by the auditee in taking corrective action against audit findings and observations.
- ▶ to discharge the OAGN's public accountability to the Legislature which has the legitimate interest in reviewing the management actions taken or improvements made after the delivery of its judgment, directives and recommendations.
- ▶ to provide feedback for self-assessment of the conclusion and recommendation of the audit.
- ▶ to remind the auditee to initiate corrective actions and demonstrate improvements.

Follow-up focuses on whether the audited entity has addressed the problems adequately and rectified the underlying situation. The auditor must review follow-up actions and decide whether a follow up audit must be undertaken to update the status of implementation of recommendations in PA reports.

Applicable standards:

- ▶ Auditors should prepare a report based on the conclusions reached (ISSAI/100/51)
- ▶ Auditors should follow up previous audit findings and recommendations wherever appropriate. Follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective action (ISSAI/300/42).
- ▶ The auditor shall follow up, as appropriate, on previous audit findings and recommendations and the SAI shall report to the legislature, if possible, on the conclusions and impacts of all relevant corrective actions. (ISSAI 3000/136).
- ▶ The auditor shall focus the follow-up on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period (ISSAI 3000/139)

- ▶ Follow-up on PA report is an important part of the audit process as it strengthens the impact of the audit and improve future audit work. A follow-up process facilitates effective implementation of audit findings and recommendations and provide feedback to OAGN, the legislature and the government on effectiveness of PA and the improvements made by the audited entity.
- ▶ Follow-up on PA findings and recommendations serves four purposes:

- a) identify the audited entities' implementation of changes in response to PA findings and recommendations
- b) determine the impacts of PAs
- c) identify areas useful to follow up in future work
- d) evaluate OAGN's performance. Follow-up provides a basis for assessing OAGN's performance and contribute to better knowledge and improved practices. A follow-up of PA reports can serve for OAGN as a self-assessment tool.

7.2. Follow-up policies

The follow up policies of audit debriefing are as follows:

- ▶ OAGN should adopt proper, prompt and adequate follow-up programme on the implementation of its audit findings.
- ▶ a systematic review should be carried out on the action taken by the management of an auditee on the recommendations/audit observations made by OAGN or Public Accounts Committee (“PAC”) of the Parliament.
- ▶ an assessment should be made by OAGN on the management action in correcting the problems that led to the recommendation or audit observation; and OAGN should report on results of follow-up reviews to the Parliament and/or management, as appropriate.

7.3. Working papers and applicable standards

Audit Follow-up

- INTOSAI-P20.3; ISSAI 100.51; 300.42
- ISSAI 3000 -136
- Audit Act 2075, Financial Procedure and Financial Accountability Act, 2076

7.4. Audit steps

- ▶ The auditing process continues after publication of the report with follow-up on the impact of the audit. Follow-up is the final stage of performance audit cycle.
- ▶ The auditee is required to prepare action plan and provide response the findings and recommendations presented by OAGN in final report. The concerned AAG shall designate a competent officer to review the management response and also to examine the additional evidence, if any, produced in support of its response.
- ▶ The reviewers shall make a review note for the AAG who after being satisfied that the management has satisfactorily addressed the issue shall authorize to delete the audit findings and update audit working papers accordingly.
- ▶ PAC is legislative authority to review audit report submitted by AG, hold discussions with the management of the auditee, examine all relevant facts and figures submitted subsequent to audit report and make deliberations on audit findings and recommend corrective actions. OAGN has the responsibility of reviewing the actions taken on the PAC’s directives and recommendations and report progress to the Parliament.
- ▶ OAGN may select audit topics/entities/issues/project to conduct follow up audit after 3 to 5 years of previous audit. Strategic plan for performance auditing should identify the topics/entities/issues to conduct follow up audit. Individual audit team assigned to follow up prepares plan and programme to follow up in relation to the audits conducted in the past.
- ▶ While conducting follow up of recommendations of past year, the auditor should focus on the corrective action on previous year identified weaknesses. The auditor should also validate the significant impacts with the audited entity. Impacts include examples of improved economy, efficiency, effectiveness, quality of service, planning, control and management. Such follow up is conducted in two ways: desk review and comprehensive review. Desk review is conducted using Desk Review, which involves review of implementation of the recommendations but does not involve extensive field work. A comprehensive follow up involves use of auditing technique such as document review, physical observation, inspection, interview, discussion and requires extensive field work complemented by a desk review.
- ▶

Audit Report						
Date of issue						
Name of entity/organization						
Sl. No	Recommendations	Action taken as per the report	Status/progress	Reasons for non-completion of action as per the recommendations	Impact	

- ▶ Results from the follow up audit recommendations should be reported. Deficiencies and improvements identified in the follow up of audit should be reported to the audited entity.

7.4.1. Responsibility for Implementation of Recommendations

The auditee is responsible to make written response on the audit findings and recommendations to the PAC with a copy to OAGN. The deliberations and recommendations delivered by the PAC are legally valid and enforceable judgment on the management of the auditee.

Alignment with NAMS

- ▶ Responses on audit findings and recommendations to OAGN shall be captured in NAMS by the auditee

7.4.2. Issues in Follow-up

The major problem regarding effective follow-up is the resources that are required for it to be truly authoritative. To determine whether management has, in fact, followed audit recommendations and instituted procedures that will overcome the weaknesses identified in the audit might, in some instances, require almost as much effort as did the original audit. As a result most audit organisations rely heavily on declarations from management, supplemented where possible by specific-checks undertaken during financial audits. In such situation, the auditor may select sample cases to provide judgment on the sufficiency of actions taken and improvements observed.

Alignment with NAMS

- ▶ Responses on audit findings and recommendations to OAGN shall be captured in NAMS by the auditee along with the supporting documents.

7.4.3. Reporting Format

Audit Tool-16 (presented in Annexures) is provided for review, monitoring and report follow-up actions.

7.4.4. The focus of the follow-up

-
- ▶ Follow-up is done periodically as deemed appropriate by OAGN. The priority of follow-up tasks are usually assessed as part of the overall OAGN's audit strategy. Sufficient time must be given for the audited entity to implement appropriate action.
 - ▶ The aim of follow-up is to determine whether actions taken on findings and recommendations have remedied the problems. This includes positive and negative reactions. An unbiased approach must be followed.
 - ▶ The impact of the audit can be assessed from the corrective action taken by the responsible parties, and influence of the audit findings and conclusions over governance, accountability, understanding of the problem addressed or the approach towards it.
 - ▶ When conducting follow-up of a PA report, the auditor must concentrate on relevant findings and recommendations at the time of the follow-up. Insufficient action by the audited entity may warrant further audit.

7.4.5. How to do the follow-up

- ▶ Different methods may be used for follow-up on the findings and recommendations made, such as:
 - a) Arrange a meeting can be organized with the responsible parties after certain time to find out the actions taken to improve performance and to check the recommendations implemented.
 - b) Request the responsible parties to inform OAGN in writing about the actions taken to address the problems presented in PA report.
 - c) Use phone calls or conduct field visits to collect information on the actions taken by the audited entity.
 - d) Keep up to date on reactions from responsible parties, legislature and media, and analyze whether problems have been addressed or not.
 - e) Request financial audit to collect information about actions taken.
 - f) Carry out a follow-up audit, with a new PA report.
- ▶ The methods to apply will depend on the priorities established by OAGN during the strategic and annual planning process for PA. They are influenced by the importance of the problems, the actions expected, and the external interest in information on the actions taken.

7.4.6. How to report the results of the follow-up

- ▶ Whatever method is used, the results from the follow-up must be reported appropriately to provide feedback to the legislature. Deficiencies and improvements identified in audit follow-up must be informed to the responsible parties or the legislature.
- ▶ Follow-up can be reported individually or as a consolidated report. If several follow-ups are reported together, an analysis of different audits, highlighting common trends and themes across a number of reporting areas can be given. The follow-up reports must be balanced, and findings presented objectively and fairly.

8. Audit Quality Control (QC)

8.1. Objectives

The objective of quality control is to ensure that the auditor follows quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

- (a) The audit complies with professional standards and applicable legal and regulatory requirements; and
- (b) The auditor's report issued is appropriate in the circumstances.

Applicable standards:

- ▶ The SAI shall establish and maintain a system to safeguard quality, which the auditor shall comply with to ensure that all requirements are met, and place emphasis on appropriate, balanced, and fair reports that add value and answer the audit questions. (ISSAI 3000/79)
- ▶ GUID 3910 requirements on QC
- ▶ "SAI should establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing all of its work. Such policies and procedures should be set by the Head of the SAI, who retains overall responsibility for the system of quality control". (ISSAI 140)
- ▶ "SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI, comply with relevant ethical requirements". (ISSAI 140)
- ▶ Quality control and assurance system (QCA) must be established in compliant with ISSAI 140, which provides a framework for such a system. QCA policies and procedures must be adequate, flexible and easy to manage and communicated to all staff to resolve differences of view between supervisors and audit teams. Besides, other guidance and on-the job training may be developed to complement QCA mechanisms.
- ▶ ☑QCA must ensure that the audit provides a balanced and unbiased view, adds value, taking into account all relevant viewpoints and satisfactorily addresses the audit questions.
- ▶ ☑An effective QCA system must be in place to factor the audit teams' perspectives, ensuring that they are open to feedback from QCA system.

8.2. Working papers and applicable standards

Audit Review/QC Checklist

- INTOSAI-P 20.3, 5, 9; ISSAI 100.38; ISSAI 140.1-2; ISSAI 300.32
- ISSAI 3000.79; ISQC-1; GUID 3910 QC during and after audit 3910-100 to 108

8.3. Guidelines

8.3.1. Quality Assurance (QA) versus Quality Control (QC)

Although at times QA and QC are used interchangeably, there is a clear difference in scope and meaning of the two terms.

8.3.1.1. Quality control:

QC involves the policies and procedures through which an OAGN **ensures** that all phases of an audit process (planning, execution, reporting and follow-up) are carried out in compliance with OAGN auditing standards, rules, procedures and practices in line with the best international practices. Basically, it is a responsibility of each line function in an OAGN. QA is also a responsibility of management. Auditors should perform the audit in accordance with professional standards on quality control. OAGN's quality control policies and procedures should comply with professional standards, the aim being to ensure that audits are conducted at a consistently high level. Quality control procedures should cover matters such as the direction, review and supervision of the audit process and the need for consultation in order to reach decisions on difficult or contentious matters¹⁰.

8.3.1.2. Quality Assurance:

QA is a process through which an OAGN **assesses** and monitors the system of quality control, to provide reasonable assurance to its top management that its process and product meet quality standards. Thus, Quality Assurance is the process of comparing what is required of a product and what is actually being provided to the users of that product. This assessment is designed to ensure that the OAGN's system of quality control is working effectively and that individual audits are carried out in compliance with OAGN standards, rules, practices and procedures. These should be in line with best international practices as reflected in INTOSAI Standards of Supreme Audit Institutions (ISSAIs) and ASOSAI Guidelines or pronouncements on auditing standards and the code of ethics, appropriately adapted to suit the needs of national regulations and standards. Quality Assurance is the process established by an OAGN to ensure that:

- a) the OAGN and its personnel have adhered to professional standards and applicable legal and statutory requirements;
- b) necessary quality controls are in place;
- c) quality controls are being properly implemented; and
- d) Potential ways of strengthening or otherwise improving quality controls are identified.

As such, Quality Assurance is an assessment process focusing on the design, operation, outputs (reports) and outcomes of the quality control system by persons independent of the system/audit under review. The purpose of Quality Assurance is not to criticize specific systems/audits but to help ensure that the audit products and services meet the required international best practices and the needs of the OAGN's stakeholders.

8.3.2. Quality control in PA

OAGN should take responsibility for the overall quality of the audit to ensure that the audits are carried out in accordance with relevant professional standards, laws and regulations, and that the reports are appropriate in the circumstances. The considerations are:

- ▶ Quality assurance system in place to secure overall quality of the audit.
- ▶ Adequate supervision, reviews, consultation procedures instituted
- ▶ Adequate training shall and might cover the planning, execution and reporting stage.
- ▶ Roles and responsibilities are clearly defined.
- ▶ Quality controls are documented ensuring that appropriate procedures are performed and that reviews are performed throughout the audit process.

OAGN shall ensure that the audit team collectively has the necessary professional competence to perform the audit. The considerations are

- ▶ appropriate competence to conduct the audit, capable of selecting criteria free from bias
- ▶ depending the subject matter, skills and competence may include;

¹⁰ ISSAI 100.38

- ▶ Auditing skills and skills regarding data collection/analysis
- ▶ Legal competence
- ▶ An understanding and practical experience of the type of audit being undertaken
- ▶ Knowledge of the applicable standards and authorities
- ▶ An understanding of the audited entity's operations and appropriate experience for the type of entity and operations
- ▶ The ability and experience to exercise professional judgment
- ▶ Producing an auditor's report that is appropriate in the circumstances
- ▶ general access to accurate information,
- ▶ sufficient time to complete the audit assignment.
- ▶ assembled audit team is assembled to collectively have the necessary competence,
- ▶ where specialized techniques, methods or skills are not available within the team or within OAGN, external experts may be used in different ways, e.g. to provide knowledge or conduct specific work.

A checklist for essential steps to be followed and completed by PA team and certified by competent authority in OAGN after completion of each stage of audit life cycle is presented in the Annexures (Audit Tool 22)

Alignment with NAMS

- ▶ Audit process supported in NAMS shall have option for review by the supervisor or authorized user. After the end of the audit execution, supervisor reviews and approves the audit conclusions.
- ▶ As a part of the quality control team leader completes the first level quality control review in the NAMS and supervisor completes the second level quality review in the NAMS.
- ▶ Audit Tool 14 (Audit Review/QC Checklist) shall be in NAMS

8.3.3. Quality Assurance in PA

8.3.3.1. Benefits of the Quality Assurance Review (QAR)

The benefits that can be derived from an effective quality assurance function include the following:

- ▶ Ensure a high standard of audit work by improving audit performance and results;
- ▶ Ensure that the audit is conducted in the most efficient and cost-effective way; which can lead to savings in audit time and cost;
- ▶ Improve the capability of the OAGN;
- ▶ Maintain a high degree of integrity, accountability and competence;
- ▶ Enhance the credibility and reputation of the OAGN;
- ▶ Improve training and identification of additional training needs;
- ▶ Motivate the personnel of the OAGN;
- ▶ Facilitate self-assessment of audit work performed;
- ▶ Provide a management tool for measuring the performance of the OAGN; and
- ▶ Avoid possible litigation by ensuring the OAGN's work is of high standard and quality.

8.3.3.2. Selection of the appropriate audits for quality assurance review

The main method of conducting a QAR at the performance audit level is through the scrutiny of the working papers contained in the performance audit files. This method should be supported, where necessary, by other information-gathering methods such as unstructured discussions with performance audit team members, structured interviews, and focus groups.

For post-audit QARs, the QAR team should obtain a list of completed audits during, for example, the last 12-month period prior to the review. From the list of completed audits obtained, the QAR team shall select a sample of performance audits for review based on considerations of **risk** and **representativeness**.

The QA team may consider the following while assessing risk and ensuring representativeness:
Following table shall be used to assess the risk for individual performance audit review:

No	Factors	Risk			
		High	Medium	Low	Note
1	Public interest, (parliamentary/media/users group etc.)				
2	Scope of audit (Large/Medium/Small)				
3	Complex audit				
4	Substantial time was allocated to audit				
5	Substantial resources were allocated to audit				
6	Significant objectives from social and/economic perspective				
7	Audit that raised much disagreement between auditee and audit team				
8	Significant limitation in the scope of audit				
9	New area of audit				
10	Significant shortcomings in the previous audit				
11	Assessment				

- ▶ QA helps assessment of PAs independently after their completion on a consistent basis against specific criteria and monitors to ensure that the appropriate controls are in place and are working effectively. QA enables OAGN to review its audit work based on its own criteria, particular circumstances.
- ▶ Some Criteria-based questions that can be asked while QA processes are:
 - To what extent does the report clearly describe the context within which the area examined is carried out?
 - To what extent is the report well-structured and well written, and does it include an effective executive summary?
 - To what extent is the rationale for the scope clearly set out?
 - Is the audit methodology clearly set out?
 - To what extent were the report’s findings, conclusions and recommendations balanced, logical, consistent and supported by the evidence quoted?
 - To what extent has the audit been successful in concluding against its objectives and providing useful information to help improve public services?
 - To what extent is there sufficient documentation on team competencies, audit procedures carried out, evidence to support findings, consultations done, and treatment of comments received, and supervision?
- ▶ Independent QA must be done by senior members of PA unit with no involvement in the conduct of the audit or by externally. A peer review by members of other national SAIs can be used for this purpose. Peer review members can understand the role and responsibilities of OAGN and conduct QA assessment independently. External QA provides an opportunity for OAGN to demonstrate its accountability to stakeholders and improve PA audit process and the system of quality control. The results of QA reviews can

be circulated as good examples of PA reports within OAGN for the benefit of all auditors. Where PA audit reports need strengthening, senior staff members should evaluate QC system to identify and strengthen the required controls in the system to produce PA reports meeting the standards and work with the audit teams to learn the lessons by training, mentoring and coaching in specific areas.

Quality assurance at OAGN is conducted under OAGN's quality assurance handbook.

Alignment with NAMS

- ▶ Access to authorized user for independent quality assurance either from within or outside OAGN can be given in NAMS for QAR

Annexures

Audit Tools:

In the earlier sections of these guidelines, a number of audit tools have been referred to that shall assist OGAN in conducting Performance Audit. Some audit tools are formats, that shall be configured in NAMS and some are guiding tools or methodologies. A mapping of these audit tools with NAMS is presented in the table below.

Note:

The 22 Audit Tools are logically arranged in the sequential order of PA process with renumbering the tools as shown against them.

Table 10: Mapping of audit tools with NAMS

Serial No.	Audit Tools/Working Paper	If Configured in NAMS	Remarks -Guidance note for auditors
1	Audit Tool 1 (Selection matrix and criteria for Performance Audit)	Yes	It shall be in NAMS.
2	Audit Tool 2 (Team Composition)	Yes	Team composition will be generated through Team Planning module of NAMS
3	Audit Tool 3 (Ethical declaration)	Yes	Template based
4	Audit Tool 4 (Segment Operational Model)	No	It is a guiding tool for understanding the entity
5	Audit Tool 5 (Entity information collection Form)	Yes	Web-form based template will be available on NAMS
6	Audit Tool 6 (Process Analysis Template)	No, upload facility only.	It is a guiding tool for risk analysis
7	Audit Tool 7 (Risk Assessment Process)	No	It is a guiding tool for risk analysis
8	Audit Tool 8 (Risk Assessment Form)	Yes	Web-form based template will be available on NAMS
9	Audit Tool 9 (Audit Design Matrix)	Yes	It shall be part of Audit Programme of PA
10	Audit Tool 10 (Sector – wise Key Performance Indicators)	Yes	Web-form based template will be available on NAMS
11	Audit Tool 11 (Audit Authorization Letter)	Yes	Template based letter will be generated from NAMS
12	Audit Tool 12 (Entry Meeting Minutes)	Yes	Auditor would be able to generate minutes from NAMS and upload after getting it signed from auditee
13	Audit Tool 13 (Audit Findings Form)	Yes	It shall be part of working papers under Audit Programme
14	Audit Tool 14 (Exit Meeting Minutes)	Yes	Auditor would be able to generate minutes from NAMS and upload after getting it signed from auditee
15	Audit Tool 15 (Template – Performance Audit Final Report)	Yes	It shall be in NAMS
16	Audit Tool 16 (Record of Activities)	Yes	Available in NAMS

17	Audit Tool 17 (Audit Review Checklist)	Yes	Auditor would be able to web-form based checklist on NAMS
18	Audit Tool 18 (Annual Report, Response & Decision of the PAC)	Yes	Auditor would be able to download web form based template which can be filled and uploaded on NAMS after incorporating PAC inputs
19	Audit Tool 19 (Follow-Up Template)	Yes	Shall be available in NAMS
20	Audit Tool 20 (Current Audit File documentation)	Yes	Suggested list of WPs/documents to be maintained as part of current audit
21	Audit Tool 21 (Performance Audit Progress Record Form)	Yes	It will be available in web-form where information can be auto-populated basis availability of data in NAMS
22	Audit Tool 22 (Checklist for steps to be followed and completed during audit life-cycle)	No	Can be uploaded in NAMS

In the following sections audit tools have been presented.

Note: Look and feel of Audit tools that shall be developed in NAMS, may be different than what is presented in this document.

Scoring Criteria			
1. Internal Assessment			
1.1 Topic Previously Audited	Score	1.2 Entity Previously Audited	Score
5 year or longer or never	3	5 year or longer	3
2-4 years	2	2-4 years	2
1 year	1	1 year	1
1.3 Internal Evidence that deficiencies Exists	Score	1.4. Risks to OAG	
Yes - Previously reported by the AG in Audit Report	3	High strategic or reputational risk	3
Yes - Previously reported by the AG in Management Letter	2	Medium strategic or reputational risk	2
No	1	Low strategic or reputational risk	1
2. External Assessment			
2.1 Impact - Positive Reputation Impact for the AG	Score	2.1 Impact - Impact on Large Section of the society	Score
High	3	High	3
Medium	2	Medium	2
Low	1	Low	1
2.1 Impact - Audit may have a social impact	Score	2.1 Impact - Audit may have a economic impact	Score
High	3	High	3
Medium	2	Medium	2
Low	1	Low	1
2.2 Cross cutting at departments or spheres of govt.	Score	2.3 Parliament or public have special interest	Score
High	3	High	3
Medium	2	Medium	2
Low	1	Low	1
2.4 Known problem exist at the auditee or performance is low	Score		
High	3		
Medium	2		
Low	1		
3. Specific Matters			
3.1 Audit team competency	Score	3.2 Timing of the audit, and reporting to relevant legislature	Score
High	3	High Priority	3
Medium	2	Medium Priority	2
Low	1	Low Priority	1
3.3 Availability of information of auditable data			
Yes - In Existing Format	1		
Yes - Data need to be processed	2		
No	3		
4. Materiality			
4.1. Public investment	Score	4.2. Importance of Topic	Score
High (above XX%)	3	High	3
Medium (Between YY% and XX%)	2	Medium	2
Below YY%	1	Low	1
Justification for XX% and YY% used			

2. Audit Tool 2 (Team Composition)

From audit scheduling

From employee master data

From employee master data

SN	Team Member's name	Position	Financial audit Experience in no. of years	Qualification (highest degree obtained)
1	Audit Supervisor			
2	Audit team leader			
3	Audit team members			
4				
5				

Team Approved by:

Signature / System approval

Name: (System extracted info)

Position: (System extracted info)

Date:..... (System extracted info)

From employee master data

3. Audit Tool 3 (Ethical declaration)

*From
standard
template*

I confirm that for the audit work that I have been assigned or allocated to be involved for the audit year :

1. Myself, or any members of my immediate family do not have any financial interest in the audited entity/office.
2. I do not have any business or financial relationship with the audited entity/office or any of its/their officers and employees.
3. I am not and have not been in the last two financial years, an employee of the audited entity/office. In conducting the audit, I will not be reviewing my own work.
4. I have not received, or I am not due to receive any gifts, donations, hospitality or any other benefits from the audited entity/office or any third person in relation to the audit that could impair my objectivity.
5. I do not have any family or other relationship with any director, officer, and employee of the entity/office under audit that may impair my independence.
6. I have read the OAGN Code of Ethics and understand the requirements of the code in there as far as:
 - I shall exercise due care and perform the audit in a professional manner and to the best of my abilities.
 - I shall perform the audit with honesty, integrity, objectively, impartially, prudence, and political neutrality.
 - My personal conduct shall be accordance to professional behaviour expected of the office that I represent and shall not do or be involved in anything that shall disrepute the office.
 - I shall keep full confidentiality of information obtained during the audit process and shall not disclose such information to third parties except otherwise as explicitly required by the law.

I will immediately inform the office if any circumstance(s) that may change from the above declaration and come to my knowledge, which may have bearing on my compliance of the OAGN Code of Ethics.

Signature:
Name:
Designation:
Date:

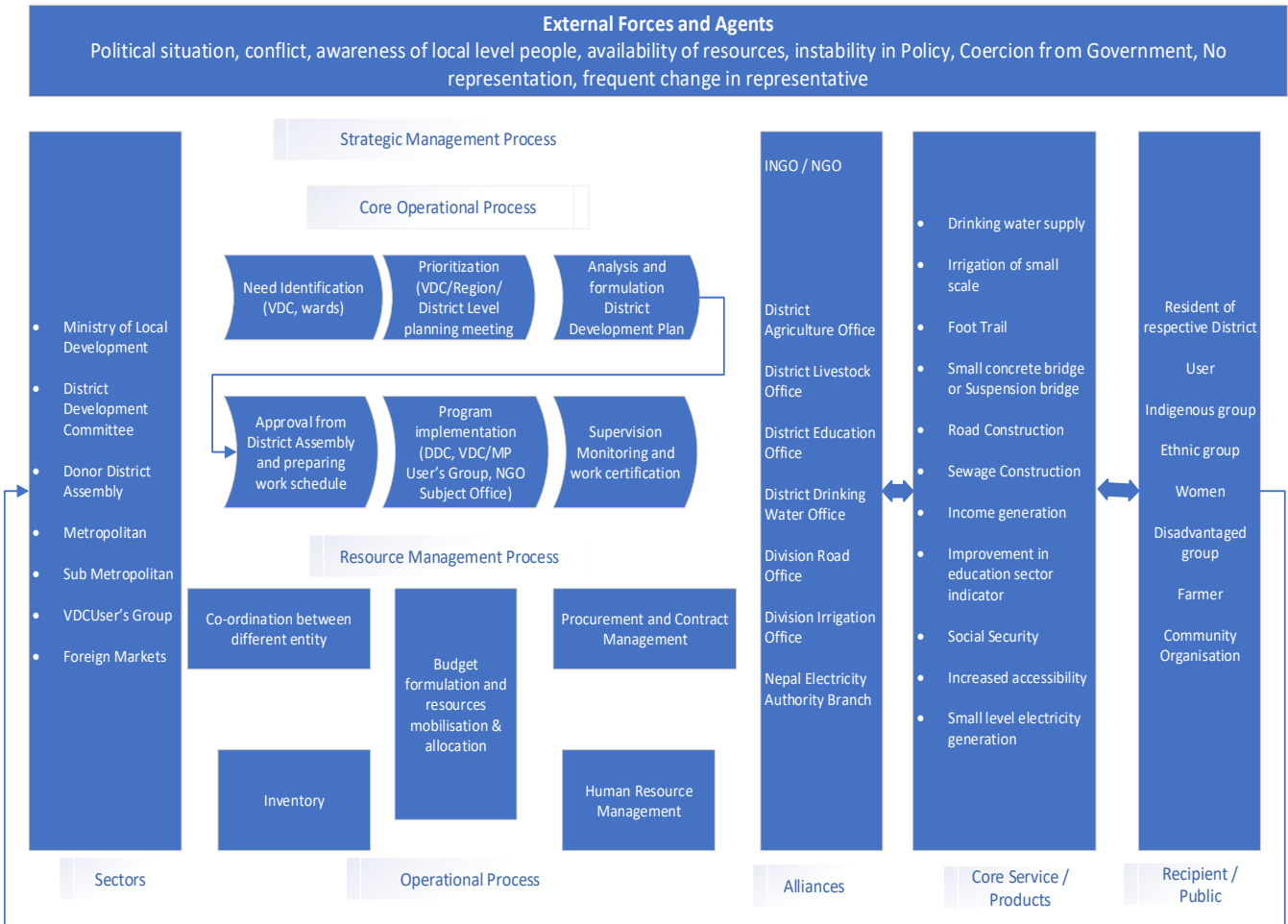
*From
employee
master data*

4. Audit Tool 4 (Segment Operational Model)

As shown on the next page, the entity Segment Operational Model is used to describe the interlinking activities carried out within an entity, the external forces that bear upon the entity, and the operational relationships with persons outside the entity. The items in the entity-level process model include the following components:

- External forces and agents are those factors, pressures and forces from outside the entity that often are threats to the attainment of the entity's objectives.
- Sectors are the segments of an industry that are applicable to the entity. Formats identify the design and location of the facilities where public goods and services are provided free of charge (i.e. markets for goods and services do not exist).
- The strategic management process is the process that:
 - develops the entity's mission,
 - defines the entity's objectives,
 - identifies the risks that threaten attainment of the objectives,
 - manages the risks by establishing processes, and
 - monitors progress toward meeting the objectives.
- Core operational processes are the processes that develop, produce, sell and distribute an entity's products or services. These processes do not follow traditional organisational or functional lines, but reflect the grouping of related operational activities.
- Resource management processes are operational processes that provide appropriate resources to the other operational processes.
- Alliances are the types of relationships with third parties that entities in the industry may establish to
 - attain objectives
 - expand opportunities, and
 - reduce or transfer risk.
- Core products and services are the major products and services typically offered by entities within the industry.
- Recipients/Public are the major types of recipients/public within the markets in the industry that entities may choose to focus on.

Example of District Development Committee



5. Audit Tool 5 (Entity information collection Form)

The contents of the audit plan should include the followings:

Introductory
▶ introduction of entity
▶ background information
▶ rationality of topic selection
▶ policy
▶ laws
▶ objectives and target
▶ financial review
▶ operational status of project/programme
▶ segment operational model
▶ contact person
▶ approach and methodology of audit
▶ resources needed for examination and reporting phases – identify and allocate resource requirements including specialists/experts where necessary
▶ manpower for completion of the audit
▶ personnel engagement, estimated working man days of engaged manpower by level/skill or type
▶ detailed time and work schedule
Audit objective & Scope
▶ audit objectives
▶ scope of audit
▶ Audit question and sub questions
Risk assessment
Lines of audit enquiry
Audit management
The audit planning documents should contain:
• background knowledge to understand the entity to be audited, for assessment of the risk, possible sources of evidence, auditability, and the materiality and significance of the area (ISSAI 3100/2.4.1)
• the audit objective, questions or hypotheses, criteria, scope and period to be covered by the audit, and methodology including techniques to be used for gathering evidence and analysis (ISSAI 3100/2.4.1).
• staffing requirements, i.e. competencies (including the independence of engagement staff), human resources, and external expertise required for the audit, knowledge of the auditors in the subject matter (ISSAI 3000/2.2); and
• the estimated cost of the audit, project timeframes and milestones, and control points (ISSAI 3100/2.4.1).

Strategic overview - history and background

Objective: Gain an understanding of the entity's history and strategic position

Potential risks	Recommended personnel to interview
Past target and achievement	Chief / Manager/Coordinator
Unfocused management objectives	Department/section chief
Lack of linkage between policy, programme and budget	Other members of senior management
Unfocused acquisition strategy	
Abnormal historical perspective	

Activities	Completed By & Date	File ref.	Comments
Enquire and consider organizational structure and manpower management			
Enquire into and consider key factors behind past success or failure			
Enquire about policy and objectives and legal arrangements			
Enquire about historical back ground of the entity			

2. Entity overview - management

Objective : Consider management's strengths and weaknesses Potential risks Recommended personnel to interview

Potential risks	Recommended personnel to interview
Management Ineffectiveness	Chief executive/ Chief
Frequent change of manpower	HR Department
Unstable policy	Chief Financial Officer
Lack of reward and punishment system	HR Department Chief
Inadequate attention to career development	HR Department Chief/GM

Activities	Completed By & Date	File ref.	Comments
Enquire about performance criteria or indicator and address effectiveness in meeting criteria or indicator			
Enquire if incentives scheme pay and promotion are based heavily on achievement of short-term performance targets			
Consider dependence of entity's performance on key management			
Enquire about the key responsibility centres in the entity			
Enquire about the roles and responsibilities of each individual department			
Enquire about historical achievement of the entity			
Review constraints and threats of the entity			
Enquire operational plan and progress report			
Consider the working environment and technical capacity of the entity			

1. *Feasibility of Projects – Project Appraisal*

Objective: Gain an understanding about the feasibility of the project

Potential risks	Recommended personnel to interview
Feasibility study not carried out	
Study does not cover all aspects (e.g. Economics, Technology, Social, Environment)	
Over/under compensated management	
Information/Statistics used are inaccurate	
Lack of linkage with periodic plan and long term policy	
Feasibility study report not used	

Activities	Completed By & Date	File ref.	Comments
Collect approved feasibility study report			
Inquire and consider sources of information/statistics used in feasibility study			
Inquire and consider about financial aspects of project			
Test the source reliability of statistics			
consider the cost and benefit analysis or economic rate of return			

2. *Entity overview - structure and logic of major programmes*

Objective: Gain an understanding of the entity's major programmes' structure

Potential risks	Recommended personnel to interview
Programme objectives may not be clearly Defined	Programme manager
There may not be a link between policies, objectives and outputs	Chief Financial Officer
	Chief executive

Activities	Completed By & Date	File ref.	Comments
Enquire about the policies and programme to achieve the overall objectives of the organization			
What are the intended results and effect			
Enquire about the current outputs and intended outputs of the entity and how these outputs contribute towards the objective of the programmes			

Enquire about the needs of the beneficiary of the programme and whether this is being met			
Investigate the quality control and assurance Mechanism			

6. Entity overview - Human resource development

Objective: Gain an understanding of the human resource development and its contribution to the programme operations

Potential risks	Recommended personnel to interview
Lack of human resource planning	Chief executive
Overstaffing unused manpower	Human resources manager
Inadequate human resources its capacity	
Lack of training and development	

Activities	Completed By & Date	File ref.	Comments
Analyse human resource expenditure as a percentage of total expenditure			
Collect human resource plan and enquire about its Implementation			
Enquire about training and capacity development Activities			
Obtain details of approved position and filled			
Assess the technical capacity of the staff required to discharge the obligation of the project/entity			
Enquire about the outsourced manpower if any?			
Enquire about morale of the staff employed in the Office			

7. Internal control system – management control systems

Objective : Analyse the effectiveness of the systems for the organization, management and control of the programmes

Potential risks	Recommended personnel to interview
Autocratic chief executive	Chief executive
Complex structure	Chief Financial Officer
Lack of attention to operational planning	Human resource officer
Emphasis on achieving targets and forecasts	Auditors
Weak management reporting framework	
Poor budgetary control	
No effective code of corporate conduct	

Activities	Completed By & Date	File ref.	Comments

Enquire about the procedures used by the chief executive to ensure the effective management and control of the operational activities, including delegated responsibilities to the functional leader			
Enquire about and address the division of responsibility amongst respective division and sections			
Enquire about job allocation that any function is being unnecessarily performed in duplication by different division and sections or any essential functions are omitted			
Enquire about operational planning procedures, including financial planning and forecasting procedures, and consider its adequacy to meet the present and future needs of the operation			
Enquire about budgetary control procedures and consider budget release, expenditure, virement, variance analysis and adequacy of review procedures			
Consider job allocation is sufficient and proper and operating accordingly			

8. Internal systems – internal control structure

Objective: Gain a general understanding of the internal control environment and consider its strengths and weaknesses

Potential risks	Recommended personnel to interview
Unreliable financial statements and data	Chief executive
	Chief Financial Officer
Control procedures not followed	Administrative Officer
Understaffing/staff reductions	Departmental head
	Auditors

Activities	Completed By & Date	File ref.	Comments
Address the quality internal controls in operation			
Investigate the methodology used to make payment and record inventory and assets			
Review organization chart and consider whether this is conducive to effective control			
Collect and review manual or procedure for controls and consider whether they operate in practice are in accordance with the designed procedures			
Enquire about issues arising from internal audit reports and auditor's management letters and establish if recommendations have been implemented			
Enquire about treasury management systems and consider adequacy to control cash revenue/income and proper record and budget disbursement			

Enquire if there are appropriate process and procedures in place to monitor changes in legislation and ensure continued compliance			
Review the system of authority delegation and system of decision-making process			
Enquire monitoring and evaluation system and consider whether system is operated smoothly			

9. *Internal control systems - information technology (IT)*

Objective : Analyse the effectiveness of the IT environment

Potential risks	Recommended personnel to interview
Compatibility with environment	Chief executive/ Chief/ Coordinator
Restrictive covenants in current leases and Licenses	IT managers (operations, applications, support)
Software security problem	Key IT personnel (managers, coordinators, administrators)
Reliance on outside programming assistance	
Condition of equipment	
Human resources: skills, tenure and Organization	
Restrictive covenants in software contracts for transfer of software licenses	
Inadequate capacity	

Activities	Completed By & Date	File ref.	Comments
Address the IT control environment and consider its adequacy to meet present and future needs of the operation			
Consider user's satisfaction levels			
Develop analysis of past and future IT investments from budget and cost information. Compare entity's investment levels to industry standards			
Address adequacy of back-up facilities			
Review the application of IT system established by the entity, report generation and use of the report			
Enquire the software licenses and security measures for unauthorized use.			
Consider the sustainability of the IT system.			

10. *Internal control systems - accounting policies*

Objective: Consider the nature of accounting policies and procedures

Potential risks	Recommended personnel to interview
Noncompliance of the accounting policies	Chief Financial Officer
Changes to accounting policies or bases	
	Selected accounting staff

	Auditor
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Activities	Completed By & Date	File ref.	Comments
Consider whether accounting policies are in line with Nepal Government Accounting principle			
Consider whether accounting policies have been consistently applied			
Consider the timeliness of income received and deposit			
Enquire the balance brought forward in case of deposits			
Enquire the third party confirmation about the yearend bank balance			

11. Programme Performance - General

Objective: Gain an understanding about the targeted and actual performance

Potential risks	Recommended personnel to interview
Performance below targeted levels	Programme Manager
	Head of the different departments/sections
	Chief Financial Officer

Activities	Completed By & Date	File ref	Comments
Enquire about the standards or measures or indicator used to assess performance, how the standards were established and whether these standards can be adopted as audit criteria			
Enquire about how the results/performance are measured using the given standards / measures / indicators			
Collect annual and updated programme and progress Report			
Enquire about the procedures used by management to monitor the performance. Also enquire about which aspects of performance is monitored			
Analyse output by value and units, obtain explanations for performance trends			
Compare actual output with budgeted output by activity wise and obtain explanations for significant variances			
Enquire about terms condition with donors' agreements and ensure funding mechanism			
Enquire about and consider the uncompleted contracts and performance of the contractors			
Enquire about the arrangements for maintaining data relating to target and achievement			
Enquire about cause of non-achievement of targeted Programme			

Enquire about the policies and practice of executing programme activities consider whether policy and procedures have been followed			
Enquire about progress have been achieved within schedule time, quality and quantity			

12. *Asset management - property, plant and equipment*

Objective: Enquire about the safeguarding and usage of significant individual assets comprising property, plant and equipment

Potential risks	Recommended personnel to interview
Poor condition of assets	Chief executive
	Inventory officer
Usage of asset other than intended purpose	Chief Financial Officer
	Administrative officer
Inadequate maintenance and repair	
Obsolete machinery and equipment laying in the field	
Idle plant and equipment	
Poor record management of asset	
Lack of ownership certificate	

Activities	Completed By & Date	File ref.	Comments
Enquire about condition of plant, equipment and other Assets			
Enquire about assets not in service or under-utilised			
Consider the terms of leased property including options for renewal, lease classification, potential impact of renewal terms, unusual covenants and restrictions on use			
Enquire about impact of technological change			
Review adequacy of repair and maintenance procedures and consider expenditure involved			
Enquire the recording system of property and consider the property uses for unintended purposes.			
Enquire about compliance with environmental and safety requirements			
Enquire into the procedures by which the physical existence of tangible fixed assets is safeguarded			
Consider the obsolete machinery remaining in the Office			
Collect the statement of assets used by different Authority			

13. *Asset management - inventory*

Objective: Gain an understanding of inventory quantities and status

Potential risks	Recommended personnel to interview
Slow-moving inventory	Chief executive
Obsolete or damaged inventory	Chief Financial Officer
overstocking of inventory	Administrative officer
	Storekeeper
Dependence on few suppliers for raw Materials	
Lack of inventory control	
Shrinkage	
Unfavourable supply contracts	

Activities	Completed By & Date	File ref	Comments
Analyse inventory by product, calculate inventory turnover ratio and enquire about significant trends and fluctuations			
Review ageing profile and enquire about slow-moving, obsolete and excess inventory			
Enquire about procedure and policies on safeguarding Inventory			
Review the recording system of receipt and delivery of Inventory			

14. Risk management - Procurement management

Objective: Gain an understanding of procurement management

Potential risks	Recommended personnel to interview
Procurement with limited competition	Chief executive
	Chief Financial Officer
Uneconomical procurement	Procurement officer
Lack of procurement plan	Programme manager
Direct procurement	
Noncompliance of the procurement act and Regulation	
Delay in procurement	

Activities	Completed By & Date	File ref.	Comments
Obtain procurement plan and actual contract awarding Details			
Enquire about direct procurement			
Enquire about procurement policy and procedure			
Review procurement process whether procurement is Economical			
Discuss about procurement is in right time, right place, right quality, right price and right quantity			
Obtain the details of timely competition of contract, time extension			

Enquire about consultant selection process if any and modality of consultant selection			
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15. *Risk management - Contract management*

Objective: Gain an understanding of the contract management of the project/entity programme

Potential risks	Recommended personnel to interview
Delay in completion of work	Chief executive
	Chief Financial Officer
lack of progress monitoring	Procurement Officer
Inaccurate estimate	Supervision engineer
Variation of work	Quality Control engineer
Substantial price adjustment	

Activities	Completed By & Date	File ref	Comments
Enquire about capacity of contractor or supplier			
Enquire about contract agreement, completion date, up to date progress status			
Enquire about supervision monitoring and quality control mechanism			
Consider the price escalation clauses and its Application			
Consider the approved estimated cost and enquire about the justification and valuation of variation			

16. *Risk management - environmental overview*

Objective: Gain an understanding of the environmental risk and sensitivity and management procedures to mitigate risk

Potential risks	Recommended personnel to interview
Noncompliance of the environment rules and regulation	Chief executive
Mitigation measures not taken	Environmental Engineer
Environment impact assessment not Conducted	Consultant
Inadequate knowledge and awareness	
Project programme cost increased	

Activities	Completed By & Date	File ref.	Comments
Interview management or outside consultants about technical issues and impacts of environmental issues			

Review correspondence files with regulators and related documentation			
Address adequacy of entity's environmental controls			
Carry out site visits as appropriate			
Enquire about the environment impact assessment report and consider whether mitigating measures have been complied.			
Enquire if the entity has procedures in place to manage health and safety concerns			

Identifying risks

The first step is risk identification. Entities face different types of risks. For example:

risks facing the entire public sector such as covid19 pandemic;

risks facing individual entities for example hospitals may face shortage of competent doctors, medicines, adequate infrastructure, equipment and facilities; and;

emerging risks, for example, thermal power stations may face shortage of fossil fuels or change in government policy due to climate change and related change in policy and legislation.

To identify the risks facing the public sector, auditor should consider:

- ▶ strategic and operational risks facing public sector entities, including changing priorities of the government; and;
- ▶ social, cultural, political, legal, regulatory, financial, technological, economic and environmental factors—whether international, national, regional or local.

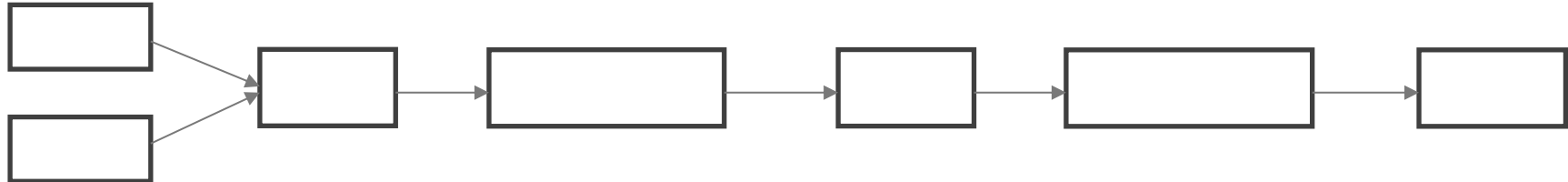
Risks facing individual entities

The process of risk identification at the individual entity level will depend on whether or not the risks have already been identified within the public entities. High level and strategic risks are usually identified by the entity's senior management and linked to the entities' objectives and the government priorities. Audit must access to risk assessments for each entity and see whether assessments are done properly and documented. Audit entities should also consider emerging risks related to changing circumstances and environments.

Analysing risks

After risks are identified, they should be analysed in terms of the likelihood (possibility) of the risk occurring and the severity or impact on objectives, should the risk occur. A risk matrix can be used to conduct this analysis and to chart the likelihood that a risk might occur and the impact it might have on the entity's

6. Audit Tool 6 (Process Analysis Template)

Process Objectives	The objectives of the process are statements that define the direction needing to be taken with respect to the process. Objectives often relate to items such as recipients/customers satisfaction, efficient use of resources and compliance with applicable regulations.	
Inputs	The inputs to a process represent the elements, materials, resources, or information needed to complete the activities in the process.	
Activities	<p>The activities are those actions or sub-processes that together produce the outputs of the process. For some processes, arrows are omitted due to the non-sequential nature of the activities.</p>  <pre> graph LR I1[] --> A1[] I2[] --> A1 A1 --> A2[] A2 --> A3[] A3 --> A4[] A4 --> A5[] </pre>	
Outputs	The outputs represent the end result of the process - the product, deliverable, information or resource that is produced.	
Systems	The systems are collections of resources designed to accomplish process objectives. Information systems produce reports containing operational, financial and compliance related information that make it possible to run and control the process.	
Classes of transactions	<p>of The classes of transactions are data and information that are related to the process for use in one or more reports to management or third parties.</p> <p>The classes of transactions, which are broken down into routine and non routine transactions and accounting estimates, provide a linkage from the process to the audit procedures.</p>	
<p>Risks Which Threaten Objectives A process's risks are the risks which may threaten the attainment of the process's objectives.</p> <p>Critical Factor(s) for Success Critical factors for success are the prerequisites and areas of dependency for a process to be successful. the CFS may be inputs, parallel or supporting activities or aspects of an entity's philosophy or infrastructure necessary to ensure the proper delivery of the process.</p>	<p>Controls Linked to Risks Controls are the policies and procedures, which may or may not be put in place, that provide assurance that the risks are reduced to a level acceptable to meet the process's objectives.</p> <p>Key Performance Indicators (KPIs) Linked to the CFS The KPIs are quantitative measurements, both financial and nonfinancial, of the process's ability to meet its objectives through trend analysis within an entity or benchmarking against a peer of the entity or its industry. Whilst most the KPIs can be linked to the CFS, this may not always be the case.</p>	

Other Symptoms of Poor Performance

Other symptoms of poor performance represent other evidence which may exist and indicate that the process may not be operating to its most effective level.

Performance Improvement Opportunities

Performance improvement opportunities are areas for performance or process internally by the client or through the OAG or other third-party assistance.

7. Audit Tool 7 (Risk Assessment Process)

Risks are events that threaten the assets and earnings of, or the essential services provided by, the entity. In essence, a risk is anything which has the potential to prevent the entity from achieving its objectives.

Risk assessment tool: SWOT (Strengths, Weaknesses, Opportunities and Threats)

SWOT can be used as Audit Tool for enhancing subject matter knowledge along with analysing risk. SWOT analysis helps to identify and categorise strengths, weaknesses, opportunities and threats associated with the internal and external environments of the audited entity.

SWOT template given below provides a sample SWOT analysis:

Positive	Internal environment	External environment
	Strength Identify and list out strength relating to internal environment of the entity to be audited	Opportunities Identify and list out opportunities that exist and available in the external environment of the entity to be audited
Negative	Weaknesses Identify and list out weaknesses of the internal environment of the entity to be audited	Threats/Risks Identify and list out threats existing in the external environment of the entity to be audited

The example of SWOT analysis is given below for a performance audit on a rural drinking water supply scheme:

Positive	Internal environment	External environment
	Strength Identify and list out strength relating to internal environment of the entity to be audited <ul style="list-style-type: none"> ➤ Policy/law/rules relating to provision of rural drinking water ➤ Entity responsible such as municipality for providing the service ➤ Budget, timely release of funds to the implementing agencies ➤ Well defined objectives, targets, milestones with time frame etc. like coverage of the households ➤ Defined KPIs for monitoring and reviewing ➤ Monitoring cell – transparent bidding process and contract procedures etc. 	Opportunities Identify and list out opportunities that exist and available in the external environment of the entity to be audited <ul style="list-style-type: none"> ➤ Availability of water – river/lake or other water bodies ➤ Water quality standards to be fixed to ensure potable water ➤ Involvement of stakeholders/citizens in the program ensures better ways to implement the project such as locating the area for laying down pipelines etc.
Negative	Weaknesses Identify and list out weaknesses of the internal environment of the entity to be audited <ul style="list-style-type: none"> ➤ Lack of piped water to large percentage of households in the area ➤ Problems of covering certain remote villages lacking water sources and availability round the year ➤ Testing water quality – facilities like equipment, labs 	Threats/Risks Identify and list out threats existing in the external environment of the entity to be audited <ul style="list-style-type: none"> ➤ Contamination of water like arsenic and other toxic substances

	<ul style="list-style-type: none"> ➤ Lack of trained manpower to implement the project, lack of adequate financial, and technical resources ➤ Challenges to involve weaker and marginalized sections and women in the project planning and execution ➤ Lack of innovative water management techniques like rain harvesting ➤ Lack of monitoring and reviewing parameters and KPIs ➤ Timely monitoring and review and taking corrective and preventive actions 	<ul style="list-style-type: none"> ➤ Lack of integration of different schemes/ projects relating to water distribution services ➤ Dependency on rain, and weather conditions ➤ Lack of coordination and effective communication between the implementing agency and the citizens/beneficiaries in the area
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Note:

As this AT is not in use replaced by the SWOT analysis method given above.

An effective risk assessment process must be based on the following core elements:

- the identification of each operational risk;
- the measurement of the identified risks in terms of magnitude and frequency of occurrence;
- the control or the way the risk is managed in line with the needs of the entity's policies and strategies

8. Audit Tool 8 (Risk Assessment Form)

_____ Name of Office/ Project
Risk Assessment Form

1. Name of the Entity/Project/Issue/Programme

2. Objective of the Entity/Project/Issue/Programme

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3. Main Activities:

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4. Problems and constraints faced by the entity/project/programme while performing the work

Problems	Constraints	Effort made to resolve the problem	Impact of effort

5. Basic Control mechanism to control the physical progress, cost, quality of the activities.

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6. Core Operational process (Input to output)

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7. Monitoring and reporting mechanism

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8. Basic performance indicators

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9. Achievement of the indicators regarding goal/objectives/activities with respect to cost and quality.

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10. Risks of the entity/projects/activities/programme

Risks	Probability	Possible Consequences	Measures to reduce risk

11. Strength and weaknesses of the entity/project/programme/activities (Internal)

Strengths	Weaknesses

12. Opportunities and threats of the entity/project/programme/activities (External)

Opportunities	Threats

13. Areas for improvement

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14. Any suggestion to improve the performance.

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9. Audit Tool 9 (Audit Design Matrix)

Audit Objectives	Audit Question(s) (AQ)	Sub Audit Question(s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working Paper Ref.	Completed by Date

Sector-wise examples of Audit Design Matrix should be presented

- Service delivery
- Road Project
- Irrigation Project
- Health sector
- Hospital
- Education

General:

Design matrix will answer the following:

- ✓ What is the objective of the audit?
- ✓ What questions must be answered to address the audit objective?
- ✓ How can the performance be measured?
- ✓ Are there relevant national standards/criteria to test and measure the audit objective?
- ✓ Are there any international good practice to be used?
- ✓ Are there any comparable entities/projects/works?
- ✓ What information/evidence is required?
- ✓ What method is appropriate to be used in the PA of the subject matter?
- ✓ Where can data/information/evidence be collected and analysed?
- ✓ What is expected to find?
- ✓ What conclusions can be drawn?

Examples:

1. Audit Topic: Service delivery

Audit objective: To assess the implementation of the municipal services included in the audit scope of the PA

Audit Objectives:	Audit Question(s) (AQ)	Sub Audit Question(s) (SAQ)	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working Paper Ref.	Completed by Date
To assess the implementation of the municipal services included in the audit scope of the PA	To what extent the municipality has implemented the services covered in the audit scope in PA	Is there an effective planning, coordination, communication, implementation, review/ monitoring, and taking corrective and preventive action for improving the service delivery as envisaged in the law/rules to achieve the expected outputs and outcome	PA must use applicable criteria from the legislation and the rules relating to the specified municipal services to be examined in PA of the subject matter.	<p>Documents/files/records relating to Policy, planning, and implementation of the services; Minutes of meetings; reports; complaints registered from the citizens/stakeholders, CSOs/NGOs/Community; action taken by the municipal officers responsible and other relevant records; contracts for execution of work; the extent of work completed with cost, time span and quality compared to the criteria.</p> <p>Review of minutes of meetings, Interviews with the officers and stakeholders; Focus group with representatives of CSOs concerned; Content analysis of the minutes of meetings, interviews focus groups, Quantitative analysis of questionnaires. The audit design matrix must be developed for all sub questions under the question.</p> <p>Limitation/constraints:</p> <p>Booking interviews and focus groups with the stakeholders and getting response of questionnaires.</p>	<p>PA can be attempted as a combination of problem oriented, result oriented and system-oriented methodology.</p> <p>Entry conference will help to explain the audit objectives, criteria and records required for evidence and in the Exit conference key findings can be discussed to get responses to develop suitable audit recommendations.</p>		

2. Audit Topic: Road project

Audit objective:

The audit objective of the PA is to assess whether the road construction project was planned and implemented in accordance with the plan

Audit Objective:	Audit Question (AQ):	Audit sub-questions:	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology	Working Paper Ref.	Completed by Date
The audit objective of the PA is to assess whether the road construction project was planned and implemented in accordance with the plan.	Whether the road construction (selected for PA as subject matter) was completed on time and reviewed and monitored to ensure that roads were built according to the specifications.	What is the extent of planning, survey, resources allocated, milestones provided, expected project design, time for completion, outputs, and outcome? Have the feasibility study, project report and other preliminary studies were done accurately and completed on time. Whether funds/resources were provided to the contractor on time as per the planning; and; Whether effective monitoring was done on time and timely corrective and preventive actions taken	To be developed from the Project reports, plans, designs, and specifications to ensure that all information is accurate and complete, and the designs were based on relevant and realistic traffic projection	Files. Approvals, Fund release, Materials Supplied, completion Schedules, Milestones, Records, minutes of meetings, correspondences relating to contracts, Procurements of goods and services, cost incurred, books of accounts, vouchers/ payment details, completion of milestones, quality and Quantitative performance Measures comparing the actuals with what should be to apply the 3Es on construction work.	PA can be attempted as a combination of problem oriented, result oriented and system-oriented methodology. Entry conference will help to explain the audit objectives, criteria and records required for evidence and in the Exit conference key findings can be discussed to get responses to develop suitable audit recommendations.	Proper documentation of the relevant papers for future reference as specified in the PA Guidelines	

3. Audit Topic: Irrigation project

Audit Objectives:	Audit Question(s)	Sub Audit Question(s) (SAQ):	Audit Criteria:	Audit Evidence (information Required and Sources):	Audit Methodology	Working Paper Ref.	Completed by Date
To assess whether: planning, execution and maintenance of the irrigation project selected for PA were done properly.	(AQ): Whether execution and monitoring and maintenance of the irrigation project selected for PA were done economically, efficiently, and effectively.	<p>i) Whether budgeting was realistic; and adequate funds were released on time and utilized for timely completion and maintenance of the project.</p> <p>ii) Whether water user charges were properly assessed, levied/collected, and remitted and formation of water users' associations monitored.</p> <p>iii)The targeted water storage was created and utilized; the safety measures and quality control measures were followed; and adequate monitoring and control mechanism were in place.</p>	The various Acts, policies and directives governing the functioning of the irrigation project selected for the PA. Acts and rules relating to water Policy, Regulations, Management of Irrigation Systems, Manuals of Public Works, Account Codes, and Irrigation Manuals; Expert Committee recommendations and Government directives; resolutions and orders issued from time to time.	Test-check of records in the ministry/department and field offices, covering the period under the scope of PA for macro level analysis and micro level analysis in the field offices. The latest information / progress reports available. On the irrigation project for detailed scrutiny using stratified sampling method based on risk assessment. Records available in the office of the Chief Engineers and other filed officers on construction, maintenance of irrigation project and related issues to be covered in the PA. Reports of physical verifications. Data analysis of water account.	PA can be attempted as a combination of problem oriented, result oriented and system-oriented methodology. Entry conference will help to explain the audit objectives, criteria and records required for evidence and in the Exit conference key findings can be discussed to get responses to develop suitable audit recommendations.	Proper documentation of the relevant papers for future reference as specified in the PA Guidelines	

4. Audit Topic: Health sector

Audit Objectives:	Audit Question(s)	Sub Audit Question(s) (SAQ):	Audit Criteria	Audit Evidence (information Required and Sources)	Audit Methodology:	Working Paper Ref.	Completed by Date
<p>To assess whether the specific health care program selected for PA was planned and implemented economically, efficiently, and effectively to achieve the program objectives as planned; and there was no deviation from the approved program.</p>	<p>(AQ) To ascertain to what extent the objectives of the program were achieved.</p>	<p>i. To ascertain whether the required resources were procured and provided economically at lowest possible costs with the specified quality on time.</p> <p>ii. To ascertain that the resources provided were utilized on time in the most efficient manner.</p> <p>iii. To ascertain that there was no misuse/waste/leakage of resources; that expenditure was incurred only where required and unnecessary expenditure was avoided.</p> <p>iv. To ascertain whether the financial controls were in place to safeguard funds/assets of the government entity and the accounts present financial state of affairs; and whether the assessment, release and utilization of funds were prompt and adequate.</p> <p>v. To ascertain that the implementation including construction activities was undertaken to maximize coverage of population and improve facilities; and whether due procedures were followed while incurring expenditure thereof.</p> <p>vi. To assess whether capacity building of human resources at different levels was undertaken as planned.</p> <p>vii. To ascertain whether there was adequate community participation in</p>	<p>To be derived from documents relating to health care policy, planning and program with objectives, targets, physical outputs and envisaged outcome with time span of the health sector project selected for the audit; the applicable laws, rules, notifications, directives issued from time to time by the government and other key performance indicators/standards/norms prescribed by public entity to measure the performance.</p>	<ul style="list-style-type: none"> • Collection and scrutiny of relevant facts, data information from files, reports, documents, vouchers, budget and accounts documents, stock registers etc. • Interviews with concerned officers and staff of Health department and the beneficiaries and other stakeholders • Scrutiny of vouchers and books of accounts to assess whether the public resources were spent adhering to the 3Es of PA for the purpose for which they were allocated. • Field visits, observation, visits of different health institutions to judge the effectiveness of the Program and efficiency of service delivery. • Scrutiny of goals planned and achievements from the statistical data contained in various reports and minutes and records. 	<p>PA must be conducted in accordance with OAGN's Auditing Standards keeping in view the rules and regulations framed by the government from time to time. Audit methodology includes</p> <p>Test-check of records in the ministry/department and field offices, covering the period under the scope of PA for macro level analysis and micro level analysis in the field offices. The latest information/progress reports available. On for detailed scrutiny using stratified sampling method based on risk assessment.</p>	<p>Proper documentation of the relevant papers for future reference as specified in the PA Guidelines</p>	

		<p>planning, implementation and monitoring with the concerned agencies and the stakeholders including CSOs/non-governmental organizations for achieving the envisaged objectives.</p> <p>viii. To ascertain whether the targeted community/beneficiaries are getting the planned benefits from the Program and the expected outputs and outcome were achieved.</p> <p>ix. To analyse the strengths and weaknesses of the Program, system, and procedures.</p> <p>x. To analyse the program in detail from technical, institutional, and financial perspectives to develop audit findings, conclusions to make suitable recommendations for improvements in service delivery, governance in healthcare services envisaged in the program objectives.</p>		<p>The Program's expected outcome should be improved access, quality, and equity of health services.</p> <p>Improving the Availability and Quality of Primary and Secondary Health Services</p> <p>Strengthening the Management of Health Service Delivery</p> <p>Establishing a Sustainable Pro-Poor Health Financing System</p>			
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5. Audit Topic: Hospital

Audit Objective:	Audit Question(s) (AQ):	Sub Audit Question(s) (SAQ):	Audit Criteria:	Audit Evidence (information Required and Sources):	Audit Methodology	Working Paper Ref.	Completed by Date
To assess the quality of health care offered by	Whether the quality of health care	What are the different health care services provided by the	Criteria must be derived from the applicable policy, planning, scheme/program,	Budget, books of accounts, contracts and procurement and construction related files,	Combination of Problem oriented/result Oriented/ system Oriented methodology- Collection and scrutiny of relevant information, data from files, reports, documents,	Proper documentation of the relevant papers for future	

the hospital selected for the PA	services offered by the hospital selected for the PA are offered economically, efficiently, and effectively as envisaged in the scheme/ programme	hospital and are quality of the services delivered as per the policy, and regulations of the programme? • How far the current infrastructure and facilities in the hospital meet the requisite requirements?	law, rules and government directives on the subject matter issued from time to time. The criteria will provide appropriate performance norms/standards/ measures against which performance can be gauged.	equipment and medicines, facilities created and used and the records maintained by the hospital relating to the infrastructure and facilities and the treatments/ health care services provided to the patients, including indicators showing the quality of services and complaints received and inspection reports and other expert reports on services etc.	vouchers, budget and accounts documents, stock registers etc. • Interviews with concerned officers and staff of Health department and the beneficiaries and other stakeholders • Scrutiny of vouchers and books of accounts to assess whether the public resources were spent adhering to the 3Es of PA for the purpose for which they were allocated. • Scrutiny of results expected and achievements from the statistical data contained in various reports and minutes and records. The outcome of PA should be improved quality of services; and strengthening the management of hospital services delivery	reference as specified in the PA Guidelines	
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6. Audit Topic: Education

Audit Objectives:	Audit Question(s) (AQ):	Sub Audit Question(s) (SAQ):	Audit Criteria:	Audit Evidence (information Required and Sources)	Audit Methodology:	Working Paper Ref.	Completed by Date
To assess the quality of education imparted at secondary level schools	Does the education imparted at secondary level schools effective and meet the requested	i) Does the government allocate adequate budget for the secondary education? ii) Does the infrastructure at the schools are of the expected standard?	Documents relating to education policy, planning, objectives, targets, laws, rules, notification pertaining to the subject matter.; budget allocation, different education schemes relevant to the subject	Audit will examine what is prescribed and what is actually happening at the school level. Budget allocation, release of funds, utilization of resources for different education schemes, school curriculum, Pedagogy as it exists comparing with the	Problem and result oriented approach can be adopted; because inadequate budget allocation, untimely release of funds, shortage of infrastructures (laboratory, library, information and communication technology, basic	Proper documentation of the relevant papers for future reference as specified in the PA Guidelines.	

	<p>quality standards?</p>	<p>iii) Do the education facilities and materials used at schools such as textbooks, ICT tools, training, curriculum, syllabi, textbooks, laboratory etc. are relevant and of the expected quality and standard? iv) Are the teachers competent and adequately trained in the latest pedagogy and curriculum?</p>	<p>matter, school curriculum, pedagogy, prescribed standards and principles, teachers' qualifications, training requirements, standards of examination conducted etc. pertaining to the subject matter.</p>	<p>prescribed standards and the relevance of them, teachers' qualifications, training requirements comparing with what is happening at the school levels, Standards of examination conducted, laboratory facilities and infrastructure etc. compared to the prescribed standard and their relevance.</p>	<p>sanitation), non-utilization of funds allocated, lack of quality study material and facilities, absence of competent teachers, outdated curriculum and textbooks, inadequate teacher training, and reference materials, assessments mostly focused on testing for rote learning rather than application of knowledge and skills lead to low quality of education imparted in educational institutions.</p>		
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10. Audit Tool 10 (Sector – wise Key Performance Indicators)

Some examples of Sector-wise Key Performance Indicators

Sector	Key Performance Indicators
1. Health Sector	<ul style="list-style-type: none"> • Total population to be covered with what is planned and what is achieved • Vulnerable sections like marginalized people, scheduled caste and women to be covered and the extent covered with what is planned and what is achieved • Medicines having side effects/ complaints received • Percentage of outdated expired medicines • Lack of infrastructure, equipment, bed facilities • Lack of trained doctors, nurses and medical personnel • Proper record/accounts • Supply and demand issues of medicines, drugs, vaccines, equipment etc. • Vaccine wastage rate • Vaccination coverage • Delivery rate in the presence of skill birth attendant • Percentage of facilities with essential drug available • Infant mortality rate • Maternal mortality ratio • Trends over the period comparing to the population increase and rate of coverage • Contraceptive prevalence rate • Stock out ratio of medicine • Population per health institution • Public complaints/ Public survey • Involvement of beneficiaries • Redressal of grievances and complaints in a reasonable time frame
40. Hospital Services	<ul style="list-style-type: none"> • Availability of hospitals to the population – ratio of coverage • Different type of hospitals with varied infrastructure and facilities ranging from primary medical centres, Mohalla clinics and super speciality hospitals adequately covering area and the population • Adequacy of facilities, medicines, equipment, doctors, trained personnel etc. • Adequacy of beds and availability • Quality of services, time taken to get different services • Customer care focus • Bed occupancy rate • Mortality rate • Reasons for mortality – analysis • average stay in hospital – time taken for different treatments • Success rate of major operation • Use of modern equipment and practices in treatment/surgery • Doctor patient ratio • Patient nurse ratio • Number of major operations conducted and success rate • Per day per doctor patient ratio • Approved and fulfilled post of health professionals and policies and plans for filling up the vacancies and providing adequate coverage • Public complaints/ public survey • Time taken in attending and resolving the issues
41. Education Sector	<ul style="list-style-type: none"> • Number of different levels of schools in the area • Adequacy of coverage • Quality of infrastructure, teaching facilities

Sector	Key Performance Indicators
	<ul style="list-style-type: none"> • Availability of trained teachers • Updated syllabus, books, syllabi, labs, teaching methodology • School operation days compared to total working days as per the schedule • Enrolment rate of students • Rate of absenteeism of students, teachers • Rate of dropouts of boys and girls with analysis of reasons • Ratio of girl and boy – gender gap and action to reduce the gap • Pass out ratio with break up of boys and girls with measures to enhance the pass out ratio and the rationality of the same • Repetition rate • Student teacher’s ratio • Adequacy of student teacher ratio and action to improve the same • Textbook availability percentage including coverage of boys and girls and poor and marginalized sections of society • Textbook distribution date among boys and girls including vulnerable sections
42. Irrigation Sector	<ul style="list-style-type: none"> • Availability of irrigation facilities but not fully provided • Per hector irrigation cost compared to other similar comparable areas • Ratio of irrigated land and projected command area • Water discharge per second or minute as planned and achieved • Water availability index • Water loss due to use of outdated methodology • Per hector operation and maintenance cost compared to the standards or comparable areas • Crop diversification and the impact on water usage such as high water using commercial crops etc. • Production variance after irrigation facility • User's complaints/ user's survey • Involvement of stakeholders and measures taken to improve stakeholders’ involvement for improving the efficacy
43. Road Sector	<ul style="list-style-type: none"> • Availability of roads to the total population coverage in the area • Per Km cost of road construction (according to the type of road) compared to other comparable areas and standards • Per Km road operation and maintenance cost with benchmarked standards • Road roughness index comparing with what should be and what is the existing level and reasons for the same • Target achievement, if not achieved reasons for the same analyzing the root causes • No of site visit by supervision engineer as required and done • All weather road accessibility road availability and condition of roads for transportation in the monsoons
44 Human Resource Management	<ul style="list-style-type: none"> • Policy of recruitment including representation of different sections of people as per the government policy • Training need analysis • Training before job • On the job training • Training hour per employee, training cost per employee • Employees retrenched, not able to complete training, leaving after training and reasons • Employee turnover compared to other similar organizations • Compensation/benefit levels compared to other offices

Sector	Key Performance Indicators
	<ul style="list-style-type: none"> • Client complaints/ client survey, prompt redressal of complaints and time taken for resolution of different types of complaints with benchmarked standards or KPIs Working hours and contribution per employee using quantitative and qualitative measures such as number of cases attended, how well done etc. • revenue per employee
45. Agriculture Sector	<ul style="list-style-type: none"> • Land used for cultivation as a percentage to the total cultivable land • Crop pattern and choice of crops based on agricultural/farming best practices suitable for the area • Productivity of agricultural commodities in the area with comparable areas and benchmarked standards • Seed and pesticide availability index as per the policy and existing levels and reasons for shortages if any • Fertilizer availability index compared with similar areas and reasons for shortage if any • Production growth rate • Crop diversification and suitability of crop pattern as per the land conditions and sustainable farming practices • Target achievement in crop, vegetable, fish, meat production • Per capita availability of milk and meat comparing with standards and reasons and action to improve if targets are not achieved • Availability of technical manpower • Accessibility in service including remote areas and vulnerable sections of population • Awareness coverage of suitable modern farming methodology and education of farmers • Distribution of seeds, plants, animals, fertilizers etc. to the farmers in the area • Animal husbandry welfare measures • Community mobilization • Complaint redressal mechanism
46. Drinking Water Supply	<ul style="list-style-type: none"> • Coverage of households to the total households with reasons for shortage if any • Availability of water round the clock and reasons for shortage • Different modes of drinking water supply to cover the area like tube wells, wells, pipe water etc. • Availability of tap water and Cost per tap • Water distribution hour • Daily time spent on collecting drinking water and the measures taken or planned to improve the conditions of water scarce areas and poor sections of community and women • Drinking water coverage by district or region and comparison with comparable areas • Operation and maintenance of water supply system the extent of satisfaction (by survey, questionnaire, focus group discussion, public hearing etc.) • People's participation with cross section of the people poor, remotely located, vulnerable sections like women
47. Revenue Collection	<ul style="list-style-type: none"> • Trend analysis of revenue collection over the years • Tax and non-tax revenues • New taxes or revisions in the existing tax rates with rationale and collection procedures • Administrative cost for collecting per rupee of revenue

Sector	Key Performance Indicators
	<ul style="list-style-type: none"> • Organization and structure of revenue mobilization and efficacy of the same • Total collection over last 5 years trend • Ratio of VAT collection and refund • Percentage of contribution by large taxpayers • Measures taken to improve tax collection like raids, inspection etc. • Amount of tax in arrears year wise analysis with reasons and measures proposed to reduce arrears • Target and collection of revenue, if shortage if any with reasons for the same • Total revenue collected/GDP compare to what is envisaged and achieved • Tax gap: Total revenue collected/ potential revenue with root cause analysis • Number of non-filers and measures taken to improve tax filing rate and success of those measures • Additional taxes assessed after audit / tax liability declared • Amount of additional taxes collected/ additional taxes assessed • Amount of additional assessed taxes upheld in appealed/ amount of additional assessed taxes challenged in appeal • Proper training of the personnel and innovations in the tax collection and administration • Measures taken against unethical and corrupt practices
48. Local Bodies	<ul style="list-style-type: none"> • Functions given to the local bodies • Availability of funds, own funds including tax and non-tax revenues, and funds in the form of grants and loan from the provincial and federal government • Applicable rules with specific emphasis on delegation of powers • People's involvement in budgetary process and allocation of resources • Lack of human resources or functionaries to do the services • Proper training need analysis and capacity building for the personnel • Adoption of participative planning process • Measures taken to enhance stakeholder participation • Increment in social and gender inclusion • Date of district assemble held • Public hearing, social audit and complaint redressal process • Timely release of funds to the implementing agencies • Utilization of allocated budget and reasons for non-use of funds • Transparency and rule compliance of contract management • Proper maintenance of books of accounts and relevant records • Percentage of irregularity settlement • Proportion of internal source utilization • Absence of internal controls, internal audit, inspection adequate supervision, planning, and monitoring • Percentage of administrative cost compared to the standards fixed • Numbers of project/programme monitored to the total programs and reasons for the shortage with measures taken to improve • Use of allocated budget for intended purpose and reasons for shortage or misuse of resources or fraud if any

11. Audit Tool 11 (Audit Authorization Letter)

To

[insert the entity's/office's name]

[insert the entity's/office's address]

Date: [insert date]

Subject: Audit Authorisation Letter

Dear Chief of *Entity/Office*

Office of Auditor General of Nepal has planned the audit of [insert the entity's/office's name] to fulfil its obligations under the Article 241 of Constitution of Nepal and Audit Act, 2075. The audit shall commence from [insert date] and shall be undertaken by the following team.

Name of the auditor	Designation	Team designation
1.		Supervisor
2.		Team Leader
3.		Team Member
4.		Team Member
5.		Team Member

It is requested through this letter that auditors are provided

- a. access to all information of which the *Entity/Office* is aware that is relevant for the audit such as records, documentation and other matters;
- b. additional information that auditors may request from for the purpose of the audit; and
- c. unrestricted access to persons within the entity/office, or outside the [entity/office], from whom the auditor determines it necessary to obtain audit evidence.
- d. Other matters if any (please specify)

Regards

Signature

Name:

Designation:

12. Audit Tool 12 (Entry Meeting Minutes)

1. Date of the meeting					
2. Location of the meeting					
3. Present audit team members	Name		Designation		
	1.				
	2.				
	3.				
4. Present auditee personnel	Name		Designation		
	1.				
	2.				
	3.				
5. Issues discussed					
5.1. Introduction of audit team members					
5.2. Solicit management concerns (if any)	1. 2. 3.				
5.3. Determine appropriate person within the auditee with whom to communicate	Name		Phone No	Email	Related area
	1.				
	2.				
	3.				
5.4. Matters needs to be communicated	<ul style="list-style-type: none"> • Responsibilities of the auditee • Auditor's responsibilities • Planned scope and timing of the audit • Auditor's independent • Reporting forms and mechanisms • Written representation from management • Others 				
5.5. Establish communication process	1. Process				
	2. Form				
	3. Timing				
	4. Adequacy				

13. Audit Tool 13 (Audit Findings Form)

Audit Findings Form

1. Audit Question _____
2. Audit work paper reference _____
3. Discussion date _____
4. Criteria, condition, cause and consequence _____
5. Conclusion and Recommendation (include benefit) _____
6. Comment of auditee management (name, date and comments) _____
7. Explain cause _____

Prepared & recommended by

Reviewed by

Approved by

Audit Officer

Audit Director

Assistant Auditor General

14. Audit Tool 14 (Exit Meeting Minutes)

1. Date of the meeting			
2. Location of the meeting			
3. Present audit team members	Name	Designation	
	1.		
	2.		
	3.		
4. Present auditee personnel	Name	Designation	
	1.		
	2.		
	3.		
5. Issues discussed			
5.1. Logistic and management feedbacks by the auditors	<ol style="list-style-type: none"> 1. 2. 3. 		
5.2. Concerns raised by the management relating to audit	<ul style="list-style-type: none"> • • • 		
6. Issues discussed <i>(from: log of findings, those findings that are pending after managements' explanation and clarification during audit and management's response to the memos (audit queries) raised and circulated to the auditee)</i>	Findings	Management clarification	Auditor's decision
	1.		
	2.		
	3.		
	4.		
	5.		
	6.		
	7.		

15. Audit Tool 15 (Template – Performance Audit Final Report)

#	Logical Order	Example
1.	Title of the audit report	Mentioned in the cover Page
2.	Transmission letter	Date, addressee, subject, date and signature
3.	Table of content of the report	
4.	Executive summary	Audit objectives and Major Audit findings
5.	Introduction of the audited Entity	Background, Policy, Major Programs ,Budget and expenses should be mentioned
6.	Comply with auditing standard	The audit has been conducted in accordance with performance audit guideline of OAG /Nepal and the auditing standards (ISSAI 3100)prepared by International Organization of Supreme Audit Institutions (INTOSAI)for performance audit
7.	Audit objective, scope and Methodology	
8.	Limitations	Unavailability of the documents, any necessary audit technique unable to use due to different reason.
9.	Audit Findings	Each Audit question analyses with Criteria ,condition, cause, consequence and recommendations
10.	Audit Conclusions	Based on the audit findings auditor should provide conclusions about 3Es
11.	Audit Recommendation	Summaries audit recommendation categories them in time basis: < one year Short term >one year Long term
12.	Management response	Summary of response provided by the management on the recommendation
13.	Annexure	Long table, Complex data, analysis, Organisation structure , etc

16. Audit Tool 16 (Record of Activities)

MIS Report

Audit activities	Metric	Budgeted/Planned	Actual	Variance
Audit Authorisation Letter	Date			
Entry Meeting	Date			
Field Work	No. of days			
Exit Meeting	Date			
Report Preparation	No. of days			
Draft PAR / ML	Date			
Response to PAR/ML	Date			
Final PAR/ML	Date			

INPUT schedule
planning

From NAMS date

17. Audit Tool 17 (Audit Review/QC Checklist)

Audit Entity

Audit Year

S. No.	Subject Matter	Yes/No/NA	Comments
1	Do the working papers contain sufficient evidence on the following: - Audit plan/ approach - Detailed audit programme/Audit design matrix - Evidence/ initial of staff performing work - Evidence/ initial of Supervisor/Director reviewing work - Documentation of findings, conclusions and recommendations. - cross referencing to the audit report		
2	Are significant deviations from the overall audit plan and any changes in the scope of the audit (if any) have been properly documented?		
3	Was the audit conducted in accordance with the relevant audit approach, guidelines and other directives?		
4	Has management agreed to our pre-determined audit criteria? Have disagreements been resolved?		
5	Have we identified and documented the controls which are: - effective - ineffective - excessive (from a cost/benefit perspective)		
6	Have we identified and documented operational and other potential improvement opportunities by performing appropriate operational measurement activities?		
7	Have we communicated all matters included in the Report and performance improvement opportunities to management?		
8	Has management reviewed and commented on the Report and have disagreements with the audit findings and recommendations been analysed?		
9	Are the reported findings supported by adequate and sufficient audit evidence?		
10	Have all critical judgments, including management's response on contentious findings been appropriately and comprehensively documented in the working papers?		
11	Are the recommendations well researched, practical and cost-effective?		
12	Are we satisfied that all elements of the Performance Audit have been satisfactorily completed in accordance with the legislative mandate and applicable auditing standards?		

Prepared and Recommended by
Audit Director

Reviewed by
Assistant Auditor General

18. Audit Tool 18 (Annual Report, Response & Decision of the PAC)

Name of the Audit Entity :

Report year :

Audit Officer :

Audit Director :

Date of deliberation held in Public Account Committee :

Public Account Committee's report reference and date:

Ref. No.	Summary of Audit Observation	Audit Entity Response	Directions and Recommendations of PAC	Auditor's Remark

Audit Officer

Audit Director

19. Audit Tool 19 (Follow-Up Template)

This tool is used to conduct follow up audit of status of previous year audit recommendation. It is an effective way to take action taken report from the audited entity.

Audited entity:

Annual report:

#	Recommendation	Action Taken	Progress report (Completed, partially completed, not done)	Reasons for not completing action on recommendation	Effect

Prepared By:

Certified By:

20. Audit Tool 20 (Current Audit File documentation)

Topic	Index
<i>Planning stage</i>	
Performance Audit Progress Record Firm (AT1)	A1
Basic Information	A2
Internal Audit Report	A3
Financial statements,	A4
Progress report	A5
Information Collection (AT4)	A6
Process Analysis (AT5)	A7
Risk Assessment (AT6)	A8
Audit Planning Memorandum	A9
Audit Design Matrix	A10
Other Working Papers	A11
<i>Audit execution stage</i>	
Segregate audit areas in accordance with Audit questions and name each area with a different index (B..C..D..X) then Structure in the following manner:	
<i>Reporting stage</i>	
Audit Findings (AT8)	Y1
Draft Report (Preliminary)	Y2
Preliminary Report	Y3
Management Response	Y4
Final Report	Y5
Audit completion report	Y6
Other Documents	Y7
<i>Review/follow-up stage</i>	
Audit Review Form (AT10)	Z1
Quality Assurance Form (AT11)	Z2
Follow-up Report (AT12)	Z3
Other Documents	Z4

21. Audit Tool 21 (Performance Audit Progress Record Form)

Engagement Team

Assistant Auditor General	
Audit Director	
Audit Officer	
Others	
External experts or specialist	

Parties Involved	Organization/ Person	Contacts(s)
Entity Subject to Audit		
Experts Engaged		
Financial Audit Team		

Work completion procedure of Audit Officer and Director is as follows:

✓ Tick Box when completed

Planning Stage	
<input type="checkbox"/>	Confirm with the AAG that findings from the selection process substantiate carrying out a performance audit.
<input type="checkbox"/>	Ascertain nature of letter(s) and/or report(s) required, their addressees and their purposes.
<input type="checkbox"/>	Identify need for special expertise from the OAG/N or external consultants.
<input type="checkbox"/>	Establish timetable and budget for audit.
<input type="checkbox"/>	Inform other auditors involved if reliance is going to be placed on their work.
<input type="checkbox"/>	Agree Audit planning memorandum with the AAG
Audit Execution Stage	
<input type="checkbox"/>	Identify any relevant legislation.
<input type="checkbox"/>	Audit and sub- audit questions agreed and discussed with audit Team
<input type="checkbox"/>	Formulate audit programme and consider review result of audit programmes used for other similar audits
<input type="checkbox"/>	Extent of evidence gathering considered and agreed with the AAG.
<input type="checkbox"/>	Notes of all-important meetings placed on file
<input type="checkbox"/>	Working papers complete and reviewed by the AAG.
<input type="checkbox"/>	All queries and outstanding points raised by in-charge resolved
Reporting Stage	

<input type="checkbox"/>	Reports and letters drafted in conformity with guidance contained in the Performance Audit Guidelines.
<input type="checkbox"/>	Confirm that audit execution procedures have included gathering evidence appropriate to the specific findings contained in the report (and, where applicable that the report has been referenced to the underlying evidence).
<input type="checkbox"/>	All outstanding audit execution procedures completed.
<input type="checkbox"/>	Comments by the audited entity on matters of substance made at meetings approved by Audit Director and confirmed to audited entity in writing or discusses as appropriate
<input type="checkbox"/>	Report reviewed by the AAG and the DAG before final issuance
<input type="checkbox"/>	Final Report reviewed by the AG before submitting in annual report

Performance Audit Progress Sign-Off	Initials and date		
	Audit Team Leader /Supervisory Officer	Audit Director	AAG
Confirm that engagement team have read, are familiar with and have applied the relevant sections of the Performance Audit Guide.			
Planning stage completed in accordance with the Performance Audit Guide and audit questions and sub audit questions discussed with the AAG and approved.			
Audit execution procedures complied with and completed, salient features discussed with Audit Director and problems resolved.			
Reporting procedures complied with and completed, salient features discussed with Audit Director and problems resolved.			
Confirm that engagement is complete and report(s) and/or letter(s) may be signed			
Working papers are completed and Performance Audit Progress Record signed off.			

22. Audit Tool 22 (Checklist for steps to be followed and completed during audit lifecycle)

A: Essential steps to be completed before signing off planning phase:

1. An audit plan to commence PA must be reviewed by the AAG and issued to the auditee entity.

-
2. The Leader of the audit team must meet management of the audited entity to confirm audit objectives, questions, scope, criteria, scope, risks, schedule and records to be provided to perform PA. Meeting to be documented and kept with working papers
 3. All steps required to develop a plan must be followed and documented indicating sources of information including:
 - ▶ Risk and controls assessments
 - ▶ Previous audit reports
 - ▶ Financial governance and other relevant reviews and findings
 - ▶ Strategy documentation.
 4. Based on the inputs sourced, Leader of audit party must assess key risks consult with subject matter experts and OAGN.
 5. The respective AAG must approve any changes in audit scope from the approved PA Division's annual audit plan.
 6. The plan must be approved by AAG/DAG/.
 7. The audit plan must be issued to auditee before beginning the fieldwork. Entry meeting must be held with the entity to discuss the audit. (Ref suggested template for Entry Meeting)
 8. Changes to the audit plan must be approved by the AAG/DAG/AG in consultation with the relevant entity management for material changes.
 9. The AAG/DAG must approve risks, controls and testing approach described in planning process, prior to the commencement of fieldwork.
 10. Leader of Audit team must develop the detailed audit procedures, supporting work programs with checklists and document in the work papers.
 11. Leader of audit team must brief the audit team prior to commencement of audit fieldwork. The AAG/DAG must attend the team briefing. Minutes of the meeting must be documented in the working papers.
 12. The AAG/DAG must approve individual team member's assignment.
 13. Audit scope and objectives and approach must be understood by the audit team and the entity.
 14. Channels of communication between auditee and audit party must be decided.
 15. Leader of audit team must ensure Quality Assurance meeting after planning stage is documented and get it approved by AAG/DAG.
 16. Planning sign off is carried/ approved by AAG/DAG after satisfying that all mandatory steps in the planning phase have been completed as per PA Guidelines, 2020.

B: Essential steps to be completed before signing off Conducting PA as per PA Guideline, 2021:

1. Leader of the audit team must assess documented processes and transaction flows to confirm effectiveness of controls and where required get confirmed from management.
2. Leader of audit team must assess the level of competence of audit team and monitor and guide where required. AAG/DAG must see that on the job guidance is provided to team on PA procedures and how to conduct them.
3. The AAG/DAG must verify that the audit approach, sample selection and sample sizes are appropriate for the nature and risks of PA and documented in the work papers.
4. PA work papers must contain the following fields:
 - ▶ Objectives
 - ▶ Audit procedures

- ▶ ? Results
- ▶ ? Conclusion
- ▶ ? Matters arising
- ▶ ? Signoff

5. The work paper must be structured and prepared with sufficient detail to enable a reasonable user to understand the audit evidence supporting the conclusions and the audit steps to reach the same conclusion.

6. Leader of audit team must ensure that all evidence collected is documented and any observations and recommendations made are adequately supported by evidence.

7. Each audit work paper must be cross referenced to tests used and issues. A reviewer of the audit work paper should be able to identify which issues reported and a clear rationale for them.

8. Audit work paper must distinguish between facts, views, and comments from auditees.

9. Each work paper must be reviewed by Leader of audit team.

10. AAG/DAG must discuss and confirm issues identified with the audit team and ensure they are resolved and documented in the audit file for inclusion in audit report. Findings, conclusions and recommendations must be discussed with AG.

11. Leader of audit team must ensure Quality Assurance meeting after fieldwork is documented and get it approved by AAG/DAG.

12. Leader of audit team and AAG/DAG must conduct an exit meeting to confirm findings, conclusions and recommendations. The meeting must be documented (Ref Template)

13. Fieldwork must be signed off by AAG/DAG after certifying completion of all mandatory steps.

C Essential steps to be completed by PA before wrap up:

1. Leader of audit party must conduct a team debrief with audit team and AAG/DAG. The team debrief should cover the:

- ▶ Outcomes from the audit; including performance against targets (timelines, budget)
- ▶ Feedback on the audit – formal and informal
- ▶ Areas of strengths and opportunities for improvement and lessons learned and actions required.
- ▶ Mechanisms to identify existing and future impacts from implementation of recommendations.

The results from the team debrief must be documented in the working papers.

2. Leader of audit team must take steps for Quality Assurance meeting after lessons learned stage is documented and actions taken with the approval of AAG/DAG.

3. AAG/DAG must ensure that individual assignment appraisals are completed and signed off within 4 weeks of final report issuance for all team members.

4. Final wrap up and sign off PA by AAG/DAG by certifying the completion of all mandatory steps.

D: Essential steps in reporting a PA before Sign-Off:

1. PA team must communicate audit findings to auditee management before they are finalized for reporting. Comments from management should be documented and fully considered when reviewing findings.

-
2. The audit report must adhere to the PA report template (Ref.
 3. Leader of audit team must ensure Quality Assurance meeting after drafting stage is documented with approval of AAG/DAG.
 4. The draft report must be reviewed by AAG/DAG prior to issue to auditee.
 5. The report must be clear, concise and balanced. There must be executive summary of findings of PA report.
 6. The report introduction should help reader understand the purpose of PA with audit objective scope. The conclusion should answer the audit questions and flow logically from the findings. The draft report should make use of annexes and graphics as appropriate.
 7. Draft report must be reviewed by Leader of audit party and presented to AAG /DAG for comment.
 8. Leader of audit party must ensure Quality Assurance meeting after reporting stage is documented and any actions taken with approval of AAG/AAG.
 9. Final reports must be issued to auditee after resolving all problems.
 10. Final PA report issued after approval of AG.
 11. Reporting must be signed off after AAG/DAG certifying that all mandatory steps are completed as per PA Guidelines, 2020.

E: Essential steps to be completed during follow up:

1. The audit team must review all recommendations have been implemented.
2. Check evidence to support implementation.
3. Document the impact of implemented recommendations on the auditee.
4. Discuss with the auditee the timeframe for the recommendations not implemented.
5. If significant number of recommendations not implemented, AAG/DAG may consider follow-up audit
6. Any follow-up audit must be approved by AG
7. Follow up to be signed off by AAG/DAG certifying completion of all mandatory steps.



महालेखापरीक्षकको कार्यालय Office of the Auditor General

बबरमहल, काठमाडौं, नेपाल
Babar Mahal, Kathmandu, Nepal

नीति योजना तथा जनशक्ति विभाग, महानिर्देशनालय

पत्र संख्या २०७७/७८ च नं ०२



मिति २०७७/१४/१६

विषय नेपाल सरकारी लेखापरीक्षण मानकको कार्यान्वयन सम्बन्धमा

नेपाल
२०१६

श्री सबै विभागहरु

श्री सबै महानिर्देशनालयहरु

श्री सबै निर्देशनालयहरु

महालेखापरीक्षकको कार्यालय ।

उपरोक्त सम्बन्धमा लेखापरीक्षण ऐन, २०७५ को दफा २९ ले दिएको अधिकार प्रयोग गरी महालेखापरीक्षकले गर्ने लेखापरीक्षणलाई वस्तुपरक, विश्वसनीय र भरपर्दो बनाई लेखापरीक्षणको गुणस्तर अभिवृद्धि गर्न साविकमा स्वीकृत भएका सरकारी लेखापरीक्षण मानदण्ड एवं सरकारी लेखापरीक्षण नीति मानदण्ड खारेज गरी सर्वोच्च लेखापरीक्षण संस्थाहरुको अन्तर्राष्ट्रिय संगठनले जारी गरेका अन्तर्राष्ट्रिय लेखापरीक्षण मान (INTOSAI Framework for Professional Pronouncements, IFPP) मा आधारित "नेपाल सरकारी लेखापरीक्षण मान" (Nepal Government Auditing Standards, NGAS) २०७७/१४/१६ मा स्वीकृत गरिएको छ । अतः कार्यालयबाट यस वर्षदेखि लेखापरीक्षण गर्दा तपसीलका नेपाल सरकारी लेखापरीक्षण मानको कार्यान्वयन गर्नु हुन अनुरोध छ ।

तपसील

NGAS नम्बर	नेपाल सरकारी लेखापरीक्षणमानको नाम
INTOSAI-P 1	The Lima Declaration
INTOSAI-P 10	Mexico Declaration on SAI Independence
INTOSAI-P 12	The Value and Benefits of Supreme Audit Institutions- making a difference in a life of citizens
INTOSAI-P 20	Principles of Transparency and Accountability
ISSAI 100	Fundamental Principles of Public-Sector Auditing
ISSAI 130	Code of Ethics
ISSAI 140	Quality Control for SAIs
ISSAI 200-299	Financial Audit Principles
ISSAI 300-399	Performance Audit Principles
ISSAI 400-499	Compliance Audit Principles
ISSAI 2000-2899	Financial Audit Standards
ISSAI 3000-3899	Performance Audit Standards
ISSAI 4000-4899	Compliance Audit Standards

जानकारीको लागि

माननीय महालेखापरीक्षकज्यू ।

भवदीय

(घनश्याम पराजुली)
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"जनहितका लागि जवाफदेहिता, पारदर्शिता र निष्ठा प्रवर्धनमा विश्वसनीय लेखापरीक्षण संस्था"