



Performance Audit Guideline for Internal Auditors of RGoB

Ministry of Finance
December 2019



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ROYAL GOVERNMENT OF BHUTAN
MINISTRY OF FINANCE
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17th June 2020

Foreword

The Performance Audit Guideline is developed and issued by the Central Coordinating Agency for Internal Audit service, Ministry of Finance, to provide appropriate guidance to the Internal Auditors in conducting performance Audit. The Guideline has been developed with the technical assistance from E&Y LLP consultant financed through PFM-MDF project administered by World Bank.

In the past, the Internal Audit Service focused on financial and compliance audit which posed challenges to efficiency and effectiveness. In order for Internal Audit Service to remain relevant and move towards being a trusted partner, Internal Audit Service adopted Performance Audit as a paradigm shift from compliance audit to a sustainable conduct of system/thematic audits also called as Performance or value for money audit.

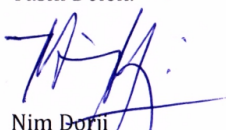
Performance audit provides independent and objective examination of economy, efficiency, and effectiveness of public undertakings, services and activities. It plays an important role in keeping management well informed about its actions and the outcome of its own decisions. It aims to increase public transparency and accountability by providing objective and reliable information on how the public services perform.

This Performance Audit Guideline has been developed based on the international best practices. It contains detailed guidelines and procedures to be followed by internal auditors in audit planning, execution, report preparation and follow-up. It outlines the professional standards of audit to be maintained by the Internal Auditors and serve as an effective resource to provide main principles for conducting performance audit activities. The guidance provided in this guideline is aligned with the standards issued by the Institute of Internal Auditors (IIA) and Performance Audit Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).

All the users of this guideline are expected to have basic knowledge and understanding of management frameworks including Governance, Risk Management and Control processes and be capable of exercising professional judgment.

I urge all the users to adopt and make full use of this document while conducting performance audit.

Tashi Delek!



Nim Dorji
Finance Secretary

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Preface

The Royal Government of Bhutan (RGoB) established the Internal Audit Service in 1999 to enhance public accountability and good governance in the country. On 1st June 2000, Internal Audit Units were established in six out of the seven Ministries then. The Central Coordinating Agency for Internal Audit Service (CCA) was established in 2010 as the coordinating agency for all Internal Audit Units within the Government system. CCA framed an Internal Audit Manual in 2014 to provide guidelines to the internal audit functions in the RGoB.

RGoB has taken various initiatives to strengthen the Internal Audit function by enhancing the effectiveness of internal audit service in the public sector. In order to address the emerging risks and challenges of public administration and governance, it is imperative for Internal Audit to add value and facilitate improvement in functioning of the government. Therefore, as a part of paradigm shift in the internal audit approach based on the National Internal Control Framework, theme-based audit approach was initiated by CCA in the fiscal year 2015-16. So far, the public sector internal audit service in Bhutan has initiated four thematic audits (i.e. one thematic every year).

The thematic audit approach adopted by RGoB's internal auditors is a paradigm shift from the traditional transaction-based approach of internal audit to risk-based thematic auditing. To continue the practice of conducting thematic / performance audit the CCA has developed Performance Audit Guideline for public sector internal auditors of RGoB. The Performance Audit Guideline was developed based on the international best practices. It contains detailed guidelines and procedures to be followed by the audit parties in audit planning, audit execution, report preparation, and follow-up. The guideline outlines the professional standards of audit to be maintained by the audit personnel. The guideline outlines the principal performance audit processes and activities. It is intended to serve as an effective resource to provide main principles for conducting performance audit activities. The guidance provided in this guideline is aligned with the standards issued by the Institute of Internal Auditors (IIA) and Performance Audit Standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI).

The guideline comprises of 9 chapters covering the entire process of planning, execution, reporting and follow-up. It provides a set of forms, templates, practical examples and checklists. The structure of the Performance Audit Guideline is as follows: -

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|--|--|
| Chapter 1: About the Guideline | Describes the background, purpose of this guideline |
| Chapter 2: Overview of CCA in Bhutan | Describes the objective and mandate of CCA / IAUs |
| Chapter 3: Basic Concepts in Performance Auditing | Describes performance audit concepts such as Performance Audit Definition, Code of Ethics, general principles of Performance Audit, Performance Audit life cycle, etc. |
| Chapter 4: General Principle in Auditing | Describes general principles that auditor should follow while executing an audit engagement |
| Chapter 5: Audit Planning and Preparation | Describes steps that are to be followed in annual audit planning of CCA / IAUs and preparation for Individual Audits |

| | |
|---|--|
| Chapter 6: Audit Execution | Describes steps that are to be followed while executing an individual audit engagement |
| Chapter 7: Audit Reporting | Describes steps that are to be followed for audit reporting |
| Chapter 8: Audit Follow-up | Describes steps that are to be followed for compliance of Audit Paras |
| Chapter 9: Forms, Format and Annexures | Describes the forms, formats and checklist to be used in audit engagements. |

This guideline will bring out a uniform procedure and help in achieving the objectives of Internal Audit in a better and effective manner. This guideline is to be followed by the audit personnel of the Internal Audit Units (IAUs) in various government agencies of RGoB. Users of this guideline are expected to have at least basic knowledge and understanding of management frameworks including governance, risk management and control processes and are capable of exercising professional judgment. Users should also have a comprehensive understanding of the policies, regulations, rules and directives established by various central agencies of the RGoB and their own organization in order to fruitfully apply the guidance provided in this guideline.

The guideline is designed to be flexible and unrestrictive. The Internal Auditors are encouraged to exercise professional judgment, particularly in determining levels of risk, adequacy of internal control processes and the choice of appropriate audit methodology. Where an Internal Auditor faces difficulties in understanding or complying with the guideline, appropriate clarifications and/or assistance should be obtained from their respective CIAs and/or CIAs of other IAUs and the CCA.

The Central Coordinating Agency for Internal Audit Services is expected to keep this guideline updated through appropriate and timely improvement or modification in the contents of the guideline.

Glossary

The definitions of various terms used in this guideline are provided below:

- ▶ **Financial Year** refers to the year beginning on the 1st of July and ending on the 30th June of following year.
- ▶ **Internal Audit:** According to the IIA's International Professional Practices Framework (IPPF) on the definition of Internal Auditing, *"internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes"*. In simple words, internal audit is examination in totality, of all financial operations of an auditable organization/department involving public money with a view to ascertain whether due regard has been paid to regularity, propriety, economy, efficiency, and effectiveness in public expenditure.
- ▶ **Performance Audit:** According to INTOSAI's standard ISSAI 300 on Fundamental Principles of Performance Auditing, "Performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement".
- ▶ **Auditee** means an organization or department or unit of an organization/department that is being audited.
- ▶ **Audit Party** means the team of audit personnel specified in the approved audit calendar to conduct audit of the respective government agencies.
- ▶ **Planning Memorandum** shows a detailed plan of the auditing work, including various audit checks and procedures, to be performed during the audit verification within the given timeframe to complete the audit.
- ▶ **Competent Authority** means a government agency or any other authority to which the relevant powers may be delegated by the Government.
- ▶ **Constitution** refers to the Constitution of the Kingdom of Bhutan 2008.
- ▶ **Government** refers to the Royal Government of Bhutan.
- ▶ **Memo/Audit Observation** refers to a letter issued by the Internal Auditor to the Auditee Unit with certain audit observations or requesting Audit Unit to produce relevant accounting records, registers, files and documents for verification and clarifications on audit observations during the audit.
- ▶ **Head of a Department** means any authority declared to be such for purposes of delegations and exercise of administrative and financial powers as prescribed in the Public Finance Act and the Financial Rules and Regulations of RGoB;
- ▶ **Audit report** means a report issued by an Internal Auditor of the IAUs containing audit paras and recommendations for Auditee Unit's implementation.
- ▶ **Internal Control** refers to the procedures adopted by the management or executive of an organization in achieving its objectives of ensuring efficient conduct of its business, adhering to applicable policies, rules and regulations aiming at safeguarding of assets, prevention and detection of fraud, accuracy of accounting, and timely preparation of reliable financial information.

- ▶ **Record:** It means any data, information, document and file in whatever form including electronic and digital form, and includes vouchers, bills, invoices, challans, receipts, papers authenticated photographs, audio and video tapes, facsimile papers whether maintained by the auditable entity itself or on its behalf by anybody or person or obtained from third party and relied upon by it for performance of its functions.
- ▶ **Risk Based Assessment** refers to the process of (i) Identifying and analysing potential risks posing threat on the government agency's financial aspects as well as achievement of its objectives, and (ii) Developing response to address the identified risks and prioritizing audit focus in the risk potential areas.
- ▶ **Transaction:** It includes any act which results in outflow or inflow of public money, acquisition or transfer of any asset, store or stock or acquisition of a future liability or right to receive income or assets.
- ▶ **Working Papers** refer to those papers which are formally referred to as (i) Audit documents or (ii) Audit file. The documents serve as proof of audit procedures performed, evidence obtained and the conclusion or opinion of the auditor.

Abbreviations

| Abbreviations | Full Form |
|---------------|--|
| ACC | Anti-Corruption Commission |
| ADB | Asian Development Bank |
| AFD | Administration & Finance Department |
| APA | Annual Performance Agreement |
| BAFRA | Bhutan Agriculture and Food Regulatory Authority |
| BGIAS | Bhutan Government Internal Audit Standards |
| BOQ | Bill of Quantity |
| BRS | Bank Reconciliation Statements |
| CCA | Central Coordinating Agency |
| CIA | Chief Internal Auditor |
| CL | Casual Leave |
| CWC | Central Water Commission |
| DDO | Drawing & Disbursement Officer |
| DNP | Department of National Properties |
| DoA | Delegation of Authority |
| DoR | Department of Roads |
| DoT | Department of Trade |
| DPR | Detailed Project Report |
| DRC | Department of Revenue & Customs |
| DSE | Department of School Education |
| EL | Earned Leave |
| ERP | Enterprise Resource Planning |
| FCB | Food Corporation of Bhutan |
| FRR | Financial Rules & Regulation |
| FY | Financial Year |
| FYP | Five Year Plan |
| GAO | Government Accountability Office |
| GIN | Goods Issue Note |
| GoI | Government of India |
| GRN | Good Receipt Note |
| HR | Human Resource |
| IA | Internal Auditor |
| IAS | Internal Audit Service |
| IAU | Internal Audit Unit |

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| IIA | Institute of Internal Auditors |
| IMF | International Monetary Fund |
| IDEA | Interactive Data Extraction Analysis |
| INDC | Intended Nationally Determined Contributions |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| IPPF | International Professional Practices Framework |
| IRR | Internal Rate of Return |
| ISA | International Standard on Auditing |
| ISSAI | International Standard of Supreme Audit Institutions |
| IT | Information Technology |
| KPI | Key Performance Indicators |
| LPG | Liquefied Petroleum Gas |
| MAS | Material at Site |
| MB | Measurement Books |
| MHP | Mangdechhu Hydroelectric Project |
| MoEA | Ministry of Economic Affairs |
| MoF | Ministry of Finance |
| MoWHS | Ministry of Human and Work Settlement |
| NEC | National Environment Commission |
| NGO | Not for Profit Organisation |
| NIT | Notice Inviting Tenders |
| O/s | Outstanding |
| PA | Performance Audit |
| PFA | Public Finance Act 2007 |
| PHPA | Punatsangchu Hydroelectric Project Authority |
| PO | Purchase Order |
| POL | Petroleum Oil & Lubricants |
| PR | Purchase Requisition |
| RA | Running Accounts Bills |
| RAA | Royal Audit Authority |
| RCSC | Royal Civil Service Commission |
| RDA | Recommended Dietary Allowances |
| RFQ | Request for Quotation |
| RGoB | Royal Government of Bhutan |
| RR&R | Road Rules and Regulations |
| SAP | School Agriculture Programme |
| SFP | School Feeding Programme |

| | |
|-----|-------------------------------|
| SDG | Sustainable Development Goals |
| SoA | Schedule of Authority |
| TDS | Tax Deducted at Source |
| ToR | Terms of Reference |
| UN | United Nation |

1

About the
Guideline

Chapter 1: About the Guideline

1.1 Overview

The Performance Audit Guideline of Central Coordinating Agency is intended to provide members of the Internal Audit Service in the Royal Government of Bhutan (RGoB) with professional guidance, tools and information for managing the performance audit conducted by Internal Auditors. The guideline sets out the principles, policies and procedures that govern the performance audit practices and processes to be followed by the public sector Internal Auditors of RGoB.

The use of the guideline will bring a systematic and disciplined approach to the performance audit and assist Internal Auditors to meet the goal of adding value to their respective government agencies. It also enhances the quality and effectiveness of the Internal Audit Service by following the international standards, practices, processes and best practices. The guideline contains comprehensive implementation instructions. The guideline is prepared to establish a minimum requirement for smooth operation of performance audit by IAUs. An attempt has also been made to make the guideline more concise and focussed.

1.2 Purpose and Objective of the Guideline

The purpose of this guideline is to provide the best practices that Internal Auditors of IAUs must follow in planning, implementation, reporting, observing follow-up processes and obtaining quality assurance in performance auditing. With an intent to familiarize internal auditors with knowledge of performance auditing, the guideline shall attempt to achieve the following objectives:

- ▶ Promote professionalism and competence of internal auditors in carrying out performance audit;
- ▶ Ensure consistency in audit approaches, provide minimum guidance, help achieve high quality in performance audits;
- ▶ Assist Internal Auditors of IAUs to manage and conduct performance audits;
- ▶ Set out a basic framework within which professional judgement may be exercised on analysing performance and reporting conclusions.
- ▶ Standardize the practice of performance audit by the Internal Auditors in the RGoB.
- ▶ Design tools of accountability of internal auditors for quality assurance in performance auditing.

1.3 Governing Acts and Rules

The guideline is governed by the applicable Acts, rules & regulations and laid down procedures issued by Ministry of Finance and CCA from time to time. The below mentioned is the list of Acts, rules and regulations;

- ▶ Public Finance Act of Bhutan 2007
- ▶ Public Finance Amendment Act 2012
- ▶ Internal Audit Charter 2014
- ▶ Code of Ethics for Internal Auditors 2014
- ▶ National Internal Control Framework 2013

- ▶ Internal Audit Manual 2014
- ▶ Bhutan Government Internal Audit Standards 2017

Public Finance Act, 2007

As per Section 23 (o) of Public Finance Act of Bhutan 2007, the Ministry of Finance has the responsibility of administering the internal audit service and issuing internal audit guidelines. Accordingly, Central Coordinating Agency for Internal Audit Service, established under the MoF, has the mandate to issue guidelines and administer internal audit service in the RGoB in accordance with the Public Finance Act 2007.

The Ministry of Finance may issue rules, manuals, directives, instructions or notifications on financial management and internal control and internal audit functions in accordance with Section 104 (g) & (j) of Public Finance Act of Bhutan 2007. There shall be an executive officer designated by the Ministry of Finance for administration of the internal audit service in accordance with Section 123 (d) of Public Finance Act of Bhutan 2007.

Internal Audit Charter 2014

In fulfilling its responsibility under the Public Finance Act, 2007, the Ministry of Finance has issued an Internal Audit Charter 2014. The Charter provides an organizational framework for the provision of internal audit services and prescribes policies, mission and responsibilities for the efficient and effective functioning of the Internal Audit Services in the RGoB. The purpose of this Charter is to provide legal basis to the function of Internal Audit in Government agencies and authorize access to records, personnel and physical properties relevant to the performance of audit engagements. It also defines the scope of the work and provides framework within which the Internal Audit in Government agencies and the Central Coordinating Agency under Ministry of Finance shall function.

Code of Ethics for Internal Audit 2014

The Code of Ethics 2014 states the principles and expectations governing the behaviour of the Internal Auditors in the conduct of internal auditing. The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing. The Code of Ethics has the following components:

- ▶ Principles that are relevant to the profession and practice of internal auditing;
- ▶ Rules of Conduct that describe behavioural norms expected of internal auditors.

Internal Audit Manual 2014

The Internal Audit Manual was developed and issued by Ministry of Finance to provide guidelines to internal audit functions in the RGoB. The manual contains comprehensive framework and structure for internal audit services including the procedures for internal auditing along with roles and responsibilities of internal auditors. It also includes the roles and responsibilities of the management related to internal audit functions.

Bhutan Government Internal Audit Standards 2017

The 'Bhutan Government Internal Audit Standards 2017' consists of the statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels and interpretations, which clarify terms or concepts within the Statements.

The objectives of the BGIAS are to:

- ▶ Establish a framework for providing internal audit service under the RGoB.
- ▶ Establish basis for evaluation of internal audit performance.

2

Overview of CCA for Internal Audit Service / IAUs in Bhutan

Chapter 2: Overview of CCA for Internal Audit Service / IAUs in Bhutan

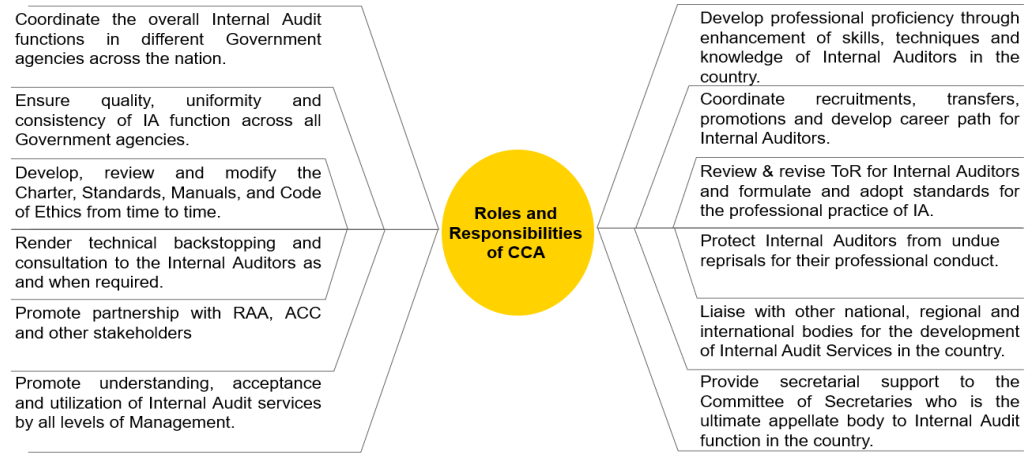
The Internal Audit function was introduced in the year 2000 as a part of the good governance initiative of Royal Government of Bhutan (RGoB). The RCSC established Internal Audit Units in June 2000 for the first time in six out of the then seven ministries. The coverage of internal audit was later extended to the Local Government level (i.e. Dzongkhags). With the enactment of the Public Finance Act 2007, the responsibility of administering the Internal Audit service and issuing Internal Audit Guidelines was vested on the Ministry of Finance. Accordingly, the Ministry of Finance established Central Coordinating Agency (CCA) in 2010 for Internal Audit Services in the government agencies.

The CCA is responsible for strengthening the Public Sector Internal Audit in Bhutan. It works as a dedicated body for management of the internal audit function, with responsibilities for the professional development of internal auditors, ensuring quality, uniformity and consistency in the function including overall coordination and monitoring of internal audit service.

2.1 Roles and Responsibilities of Central Coordinating Agency

The Ministry of Finance has established a Charter in year 2014 for Internal Audit services in the RGoB. The Charter provides an organizational framework for the provision of internal audit services and prescribes policies, standards and responsibilities for efficient and effective functioning of the internal audit services in the RGoB. Following are the roles and responsibilities of CCA:

Figure 1: Roles and Responsibilities of CCA



2.2 Roles and Responsibilities of Internal Audit Units

The Internal Audit Units (IAUs) were instituted in different government agencies to execute the function of internal audit service in the country. The Internal Audit Units are monitored

and coordinated by CCA. The IAUs are placed in the government agencies to ensure functional independence of the Internal Auditors. CCA is responsible for coordinating the activities of IAUs across the nation. The roles and responsibilities of Internal Auditors shall be to:

- ▶ Develop an annual audit plan based on comprehensive risk assessment and submit to the Management for approval and endorse a copy of approved plan to CCA for reference.
- ▶ Implement the approved annual audit plan in accordance with the International Standards for Professional Practice of Internal Auditing.
- ▶ Issue reports annually summarizing results of audit activities and status of implementation of past audit recommendations to the management and endorse a copy to CCA for reference.
- ▶ Provide adequate follow-up to ensure corrective action is taken and evaluate its effectiveness and report the results.
- ▶ Maintain a professional audit staff and seek expert views as and when required from CCA for Internal Audit Service.
- ▶ Notify appropriate authority of any significant corruption (criminal) offences recognized or detected during the course of internal auditing.
- ▶ Consider the scope of work of the external auditors and other regulators as appropriate and collaborate with them for the purpose of providing optimal coverage and avoiding duplication of work.

3

**Basic
concepts in
Performance
Auditing**

Chapter 3: Basic concepts in Performance Auditing

Performance auditing, originated from the USA, was first implemented by the US Government Accountability Office (GAO) in 1960. It has since then spread to other countries and today implemented around the world. Most of the countries have developed own guidelines on performance audit in accordance with international standards and best practices on performance auditing which explain how performance audits are planned, conducted and its results reported.

3.1 Definition of Performance Audit

According to INTOSAI's Standard ISSAI 300 on Fundamental Principles of Performance Auditing;

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

Performance auditing is also referred to as 'Value for Money' auditing, which essentially is a thematic audit that has features of both compliance and financial audit as well. Performance auditing is carried out across a particular sector or specified entities or specific transactions that seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement or value-addition 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.

3.2 Difference between Performance Audit and other audits

Performance audit is about analysing and assessing the performance of government programmes or public services. It is an information-based activity that requires analytical and creative skill. It relates mainly to the intentions behind government programmes/interventions and to the concepts of economy, efficiency and effectiveness. Performance audit differs in many ways from financial audit or compliance audit. Key differences of performance audit from Financial and Compliance auditing are shown below:

| Aspects | Performance auditing | Financial or Compliance auditing |
|-----------|---|--|
| Principle | Economy, Efficiency and Effectiveness. Assess whether government interventions or measures have been conducted in accordance with the principles of economy, efficiency and effectiveness. | Compliance with Law Assess whether financial operations have been carried out in accordance with legislation and regulations and whether accounts are reliable. |

| | | |
|--|---|--|
| Purpose | The purpose is to contribute to public management improvement. | The purpose is to verify if actions of the management are according to the laws, rules and official instructions. |
| Focus | Policy, programmes, organization, activities and management systems. | Financial transactions, accounting, financial statements, and key control procedures. |
| Academic basis and relevant Experience | Experience of professional investigations or evaluations and familiarity with methods applied in social science as well as other relevant methods/skills. | - Accountancy and law, and - Professional audit skills. |
| Auditor 's Role | Performance Evaluation | Verify discrepancy between the existing situation and the rule. |
| Methods | Vary from audit to audit. | Standardised format. |
| Audit criteria | - More open to the auditors' judgement. - Unique criteria for the individual audit. | - Less open to the auditors' judgement. - Standardised criteria set by legislation and regulation for all audits. |
| Reports | - Special report published on ad hoc basis. - Varying structure and content, depending on objectives. | - Annual opinion and / or report. - Standardised. |

3.3 Objective and Scope of Performance Audit

Objective of Performance Audit

The performance auditing is a means to improve management practices in the public sector. The main objective of performance auditing is to constructively promote economical, effective and efficient governance and also contributes to accountability and transparency. Within the Internal Audit Service (IAS) in Bhutan, performance audit of government programmes / schemes shall promote accountability by assisting those charged with governance and oversight responsibilities to improve performance.

Through performance auditing, the internal auditors shall examine whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented and whether the citizens have received value for money. The performance audit shall not question the intentions and decisions of the legislature, but internal auditor shall examine if any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved. The other key objectives of performance auditing are as follows:

- ▶ Provision of a basis for the improvement of public sector management;
- ▶ Improvement in the quality of information on the results of public sector management that is available to policy makers, legislators and the general community;
- ▶ Encouragement of public sector management to introduce process for reporting on performance;
- ▶ Provision for more adequate accountability.

Scope of Performance Audit

The scope of the performance audit is primarily to independently assess the economy, efficiency, and effectiveness in the use of public resources. However, it can also examine

aspects of discharging accountability and due care in the use of resources by the auditee agencies. The Internal Audit Charter 2014 for Internal Audit Services in public sector extends Internal Audit's scope to cover all aspects of an agency's operations to determine if the agency's network of risk management, control and governance processes are adequate and functioning.

The scope of performance audit would be different in different situations and circumstances with varying emphasis on various factors, depending upon the actual situation.

3.4 Benefits of Performance Audit by Internal Auditors

Following are the possible benefits of conducting performance audit by the internal auditors of the RGoB:

- ▶ Conducting performance audit by Internal Auditor will add value and improve an organization's operations. The execution of performance audit by internal auditors of IAUs will increase the coverage of performance audit in the RGoB.
- ▶ The internal auditors of IAUs are stationed within the government agencies and available round the year. Thus, the internal auditor possesses detailed understanding of the organisation activities / processes as compared with the external auditor.
- ▶ The external auditor in the country may rely on the work of the Internal Audit and Performance Audit conducted by internal Auditors in accordance with International Standard on Auditing (ISA) 610 (revised) - *Using the Work of Internal Auditors*, and INTOSAI Standards ISSAI 1610 - *Practice Note to ISA 610*, This would avoid any possibility of conflict and enhance the efficient utilization of available resources to enhance the effectiveness of the performance audit. The external auditor while performing their work may leverage the work of internal auditor on performance audit.
- ▶ Performance auditing is a technique used by internal auditor to evaluate the economy, efficiency and effectiveness of the organisations' operations so as to assure management that its strategic objectives are being carried out and whether or not they can be improved on. The internal auditors can identify and focus more directly on issues of economy, efficiency, and effectiveness by using a performance audit approach.

3.5 International Standard on Performance Audit

The International Standard of Supreme Audit Institutions (ISSAI) for Performance Auditing developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aims to promote independent and effective auditing and provide basis for development of a country's own professional approach in accordance with their mandates and with national laws and regulations. There are four Standards on performance Audit issued by INTOSAI as shown in Figure 2 below:

Figure 2: Standards on Performance Audit issued by INTOSAI

| Particulars | ISSAI 300 | ISSAI 3000 | ISSAI 3100 | ISSAI 3200 |
|------------------|--|--|--|--|
| Name of Standard | Fundamental Principles of Performance Auditing | Standards on Performance Audit | Guidelines on Central Concepts for Performance Auditing | Guidelines for the Performance Auditing Process |
| Endorsed in year | 2013 | 2016 | 2016 | 2016 |
| Purpose | Establishes a common understanding of the nature of performance auditing, including the principles to be applied to achieve a high standard of audit | Provides requirements for the professional practice of performance auditing followed by explanations in order to enhance the clarity and readability of the standard | Contains clarifications on requirements of Performance Auditing Standard. The objective of ISSAI 3100 is to help the auditor interpret central concepts for performance auditing used in ISSAI 3000. | Provides guidelines related to the audit process. Provide advice to the auditor on how to fulfil these requirements and how to apply professional judgment |

ISSAI 300 – Fundamental Principles of Performance Auditing

ISSAI 300 elaborates on the Fundamental Principles of Performance Auditing to suit the specific context of performance auditing. It establishes a common understanding of the nature of performance auditing, including the principles to be applied to achieve a high standard of audit.

ISSAI 3000 – Standards on Performance Audit

ISSAI 3000 is the authoritative standard for performance auditing. It provides requirements for the professional practice of performance auditing followed by explanations in order to enhance the clarity and readability of the standard. It defines what is required by the auditor for conducting high quality performance audits. It consists of four main sections:

- ▶ The first section establishes the scope of the International Standard for Performance Auditing.
- ▶ The second section defines performance auditing and its objectives, as well as the principles underlining the concept of performance.
- ▶ The third section consists of general requirements for performance auditing. These requirements shall be considered before starting and throughout the audit process.
- ▶ The fourth section contains requirements related to the main stages of the audit process.

ISSAI 3100 – Guidelines on Central Concepts for Performance Auditing

ISSAI 3000 is based on generally accepted principles of performance auditing. The guideline sets out the general framework for performance auditing, defines application of auditing principles for performance auditing, provides standards and guidance for planning and conducting performance audits, and for presenting the audit results.

The objective of ISSAI 3100 is to help the auditor interpret central concepts for performance auditing used in ISSAI 3000. Thus, the guidance provided is to make it easier to understand and implement the requirements of the standard for performance auditing. It consists of two sections:

- ▶ The first section defines performance auditing and elaborates on the meaning of economy, efficiency and effectiveness.
- ▶ The second section deals with central concepts in performance audit.

ISSAI 3200 - Guidelines for the Performance Auditing Process

ISSAI 3200 provides guidelines related to the audit process. It is intended to help the auditor interpret the requirements and provide advice to the auditor on how to fulfil these requirements and how to apply professional judgment. It contains descriptions on how to implement those requirements. The standard is structured in different phases of the performance audit process as detailed below:

- ▶ The first section relates to planning the audit – how to select audit topics and design the audit.
- ▶ The second section relates to conducting the audit in order to obtain sufficient and appropriate evidence to support the auditor's findings and conclusions.
- ▶ The third section relates to reporting – the format of the report, the report contents and its distribution.
- ▶ The fourth section relates to follow-up of previous findings and recommendations in performance audit reports, to identify and document the impact of the audit and the progress made in addressing the problems.

ISSAI 3100 and ISSAI 3200 should be read together to get a deeper understanding of how the central concepts are considered throughout the audit process.

3.6 The Three Es in Performance Audit

In the definition of performance auditing the three E's (Economy, Efficiency and Effectiveness) have a central place. The aim of the performance audit is to evaluate the theme/programme/scheme/entity performance in terms of economy, efficiency and effectiveness and to provide recommendations to improve the performance. The core of performance audit is explained below:

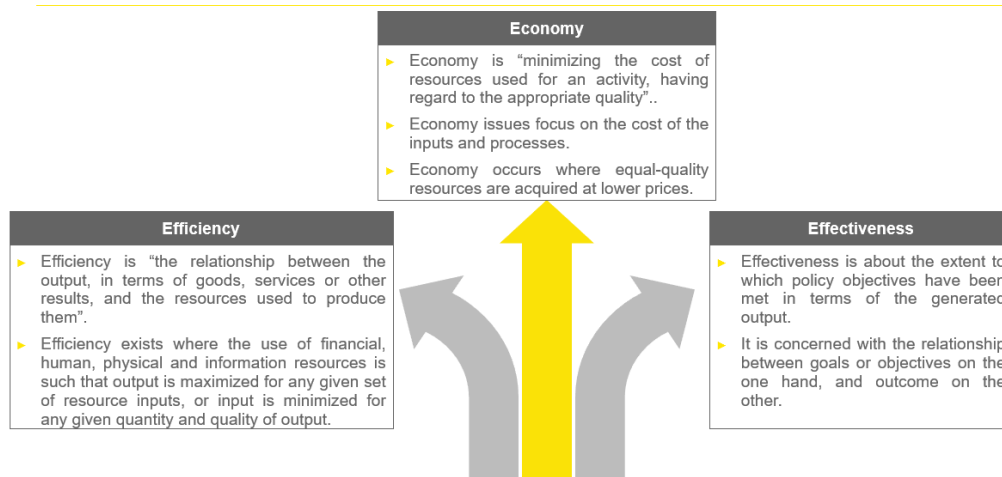


Figure 3: Concept of 3Es in Performance Audit

Economy

Economy means *minimizing the cost of resources used for an activity, having regard to appropriate quality*. Audit of economy will entail focus on the cost of inputs and processes, and manages the following concerns:

| Assessing Economy – General risks | Economy –General issues | Economy -Answers to questions |
|--|---|--|
| <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. | <ul style="list-style-type: none"> ▶ The input chosen or obtained represent the most economical use of public funds ▶ The resources i.e. human, financial or material resources been used economically ▶ Activities performed by the management are in accordance with sound administrative principles and policies |

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

- ▶ **For Audit of Economy of resources**, Internal 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.
- ▶ Internal Auditor can conduct Audit of Economy of administrative activities in accordance with sound administrative principles and practices, and management policies.
- ▶ **Audit of Economy** should be perceived with reference to achievement of the goal. Economy in an absolute sense may mean not to spend anything at all. But in a relative sense it has to be related to the purpose of spending. Thus 'economy' means spending only that much which is barely essential to achieve the goal.
- ▶ **Economy also applies** to physical resources such as space used, number of vehicles, number of computers and photocopiers. Performance audit measures economy in the use of physical resources against audit criteria, which could be diverse. For example, for space, it could be space standards of the government; for vehicles, computers and photocopiers, it could be prescribed ratios of inputs and outputs, and based on the number of staff strength in the office, etc.
- ▶ **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.

Efficiency

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 | Efficiency –General issues | Efficiency-Answers to questions |
|--|--|--|
| <ul style="list-style-type: none"> ▶ 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. | <ul style="list-style-type: none"> ▶ Outputs or results have not been produced cost-effectively; ▶ Avoidable bottlenecks or unnecessary overlapping. ▶ The human, financial, and other resources are not used efficiently ; | <ul style="list-style-type: none"> ▶ Whether the program is getting the most output in terms of quantity and quality from the deployed inputs ▶ Whether the government programs, entities and activities efficiently managed, regulated, organised, monitored ▶ Whether the stipulated objectives and requirements are consistent with activities in government entities ▶ Whether the government programs objectives achieved cost effectively. |

Further, 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, a performance auditor must first assess the standards of input and output. Performance auditors must identify these standards as audit criteria. But often in the practical scenario, such standards may not be directly available in which case the auditor has to work with the auditee agency's management to determine the agreed standards.

The principle of efficiency means getting the most from the available resources. Efficiency exists where the use of financial, human, physical and information resources is such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output. Internal 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 by auditee agencies and release requests to the Department of Public Accounts, timely fund availability to the project, timeliness and competitiveness in procurement, etc.

Effectiveness

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 |
| Effectiveness-Answers to questions | |
| <ul style="list-style-type: none"> ▶ Assess whether government programs have been effectively prepared and designed and whether they are clear and consistent ▶ Assess whether the objectives and the means provided (legal, financial, etc.) for a new or ongoing government program are proper, consistent, suitable, or relevant ▶ Assess the effectiveness of the organizational structure, decision-making process and management system for program implementation ▶ Assess whether the program supplements, duplicates, overlaps, or counteracts other related programs ▶ Assess the adequacy of the system for measuring, monitoring and reporting a program's effectiveness; ▶ Assess the effectiveness of government investments and programs and/or their individual components, i.e. ascertain whether goals and objectives are met; ▶ Assess whether the observed direct or indirect social, economic and environmental impacts of a policy are due to the policy or to other causes; ▶ Identify factors that inhibit satisfactory performance or goal fulfilment; ▶ Analyse causes of findings and observed problems in identifying ways of making government activities and programs work more effectively; and ▶ Identify the relative utility of alternative approaches to yield better performance or eliminate factors that inhibit program effectiveness. | |

Audit of Effectiveness will actually 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/programme/scheme. In practice, when the comparable materials are often lacking, an Internal Auditor needs to assess the plausibility of the assumptions on which the policy and objectives are based.

In auditing effectiveness, Internal 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 internal auditors are supposed to examine all four elements: inputs, outputs, outcomes and impact. However, it is impractical to expect internal auditors to provide concrete findings on impact as that can be measured over a longer period of time. This can be done only if the performance audit is undertaken after several years of the project completion. In that case, usually, the data on other three elements would have become irrelevant. Thus, despite theoretical claims, performance auditors hardly ever audit

the impact of projects or programs in practice. Even when the internal auditors are focusing on outputs only, there are several performance measurement aspects they can examine. For example,

- ▶ What is the quality of the output?
- ▶ What is the rate of error?
- ▶ How reliable is the service?
- ▶ How do users rate utility of an output?

To sum up, an Internal auditor is guided by Programme Logic Model of any programme/scheme/theme to identify and set out the relationship between the socio-economic needs to be addressed by the intervention and its objectives, inputs, processes, outputs, and outcomes, which are the results, as illustrated below based on one typical need of a community, i.e., drinking water crisis.

Figure 4: Programme Logic Model

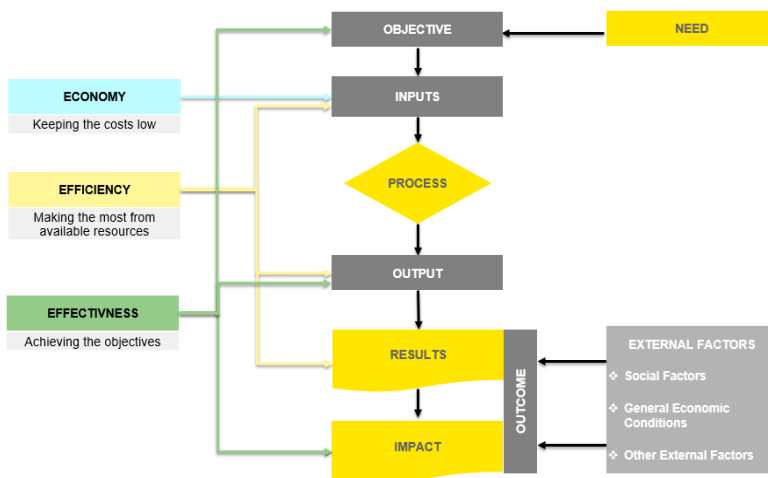
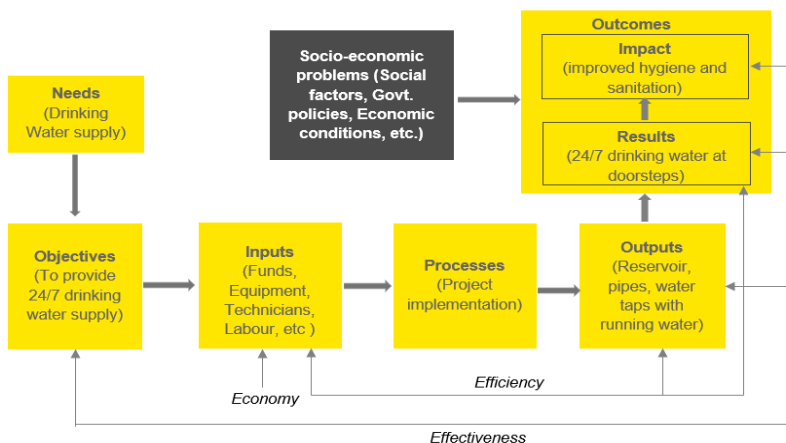


Figure 5: Example of Programme Logic Model – Drinking Water Supply



A variety of topics can be selected to conduct performance auditing in the country. A few examples are:

| | |
|--------------------------------------|---|
| ► Distribution of teachers | ► Management of public debt |
| ► Efficiency in health care services | ► Management of water distribution |
| ► Distribution of medical drugs | ► Management of solid waste |
| ► Distribution of school books | ► Construction and maintenance of roads |
| ► Processing time of passports | ► Management of national parks |
| ► Forest management | ► Maintenance of government vehicles |

3.7 Applying the concepts of three Es in performance auditing

A basic understanding of the concepts of economy, efficiency and effectiveness in public administration forms the foundation for performance auditing. The concepts clarify what from a performance perspective can be considered to be problems or weaknesses that may be addressed by performance audits. The concepts can also help internal auditors to orient themselves and avoid commenting on the effectiveness of government entities if the audit has focused on aspects of economy. Examples of different focuses of performance audits linked to three E's are provided in the box below.

| Sectors | Examples Of Different Focuses Of Performance Audits | | |
|----------------|--|---|--|
| | Economy | Efficiency | Effectiveness |
| Procurement | ► Price of purchased goods of appropriate quantity and quality delivered on time at the right place | ► How the resources are used in procurement, i.e., managing to deliver appropriate procurement services on time | ► Whether goods of desired quality and quantity was delivered as intended |
| Education | ► Teachers competence vis-à-vis pay scale; ► Office rent costs; ► Utilization of fixed assets (classrooms, IT-lab) | ► Conducted training courses per teacher and year; ► The quality of the training according to evaluations | ► Number of students who graduate; ► Students' skills; ► Employability |
| Traffic Police | ► Number of police officers; ► Cost of vehicles; ► Maintenance of vehicles | ► Inspections per police officer and month; ► Cost per inspection; ► Variations of the focus and quality of traffic inspections between districts | ► Reduced number of drunk or over-speeding drivers; ► Reduced serious traffic accidents; ► Reduced deaths caused by road accidents |
| Health care | ► Wastage of procured drugs; ► Cost of adequate medical equipment; ► Inappropriate balance between different staff categories, leaving some staff idle | ► Number of patients treated with existing resources; ► Waiting time for treatment | ► Number of patients cured; ► Satisfaction of patients |

3.8 Approach of Performance Auditing

The following three approaches are followed by the Internal Auditor while conducting performance audit:

Results-oriented approach

This approach focuses on the planned objectives of the auditee agency, its programmes or projects and the results achieved. It starts by examining if the planned objectives have been achieved. If so, at what cost (economy) and with what efficiency? For this purpose, the auditors lay down audit criteria for measuring the results, economy and efficiency. The results-oriented approach uses audit criteria as baseline for good practice and desirable normative standard.

Problem-oriented approach

The problem-oriented approach basically deals with a problem, collects data on facts, analyses the problem, determines its causes and suggests possible remedial actions. Often, based on the circumstances, an internal auditor shall formulate hypothesis and test them against the actual data. In their pursuit to understand the problem, internal auditors may even look for problems in the existing laws, rules and procedures and suggest changes to modify them. The problem-oriented approach focuses on analysis of the problem without reference to audit criteria.

System-oriented approach

Performance auditors in some countries, like in India, deploy a third approach: a system-oriented approach, which examines the proper functioning of management systems, e.g. financial management systems.

To sum up, the overall audit approach is a central element of any audit. It determines the nature of the examination to be made. It also defines the necessary knowledge, information, data, the audit procedures and analysis required. At the end, auditors should choose a result, problem or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.

All three approaches can be pursued from a top-down or bottom-up perspective. These perspective-based approaches can also be understood as 'Incident based approach' where stakeholder requests and concerns are taken into account and audits are conducted where incidents have occurred, or issues have already been identified. Top-down audits concentrate mainly on the requirements, intentions, objectives and expectations of the legislature and government authority. A bottom-up perspective focuses on problems of significance to people and the community. The CCA or IAUs may take up performance auditing based on the specific expectations and directions of the Parliament and other higher authority (a top-down perspective) and ascertain the actual performance with reference to those expectations.

Conversely, it can also take a bottom-up approach where it can start with the expectations of the people for whom a programme or project has been planned and assess if these expectations have been met. Dzongkhag IAUs are often involved in auditing cases based on complaints and allegations received from public. A bottom-up perspective focuses on problems of significance to people and the community. For either of the perspectives, an internal auditor shall be following either one or combination of the three approaches.

Performance audit approach matrix

| Particular | Result-Oriented | Problem-Oriented | System-Oriented |
|------------|-----------------|------------------|-----------------|
| Top-Down | | | |
| Bottom-Up | | | |

For all practical reasons for Internal Audit Services in Bhutan, performance auditing by IAUs or CCA shall follow the mix of all three approaches.

3.9 Audit Life Cycle

A performance audit assignment passes through four phases:

Planning

In this phase, an internal auditor prepares the road map focusing on issues and areas related to the subject matter. This will enable development and maintenance of information on the agency that will assist in identifying potential areas for performance audit. Planning is necessary in order to obtain sufficient, relevant and competent evidence in an efficient and timely manner. Potential topics can then be analysed and ranked to form annual audit strategy documents for each agency.

Execution

The execution phase of a performance audit involves execution of an audit programme in accordance with developed audit plan including collection of sufficient relevant and reliable evidence, quantitative and qualitative analysis, formulation of audit findings, conclusions and recommendations.

Reporting

Upon completion of a performance audit, a report is prepared for consideration by the auditee agency and other users. Throughout each stage of a performance audit the emphasis should be on the production of a final report that is balanced and has value added impact.

Follow-Up

Follow-up procedures should identify and document performance audit impact and the progress of the agency in implementing audit recommendations. Follow-up audit is vital to provide feedback to the auditee agency and other stakeholders on performance audit effectiveness in bringing improvements in public sector management.

A detailed exposition of these phases will appear under relevant chapters dealing with each of these phases.

4

General Principles in Auditing

Chapter 4: General Principles in Auditing

4.1 General Concepts in audit

Throughout the guideline, the ISSAI and IIA Standards directly applicable or relevant to the subject or procedures under consideration have been provided. However, the internal auditors are still expected at least to have knowledge and understanding of the international standard on performance audit frameworks including governance, risk management and capable of exercising professional judgment. The CCA and internal auditors of IAUs may download the international standard on performance audit from ISSAI official website¹.

Some essential concepts internal auditors must embrace as fundamental auditing principles are as under:

4.1.1 Independence and Ethics

Requirement according to IIA 1100:

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Requirement according to ISSAI 3000:

The auditor shall comply with the procedures for independence and ethics, which in turn shall comply with the related ISSAIs on independence and ethics (*ISSAI 3000/21*).

Requirement according to ISSAI 3000:

The auditor shall take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users (*ISSAI 3000/23*).

Independence and ethics are important to enable auditors conduct auditing without yielding to any undue pressure, nor dispense any favour or resort to any unethical means that would compromise free and fair conduct of audit. Particularly, for a performance audit, an auditor and the team should have independence to make key decisions, such as:

- ▶ identifying and deciding on an audit topic;
- ▶ establishing the audit objective;
- ▶ identifying the applicable criteria;
- ▶ determining the methodological approach to the audit;
- ▶ assessing audit evidence and forming conclusions;
- ▶ discussing audit criteria and findings with the auditee entity;
- ▶ assessing the positions of various stakeholders; and
- ▶ writing a fair and balanced report.

The IIA defines Independence as *“The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner”*.

In order for the internal auditors to render impartial and unbiased judgment essential to the proper conduct of audits, they should be independent of the activities they audit. Internal

¹ <http://www.issai.org/>

auditors should not be involved in daily operations of the government agencies of RGoB and not assume any management or executive responsibilities. While Internal Audit shall operate under the administration of respective government agency, it shall have functional independence for all its operational purposes.

4.1.2 Intended users and responsible parties

Requirement according to ISSAI 3000:

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 in order to conduct the audit accordingly (*ISSAI 3000/25*).

Internal auditors of IAUs are stationed under different government agencies of RGoB. They perform audit for their respective agencies. Therefore, the first intended users of their reports are the management of their own government agencies. However, there are other responsible parties who would be the users of the reports, e.g., the employees of the agency and the ministry concerned, related external parties such as external suppliers and media, legislators, and agencies who would have directed/requested for the audit and general public.

The internal auditors should ascertain tentative list of such intended users and responsible parties right from the stage of conceiving audit plan to drafting of observations so that the users' concerns are not neglected during the audit. Internal auditors must be mindful of anticipated benefits to the final users of the reports during the preparation of final reports.

4.1.3 Subject matter

Requirement according to ISSAI 2310:

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

Requirement according to ISSAI 3000:

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

For the IAUs, the subject matter of a performance audit must derive from the Strategic Plan endorsed by the CCA and the Annual Audit Plans approved by the respective agency heads.

4.1.4 Confidence and Assurance

Requirement according to ISSAI 3000:

The auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way (*ISSAI 3000/32*).

The Internal Auditors taking up performance auditing must be able to provide certain degree of confidence to the intended users and responsible parties of the value addition from the performance audit undertaken. Further, the internal auditor must provide assurance of the outcome of the audit undertaken. For this, the audit team must be fully prepared to undertake performance auditing with desired level of quality assurance and professionalism. Confidence and assurance must be provided during the course of auditing through identifying proper audit objectives, audit criteria, audit approaches and methodologies like gathering and analysis of evidences, etc.

4.1.5 Audit objective

Requirement according to IIA 2210:

Objectives must be established for each engagement.

2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

Requirement according to ISSAI 3000:

The auditor shall set a clearly-defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness (*ISSAI 3000/35*).

Internal auditors should set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness. The audit objectives must state the purpose of the audit and what the auditor intends to achieve by conducting the audit. It should be so formulated that it is possible to conclude whether the objectives have been met after the completion of the audit. For this, the internal auditors must ensure that they fulfilled the spirit of the principle behind audit objectivity as stated by the IIA as under:

“An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others”.

4.1.6 Audit approach

Requirement according to IIA 2100:

The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact.

Requirement according to ISSAI 3000:

The auditor shall choose a result-, problem or system-oriented audit approach, or a combination thereof (*ISSAI 3000/40*).

Internal auditors should choose a result-oriented, problem-oriented or system-oriented approach, or a combination thereof, to facilitate the soundness of performance audit design. In fact, the choice of an audit approach would depend on the nature of the examination foreseen during the audit. Further, either of the three approaches or combination thereof can be chosen by the audit team based on the prevailing circumstances for conducting performance audit. Therefore, the audit approach is an important link between the audit objectives, audit criteria and the work done to collect evidence.

4.1.7 Criteria

Requirement according to IIA 2210:

2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

Requirements according to ISSAI 3000:

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*)

The audit team must establish audit criteria, which are standards against which the audit evidence shall be compared and judged. These audit criteria must be reasonable and attainable standards against which the economy, efficiency, and effectiveness can be assessed and evaluated to determine whether performance falls short of, meets or exceeds expectations. The audit team, in order to have proper planning and successful implementation of audit, is advisable to discuss the audit criteria with the auditee unit/entity. Such collaborative discussions would enable smooth conduct of audit during the data collection and analysis phase of performance auditing.

4.1.8 Audit risk

Requirement according to ISSAI 3000:

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*)

The audit team should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for the users. To manage audit risk, the audit team needs to:

- ▶ Identify the risks;
- ▶ Assess these risks;
- ▶ Develop and implement strategies to prevent and mitigate the risks; and
- ▶ Monitor audit risk and deploy mitigation strategies throughout the audit and make adjustments as needed to changing circumstances.

4.1.9 Communication

Requirements according to IIA 2400:

Internal auditors must communicate the results of engagements

Requirements according to IIA 2410:

Communications must include the engagement's objectives, scope and results.

Requirements according to IIA 2420:

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Requirements according to ISSAI 3000:

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*).

The auditor shall take care to ensure that communication with stakeholders does not compromise the independence and impartiality. (*ISSAI 3000/59*).

Clearly communicate the standards that were followed to conduct the performance audit (*ISSAI 3000/61*).

The audit team should maintain effective and proper communication with the auditee units/entities and other relevant stakeholders in the agency throughout the audit process for each audit. This will enable achieving effective and efficient audits of annual planned activities and programmes. Notwithstanding this, internal auditors must not compromise their inherent professional independence and objectivity.

4.1.10 Skills

Requirement according to IIA 1210:

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Requirement according to ISSAI 3000:

Ensure that the audit team has collectively the necessary professional competence to perform the audit (*ISSAI 3000/63*)

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

4.1.11 Supervision

Requirement according to IIA 2340:

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Requirement according to ISSAI 3000:

Ensure that the work of the audit staff at each level and audit phase is properly supervised during the audit process. (ISSAI 3000/66)

Supervision is essential for the audit team and individual members to ensure that audit objectives are met, and the quality of the audit work is maintained. The Chief of IAU shall maintain supervision over the audit team and ensure sufficient guidance and direction is provided to the internal auditors so that focus on audit objectives is not lost and applicable audit methodologies are followed. Likewise, the CCA shall maintain desired level of supervision over the performance of respective IAUs.

4.1.12 Professional judgment and scepticism**Requirement according to IIA 1220:**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

Requirement according to ISSAI 3000:

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).

Requirement according to ISSAI 3000:

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).

Requirement according to ISSAI 3000:

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

Requirement according to ISSAI 3000:

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

Whilst exercising professional judgment, internal auditors must apply relevant training, knowledge and experience in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. Internal Auditors should always exhibit professionalism through compliance of relevant laws, regulations and professional obligations, and avoid any conduct that would bring disrepute to the Internal Audit profession. Internal Auditors should be creative, flexible, and resourceful so that they can identify opportunities to develop innovative audit approaches for collecting, interpreting, and analysing information. It is important to recognize that different stages of the audit process provide different levels of innovation opportunities. Therefore, internal auditors should not only be sceptic but also be open and receptive to new ideas and opportunities for innovations.

4.1.13 Quality control**Requirement according to IIA 1300:**

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity

Requirement according to ISSAI 3000:

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*).

Internal auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced and fair reports that add value and answer the audit questions. Maintaining quality control is mainly to ensure that audits are conducted at a consistently higher standard through providing direction, supervision and review of the audit process.

4.1.14 Materiality**Requirement according to IIA 1220:**

1220.A1 – Internal auditors must exercise due professional care by considering the:

- ▶ Extent of work needed to achieve the engagement's objectives.
- ▶ Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- ▶ Adequacy and effectiveness of governance, risk management, and control processes.
- ▶ Probability of significant errors, fraud, or noncompliance.
- ▶ Cost of assurance in relation to potential benefits.

Requirement according to ISSAI 3000:

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*).

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

4.1.15 Documentation**Requirement according to IIA 2330:**

Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.

Requirement according to ISSAI 3000:

The auditor shall document the audit in a sufficiently complete and detailed manner (*ISSAI 3000/86*).

Internal 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. Sufficient and appropriate audit evidences must be gathered and documented.

5

Audit Planning and Preparation

Chapter 5: Audit Planning and Preparation

Planning for performance audit for every financial year will be part of the overall annual audit plan for IAUs. Based on the overall strategic plan of the Internal Audit Service, respective IAUs shall prepare their own annual performance audit plan and obtain approval from the agency heads. There will be two tier of performance audit, one common theme selected by CCA in discussion with IAUs which will be applicable for all IAUs. And another topic (i.e. theme/programme/scheme) for performance audit will be selected by the IAUs for their respective government agency. In other words, depending on the overall national plans and priorities, the CCA shall also prepare the overall annual performance audit plan, which shall be implemented by respective IAUs during the year.

However, prior to approving the individual annual plans of IAUs, the Chief/Head of CCA shall coordinate the planning exercise of IAUs to ensure that individual IAU plans are in alignment with the overall priorities of the CCA for the year.

This chapter contains the requirements for planning the performance audit. The purpose of these requirements is to establish the overall approach for the Internal Auditor to apply when planning the performance audit. This chapter has two main parts. The first part is on selecting topics and relates primarily to the CCA strategic planning process. The second part of the planning section relates to the individual design of each audit, focusing on what to audit, what criteria to apply and what methods of data gathering and analysis to use.

IIA Standard 2010 – Planning:

The Chief Internal Audit must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

IIA Standard 2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

IIA Standard 2010. A2

The Chief Internal Audit must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

IIA Standard 2120 – Risk Management:

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

IIA Standard 2120.A1

The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- ▶ Reliability and integrity of financial and operational information;
- ▶ Effectiveness and efficiency of operations and programs;

- ▶ Safeguarding of assets; and
- ▶ Compliance with laws, regulations, policies, procedures, and contracts.

IIA Standard 2120.A2

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

IIA Standard - 2130 – Control:

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

IIA Standard - 2130.A1

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- ▶ Reliability and integrity of financial and operational information;
- ▶ Effectiveness and efficiency of operations and programmes;
- ▶ Safeguarding of assets; and
- ▶ Compliance with laws, regulations, procedures and contracts.

IIA Standard 2200 – Engagement Planning:

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

IIA Standard 2201 - Planning Considerations:

In planning the engagement, internal auditors must consider:

- ▶ The objectives of the activity being reviewed and the means by which the activity controls its performance;
- ▶ The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
- ▶ The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model; and
- ▶ The opportunities for making significant improvements to the activity's risk management and control processes.

IIA Standard 2210 – Engagement Objectives:

Objectives must be established for each engagement.

IIA Standard 2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

IIA Standard 2210.A2

Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

IIA Standard 2210.A3

Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria.

IIA Standard 2220 – Engagement Scope:

The established scope must be sufficient to satisfy the objectives of the engagement.

IIA Standard 2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

IIA Standard 2230 – Engagement Resource Allocation:

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

Requirements according to ISSAI 3000:

- ▶ The auditor shall select audit topics through the 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 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 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)
- ▶ The auditor shall submit the audit plan to the audit supervisor and senior management for approval. (ISSAI 3000/104)
- ▶ The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete findings, conclusions, and recommendations, providing unbalanced information or failing to add value. (ISSAI 3000/52)

5.1 Role of Audit Offices

The IAUs shall be primarily responsible for overall Performance Audit planning, executing and reporting. For preparing annual plan of performance audits at IAU level, IAUs shall follow the planning schedule notified by the CCA every year. The final list of performance audits to be taken up during the following year shall be based on translation of the strategic plan as approved by CCA.

Role of CCA in planning

Notwithstanding the core roles of CCA as provided in the Internal Audit Charter, the overall roles of CCA shall capture the following:

- ▶ **Training:** to ensure that IAU staff are adequately trained and their skills and competencies are enhanced as required by their profession;
- ▶ **Planning Coordination:** to coordinate annual planning for Performance Audit of all individual IAUs; and
- ▶ **Knowledge management on Performance Auditing:** to act as a repository of knowledge on Performance Auditing for the Internal Audit Service of the country.

Role of IAU in planning

Internal Audit Units (IAUs) shall be responsible to, as provided under the Internal Audit Charter:

- ▶ Develop annual plans based on the comprehensive risk assessment and seek approval from the head of the agency and share the approved plan with CCA;
- ▶ Implement the approved plan during the year; and
- ▶ Explore opportunities for necessary and appropriate collaboration with external auditors and regulators for the purpose of providing optimal coverage and to avoid duplication of work.

5.2 Strategic Plan for Performance Audit

The performance audit shall be conducted as per the strategic plan of CCA. Determining which performance audit shall be carried out by IAUs is part of the CCA strategic planning process. The CCA strategic plan provides direction for the work of the Internal Auditors of IAUs. The strategic plan shall generally cover several years and guides the internal auditor in the selection of topics, programmes or themes for audit. The number of potential topics, Schemes, programmes and themes may be generally higher as compared to the existing limited capacity of Internal Audit Units. Consequently, performance audit selection decisions must be taken through risk-based approach within the available capacity of the Internal Audit Units.

The strategic planning process shall result in an operational audit plan for the CCA covering one or more years. However, considering the dynamic nature of the public sector and the changing priorities in public policies, the operational audit plan is generally revised annually.

Some IAUs may choose topics based on strategic considerations regarding the type of performance audit and reforms within the public sector/respective government agency. Some IAUs may choose topics based on other selection criteria pertaining to their government agency, for example with regard to a specific type of activity such as health programmes, power sector or larger investment projects. An alternative choice may be to simply focus on auditing respective auditee units and their performance towards meeting objectives and goals in relation to economy, efficiency and effectiveness.

The operational plan shall list the potential audit areas and provide a brief account of the possible problems, questions, and other arguments. The approach to selecting the audit topics by IAUS may vary. Some IAUs may follow bottom-up approach, where the internal auditor identifies the potential topic for performance audit and participates in the selection process. Other IAUs may follow a top-down approach, where the management of government agency provides the potential audit topics. Some IAUs may follow a mix of both approaches.

The CCA shall issue a 5-year strategic plan for performance auditing. The objectives of the strategic plan shall be as follows:

- ▶ Give strategic direction for future performance audit coverage;
- ▶ Help in the identification and selection of audits with the potential to improve public sector accountability and administration;
- ▶ Establish monitoring mechanism to review the progress of IAUs;
- ▶ Promote accountability and governance within Internal Audit Services; and
- ▶ Support in the preparation of a work program that can be achieved with expected available resources.

It shall be the ongoing activity for CCA and the IAUs to work on strategic planning of PA. The CCA shall conduct periodic consultation and brainstorming sessions with the IAUs personnel through frequent seminars, workshops, panel discussions, and meetings within the Ministry of Finance and with other stakeholders. Such activities by the CCA may be incorporated in the CCA's Annual Performance Agreement (APA) so that required budgetary and human resource supports are received from the Ministry of Finance and RCSC respectively.

The CCA may issue time-table to IAUs for preparing the strategic plan. The IAUs shall prepare the proposal for strategic plan and submit to CCA for further course of deliberation and approval. It shall be the IAUs' responsibility to ensure that the proposals reach CCA within the prescribed time-frame. The IAUs may consider the following factors while preparing the strategic plan:



Figure 6: Factors for preparing strategic plan

The CCA shall consolidate the proposals and priorities received from IAUs and may discuss further with IAUs where it is necessary to have a clearer view. CCA may also find it necessary to hold seminars with IAUs to firm up the views and smooth out any overlaps and duplications amongst the IAUs. In order to ensure IAUs prepare a comprehensive Strategic Plan, the CCA may involve/initiate IAUs to undertake necessary research in basic trends in economy, government, and social sector. Such research initiative may entail the following:



Such initiatives would ensure that the CCA, IAUs and the internal audit fraternity always remain in possession of updated information on current affairs. This may lead CCA and IAUs to identify topical issues for Performance Auditing, for example

- ▶ Delays in hydropower project,
- ▶ Food security management,
- ▶ Disaster management,
- ▶ Bhutan's status on SDG progress, etc.

The contents of the strategic plan shall include the following, but not limited to:

- ▶ Specify themes, sub-themes, if any, and objectives and scope of each theme and sub-theme; and
- ▶ Background and supporting documents for each theme in the draft strategic plan.

Upon approval of the strategic plan by CCA, the IAUs shall prepare annual audit plan in accordance with the CCA strategic plan. There will be two tier of performance audit. In first tier, CCA will choose one common theme/topic in discussion with IAUs and keeping dynamic nature of the public sector and the changing priorities in public policies which will be applicable for all IAUs. In Second tier, the IAUs for their respective government agency will choose the topic (i.e. theme/programme/scheme) focus on auditing individual government agencies. The Performance Audit annual plan of CCA and of all IAUs shall be translated into the Annual Operational Plan.

5.3 Annual Audit Planning Process

Following the formal approval of Strategic Audit Plan by CCA, the process of preparing the annual audit plan is the responsibility of IAUs concerned. Annual audit plan is an exercise of balance between the audit priorities and the resource availability. One of the important components of audit plan is the selection of specific subjects for performance audits to be undertaken during the year.

One key component of the performance audit plan would typically include subjects relating to specific areas or sectors under the respective IAU's audit jurisdiction. The CCA shall also ensure that quality of performance audit does not suffer because of undertaking too many audits by IAUs. Therefore, concerns of the IAUs and other stakeholders may be obtained and given due regard while selecting topics for performance audit at the time of preparation and finalization of annual plans of respective IAUs.

The following steps illustrates various activities to be conducted at the audit planning stage of audit life cycle to prepare the annual audit calendar.

Figure 07: Steps of audit planning:



Part 1: Overall Planning

5.4 Selection of Audit Topics

Based on the strategic plan, the IAUs have to select topics and areas for performance audit. These are mainly done through assessing risk, analysing problems and considering materiality. Risks are the likelihood and impact of an event with the potential to affect the achievement of an organisation's objectives. Materiality relates not only to financial aspects, but also social and/or political ones, such as the number of people affected by a law or reform, transparency and good governance. Materiality concerns all aspects of performance audits, such as, selection of topics, definition of criteria, evaluation of evidence and documentation and management of the risks of producing inappropriate or low impact audit findings or reports. The analysis of potential topics should give consideration to maximizing the expected impact of an audit. Factors that may indicate higher risk include:

- ▶ Financial or budgetary amounts that are substantial, or significant changes to the budget.
- ▶ Management structures that are complex, with possible confusion about responsibilities.
- ▶ Areas traditionally prone to risk (e.g., IT systems, procurement, technology, environmental issues and health).
- ▶ New or urgent activities or when changes in conditions (e.g., requirements and demands) are involved.
- ▶ Lack of reliable, independent, and updated information on the economy, efficiency or effectiveness of a government programme.

In performance auditing, risks may involve areas of potential poor performance that concerns citizens or have a great impact on specific groups of citizens. The accumulation of such indicators or factors linked to an entity or a government programme may represent an important signal to the auditor and can lead the internal auditor to plan audits based on the risks or problems detected.

Guided by the materiality and risk profiles associated with selected audit topics, it will enable the IAU to increase the coverage to a large number of relatively more important and contemporary issues, which may be expected to enhance the perceived and actual value addition through performance audits.

For example, emerging issues like SDGs, Climate Change and the Intended Nationally Determined Contributions (INDC) and environmental challenges, and information technologies may also be taken up by the IAUs. Further, the significance of the problems to people and the community may also be given appropriate emphasis while selecting the subjects of audits, as a bottom-up approach perspective of performance auditing.

Where desirable, the subjects of performance audit may be selected cutting across various sectors or units, e.g. performance audit on property management. This will provide a platform for performance audit on a theme or thrust area over a cross-section of sectors, who are entrusted with the responsibility for the programme, activity, etc. Finally, and more importantly, selection of audit topics must consider the IAU's capacity in terms of human resources, time and budget, and necessary expertise of specialised services.

Some significant checklists for selection of performance audit subjects, but not limited to, are:

Assessing risks / Risk Profiling

Since all the audit units and all activities of the units cannot be audited because of resource constraints, awareness of audit units or areas that have potential to put the programme or public resources at risk from the point of view of economy, efficiency and effectiveness helps focus audit attention on them. Risk profiling of audit entities, sectors and programmes help in deciding the selection of subjects.

For example, an education programme on teachers' professional development activity may be selected to understand the programme's risk from the point of view of economy, efficiency and effectiveness.

Materiality and Significance

Internal Auditors should consider materiality in all stages of the audit process and in doing so consider not only financial, but also social and political aspects of the subject matter and how to add the most value possible through performance audit. Significance refers to the importance of items, events, information, matters, or problems in the context of the organization, programme or subject. A topic will have a high significance if the project or activity it addresses is central to the functioning of the unit or agency.

Visibility and Sensitivity

Visibility and Sensitivity of a subject is an assessment of the interest it generates in the general public and the legislature. While no uniform index of visibility can be prescribed, legislative debates, media reports or articles and subjects of workshops and seminars could serve as an index of visibility. Both the Top-down and Bottom-up approaches perspectives in selecting audit topics will contribute towards promoting the visibility of internal audit profession in the country. Similarly, sensitivity refers to the likely perception and emotional response by others to conditions or circumstances. While determining sensitivity requires judgment based on the circumstances in each case, some issues likely to be judged as sensitive may include:

- ▶ Issues that have received recent media coverage;
- ▶ Issues that have been deliberated in the Parliament;
- ▶ Issues involving environmental concerns, such as, the plastic ban policy.

Past audits of the agency

Past audits of the agency by either the internal or the external auditors may also provide an index of significance, materiality and risk of the subjects. For example, audit reports of Royal Audit Authority on particular themes covering high profile executives.

Estimated impact

Estimated impact of the performance audit is also a criterion for prioritisation. This could be the impact of improved economy, efficiency and effectiveness of the entity, project or activity, which is the subject of performance audit. Impact can be assessed through an understanding of the entity's risk profile and the areas proposed to be addressed by the topic. For example, performance audit on mining and hydro-power sectors.

5.5 Audit Tool for topic selection criteria and matrix

Audit tool is any format, template, checklist, programmes, planning memorandum, worksheets, etc. developed and used by auditors for completion of an audit and for future reference. An audit tool can also be CAAT software such as IDEA, TeamMate Analytics, ACL, or Excel, etc.

For instance, audit programme as an audit tool is developed by an audit team where a supervising auditor, i.e., Team Leader approves each section of an audit programme as team member auditors complete it. An audit program is a step-by-step process developed by the team for the auditors to follow during the audit. By following the audit program the auditor can complete the audit in an efficient and effective manner. Audit programme formulation must go through an approval process to ensure the audit has been completed properly and in compliance with applicable audit standards and other legal requirements.

Likewise, audit tools can be developed for audit topic selection using the Selection Criteria Matrix design. This Audit Tool helps audit team in selecting topics for performance auditing. The internal audit team shall first assess the above significant checklists or numerous criteria (Risk, Materiality and Significance, Visibility and Sensitivity, Past Audits of the agency, and Estimated Impact) for ranking and selecting topics for performance audit. These criteria shall be judgmentally assigned with certain weight for each auditable topic such that the total weightings are equal to 1 or 100%. Parameters for each criterion to be assigned with certain judgmental rating can be assessed by asking relevant questions. Numerous criteria for ranking and selecting topics for performance audit can be categorized as below:

Risk Profiling:

Assessment of potential risks in managing audit considering coverage, complexity of business of organization and availability of skill and knowledge are some bases to determine ratings. Following, but not limited to, are the parameters to assess the bases for ranking:

- ▶ Do the auditors team have required competency and expertise to complete audit?
- ▶ Are there sufficient and appropriate criteria for evaluating auditee's project/ programme/ entity?
- ▶ Are audit evidence and information available to evaluate the project or programme?
- ▶ Is audit location of the audit topics accessible?
- ▶ Does audit team have knowledge and skill to deal with the complexity and coverage of audit?
- ▶ Does Office have received act, regulation, agreement related to the audit topics?

Materiality and Significance:

The internal audit team has to assess the potential contribution of auditing in broader scenario of administration and/or management. Materiality can be ranked using the answer of the following, but not limited to, questions:

- ▶ Is the auditee management aware about their weakness and have they considered introducing appropriate corrective measures to overcome the situation?
- ▶ Are there any indications of lagging behind their APA target or objectives?
- ▶ Does the auditee project/entity have vacant position and staff turnover?
- ▶ Are there instances of overspending, under spending, variation, sudden obstruction,

expansion from various sources?

- ▶ Are there any information of overlapping and confused responsibility in the respective project or programs?
- ▶ Are there any topical issues with political and social controversial debate?
- ▶ Is the volume of budget material?
- ▶ Is the management of auditee project/programme decentralized by the Ministry or Dzongkhag, as the case may be?
- ▶ Is the programme/ project/activity complex for the management to operate within the prevailing circumstances in the auditee organization?

Visibility and Sensitivity:

Some of the questions, but not limited to, to assess for ranking are as under:

- ▶ Is the audit topic significant that will enable public forming opinion on the overall performance of the auditee unit or of certain plans or policies?
- ▶ Does the audit topic have connections and relevance to the Government's overall 5FYP activities?
- ▶ Does the weakness identified also affect similar type of such project/programme?
- ▶ Do the irregularity and weakness identified have potential to effect extensively in public accountability?
- ▶ Does general public raise interest in the topics?
- ▶ Does suggestion significantly affect the operation of programme/project?
- ▶ Are there any recent media coverage and public debates on the topic?
- ▶ Have the legislature raised any interest in the topics?

Past audits of the agency:

Some of the questions, but not limited to, to assess for ranking under this criterion, are as under:

- ▶ Was there any involvement of RAA or ACC on this topic?
- ▶ Have the RAA audited before and have they issued any adverse reports?
- ▶ Are there any unresolved past audit issues?

Estimated Impact:

Potential impact of audit can be tentatively assessed by asking following, but not limited to, questions:

- ▶ Can the audit make any visible difference?
- ▶ Can the audit improve service delivery, financial management, organizational capacity and programme implementation?
- ▶ Can audit can contribute in cost reduction and control wastages?
- ▶ Is there any possibility of promoting their efficiency (increasing output and reducing duplication of work as well as improving coordination)?
- ▶ Can audit contribute towards effective implementation, management and achievement of auditee Unit's APA target?
- ▶ Can audit contribute in planning, controlling, and promoting public accountability?

The internal audit team can use the above suggested parameters for each criterion to assign appropriate rankings for different topics. To be effective, the specific criteria, topics, and the resultant ratings suggested in this Audit Tool will likely need to be modified to appropriately reflect the relative significance for the topics in question. Application procedure of this Audit Tool is given below.

Determining Overall Significance Ratings

After judgmentally assigning weights to each topic, an internal audit team shall then assign ratings to each criterion for different topics based on whether the criterion for the topic is 'Not Applicable', 'Low', 'Moderate' or 'High' with 0, 2, 5 and 10 respectively (*See the first row against each topic*). The audit team shall then multiply the ratings under each criterion with its weights provided above to arrive at weighted rankings (*See the second row against each topic*) for each criterion for different topics. The weighted ratings across each column are added and recorded in the "Overall Rating by Topic" by row. These totals can be helpful in determining topics for performance auditing.

Evaluating Ratings by Individual Topics

The internal audit team shall then evaluate the overall significance rating by individual topics. This is done for each topic by row by comparing the total in the "Overall Rating by Topic" row to an appropriate scale that categorizes the topics in terms of significance. Each topic will be then ranked on the basis of their merit.

Example of Selection Matrix

| Selection criteria | | | | | | | |
|--------------------|---------|------------------------------|------------|-------------|------------------|-------------------------|-----------------------|
| Topics | Risk | Materiality and significance | Visibility | Past audits | Estimated impact | Overall rating by topic | Rank (Overall rating) |
| (Weighting) | (0.2) | (0.2) | (0.2) | (0.1) | (0.3) | 1 | |
| Topic 1 | 10 2 | 5 1 | 5 1 | 5 0.5 | 10 3 | 7.3 | II |
| Topic 2 | 5 1 | 10 2 | 5 1 | 0 0 | 10 3 | 7 | III |
| Topic 3 | 5 1 | 5 1 | 5 1 | 10 1 | 5 1.5 | 5.5 | V |
| Topic 4 | 10 2 | 5 1 | 10 2 | 5 0.5 | 10 3 | 8.5 | I |
| Topic 5 | 10 2 | 10 2 | 5 1 | 0 0 | 5 1.5 | 6.5 | IV |

Note: - Not applicable = 0, Low = 2, Moderate = 5, High = 10

Example of selection of Audit Topic for Performance Audit on Environmental Issues

| Selection criteria | | | | | | | |
|--------------------------------|---------|------------------------------|------------|-------------|------------------|-------------------------|-----------------------|
| Topics | Risk | Materiality and significance | Visibility | Past audits | Estimated impact | Overall rating by topic | Rank (Overall rating) |
| (Weighting) | (0.2) | (0.2) | (0.2) | (0.1) | (0.3) | 1 | |
| Forest Fire Issues | 10 5 | 5 1 | 5 1 | 2 0.5 | 5 3 | 10.5 | III |
| Thromde Waste Issues | 5 2 | 10 5 | 10 5 | 2 0.5 | 5 2 | 14.5 | I |
| Medical Waste Issues | 5 1 | 5 1 | 5 1 | 2 0.5 | 5 2 | 5.2 | V |
| Dzongkhags Waste Issues | 5 2 | 5 1 | 5 2 | 2 0.5 | 5 2 | 7.5 | IV |
| Industries Waste Issues | 10 3 | 10 5 | 5 2 | 2 0.5 | 5 3 | 13.5 | II |

Note: - Not applicable = 0, Low = 2, Moderate = 5, High = 10

5.6 Preliminary Study / Assessing auditability / Pilot Study**INTOSAI Performance Audit Guidelines 3000, 3.3 provide that:**

“If conditions do exist to continue on to the execution stage of the audit (main study), an audit proposal should be prepared. If a performance audit is not recommended, a preliminary study report should summaries the preliminary study conclusions”

A preliminary study is an important tool to ensure that the internal audit team is well acquainted with the activity to be audited and can develop an effective audit proposal.

Once a topic has been selected for performance audit, the IAUs may conduct a preliminary study so that it is better able to understand the context of the audit and judge the audit resources that are required. The preliminary study aims to explain why the audit should be carried out and provide sufficient justification to proceed with executing the performance audit. The preliminary study is also known as Assessing Auditability or pilot study.

Assessing auditability is an important requirement in the individual planning process. The internal auditor must consider if conducting an audit is relevant and cost-effective. The internal auditor may have to consider, for instance, whether there are criteria available or whether the information or evidence required is likely to be available. In fact, it is a testing of availability of information and the feasibility of the methods proposed and does not involve any audit testing at this stage.

For example, the internal auditor may observe during the overall planning phase that the expected problem is already being handled by the auditee entity. Studies covering similar objectives may already have been conducted by other institutions, or there are no relevant criteria available and no reasonable basis exists for developing audit criteria. Another reason could be that the information or evidence required is unlikely to be available and cannot be obtained efficiently. On the other hand, absence of information and data can be a significant finding and be the subject of the audit itself. This should not prevent the internal auditor from making further inquiries.

The purpose of this study is to establish whether the conditions for carrying out performance audit exist and, if they do exist, to produce an audit proposal. It provides background knowledge and information needed to understand the entity, programme, or function. At the end of the study, it may be clearly stated whether performance audit is feasible or not. This study should normally be carried out in a fairly short period. In selecting audit topics through this process, the CCA and the IAUs concerned will have to use their preliminary knowledge of the subject area to form a reasonable basis for believing that the audit can be completed in accordance with the performance audit guideline.

Following are the steps but not limited to be followed by internal auditors while conducting preliminary study: :

- ▶ Identifying the objectives and logic of the audit itself;
- ▶ Determining resources available for the audit;
- ▶ Determining responsibilities of respective actors;
- ▶ Identifying key management and controls processes and IT systems and digital data available;
- ▶ Review of previous audit findings, if any;
- ▶ Assessing availability of qualified auditors for the audit; and
- ▶ Assessing time required for the audit, etc.

If the IAU decides to move from a preliminary study to a full audit, a detail audit proposal in the form of Audit Planning Memorandum (APM) shall be submitted to CCA and the head of agency prior to actual commencement of audit. A suggestive contents of the preliminary study are provided below:

Indicative contents of preliminary study

1. Name of the Entity/Project/Issue/Programme – Audit Title
2. Objective of the Entity/Project/Programme
3. Main Activities: Audit Objectives and Scope
4. Problems and constraints faced by the auditee entity while performing the work
 - ▶ Effort made to resolve the problems
 - ▶ Impact of the effort
5. Core Operational process (Input to output) – review
6. Basic performance indicators – availability of information
7. Control mechanism to control the physical progress, cost, quality of the activities (including monitoring and reporting mechanism) – determining responsibilities of key actors.
8. Assessment of resources for the audit (Human, Finance, Time)
9. Conclusions – Audit proposal.

Audit Planning Memorandum

Audit Planning Memorandum is an agreement between the audit team and the Audit Chief wherein the audit team has committed to delivering the audit results in accordance with quality standard and within given deadlines for which the required resources are committed by the Audit Chief. Hence, the APM should state clearly the manner in which the audit work shall be performed, the resources required and the timeframes for the audit duration, and the anticipated impact of the audit. Details of how audit evidence shall be gathered and analyzed to answer the audit questions shall be provided in the APM. Thus, APM should

also contain the outline of the audit procedures required for collecting and analyzing the necessary information which would allow the auditors to reach valid conclusions. A suggestive list of contents of APM is provided below:

Indicative contents of Audit Planning Memorandum

1. Executive Summary
2. Areas to be audited – What and Why?
 - ▶ Description of audit area
 - ▶ Materiality and risks
 - ▶ Relevance to stakeholders
 - ▶ Potential impact of the effort
3. Audit Questions and Scope
 - ▶ Audit Questions
 - ▶ Audit Scope
4. Audit Approach and Methodologies
 - ▶ Approach
 - ▶ Criteria
 - ▶ Methodologies
 - ▶ Likely Outcome
5. Audit Resources, supervision and monitoring
 - ▶ Resources, costs and time schedule
 - ▶ Threats – risks to delivery within available time and fund
 - ▶ Quality Control arrangements
6. Intimation to auditee agency
7. Conclusion

Part 2: Planning Individual Performance Audit

5.7 Planning Individual Performance Audit

Once the performance topic is selected by IAUs, the internal auditor has to plan/design the individual audit. The internal auditor shall design 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. The internal auditor shall consider the needs and interests of the intended users, including the responsible parties when planning the individual audit. The needs and interests of the users could influence the selection of audit objectives and the types of analysis conducted by the internal audit team. By taking into account the needs and interests of the intended users, the auditor can ensure that the audit report is useful and understandable.

It is important that the internal auditor remains independent and focuses on the main role of being an internal auditor acting in the interest of the citizens. The following sequence of planning activities is desirable for internal auditors to prepare individual performance audit planning:

5.7.1 Understanding the entity/programme

The Internal Auditor shall develop a sound understanding of the subject matter ('what is audited'), and of risks and challenges in the area to allow the development of more specific

audit objectives and relevant audit criteria. This information will help the internal auditor decide on the most relevant approach to the audit. Understanding the entity/programme is the starting point for planning individual performance audit. This knowledge would include an understanding of:

- ▶ Mandate of the agency and the areas being audited within the agency;
- ▶ Objectives of the agency and of programmes related to the audit activity;
- ▶ Programmes and performance goals of the agency;
- ▶ Organisational and accountability relationships within the agency;
- ▶ Internal and external environment of the agency and the stakeholders;
- ▶ External constraints affecting programme delivery;
- ▶ Agency management processes and operations; and
- ▶ Resources of the agency.

The following can be the sources for understanding the entity:

- ▶ **Documents of the entity:** documents on administration and functions of the entity, policy files, annual reports, budget and annual plan documents, accounts and financial statements, minutes of internal meetings, operating manuals/ guidelines, management information systems, information on the website, electronic databases and MIS reports, etc.;
- ▶ **Legislative documents:** legislation, Parliamentary questions and debates, Parliamentary Committee reports and correspondence, if any, from Members of Parliament;
- ▶ **Policy documents:** documents of Government ministries and cabinet orders and circulars, Gross National Happiness Commission, Ministry of Finance, etc.;
- ▶ **Academic journals, research publications and consultancy reports:** independent evaluations on the entity, academic and research journals, and similar publication works done by national and international agencies;
- ▶ **Past audits:** past financial and performance audits on the entity provide a major source of information and understanding. Follow-up requirements, perceived non-compliance to recommendations and increased risk and materiality may also provide significant inputs;
- ▶ **Media coverage** on the agency, project/programme and on the dealing officials, if any, and
- ▶ **Special focus groups:** Issues emerging from national or international workshops/seminars, annual and special reports of World Bank, ADB, IMF, UN agencies, Royal Monetary Authority, and reports by special interest groups and NGOs, etc.

For Example: performance audit on maintenance of road, understanding the entity/programme will entail collecting the following information:

- ▶ Background on the Department of Roads and the divisions and units under the department;
- ▶ Road classification and authorities in the country;
- ▶ Types of road maintenance;
- ▶ Overall plans and budget outlay for the road sector; and
- ▶ Budget provision for road maintenance works.

The purpose of understanding the entity/programme is to allow the internal auditor to develop objectives and scope of the audit and to assist with the next planning component, which is the development of audit criteria. It is not a substitute for field-work and should be kept to the minimum required to develop the initial objectives, scope and audit criteria. The appendix to this chapter discusses some key features of government agencies that may be taken into account in developing an understanding of the business of the auditee agency.

5.7.2 Determining specific audit objectives and questions

1. Audit Objectives

The most important stage in the performance audit process is defining the audit objectives. These are the basic audit questions that performance auditors seek answers to. These are usually expressed in terms of questions about performance i.e., achievement of economy, efficiency and effectiveness of an entity, programme or activity under audit. The audit objectives should be defined in a concise manner, as they will impact the nature of the audit, govern its conduct and affect audit conclusions.

The objectives should be limited in numbers, ideally three to five, to provide appropriate focus to the audit. They must be defined in a way that will allow the audit team at the end of the audit to conclude against each of the objectives. The audit objectives therefore need to be framed in a way that allows a clear and unambiguous conclusion. The audit objectives can be expressed in the form of one overall audit question which is then broken down into more detailed/specific sub-questions.

It is important that the audit objectives are based on rational and objective considerations. In determining the audit objectives, the internal auditor must establish where the greatest problems or risks are, and where the audit can add most value. To help define appropriate audit objectives the auditor can conduct interviews with major stakeholders and experts, and analyse potential problems from various viewpoints.

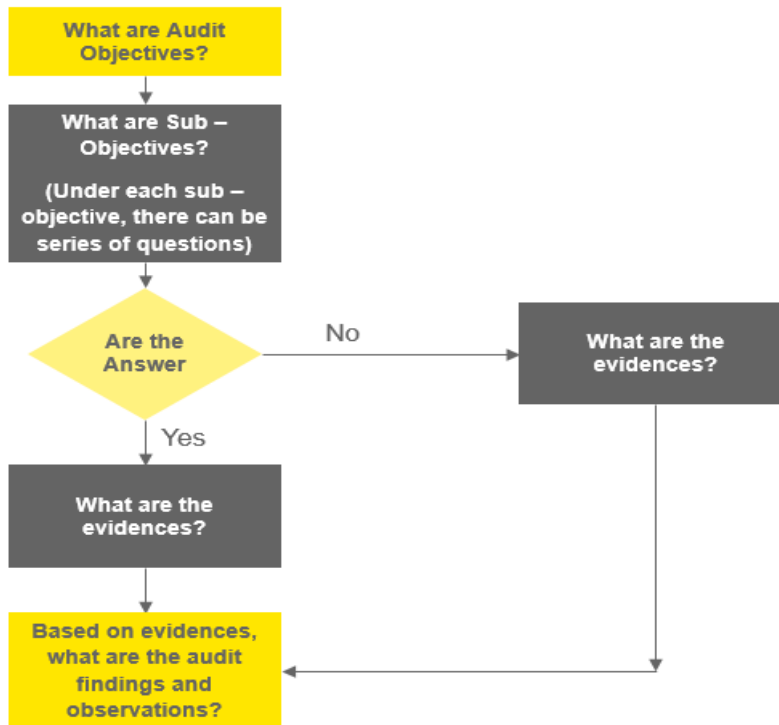
Audit objectives are the reasons for conducting audit and therefore should be clearly spelt out. Since the entire audit effort is directed toward answering the questions raised in the objectives, these should be, therefore, defined as precisely as possible. Objectives should not be expressed in broad terms, as it makes them difficult to achieve. Once detailed design of the audit begins, the team should identify the full hierarchy of issues and sub-issues that need to be covered against each audit objective.

2. Audit Questions

Following the design of audit objectives, the internal audit team shall prepare a list of questions to which they would seek answers. Generally, audit questions are prepared based on the audit objective and sub-objectives. Under each objective/sub-objective there could be a detailed hierarchy of questions. The last level audit questions should result in a 'yes' or 'no' answer. Breaking down of audit objectives into audit sub-objectives, level 1 questions and level 2 questions should result in at least 2 questions at each level. If not, then the validity of the question and the possibility of its incorporation with some other questions at any level should be considered.

Detailing the audit objectives into manageable audit questions has varied advantages. It helps in creating link between the audit question and evidence to be collected and the audit conclusions arrived, as shown in the Figure below:

Figure 8: Link between the audit question and evidence to be collected and the audit conclusions



Examples of setting Audit Objective and Audit Questions

Audit objective: To determine “whether capital procurement managed by the Ministry is being managed to provide best value for money and in accordance with industry best practices”.

Question: Does the Ministry manage capital procurement so that it provides best value for money and is in accordance with industry best practices?

Sub-Question: ‘If not, what is the impact? If the impact is significant, what are the causes? What may be done to address these causes?’

Audit objective: “to assess whether the procedures established to manage the programme would ensure that government policy was followed”.

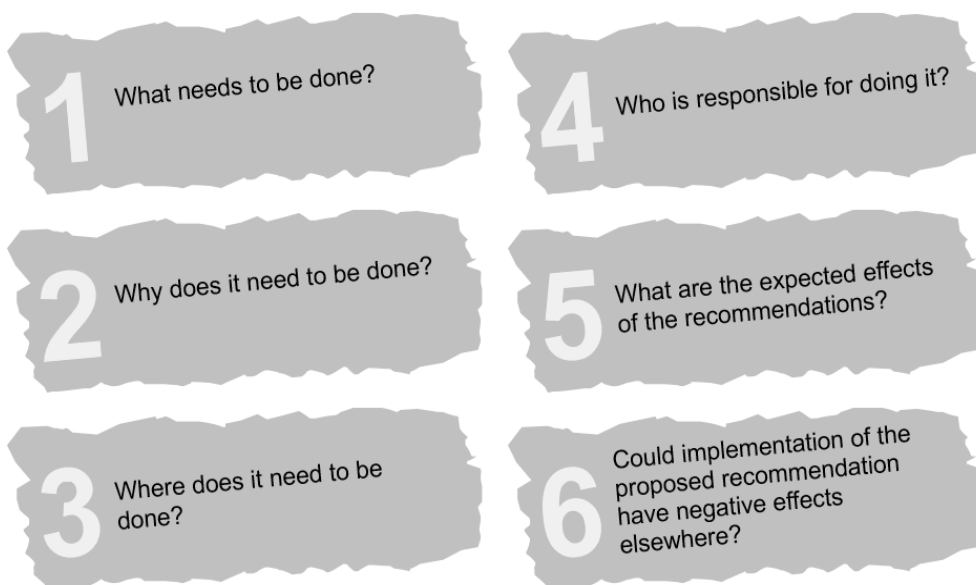
What is not stated is that if the internal auditor finds that these procedures do not ensure that government policy is followed then they will recommend changes to the procedures to achieve this end.

The audit objective consists of two main parts,

- ▶ what is being **reviewed** and
- ▶ what is being used as a **benchmark**.

In the example above ‘**the program**’ is being reviewed, the ‘**government policy**’ is the performance benchmark.

Generally, the internal audit team needs to consider the following series of questions in order to develop good recommendations:



Example: Specific audit objectives and questions on performance audit of maintenance of roads

Audit Objectives:

- ▶ To ascertain the existence and/or adequacy of policy and institutional framework in ensuring effective management of road maintenance works;
- ▶ To review the efficiency of system/procedures/practices in carrying out the road maintenance works

Audit Questions:**Objective 1**

- ▶ *Are there specific authority under relevant regulations and policy in effectively performing functions in relation to maintenance and management of road?*
- ▶ *Whether studies have been carried out by MoWHS or external agencies to prevent or control road damages and to improve maintenance methodologies?*
- ▶ *Is a road maintenance and management plan in place through identifying issues of concern in road maintenance works/monsoon restoration works and minimizing these issues within available resources?*
- ▶ *Are there adequate and competent human resources for effective and timely road maintenance and management in the country?*

Objective 2

- ▶ *Is there a standard operating procedure for road maintenance works?*
- ▶ *How are the assessments of affected site being carried out?*
- ▶ *How is the prioritization done for road maintenance works?*
- ▶ *Whether monitoring and supervision on road maintenance are being carried out in a timely manner?*
- ▶ *Are there prescribed requirements or technical specification for road maintenance and monsoon restoration works?*
- ▶ *Is there coordination among agencies during emergencies and in undergoing other activities involving road facilities?*
- ▶ *Whether the DoR has maintained comprehensive road information?*
- ▶ *Whether new technologies and mechanisms are used to improve maintenance methodologies?*
- ▶ *How is the budget for road maintenance and restoration of monsoon damages planned and allocated?*
- ▶ *Is the cost estimation prepared adequately?*
- ▶ *Are the services provided by the Hiring Agency efficient?*

5.7.3 Determine the audit Scope

The audit objectives, audit questions and scope are interrelated and need to be considered together. Even minor changes in the objectives or the audit questions may have a major impact on the general scope of the audit.

The scope is the boundary of audit. Scope narrows down the audit to significant issues that relate to the audit objectives. Defining scope focuses the extent, timing and nature of the audit. To avoid an overly complex or expensive audit, the audit scope can exclude certain activities or entities from the audit, even if the activities or entities in principle would be relevant to the audit objective. In all practical sense, scoping of performance audit will consider the extent, timing and nature of the audit, covering the following key questions:

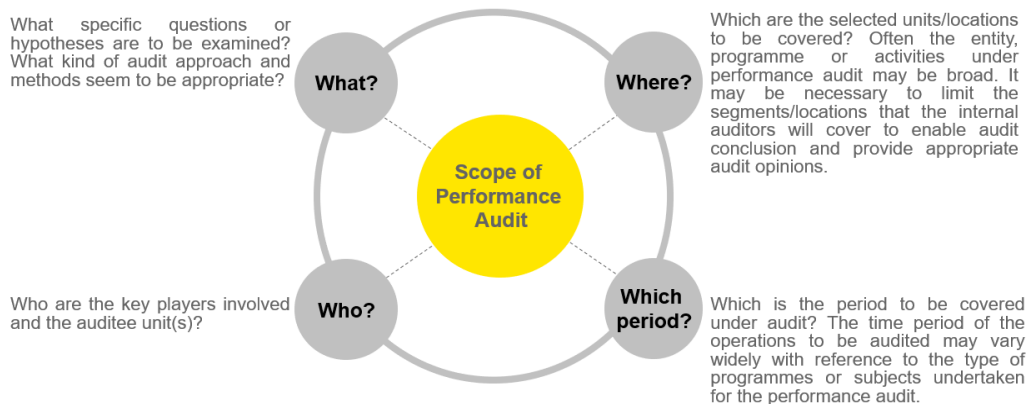


Figure 9: Scope of Performance Audit

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

- ▶ Audit programmes generally increase in size and complexity (more detailed procedures, questionnaires and checklists) with increases in the scope of the audit and size of the programmes to be audited;
- ▶ Sample size has an impact on scope of audit as the selected sample may have different geographic locations and the risk perceptions.

The scope of the audit defines the boundaries of the activity being reviewed and tends to narrow the ambit of the audit from the broad audit objective.

Example of Determining Scope

Audit objective: To determine “whether capital procurement managed by the Ministry is being managed to provide best value for money and in accordance with industry best practice.

In the above example, the scope of the audit as it stands includes all of capital procurement in the Ministry, but there may be some value in refining this in a separate scope statement. **For example:** “The scope of the audit will include all procurement on construction projects, all other capital purchases exceeding Nu.5 million and will consider issues of value for money and compliance with documented procedures. This narrows the scope from the original objective.”

In some cases, the scope statement outlines the elements excluded from the scope as defined by the audit objective. **For example,** following the capital procurement objective as above could be a scope statement which reads: “no procurement under Nu. 5 million will be included in the audit unless it is part of a building construction project.”

Scope may be geographic, excluding some physical areas, where an activity is widely distributed. Scope is also time-related, and the internal auditor should specify a time-period to be covered. The scope statement may also narrow the focus of the audit by specifying, for example, that the audit will only consider issues of effectiveness or compliance. In some cases, where a performance audit has been requested, the scope may be extremely narrow.

For example, there have been credible allegations about corrupt procurement practices in an agency and the IAU may be asked to conduct an audit to provide assurance that the allegations are groundless, or action needs to be taken. The scope of such an audit would be restricted to procurement practices and may be further restricted to compliance with required procedures and the accuracy of financial reporting.

It is a good practice to discuss the audit scope with the auditee entity at the earliest opportunity. In some cases, it may also prove useful to explicitly clarify what is not intended to be covered by the audit. This may help reduce misconceptions or false expectations.

5.7.4 Determine the audit criteria

One of the primary concerns of the internal auditors is to determine the audit criteria for each issue of potential significance. Audit criteria are benchmarks to evaluate the potential significance of the subject matter under audit. Audit criteria provide direction for assessment that will assist the internal auditors to answer key audit questions such as

- ▶ What should be according to laws, regulations or objectives?
- ▶ On what basis is it possible to assess actual behaviour?
- ▶ What is required or expected according to sound principles, scientific knowledge and best practice? What results are to be achieved and how?

Since audit criteria are crucial to developing audit findings and, therefore, addressing the audit objectives, they should be generally acceptable. Some characteristics of suitable criteria include, but not limited to:

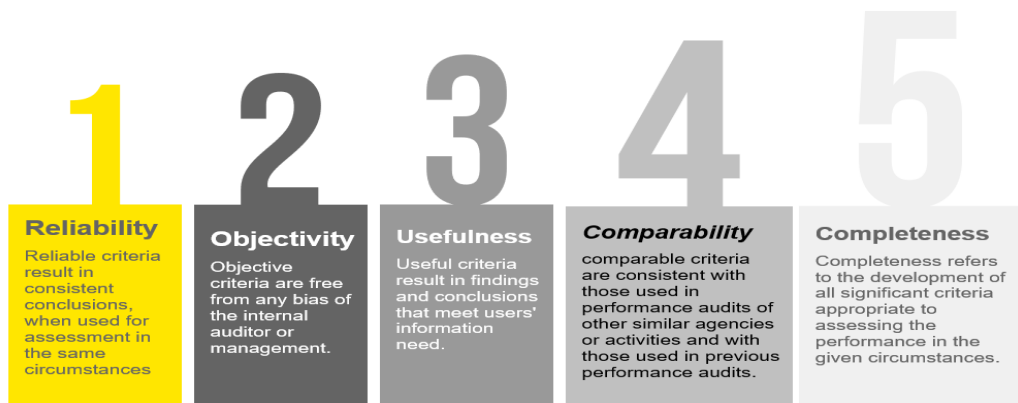


Figure 10: Characteristics of suitable criteria

In practice, where complex issues are not covered during the audit, it is not always easy and straight forward for the internal auditors to set audit criteria in advance. Instead, audit criteria will be defined during the audit process. Further, unlike in financial auditing, there is no single source of audit criteria in performance auditing. Internal auditors have to undertake personal researches to determine the benchmarks against which they would assess the performance of the audit unit.

Some checklists of sources, but not limited to, are mentioned below:

Sources of criteria

- ▶ Related legislation which governs the operations of the auditee entity;
- ▶ Government policies and directions relevant to the auditee entity;
- ▶ Entity operating and procedure manuals;
- ▶ Entity policies, standards, directives and guidelines;
- ▶ Related plan and project documents;
- ▶ Financial reports of the entity including the expenditure and budget documents;
- ▶ Criteria used previously in similar audits;
- ▶ Standards used by international bodies;
- ▶ Literature on the subject matter;
- ▶ Past performance reports such as Annual Performance Agreement reports;
- ▶ Performance standards set by the management;
- ▶ Independent expert advice and know-how through interviews with relevant officials; and
- ▶ Criteria used or developed by professional organizations and standard setting bodies.

An illustration on the sources of the criteria and audit criteria for performance audit of road maintenance is shown below:

- ▶ The Constitution of the Kingdom of Bhutan;
- ▶ Road Act of Bhutan;
- ▶ Extant Road Rules and Regulations;
- ▶ Road Maintenance Manual;
- ▶ Guidelines on Road Classification System and Delineation of Construction and Maintenance Responsibilities 2009;
- ▶ Extant Procurement Rules and Regulations;
- ▶ Financial Rules and Regulations 2001 and 2016;
- ▶ Guidelines on use of Standard Work Items for Common Road Works;
- ▶ Norms and Standards for Human Resource planning, Department of Roads;
- ▶ Road Sector Master Plan 2007-2027;
- ▶ Contract Agreement of the Monsoon Restoration Works;
- ▶ 10-Year HR master plan;
- ▶ Assessment report of monsoon damaged sites during the past years; and
- ▶ Extant Service Delivery Standards.

Relevant criteria arising from laws or regulations carry the force of law. Policies and procedures of the agency are, by definition, accepted by the agency.

For example, in an audit of teacher absenteeism, a criterion might be *‘teachers should attend school in accordance with their conditions of employment’*.

In framing audit objectives as questions, the audit criteria are included in the question. For example, *‘are teachers attending school in accordance with their conditions of employment?’* Audit procedures should then be developed to allow the auditor to answer this question with confidence.

Finally, it is a good practice in performance auditing for the internal auditors to share the audit criteria with the auditee management and obtain their agreement at the stage of planning.

Example of Audit Criteria & sources on Performance Audit of Industries on Environmental Compliance

| Sl. No. | Criteria | Sources |
|---------|---|---|
| 1 | Functions and duties of officials of NEC and MoEA | Constitution of the Kingdom of Bhutan 2008; Environment Assessment Act of Bhutan 2000 |
| 2 | Basis for issuing Environmental Clearance | Environment Assessment Act of Bhutan 2000 |
| 3 | Installation of pollution abatement device | National Environment Protection Act of Bhutan 2007 |
| 4 | Emission standards | Emission Standards set by the Government |
| 5 | Environment awareness of public | Opinions of workers and others obtained through interview |
| 6 | Waste disposal sites | Water Act of Bhutan; Water Rules & Regulations; Water and Sanitation Rules |
| 7 | Disaster Management Plan | Disaster Management Act |
| 8 | Working conditions of workers | Labour & Employment Act |

5.7.5 Deciding audit approach and methods

1. Audit Approach

Audit Planning consists of developing a detailed approach for the expected nature, timing and extent of the audit. Performance auditing generally follows one of three approaches or combination thereof in examining the performance of the auditee entity, viz.

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

No uniform audit approach can be prescribed that is applicable to all types of subjects of performance audits. Selection of approach also determines methods and means used for conducting the audit. In determining the audit approach, it is important to identify probable types and sources of evidence and how the audit team will gather this information for the previously determined audit criteria.

Example of an Audit Approach

Audit Objective: To determine if the need for the project was properly established to ensure that desired results were achieved at an appropriate cost

| Criterion | Type(s) of evidence required | Probable sources of evidence | Suggested audit technique(s) |
|--|--|--|--|
| ▶ A formal project needs definition should be carried out prior to commencement of the project | ▶ Documentary; ▶ Testimonial; ▶ Physical | ▶ Project appraisal report; ▶ Project manager; ▶ Members of the committee on public works, ▶ Samples of rehabilitated roads | ▶ Document review, ▶ Interviewing; ▶ Photography |
| ▶ The project needs definition should be carried out and reviewed by persons technically qualified for the task. | ▶ Documentary; ▶ Testimonial | ▶ Project need definition report; ▶ Proceedings of any committee set-up for defining project needs; ▶ Project manager; ▶ Members of the committee on public works | ▶ Document review; ▶ Interviewing |
| ▶ The project needs should be stated in specific measurable terms | ▶ Documentary | ▶ Project appraisal | ▶ Document review |
| ▶ Adequate funds should be allocated for this stage of the project management project | ▶ Documentary; ▶ Testimonial; ▶ Analytical | ▶ Project budget; ▶ Project manager | ▶ Document review; ▶ Data analysis; ▶ Interviewing |
| ▶ Decision making in the needs definition process should follow an objective, rational approach. | ▶ Documentary | ▶ Project approval file recommendations of the committee on public works | ▶ Document review |

3. Audit Method

An important part of planning how to conduct audit is to determine the methods to be used to gather and analyse data. The audit objectives, audit questions, audit scope, and the audit criteria are the factors guiding what evidence is needed and the methods most appropriate to obtain that evidence.

Some of the methods, which are used in conducting performance audits include:

Analysis of Procedures

The internal auditor shall assess the appropriateness of the procedures, the volume of resources and the accountability relationships highlighted, if any, in the programme guidelines. Procedures would be tested against the criteria or a desirable control model for completeness, relevance against the legislation and administrative instructions, internal consistency, practicability and compliance. It consists of review of the systems in place for planning, conducting, checking and monitoring the activity being audited. This would

entail examination of documents such as budgets, financial reports, programme guidelines, annual or other plans, procedure manuals, delegations and reporting requirements.

Case Studies

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

Use of existing data

The existing data held by the auditee management can be very useful and relevant for the internal audit team to test for correctness and completeness with reference to the basic documents maintained by them. The internal audit team will maintain evidence of tests carried out to ensure correctness of data maintained and furnished by the entity.

Surveys

Conducting of survey is another method of obtaining insight into an agency's activities, including the outputs and outcomes and their quality. This is a method of collecting information from members of a population to assess the incidence, distribution and interrelation of events and conditions. In social sector programmes, credible surveys on predetermined parameters can supplement the audit findings and conclusions, which add value to the performance audits. The nature of some programmes or activities selected for performance audits could be such that a focussed survey of a limited sample during the planning stage may provide more insight for setting the audit objectives and criteria. However, the results of survey alone cannot be the primary evidence for audit findings. Surveys can be used as corroborative evidence for audit findings established with the help of primary evidence.

Analysis of results

Analysis of results from examining a number of instances of entity activity in a particular area will help decide if entity's performance in that area conforms to audit criteria. This will also require the auditor to assess the input-output model designed in the programme and carry out actual input-output analysis to determine the efficiency of the programme. Analysis of results may also entail analysis of impact of the programme against the expected impact.

Quantitative analysis

Quantitative Analysis involves examination of data available in any form, like earnings, revenue, market share or data relating to programme implementation like details of beneficiaries, etc. The internal auditor shall analyse auditee entities' data to illustrate or corroborate a statement. Mathematical, economical, computational and statistical analyses are some of the quantitative techniques which can be used by the internal auditors while analysing complex data of the auditee entity. The quantitative analysis can provide trends, explanation for a particular behaviour and other results.

When there is high volume of data and information associated with a programme or entity, sampling techniques may be used. The nature of the population should be examined to

decide the most appropriate sampling methodology. The sample selected, and the sampling approach and methodology should be documented and shared with the entity.

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

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

It is important for the internal auditor to establish an appropriate strategy for the audit by combining study designs, methods and techniques in the audit to suit the context, objectives, questions, criteria and the auditor's skills and resources, as well as the availability of data. Different types of audit evidence can be obtained by using different methods of collecting data, as listed in the table below:

Link between types of audit evidence and different methods

| Audit evidence | Methods of data 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"> ▶ Quantitative data collection methods. ▶ IDEA analysis, ▶ Regression analysis, ▶ Computations, comparisons, separation of information into components, and ▶ Rational arguments |

5.7.6 Developing Audit Design Matrix

Once the audit team has determined the audit objective, audit approach, audit criteria, data collection and evidence gathering method etc, audit teams shall prepare an Audit Design Matrix. Audit Design matrix is a rigorous, structured and highly focused approach

to designing a performance audit study, based around the audit objectives, associated sub-objectives and lower level detailed questions. As such, it provides a framework for fieldwork and further analysis.

Table 5: Sample of Audit Design Matrix (Detailed Audit Plan – PA on Road Maintenance Works)

| Audit Topic: Performance audit on Road Maintenance Work | | | | | |
|--|---|--|---|---|---|
| Overall Audit Objective: To ascertain the existence and/or adequacy of policy and institutional framework in ensuring effective management of road maintenance works | | | | | |
| Sub-Objective: To ensure the officials have followed the existing policy and institutional framework in ensuring effective management of road maintenance works | | | | | |
| Risk: Lack of adequate (and/or non-implementation) of policy and institutional framework in ensuring effective management of road maintenance works | | | | | |
| Audit Questions | Criteria with sources | Evidence with sources | Data collection and analysis | Limitations | Expected audit findings |
| Is there specific authority under relevant regulations and policy in effectively performing functions in relation to maintenance and management of road? | <p>Criteria</p> <ol style="list-style-type: none"> 1. The Department shall have the responsibility for the management, development, rehabilitation and maintenance of all roads, bridges and road related infrastructure on a National Highway (RR&R). 2. The Department or a Local Government is empowered to carry out, in relation to a highway, Dzongkhag roads, Farm roads and Thromde roads, any works of maintenance and improvement to the roads administered and managed by them. 3. The Department or Local Government should inspect, maintain and repair a public road in accordance with the design standard and specification prescribed under Rule 17 of these Road rules and regulations. <p>Sources of Criteria</p> <ol style="list-style-type: none"> 1. Road Act of Bhutan 2013 2. Road Rules and Regulations (RR&R). | <p>Information required</p> <ol style="list-style-type: none"> 1. Road Act of Bhutan; 2. Road Rules and Regulations 2016; 3. Road Maintenance Manual; 4. Guidelines on Road Classification System and Delineation of Construction and Maintenance Responsibilities 2009. <p>Sources of information</p> <ol style="list-style-type: none"> 1. DoR, MoWHS | <ol style="list-style-type: none"> 1. Review regulations to see if there are clear roles and responsibilities to manage and coordinate road activities for each class of roads; 2. Review documents and publications to identify any inconsistencies, ambiguities, and lack of provisions; and 3. Conduct interview and discuss with senior management to identify conflicting mandates, and challenges in monsoon related activities. | <p>Non-availability of officials for interview and inquiry.</p> <p>Inadequate time for auditors in the field.</p> | The internal auditors will be able to conclude and report on the existence and implementation of the existing regulations and policies. |

Having determined audit questions that require answers, the internal auditor is also expected to append to the audit design matrix, the procedure to find answers to audit questions. It also highlights the data collection and analysis method as well as the type and sources of evidence required to support audit opinion/findings with reference to the defined audit objectives.

| Example of a Audit Design Matrix for “Delayed distribution of schoolbooks” | | | | | |
|--|---|---|---|--|--------------------------------|
| Audit Question | Audit Criteria | Data Collection & Analysis | | Anticipated Findings | Risk to the Execution |
| | | Audit Evidence Needed | Method for data Collection & Analysis | | |
| Are school books distributed on time? | Ministry policy: Reach school before the term | The time the books are distributed and the period of delay | Questionnaire to schools; Case study of schools with review of records | Average delay of 3 to 5 months in different Dzongkhags | Few responses on questionnaire |
| Are distribution plans realistic and based on schools’ needs? | Manual: Needs assessment and procedures | Shortcomings in needs assessments; Repeated failure to follow the plan | Document review at the Ministry; Case study of schools on needs | Needs in schools and time for distribution is underestimated | Poor documentation of plans |
| Is distribution coordinated between regional stakeholders? | Manual: responsibilities for different actors | Delays and non-activity from stakeholders | Interviews with stakeholders involved; Minutes of meetings | No or delayed activity from some stakeholders | Little documented evidence |
| Are Dzongkhag Stores staff trained on the Distribution? | Manual: skills requirements; Training plan | Actual knowledge and training | Interview store keepers; Training records | Procedures are not known; No training | None |

The Audit Design Matrix is to be suitably updated throughout planning, examination and reporting phases to ensure that all identified audit issues are covered. Once the examination phase is over, the audit team shall suitably link Audit Design Matrix to the Audit Findings Matrix as discussed in chapter 6.

5.7.7 Estimate Resources and Timing

The estimation of resources and timing of the audit shall be a task for the Internal Auditor of IAUs, who should prepare a budget and schedule for the audit. The proposed audit timing and budget shall be approved by the respective Secretary/head of government agency.

Once the audit proposal (with a work plan) has been prepared, the Chief Internal Auditor shall review these estimates to ensure that sufficient time and resources are allocated to the audit to address the issues identified and respond to each of the audit criteria. The Chief Internal Auditor Audit shall decide which particular internal auditors would be assigned to an audit and shall take into account such things as:

- ▶ capability and experience of individual staff members;
- ▶ special expertise requirements;
- ▶ development needs of staff; and
- ▶ staffing combinations e.g. placing experienced and inexperienced staff together.

6

**Audit
Execution**

Chapter 6: Audit Execution

The main purpose of the audit is to execute the audit programme by conducting the audit in an efficient and effective manner in order to achieve the audit objectives and criteria and, at the end, producing a high-quality report.

Once a decision has been made to conduct a full audit, the auditor shall develop a detailed audit programme/plan to specify how the audit criteria would be tested and identify possible means of collecting appropriate evidence against each audit criterion. The auditor then develops tests to confirm whether or not these sub-criteria or control objectives have been met. **Refer chapter 9 for sample of audit programme** in detail.

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

IIA Standard 1200 - Proficiency and Due Professional Care:

Engagements must be performed with proficiency and due professional care.

IIA Standard 1220 - Due Professional Care:

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

IIA Standard 1220.A1

The internal auditor must exercise due professional care by considering the:

- ▶ Extent of work needed to achieve the engagement's objectives;
- ▶ Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- ▶ Adequacy and effectiveness of governance, risk management, and control processes;
- ▶ Probability of significant errors, fraud or noncompliance; and
- ▶ Cost of assurance in relation to potential benefits.

IIA Standard 2300 - Performing the Engagement:

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2310 - Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

IIA Standard 2320 - Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analysis and evaluations.

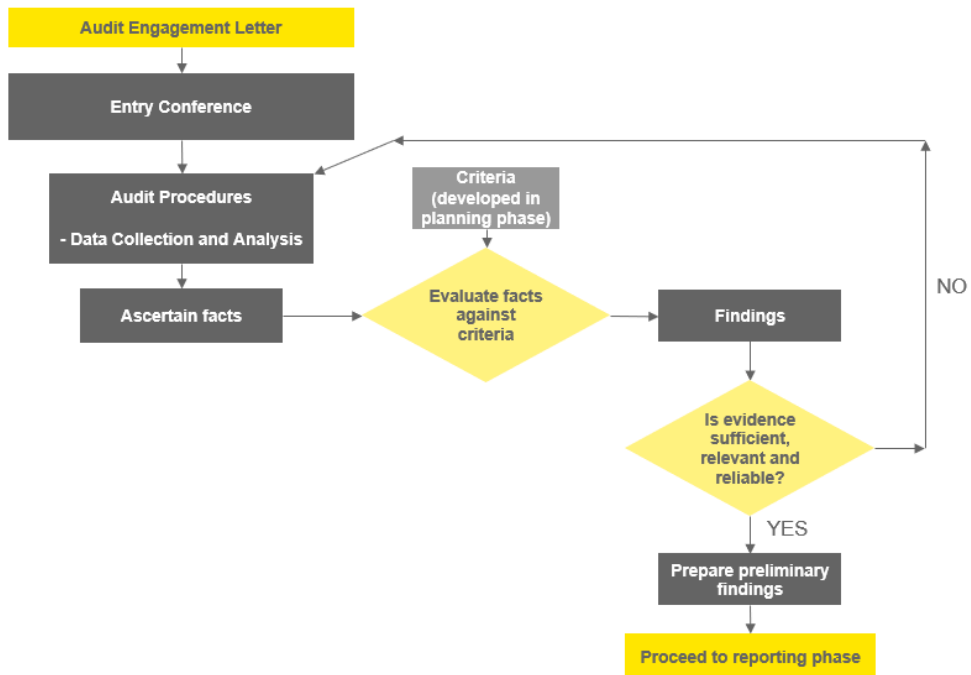
IIA Standard 2330 - Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

6.1 Field Audit Process

The field audit process begins with a formal intimation to the auditee agency of an intent to carry out performance audit of an entity. This formal intimation is communicated through an Engagement Letter from the IAU to the auditee unit/agency. It shall then be followed by an entry conference between the audit team and the agency officials. The process shall then entail Internal Auditor's efforts made to collect, interpret and analyse data in relation to stated audit objectives and evaluating them against the pre-determined criteria. The steps involved in field audit process are shown in Figure 4 and discussed below.

Figure 11: Field Audit Process



The following steps illustrate various activities to be conducted at the audit execution stage of audit life cycle to implement the audit:

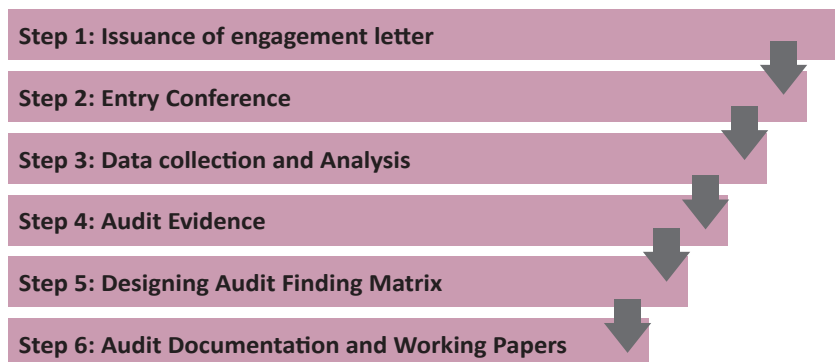


Figure 12: Steps of audit execution:

6.2 Issuance of engagement letter

Before initiating the audit, the Internal Auditor of IAU shall send an engagement letter to the Chief/Head of the auditee unit, communicating the launch of the audit along with details of the entity units tentatively selected for audit, audit duration, and audit period categorically specified and request him/her to issue necessary directions to the functional officers and field units to provide documents and information to the audit team. The engagement letter may contain the date specified for an Entry Conference/Meeting between the Internal Audit team and the audit unit. This will also serve as an opportunity to confirm the essence of the minutes of the entry conference. In case the entry conference could not be held for unavoidable reasons, the engagement letter would also provide a media for communicating the expectations from the entry conference. **Refer Sample of Audit Engagement Letter format under Chapter 9.**

6.3 Entry Conference

The internal auditor arranges with the audit unit for a formal meeting prior to an official commencement of audit. This is to communicate relevant information contained in the audit programme to the management. Entry conference at the commencement of performance audit may be held with the head of the Auditee Unit. If an audit is going to involve more than one Unit/agency, entry conference may be attended by representatives from all such Units/agencies. The purpose of this conference is mainly to facilitate the following:

- ▶ Introduction of the audit team;
- ▶ Inform the entity about the areas to be audited along with audit objectives, the audit approach and the audit duration within which the audit is expected to be concluded;
- ▶ Mutual endorsement of audit criteria/parameters/norms against which performance audit shall be benchmarked;
- ▶ A protocol for conduct of audit is to be set up including nomination of liaison officers, production of records, arranging joint inspections, authentication of audit evidence including photographs, etc.,
- ▶ Issuing of audit observations, time period for replies to be received and other logistic arrangements;
- ▶ Opportunity to discuss the concerns of the auditee entity(ies) on the subject matter; and
- ▶ Discussion on any other matter.

The entry conference shall have a formal record of minutes of proceedings signed by the audit team leader and the head/representative of the auditee agency present in the meeting. The same shall be shared with the auditee entity and acknowledgement requested.

Consultation during the audit

Throughout the audit, a continuous constructive process of interaction between the parties should be properly maintained. This is to ensure the success of achieving the audit objective. It is a good practice that the auditee is provided with regular briefings on the progress on the audit. This allows for a number of benefits which include:

- ▶ enabling management or the responsible officers to comment on or clarify any doubt on incongruity arising during the audit;

- ▶ providing the management with the opportunity to place a different perspective on audit findings;
- ▶ drawing on management's experience in assessing recommendations for improvement;
- ▶ advising management of issues requiring early corrective action.

Allowing an audit to be carried out in such a cooperative manner means there is a much greater possibility of suggestions for improvement being seriously considered by auditee management. It is important that the audit team members maintain an objective, independent and professional attitude. They shall also exercise professional judgement.

6.4 Data collection and analysis

Data collection may be performed once, at repeated intervals or through continuous measurements. Information may be gathered on the basis of physical evidence, documents (including written statements), oral testimonies (interviews), or by other means depending on the objectives of the audit.

The types of data to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance and reasonableness. In addition to data material provided by the auditee entity, the internal auditors may also produce certain data (its own source material) with the aid of questionnaires, surveys and direct observation.

Quality in data collection and documentation is vital. It is important that the Internal Auditors seek information from different sources as individuals in an entity, experts and interested parties will have different perspectives and arguments on the same subject matter.

For efficient and effective performance auditing, it is desirable for the Internal Auditors to prepare checklist to enable collection of information comprehensively, although it is not practically possible to develop an exhaustive checklist. Thus, the internal auditor needs to continue improving the existing checklist so that points missed, if any, are included in the checklist.

For instance, a checklist on performance audit of vehicle maintenance may contain the following:

- ▶ Check the budget documents pertaining to maintenance of vehicles and verify that expenditure is within the approved budget;
- ▶ Check whether the approved budget is adequate to cover insurance, operation and maintenance of each vehicle;
- ▶ Confirm whether monitoring over actual maintenance works vs. maintenance budget exists;
- ▶ Check whether the maintenance expenditure is met from the appropriate budget code;
- ▶ In case there are no budget provisions, check whether the expenses are booked under 'Others: RMO – Heavy Vehicles and Equipment';
- ▶ Verify if the payments on maintenance of vehicles are correctly classified and recorded as per the budget codes;
- ▶ Verify if the payments on maintenance of vehicles are recorded in the correct financial year;

- ▶ Verify if the expenditure reflected in the financial statements agree with ledger accounts;
- ▶ Verify if the expenditure is reflected in the Receipts & Payments Statement and Expenditure Statements under the proper heads of accounts;
- ▶ Check whether all the tendering formalities are followed for the repair and maintenance of vehicles;
- ▶ Confirm if that the entity verifies and inspects the goods procured for the maintenance;
- ▶ Check that the spare parts used are of approved brand;
- ▶ Verify whether the old spare parts of vehicle are in the stock;
- ▶ Check the existence of Annual Maintenance Contract (maintenance plan) for vehicles;
- ▶ Check if vehicle Logbooks are maintained;
- ▶ Verify that an entry is made in the Logbook every time some fuel is issued for the vehicle.
- ▶ Check the starting and ending KM reading as well as name of stations and the purpose of utilisation entered in the Logbook for every use of the vehicle;
- ▶ Verify that the officials using the vehicle have signed on the entry of utilization in the Logbook on each occasion;
- ▶ Check whether the Vehicle History book is maintained as per the Property Management Manual;
- ▶ Crosscheck the maintenance history book of vehicle for verifying the need for maintenance;
- ▶ Verify whether proper schedules of routine maintenance are submitted to Department of National Properties (DNP);
- ▶ Check whether the DNP obtains acceptance of these schedules by the Government and further prescribes their global application across the Government;
- ▶ In absence of maintenance schedules, check if the entity follows the manufacturer's recommended schedule of maintenance;
- ▶ Check the adherence to the maintenance schedules to ensure that the vehicle is serviceable;
- ▶ Check that proper entries are made in the Logbooks/History sheets regarding the bills for POL and repair/maintenance works;
- ▶ Check if the bills are verified by the competent authority and that the bills and the entries in the logbooks agree;
- ▶ Check that the payments are sufficiently supported by sanction order, supply order, work order, entries in the logbooks, etc.;
- ▶ Check whether the invoices/bill rates agree with quoted rates and BOQ;
- ▶ Check for payments made against same bill/ same amount /same service provider to detect double payments, if any; and
- ▶ Re-compute the amount to be paid based on BOQ, Logbooks/History Sheets and quoted rates depending upon the nature of the work to avoid excess and inadmissible payments

It is important to distinguish between the following components in the information gathering process:

- ▶ Records in the form of documents, files, etc.
- ▶ Questions formulated to be answered by the audit team.
- ▶ Data-collection techniques needed in order to answer the questions set (study of documentation, meetings, questionnaires, interviews, etc.).

- ▶ Audit programmes, i.e. the type of investigation that is needed for data-collection (such as sampling, case studies, secondary analysis, inquiries, 'before- and after analysis', comparable evaluations, etc.).
- ▶ Quantitative and qualitative analysis applied to the data collected (for deeper analysis of the information collected).

Most audits involve some type of analysis in order to understand or explain what has been observed. This would be done in the form of more detailed statistical analysis, discussions on the findings within the internal audit team, studies of documentation and working papers, etc. The analysis might sometimes also require comparisons of findings between, for instance, subjects that work well and those that work less well; one or more subjects and an overview; and the audited area and a similar audit area in other agencies. The final stage in the analysis of data involves combining the results from different types of sources. Audit teams should refer the Audit Design Matrix while carrying out data analysis and adopting technique or tool thereof.

1. Audit Techniques

This refers to methods/techniques used by the auditor to gather evidence. Examples include (among others) documentation review, interviews, questionnaires, data analysis and physical observation.

2. Audit Procedures

Audit procedures refer to the action steps taken systematically and reasonably to execute an audit technique.

Example of an Audit Procedure

Name of the project: Road rehabilitation and maintenance project

Audit objective: To determine if the need for the project was properly established to ensure that the desired results were achieved at an appropriate cost.

Criterion: A formal project needs-definition should be carried out prior to commencement of the project.

Audit technique: Documentation review

Audit procedures:

- ▶ Review the project needs-definition segment of the project appraisal report.
- ▶ Obtain information to verify whether survey of users was conducted, traffic volume statistics were collected and anticipated growth in traffic determined.
- ▶ If verification at Step 2 above is positive, determine whether the data was gathered and reported in a systematic manner supported by appropriate methods.
- ▶ Conclude whether the criterion has been met.
- ▶ Note any exceptions.

6.5 Audit Evidence

Ultimately, the end product of data collection and analysis exercise for the internal auditors shall be obtaining sufficient and appropriate audit evidence to establish internal auditor's findings and reach audit conclusions to fulfil the audit objectives and questions.

Requirement for evidence gathering according to ISSAI 3000:

The auditor shall obtain sufficient and appropriate audit evidence in order 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)

The standards for performance audits require that the auditor retain a record of the work in working papers, have procedures for their preparation, and support the findings and conclusions in the report through evidence. Evidence should also be sufficient for the auditor to form an opinion.

When the audit evidence is obtained, the internal auditor has to assess whether the evidence is sufficient and appropriate. Based on this assessment, the auditor has to decide if more or different evidence are needed.

How to obtain sufficient and appropriate evidence

In performance audits, evidence is rarely conclusive (yes/no or right/wrong). Audit evidence is persuasive ('points towards the conclusion that...'). When working in areas where evidence is persuasive rather than conclusive, it is also important that the auditor seeks information from different sources, since organisations, individuals in an organisation, experts, and interested parties will have different perspectives and arguments to put forward.

It can be useful to have discussions at the beginning of the conducting phase with experts in the field about the nature of the evidence to be obtained and the way in which it will be analyzed and interpreted by the internal auditor. This approach reduces the risk of misunderstanding the evidence and may speed up the audit process.

The internal auditor also has to evaluate whether the lack of sufficient and appropriate evidence is due to internal control deficiencies or other programme weaknesses, and whether the lack of sufficient and appropriate evidence could be the basis for audit findings.

International Internal Auditing standards require the auditor to obtain sufficient and appropriate audit evidence so that reasonable conclusions can be drawn as basis to prepare the audit report. Internal Auditors need to continually ask themselves two questions.

- ▶ 'Does this evidence relate to audit criterion being assessed?' and
- ▶ 'Do I have enough evidence to form a conclusion?'

Evidence gathered during a performance audit may be qualitative in nature and require extensive use of professional judgement. Accordingly, the internal auditor would ordinarily seek corroborating evidence from different sources or of a different nature in making assessments and forming assertive conclusions.

Sufficient and appropriate evidence

- ▶ **Evidence is sufficient and appropriate** when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives.
- ▶ **Evidence is not sufficient or appropriate when:**
 - using the evidence carries an unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion,
 - the evidence has significant limitations, given the audit objectives and intended use of the evidence, or
 - the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions. The auditor may not use such evidence as support for findings and conclusions.

When planning the audit, the auditor shall identify the probable nature, sources and availability of audit evidence required. Other factors such as the availability of other audit reports or studies and the cost of obtaining such audit evidence may also be considered.

Characteristics of Performance Audit Evidence

In performance audit terms, audit evidence concerns the facts or information used:

- ▶ to conclude whether an agency's management and employees have carried out appropriate actions to conform to operational principles, policies or standards for using resources effectively, efficiently and economically; and
- ▶ to demonstrate to a third party that the auditor's findings are credible and defensible.

Auditors need to be aware of potential problems or weaknesses with performance audit evidence. Potential problems include:

| Sl. No. | Potential Problem | Potential Problem Impact on | | | |
|---------|--|-----------------------------|-------------|----------|-------------|
| | | Relevance | Reliability | Validity | Sufficiency |
| 1 | Evidence is based on a single source | | √ | √ | √ |
| 2 | Oral evidence is not supportable by documentation or observation | | √ | | |
| 3 | Evidence is time-sensitive, i.e. outdated and does not reflect changes | √ | | | |
| 4 | Evidence is too expensive to obtain relative to benefits | √ | | | √ |
| 5 | The source of evidence has a vested interest in outcome | | √ | | |
| 6 | Samples collected are not representative | √ | | √ | √ |
| 7 | Evidence may be related to an isolated occurrence | | | √ | √ |
| 8 | Evidence is incomplete, i.e. does not demonstrate a cause or effect | | √ | | √ |
| 9 | Evidence is conflicting | | √ | | |

Types of Evidence

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

- ▶ **Physical evidence** is obtained through observation, photographs, charts, maps, graphs or other pictorial representations, etc. It is desirable to corroborate physical evidence, particularly if it is crucial to any audit findings (linked to the audit objectives) with other types of evidences.
- ▶ **Oral evidence** is the statement in response to audit inquiries or interviews. The statements made can either provide a background or a lead for further examination that may not be available through other forms of audit work or may provide corroborating evidence (e.g. beneficiary survey). The statements can be by the employees of the entity, beneficiaries, experts and consultants contacted to provide corroborative evidence, etc. It will be essential to corroborate the oral evidence if the oral evidence is itself to be used as primary evidence rather than simply as a background or lead for further examination. The corroboration of oral evidence could be:
 - ▶ by written confirmation by the person interviewed;
 - ▶ by weight of multiple independent sources disclosing same facts;
 - ▶ by checking the records later; or
 - ▶ by entrusting the collection of evidence to independent organisations of repute.
- ▶ **Documentary evidence** in physical or electronic form is the most common form of audit evidence. These could be both internal as well as external.
 - Some examples of internal documentary evidence are accounting and information records, copies of outgoing correspondence, plans, budgets, annual reports and internal audit reports, etc.
 - Some examples, of the evidence from external sources are documents originating from other entities (viz. notes or reports of other Ministries, incoming correspondence, external evaluations and surveys). Internal documentary evidence originates within the entity. In most cases, the external evidence is also obtained from the records of the entity.

The reliability, relevance and sufficiency of documentary evidence should be assessed in relation to the objectives of the audit.

- ▶ **Analytical evidence** stems from analysis and verification of data, which can involve computations, analysis of rates, ratio and variance analysis, trends and patterns, comparisons against standards and benchmarks, etc. The analysis and comparisons can be both numerical and non-numerical. The source of data analysed to develop an evidence should be indicated to facilitate acceptance by the entity.

Different types of audit evidence can be linked to different methods for collecting data, as listed in the box below.

| Audit Evidence | Methods of Data Collection |
|----------------------|---|
| Testimonial evidence | <ul style="list-style-type: none"> ▶ Interviews ▶ Questionnaires ▶ Focus groups ▶ Reference groups |
| Documentary evidence | <ul style="list-style-type: none"> ▶ Document reviews ▶ File reviews ▶ Using existing statistics ▶ Using existing databases |
| Physical evidence | <ul style="list-style-type: none"> ▶ Observation of people ▶ Inspection of objects |
| Analytical evidence | <ul style="list-style-type: none"> ▶ Computation, comparisons ▶ Logical reasoning and rational arguments |

There are different types and sources of evidence that the auditor may use. Each type of evidence has its own strengths and weaknesses. The following contrasts are useful in assessing the appropriateness of evidence:

- ▶ **Documentary evidence** is more reliable than oral evidence, but the reliability varies depending on the source and purpose of the document.
- ▶ **Testimonial evidence** that is corroborated in writing is more reliable than oral evidence alone.
- ▶ **Evidence based on many interviews** together is more reliable than evidence based on a single or a few interviews.
- ▶ **Testimonial evidence** obtained under conditions in which people may speak freely is more reliable than evidence obtained under circumstances in which people may feel intimidated.
- ▶ **Evidence obtained from a knowledgeable, credible, and unbiased third party** is more reliable than evidence obtained from the management of the auditee entity or others who have a direct interest in the auditee entity.
- ▶ Evidence obtained where **internal control is effective** is more reliable than evidence obtained where internal control is weak or non-existent.
- ▶ Evidence obtained through the **auditor's direct observation, computation, and inspection** is more reliable than evidence obtained indirectly.
- ▶ **Original documents** are more reliable than copied documents.

Sources of Evidence

Sources of evidence may vary from case to case. Following are some illustrative sources of important evidence:

- ▶ **Policy statements and legislations:** Policy documents, operating guidelines and manuals, administrative orders, etc. along with the background papers leading to their promulgation.
- ▶ **Published programme performance data:** budget, accounts including outputs, plan documents, performance budgets and reports, programme documents, annual reports and replies or statements placed before Parliament and legislature.

- ▶ **Management reports and reviews:** internal reports and reviews, minutes of meetings, management information chain and information/performance reports, etc.
- ▶ **Files of the entity on the subject** provide strong evidence to support audit findings. It may not be possible to examine all files of the entity due to time constraint. The selection of the files for examination will be guided by the audit objectives or the purpose of the investigation. Depending upon the subject of performance audit, the audit team may examine a sample selected at random. Some of the more important files that can provide the desired evidence are:
 - Strategic and operational planning files;
 - Budget files;
 - Management control, monitoring and review files;
 - Internal audit reports, internal and external evaluations;
 - Complaints and disputes, etc.;
 - Databases maintained by the entity;
 - Evidence; and
 - External sources - independent surveys, evaluation, research, etc.
- ▶ **Website of auditee entities, the regulators and other related entities:** It may be ensured that the website from which the audit evidence is being taken is reliable and updated. The source of such information should be shared with auditee entity and suitably depicted in the audit report.
- ▶ **Physical verification/inspection:** Internal Auditor may make an assessment based on the nature of the subject of performance audit and the audit objectives as to whether physical verification/inspection is required to achieve the audit objective and document the results of their assessment. Some of the measures to transform the observed evidence into competent evidence could be joint inspection in which the result of such inspection is certified by the representative of the entity holding responsible position, out-sourcing the physical observation to an agency and supplementing the observed results with photograph, etc. attested by the representative of the entity.

6.6 Designing Audit Findings Matrix

It is desirable for an audit team to prepare an Audit Findings Matrix where an auditor can record all the information, data, and evidences gathered during the audit. The audit findings can be elaborated *vis-à-vis* good practices and the potential audit recommendation along with the expected benefits in case the recommendation is already implemented. It is meant to provide a link between the audit objectives, criteria, the audit observation and the recommendations emerging therefrom.

Table 6: Sample of Audit Findings Matrix

| Audit Objectives/ Sub-objectives: To ascertain the existence and/or adequacy of policy and institutional framework in ensuring effective management of road maintenance works, and implementation thereof | | | | | | | |
|---|----------|-----------------------|--------|---------|----------------|-----------------|-------------------|
| Findings: Some divisions have not followed the existing policies and frameworks | | | | | | | |
| Situation Found vis-à-vis audit questions | Criteria | Evidence and analysis | Causes | Effects | Good Practices | Recommendations | Expected benefits |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

Audit findings are arrived at by comparing the evidence to the criteria. These are based on the analysis of information collected during the audit. Further analysis of the nature and magnitude of the issue will lead to the development of audit observations. These observations should be based on objectives, rationality and project-specific standards and criteria. Audit conclusions should be developed and evaluated throughout the audit. Potential conclusions identified in the planning stage or during the pilot study should be followed up in the detailed examination phase of the audit.

Further, the internal audit team must determine whether the deficiency is an isolated instance or represents a generic or systemic problem. Such audit observations may also require the application of significant judgement and interpretation in answering the audit questions, due to the fact that audit evidence may be persuasive, which points towards the conclusion, rather than conclusive, which is right or wrong in nature.

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

Analysing Evidence and Developing Findings and Recommendations

While developing the audit findings and conclusions, references may be made not only to number of deviations but also to total number of cases test checked and the population size. Essentially, there are five attributes of an Audit Finding:

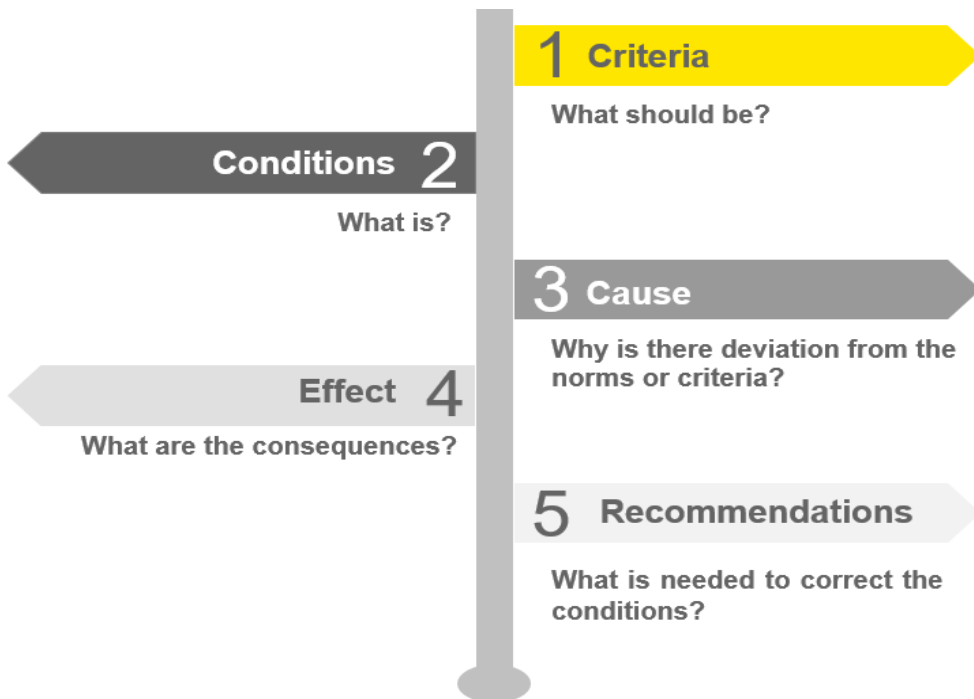
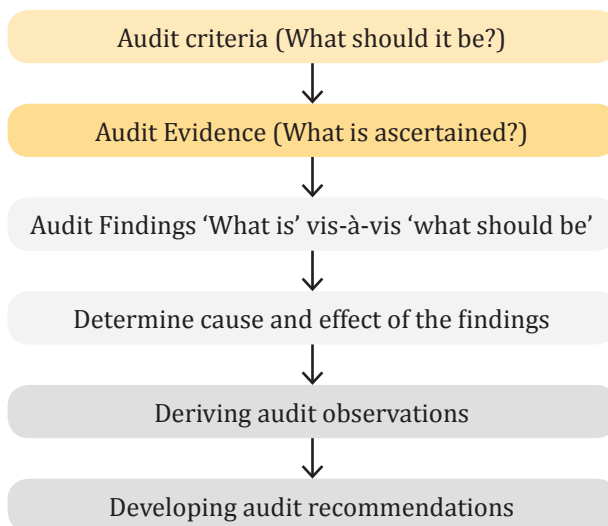


Figure 13: Attributes of an Audit Finding

Figure 14: Developing Recommendations and Conclusions

Audit findings are based on the identification of performance gaps such as where controls are deficient or ineffective in mitigating risks. Audit findings have often been regarded as containing the elements of criteria, condition, effect and cause when problems are found. However, the elements needed for a finding depend entirely on the objectives of the audit. Thus, a finding or set of finding is complete to the extent that the audit objectives are satisfied. The elements of a finding contain the following:

Criteria

Criteria are standards against which the adequacy of performance is assessed. They represent a reasonable and informed person's expectations of 'what should be'. When they are compared with what actually exists, audit findings are generated. Failing to meet the criteria would indicate that improvements could be made. Where possible, it is a good idea to identify the nature of such improvements or even how they might be achieved.

Condition

Conditions are what the auditor actually finds as a result of his review. It should be compared to the criteria to assess if the condition falls short of the criteria.

Effect

Effect is an impact of the gap or result of an event i.e. the consequences of the condition falling short of the criteria. The effect of a finding may be quantifiable in many cases such as making an estimation of the cost of expensive processes, expensive inputs or unproductive facilities. Additionally, the effect of inefficient processes, for example, idle resources or poor management, may become apparent in terms of time delays or wasted physical and other resources. Qualitative effects as evidenced by a lack of control, poor decisions or lack of concern for service to taxpayers may also be significant. The effect should demonstrate the need for corrective action. The effect can also have occurred in the past, be occurring now or possibly in the future.

Cause

Causes are reasons for occurrence of the gap/event. Identifying the cause provides information on accountability relationships and provides the means to initiate improvements. Some causes may be of a nature, which are beyond the control of management such as natural calamities like floods or unanticipated realignment of currencies leading to some distortions in comparing actual with budget.

Finding

Findings may be presented in discussion papers for comment by auditee management. Auditee responses can then be documented and analysed. Where the agency disagrees with the audit findings and recommendations, the reasons for such disagreement should be fully analysed.

Example on the Elements of a Finding

| Project Need Identification | | | |
|--|--|---|---|
| Criteria | Condition | Cause | Effect |
| The minimum Internal Rate of Return (IRR) on project should be at least 10%. | The feasibility studies of the project was carried out resulting in an IRR of 12%. However, on the basis of actual costs, estimated IRR of road A and D were 6.3% and 5.7% respectively. | All relevant costs were not considered during investment evaluation. | Ineligible road works were selected for rehabilitation. |
| The decision making in the need definition process should be based on objective and rational approach. | Selection of projects is done on the basis of best judgement of the Director General of Department of Roads (DOR). The needs identification is not based on specific procedures. | The DOR does not maintain detailed information on roads to identify/ prioritize the projects. | More beneficial and essential road projects might not have been selected. |

6.7 Audit Documentation and Working Papers

The internal auditor shall comply with the specific documentation requirements as per the International Standard on Internal Auditing issued by IIA. In summary, thorough documentation is a vital aspect of maintaining a professionally acceptable level of auditing to ensure that:

- ▶ there is an adequate and defensible basis for the audit opinions expressed in a report;
- ▶ internal auditors can explain audit findings better to the legislature;
- ▶ it provides an effective link between successive audits; and
- ▶ it provides a basis for quality assurance reviews.

Documentation

Auditors shall adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit. Working

papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant findings and conclusions. Adequate documentation is important for several reasons. It will:

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

Working Papers

Working papers are a record of work that is done on an audit. All relevant documents and information collected and generated during a performance audit constitute the working papers. They include the documents recording the audit planning including the audit objectives, determination of criteria including the process of their determination, field audit and evidence gathering procedures, evidence analysis, the nature, timing and the extent of audit procedures performed and the process of arriving at the results of the audit tests i.e., audit findings and conclusions. They may take the form of documents, interview notes, analyses, tapes, films, electronic records, and other materials.

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

- ▶ **Completeness and accuracy:** Provide support to audit conclusions and recommendations.
- ▶ **Clarity and conciseness:** Anyone using these papers should be able to understand the entire audit process without need for any supplementary examination.
- ▶ **Legibility and neatness:** Apply particularly to photocopies.
- ▶ **Relevance:** Working papers should be restricted to matters, which are important, pertinent and useful for the purpose.
- ▶ **Ease of review:** The working papers should contain cross-references to the audit memorandum, discussion papers, audit observation, field audit report and performance audit report, as the case may be, to enable the supervisory authority and the general Report Users/Readers to link the working papers to audit conclusions and recommendations.
- ▶ **Complete audit trail of analysis:** The working papers should be so organised so that even an uninitiated person can follow the trail of how the subject was selected, how evidence was gathered, what was the evidence collected and how audit conclusions were formulated. This should include evidence for the positive findings as well.

7

Audit Reporting

Chapter 7: Audit Reporting

The audit report is the most important component of the entire audit process. Upon completion of performance audit assignment, the internal audit team shall prepare an audit report containing audit observations and conclusions in an appropriate format which is objective, complete, accurate, constructive and concise, easy to read and understand, free from ambiguity, and supported with sufficient, competent, relevant and independent evidences.

The Chief/Head of Internal Audit Unit shall submit a final performance audit report addressed to the head of the agency with a copy to the CCA. If the performance audit report was conducted upon instruction of other agencies, such as the Anti-Corruption Commission, a copy of the report shall be addressed to such agency with copies shared with the head of the agency and the CCA.

This chapter contains requirements for reporting performance audits. The purpose of the requirements is to establish the overall framework for communicating the results of the performance audit. The requirements relate to the form of the report, the report contents, and report issuance and distribution. The purpose of an audit report is to:

- ▶ Communicate the results of audits to the intended users;
- ▶ Make the results less susceptible to misunderstanding;
- ▶ Make the results available to the public in order to create transparency, unless specifically restricted by legislation; and
- ▶ Facilitate follow-up to determine whether appropriate corrective actions have been taken.

IIA Standard 2400 - Communicating Results

Internal auditors must communicate the engagement results.

IIA Standard 2410 - Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

IIA Standard 2410.A1

Final communication of engagement results must, where appropriate, contain the internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation: Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

IIA Standard 2410.A2

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

IIA Standard 2410.A3

When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

IIA Standard 2420 – Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

IIA Standard 2421 – Errors and Omissions

If a final communication contains a significant error or omission, the Chief Internal Audit must communicate corrected information to all parties who received the original communication.

IIA Standard 2430

Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”

Internal auditors may report that their engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing” only if the results of the quality assurance and improvement program support the statement.

IIA Standard 2431 – Engagement Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts a specific engagement, communication of the results must disclose the:

- ▶ Principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved;
- ▶ Reason(s) for nonconformance; and
- ▶ Impact of nonconformance on the engagement and the communicated engagement results.

IIA Standard 2440 – Disseminating Results

The Chief Internal Audit must communicate results to the appropriate parties.

IIA Standard 2440.A1

The Chief Internal Audit is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

7.1 Contents of Performance Audit Report

The performance audit report should meet standards of language, format, style and structure prescribed by the CCA and as generally followed. It may also have comments on implementation of government policies. The final performance audit report should incorporate replies of the auditee management with further comments from the auditors, if required. Salient features of the performance audit report, as prescribed by INTOSAI, are as under:

Content of the report

Requirements according to ISSAI 3000:

- ▶ 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)

The form and content of performance audit reports generally consist of the following:

- ▶ **Title** - The report should have an appropriate title in order to distinguish it from other reports.
- ▶ **Addressee** - The report should be addressed to the head of the agency or to the management of the auditee depending on the type of report. If the performance audit report was conducted upon instruction of other agencies, such as the Anti-Corruption Commission or the Parliament, a copy of the report shall be addressed to such agency.
- ▶ **Description of the auditee** - A description of the auditee will give the report user appropriate background information. The description should include organization objectives and targets, overall organization structure of the auditee, etc.
- ▶ **Auditing standards** - A statement regarding internal auditor's compliance with applicable auditing standards will provide the users with an assurance that the audit has been carried out in accordance with generally accepted audit practices.
- ▶ **Audit objectives, scope and methodology** - The objective and scope will establish the purpose and boundaries of the audit. The users should also be made aware of the methods and the extent of work carried out as well as the nature and extent of information available in order to arrive at audit findings, conclusions and recommendations.
- ▶ **Audit Limitation** - Any limitation to the audit should be disclosed to users of the audit report.
- ▶ **Audit findings** - The audit findings should address the economy, efficiency with which resources are acquired and used, and the effectiveness with which objectives are met. Each issue of audit should include the criteria, condition, cause, effect and consequence where a departure from criteria is highlighted. Reports may include constructive criticism or may make no significant criticism but give independent information, advice or assurance as to whether economy, efficiency and effectiveness are being or have been achieved.
- ▶ **Conclusions and recommendations** - The report should give conclusions to the questions posed by the audit objectives and recommendations for actions to correct problems found.
- ▶ **Management's response** - The report should include management's response to the auditor's findings, conclusions, and recommendations. Management should comment on the acceptability or otherwise of each recommendation.
- ▶ **Signature and Date of report** - The report should be dated to inform the reader that consideration has been given to the effect of events or transactions about which the internal auditor became aware up to that date.

Audit Tool for Performance Audit Report template

| Sl. No. | Logical Order | Example |
|---------|--|---|
| 1 | Title of the audit report | Mention in the cover page |
| 2 | Transmission letter | Date, address, subject, dated signature |
| 3 | Title Sheet | Mention details of the audit, viz. title of the report, Audit Report Reference, Name of the auditee unit/division/entity, audit period, audit duration, audit team members, and audit team supervisor. |
| 4 | Acronyms and abbreviations | |
| 5 | Table of contents of the report | |
| 6 | Executive Summary | Audit objectives and significant audit findings |
| 7 | Introduction of the auditee entity | Background, policy, major programmes, budget and expenses should be mentioned. |
| 8 | Compliance with auditing standards | The audit has been conducted in accordance with performance audit guideline of Internal Audit Services, CCA and relevant auditing standards issued by International Organization of Supreme Audit Institutions (INTOSAI) and International Standards for Professional Practice of Internal Auditing issued by Institute of Internal Auditors (IIA). |
| 9 | Audit objective, scope and methodology | Objective: ascertaining economy, efficiency, and effectiveness in the operation and management of the entity; Scope: audit coverage of period and areas; Methodology: literature review, interview, analyses of data, documentary review, field visits, etc. |
| 10 | Limitations | Unavailability of the documents, inability to use any necessary audit technique due to different reason. |
| 11 | Audit Findings | Each audit question analyses with criteria, condition, cause, consequence and recommendations. |
| 12 | Management response | Summaries of response provided by the management on each audit findings |
| 13 | Audit conclusions | Based on the audit findings and management response thereon, auditor should provide opinion about 3Es |
| 14 | Audit recommendations | Summaries of audit recommendations under different audit findings and conclusions |
| 15 | Annexures and Appendices | Long table, complex data, analysis, organisation structure, copies of documentary evidence, etc. |

Attributes of a Performance Audit Report

To achieve the objectives, a performance audit report must be objective, concise, timely and persuasive. As the performance audit aims is to bring about improved procedures and structures, it must establish its credibility by accurately reflecting the audit findings, presenting logical conclusions and making meaningful, practical and relevant recommendations.

Objective

When drafting a performance audit report, the auditor needs to present any relevant evidence that is opposed to his or her opinion, and not just the evidence in favour of it. There is a temptation to only present the evidence which supports the auditor's opinion

and let the auditee management come up with evidence to refute it. This is not objective and when such countering evidence is produced, the auditor and the audit report lose credibility because it would appear as if the auditor had not done sufficient work to gather and analyse all evidence on which to base audit conclusions.

Concise

An audit is often the result of many hundreds of hours work and involves perhaps thousands of pages of working papers and audit evidences. The role of the author of the report is to distil this material into as concise a report as possible. The auditor should also go through the report carefully and test every point to see if they are all necessary. This test is simple; if this point was left out would the report be less effective in meeting its objectives?

Timely

An audit report should be drafted as quickly as possible after the completion of the audit field work. The process should commence during the fieldwork and finishing it should be a matter of urgency once the internal auditor has gathered all the required information.

Persuasive

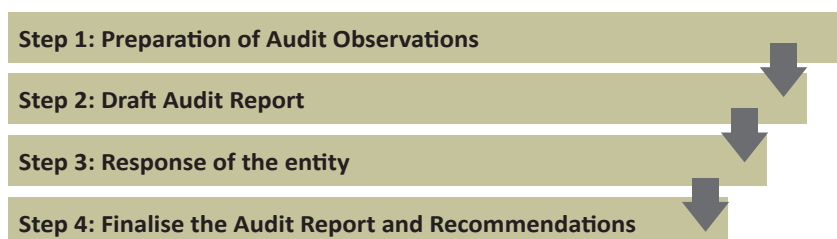
In order for a report to be persuasive the author of the report must consider the point of view of the readers of the report and what will persuade them to take appropriate action to address the findings. To be persuasive there must be clearly defined and logical links from the audit evidence to the findings, the conclusions and recommendations. If this chain of links is broken at any point, then the reader can dismiss the argument from that point on. If, for example, the findings do not necessarily lead to the conclusions drawn by the internal auditor, then the reader may reject the conclusions and the recommendations, even if the recommendations actually solve the problems highlighted by the findings.

Balanced Reporting

Where an auditor does feel it is possible to make a positive comment about some aspect of the management of an activity, this statement should be supported by evidence. In public administration it is rare to find that all aspects of an agency's management of a particular activity or programme is working well. Equally, it is rare to find that all aspects need to be improved. Where internal auditors find areas of good practice they should acknowledge this positively while focussing attention on developing recommendations to strengthen areas requiring improvement.

The following steps illustrates the various activities to be conducted at the audit reporting stage of audit life cycle:

Figure 15: Steps of audit reporting:



7.2 Preparation of Audit Observations

An Audit Observation shall generally contain issues of potential control weakness, policy violation, financial misstatement, inefficiency in programme implementation and achievement of programme objectives, or other problematic issues identified during the audit. Such audit observations shall be supplemented by relevant evidences gathered by the internal auditor to satisfy audit objectives. These evidences shall enable the audit team to answer the audit questions. The observations, in turn, are basis for forming conclusions against each of the audit objectives. The internal auditors should assess the significance of the observations in relation to the audit objectives.

Further, the audit observations shall serve to confirm the facts with the entity and help in development of audit findings and recommendation by obtaining its preliminary response.

It is a good practice to develop audit observation in a modular fashion, containing the audit findings, conclusions and recommendations, where applicable, along with details of evidence, their sources and analysis, so that the portion containing audit findings, conclusions and recommendations can be used directly in the draft performance audit report.

It is advisable for the audit team to refer the Audit Design Matrix and Audit Finding Matrix (Chapter 5 & 6) for reconfirmation to ensure that nothing is left out and they have completed the work in consonance with the Matrices.

A typical audit observation should have the following traits:

7.2.1 Topical Sentence for observation title

The internal auditor should create a title of an observation that conveys the gist of the observation, like the headline of a newspaper. The internal auditors should try to sum up the conclusion in one sentence. This sentence can be called 'Topical Sentence'. The wording of the sentence should be such that it conveys the main message even if one does not read the whole observation.

7.2.2 Going Back to the Audit Criteria

As the audit criteria provide the basis for audit observations, development of audit observation should reinforce the confidence of the criteria used during the audit.

7.2.3 Conditions Found

While following the audit programme, the internal auditors document conditions found on the ground. If the conditions on the ground meet the criteria, the internal auditors have a positive conclusion. Such conditions must be reflected in the audit observation.

7.2.4 Analysis of Gaps

The internal audit team should identify any gaps between the audit criteria and the conditions on the ground. Once the facts are identified and confirmed to be valid, the internal auditors should comment with analysis of the gaps between the audit criteria and the conditions found. The analysis requires that the internal auditor's probe into causes for the gaps, which should form the basis of audit observations.

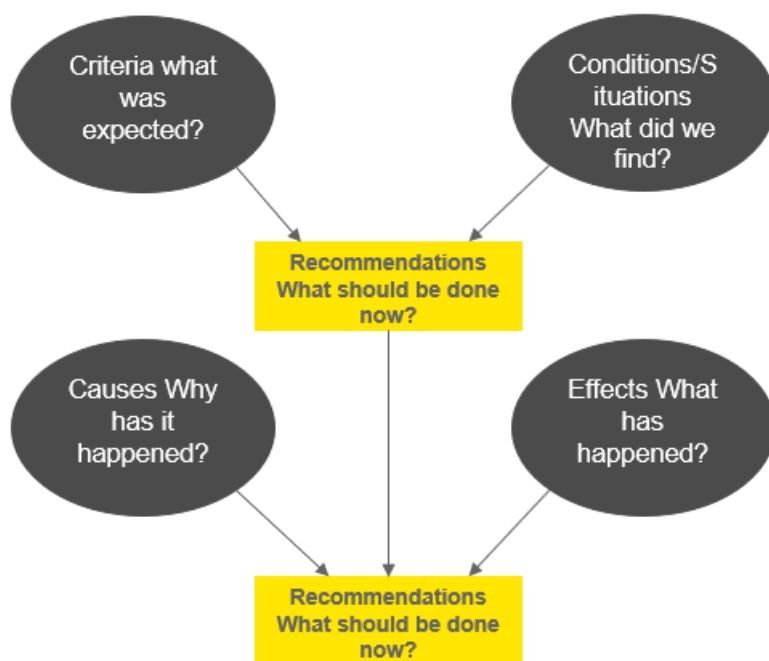


Figure 16: Gap Analysis

7.3 Draft Audit Report

The draft audit report is to be prepared upon conclusion of the field audit of the auditee unit and all field units selected for audit. The purpose of preparation of the draft report is to seek formal response of the auditee unit. A reference to the auditing standards followed for conduct of audit should suitably be made in the draft report.

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

7.4 Response of the entity

Upon submission of draft audit report, the auditee agency shall be provided with certain time period to provide written responses to the audit observations. It is important that the entity is persuaded to provide written response to the draft audit report. This may be achieved through correspondence, personal meetings and presentation of the draft audit report. The attempt should persuade the auditee entity to respond directly to each audit finding and recommendation so that these can be published in final audit report. There shall be a standard admissible time period for the auditee agency to furnish response to the internal audit team. This response report from the auditee unit shall confirm the acceptance/non-acceptance or implementation status of the audit observations.

7.5 Finalise the Audit Report and Recommendations

Requirement according to ISSAI 3000:

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*)

The team leader of the Internal Audit Team shall prepare the final report taking into account the agency responses and the Chief Internal Auditor of IAU or CCA, as the case may be, shall be the final authority to sign and clear the final report. By the same authority, the Chief Internal Auditor of IAU or CCA, being the final signatory on the final audit report, shall assume full responsibility for issues related to considerations on the need to redact certain sensitive information, if any, deemed important for national and public interest.

Performance audit shall conclude with well thought-out recommendations, which clearly spells out possible solutions, without taking over management's responsibilities. For developing recommendation, the underlying causes of a finding should be identified, as this forms the basis for the recommendation.

Recommendations emerge from identification of the cause of audit findings, which ought to be addressed by the entity. Recommendations should be well-founded and add value. It should be clear as to who is responsible for taking initiative and what the recommendations mean, i.e. how will they contribute to improve the performance. Therefore, it is essential that recommendations provided are practical, doable and reasonable.

The recommendations should be clear and be presented in a logical and rational fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report they should make the reader think that it is possible and highly likely to significantly improve the conduct of government operations and programmes, *e.g.* by lowering the costs and simplifying the administration of the services, by enhancing the quality and volume of the services, or by improving the effectiveness, the impact or the benefits for the society of the services. Sometimes, the cause may be outside the control of the entity under audit, in which case the recommendation should seek attention from the higher appropriate authority.

In some cases, it is also important to present arguments for and against various alternative proposals. By following the underlying arguments, the intended users and responsible parties will have better understanding of the final recommendations emerging from identification of the cause of audit findings, which shall be the responsibility of the auditee agency to address.

8

**Audit
Follow-up**

Chapter 8: Audit Follow-up

The issuance of the report is not the end of the auditing process. Beyond issuance there is follow-up on the impact of the audit. The aim of audit reports is to influence the way in which services are designed and provided to citizens, and to give recommendations to help deliver improvements in the economy, efficiency and effectiveness of these services. This section contains follow-up requirements and provides advice on how to do follow-up on performance audit reports.

Follow-up refers to the situation where the internal auditor examines the corrective actions the auditee entity, or another responsible entity, has taken on the basis of the recommendations contained in performance audit reports. When conducting a follow-up of audit reports, the internal auditor should concentrate on findings and recommendations that are still relevant at the time of the follow up and adopt an unbiased and independent approach.

Follow-up on the audit report is an important tool to strengthen the impact of the audit and improve future audit work and is therefore a valuable part of the audit process. A follow-up process will facilitate the effective implementation of audit findings and recommendations. It will also provide feedback to the legislature and the government on performance audit effectiveness and the improvements made by the auditee entity.

IIA Standard 2500 - Monitoring Progress

The Chief Internal Audit must establish and maintain a system to monitor the disposition of results communicated to management.

IIA Standard 2500.A1

The Chief Internal Audit must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Requirements according to ISSAI 3000:

- ▶ 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*)

Following up on audit findings and recommendations may serve four main purposes:

- ▶ Identify the extent to which auditee entities have implemented changes in response to audit findings and recommendations;
- ▶ Determine the impacts which can be attributed to the audits;
- ▶ Identify areas that would be useful to follow up in future work;
- ▶ Evaluate the IAUs performance. Follow-up provides a basis for assessing and evaluating IAUs performance and may contribute to better knowledge and improved practices in the IAUs. In this respect a follow-up of audit reports is also a self-assessment tool.

Follow-up is typically done periodically as deemed appropriate by the IAUs. Sufficient time needs to be allowed for the auditee entity to implement appropriate action. When conducting follow-up of audit reports, the aim is to determine whether actions taken on findings and recommendations have remedied the underlying conditions. This means that both positive and negative reactions regarding the audit and the audit report need to be examined by the auditor. It is therefore important to adopt an unbiased approach.

When conducting follow-up of an audit report, the auditor needs to concentrate on findings and recommendations that are still relevant at the time of the follow-up. Insufficient or unsatisfactory action by the auditee entity may call for a further audit by the IAUs.

Methods of Follow-up

Different methods may be used to follow-up on the findings and recommendations made.

- ▶ Arrange a meeting with the responsible parties after a certain time has elapsed to find out what actions have been taken to improve performance and to check which recommendations have been implemented.
- ▶ Request the responsible parties to inform the Internal Auditors in writing about the actions they have taken to address the problems presented in the audit report.
- ▶ Use phone calls or limited field visits to collect information on the actions taken by the auditee entity.
- ▶ Keep up to date on reactions from responsible parties, the legislature and the media, and analyse whether problems identified have been appropriately addressed or not.
- ▶ Request financial audit to collect information about actions taken as part of their audit procedures.
- ▶ Carry out a follow-up audit, resulting in a new performance audit report.

The following steps illustrates the various activities to be conducted at the audit follow-up stage of audit life cycle:

Figure 17: Steps of audit follow-up:

Step 1: Tracking Recommendations

Step 2: Annual follow-up Programme



8.1 Tracking Recommendations

All internal audit team in-charges shall maintain record of implementation of the recommendations by the auditee agency management. For this purpose, each performance audit report and each recommendation in the report should have a distinct number that appear on body of the report. The internal auditors should request the auditee management to refer to the serial number of recommendations in all communications relating to implementation.

All internal audit team in-charges should, as a standard practice, obtain evidence of implementation of the recommendation. In certain cases, the evidence provided by the auditee management will be conclusive and may not require any further follow-up action. In other cases, it may require further verification of the assertions made by the auditee

management regarding implementation. In that case, the internal audit team may decide to conduct further verification by deputing internal auditor(s) to verify the implementation.

Should the internal audit team decide to conduct further verification of the recommendation, the Chief of IAU shall inform the auditee management of their plan to do so and agree with the auditee management a time-table for actual verification. As far as possible, the internal audit team shall avoid surprise or unannounced verification.

8.2 Annual follow-up Programme

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

Follow-up results may be reported individually, or as a consolidated report. Consolidated follow-up reports may include an analysis of different internal audits, possibly including common trends and themes across a number of reporting areas. Such consolidated report may be issued as an Annual Follow-up report by IAUs.

Therefore, it is vital that the CCA take lead in instituting system of Annual Follow-Up Programme. Such system, if in place, can contribute to a better understanding of the value added through performance auditing in a given time period or subject matter area. A systematic annual follow-up programme shall result in reaping continuous improvement in the performance of the agency(ies), besides providing morale boost to the internal auditors in their profession.

Inventory of Recommendations

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

Report the results of the follow-up

Whatever method is used, the results from the follow-up need to be reported appropriately in order to provide feedback to the legislature. It is a good practice to report deficiencies and improvements identified in audit follow-up to the responsible parties or the legislature.

Follow-up may be reported individually or as a consolidated report. If several follow-ups are reported together, they may include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas. Whatever the form, the follow-up reports must be balanced, and findings presented objectively and fairly.

9

Forms, Format and Annexures

Chapter 9: Forms, Format and Annexures

Format 1: - Risk Assessment Checklist

| S. No | Particulars | Audit Party Assessment | | | Detailed response of audit party |
|-------|--|------------------------|----|----|----------------------------------|
| | | Yes | No | NA | |
| 1 | Has any audit Paras been covered in the RAA's Annual Audit report submitted to the Parliament during the last 3 years? | | | | |
| 2 | Is auditee unit having audit observations which are pending for compliance for more than 3 years? | | | | |
| 3 | Is there any recoverable amount (i.e. amount recoverable in any audit para) during last 3 years? | | | | |
| 4 | Are there cases of fraud, embezzlement and loss of revenue reported during the last 3 years? | | | | |
| 5 | Is there any significant increase (i.e. increase by more than 20%) in budget allocation as compared to the previous year budget? | | | | |
| 6 | Is there significant increase (i.e. increase by more than 20%) in expenditure incurred in comparison to the previous year? | | | | |
| 7 | Is there indication of any fraudulent activity? | | | | |
| 8 | Is there any new budget/project/activity during the period under audit? | | | | |
| 9 | Is there any change in key staff during the last 3 years? | | | | |
| 10 | Is there any pending litigation or liability against any expenditure incurred? | | | | |

Format 2: - Risk Assessment Format

| Selection criteria | | | | | | | |
|--------------------|-------|------------------------------|------------|-------------|------------------|-------------------------|-----------------------|
| Topics | Risk | Materiality and significance | Visibility | Past audits | Estimated impact | Overall rating by topic | Rank (Overall rating) |
| (Weighting) | (0.2) | (0.2) | (0.2) | (0.1) | (0.3) | 1 | |
| Topic 1 | 10 | 5 | 5 | 5 | 10 | | |
| | 2 | 1 | 1 | 0.5 | 3 | 7.3 | II |
| Topic 2 | 5 | 10 | 5 | 0 | 10 | | |
| | 1 | 2 | 1 | 0 | 3 | 7 | III |
| Topic 3 | 5 | 5 | 5 | 10 | 5 | | |
| | 1 | 1 | 1 | 1 | 1.5 | 5.5 | V |
| Topic 4 | 10 | 5 | 10 | 5 | 10 | | |
| | 2 | 1 | 2 | 0.5 | 3 | 8.5 | I |
| Topic 5 | 10 | 10 | 5 | 0 | 5 | | |
| | 2 | 2 | 1 | 0 | 1.5 | 6.5 | IV |

Format 3: - Performance Audit Plan

The audit planning documents should contain:

- ▶ Background knowledge and information needed to understand the entity to be audited, to allow an assessment of the problem and risk, possible sources of evidence, auditability, and the materiality or significance of the area considered for audit;
- ▶ 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 conducting the audit analysis;
- ▶ An overall activity plan which includes staffing requirements, i.e. sufficient competencies, including human resources, and possible external expertise required for the audit, an indication of the sound knowledge of the internal auditors in the subject matter to be audited;
- ▶ Key project timeframes and milestones, and the main control points of the audit.

The format of audit plan is as follows: -

**Name of Ministry/Autonomous
Body**
Internal Audit Services

ANNUAL INTERNAL AUDIT WORK PLAN
Financial Year XXXX-XXXX

Prepared by:

XXXX, Sr. Internal Auditor

XXXX, Internal Auditor

Table of Contents**I. Overview**

XXXXX

II. Scope of Audit

1. XXXXX

III. Audit Objectives

The primary objectives of the audit activities for the fiscal year XXXX-XXXX are as follows:

- i. XXXXXX

IV. Audit Resource Allocation plan for the FY XXXX-XXXX

XXXX

| Purpose | Internal Auditor | Internal Auditor | Total available person days |
|--|------------------|------------------|-----------------------------|
| Total days (July XXXX-June XXXX) | xxx | xxx | xxx |
| Less: | | | |
| 1. Weekends and public holidays | (xxx) | (xxx) | (xxx) |
| 2. Annual Leave | (x) | (x) | (x) |
| 3. Estimated Sick leave | (x) | (x) | (x) |
| Total available days: | xxx | xxx | xxx |
| Less: | | | |
| 1. General Administration & liaison with CCA on Professional practice/and Annual Internal Audit Conference | (xx) | (xx) | (xx) |
| 2. Professional development | (xx) | (xx) | (xx) |
| 3. Annual Audit Work Planning for 2017-2018 | (xx) | (xx) | (xx) |
| Total available days for auditing | xxx | xxx | xxx |
| Less: Provision for Ad-hoc/unplanned work | (xx) | (xx) | (xx) |
| Total Man days available for Auditing | xxx | xxx | xxx |

VI. Tentative Annual Internal Audit Programme

XXXXX

| Sl No | Audit area | Tentative Audit Start date | Tentative Audit End date | Total working days |
|------------------------------|------------|----------------------------|--------------------------|--------------------|
| 1 | XXXX | dd/dd/yyyy | dd/dd/yyyy | xx |
| 2 | XXXX | dd/dd/yyyy | dd/dd/yyyy | xx |
| 3 | XXXX | dd/dd/yyyy | dd/dd/yyyy | xx |
| Total days for planned audit | | | | XXX |

VII. Limitations

XXXXX

Respectfully Submitted by:

 Head, Internal Audit Services
 Name of Ministry/Autonomous Body/Dzongkhags

Approved by:

 (Mr. xxxxx)
 Hon'ble Secretary/Designation of Head of Government Agency
 Name of Ministry/Autonomous Body/Dzongkhags

Format 4: - Example of Audit Programme**Audit Program 1: Sample audit Programme for Human Resource Performance Audit**

| Particulars | Description |
|------------------------------|---|
| Name of the Organization | ABC |
| Audit Conducted by: - | Internal Audit Unit |
| Audit Programme Prepared by: | |
| Audit Programme Reviewed by: | |
| Audit Scope: | Assess the operational and management processes of the Human Resources Department. To provide an understanding of the Department's organizational structure, functions, the efficiency and effectiveness of the overall processes and operations, as well as compliance with financial regulations. |
| Audit Objectives: | To examine the core services (HR Planning, recruitment, induction process, payroll process, training, performance appraisal process, etc.) provided by the Human Resources Department and determine the efficiency and effectiveness of service delivery to the organization. |

| Particulars | Done by | Date | Working paper Reference |
|--|---------|------|-------------------------|
| A. Planning Procedures | | | |
| 1. Prepare an audit engagement letter and send to auditee management | | | |
| 2. Hold an entry meeting with the management. | | | |
| 3. Update the Work Programme based on prior audit recommendations. | | | |
| B. Review Procedures | | | |
| B.1 HR Planning Process | | | |
| Risk Listing: HR Plan not meeting the objectives of the organization | | | |
| Impact Analysis: | | | |
| 1. Positions recruited not adequately justified resulting in increasing HR budget. | | | |
| 2. Number of persons recruited in excess/short thereby resulting in inadequate HR sizing | | | |
| 3. Approval not assigned for deviations resulting in non-compliance with policy and inadequate control effectiveness | | | |
| Information required from Auditee: Annual HR Plan | | | |
| Task to perform: | | | |
| 1. Understand the process of HR planning to verify that adequate steps are taken to ensure that the candidate requirement projected is justifiable | | | |
| 2. Compare actual vis-à-vis the plan and check for major deviations, if any | | | |

| | | | |
|---|--|--|--|
| 3. Verify if any action taken, which is deviating from the plan, has an approval from appropriate authority as per the Delegation of Authority defined by RCSC | | | |
| B.2 Recruitment Process | | | |
| Risk Listing: Selection of Candidate not as per the requirements of the organization | | | |
| Impact Analysis: <ol style="list-style-type: none"> 1. Improper selection of candidates resulting in recruitment flaws. 2. Non-availability of supporting documents for selected candidate resulting in inadequate justification for candidate selected 3. Candidate selected not meeting the requirements of the department resulting in inefficiency in the functional area 4. Delay in recruitment resulting in positions not filled up within the required time leading to non-achievement of annual performance targets 5. Inadequate background verification resulting in selection of candidate not suitable for the related vacancy 6. Selection not as per the requirements of the organization | | | |
| Information required from Auditee: <ol style="list-style-type: none"> 1. Requisition form wherein the requirement of the candidate and the expectations are filled in 2. Interview/Assessment form 3. Candidate's resume 4. Offer letter 5. Recruitment policy and Operating Procedure (if available) | | | |
| Task to perform: | | | |
| 1. Verify the process carried out for selection of the candidate. Ensure if it is in-house or by RCSC | | | |
| 2. If it is by RCSC verify if the process carried out for selection of the agency is done after proper evaluation | | | |
| 3. Check if the recruitment of the candidate is supported by documents, viz. resume, interview results, terms of employment, offer letter etc. | | | |
| 4. Ensure if the selection made is as per the requirement raised by checking the skills and qualifications required are met by the person selected | | | |
| 5. Ensure that the HR department has carried out the recruitment without any delay by comparing the date of request and date of recruitment | | | |
| 6. Check if adequate background verification has been done for the candidate selected. If the selection is by RCSC, check if adequate background checks for the candidate selected have been carried out. | | | |
| 7. Check if the recruitment is authorized by the appropriate authority | | | |
| B.3 Induction Process | | | |
| Risk Listing: Induction formalities not completed as per requirements | | | |
| Impact Analysis: <ol style="list-style-type: none"> 1. Inadequate induction formalities resulting in administrative inconveniences (e.g. Salary payment to be processed separately because of absence of adequate budget provision) 2. Inadequate communication of organization's policies resulting in dilution of organization's objectives | | | |

Information required from Auditee:

1. Induction Checklist if any
2. Policies/Code of conduct documents signed by the employees

Task to perform:

- | | | | |
|--|--|--|--|
| 1. Select sample of attendance register (manual/system generated) for a month and compare it with the leave records to ensure that the attendance captured is accurate | | | |
| 2. In case of leave as selected above, check if the leave has been sanctioned by the concerned personnel as defined in the Delegation of Authority. | | | |
| 3. Check if the leave records of the employees is complete with respect of Updation of various types of leave (CL, EL, etc.) and verify if the balance leave calculation is done accurately. | | | |
| 4. Confirm that there is no possibility for modification of attendance / leave records and in case of modifications if any, are authorized by appropriate senior personnel. | | | |
| 5. If the attendance is captured using electronic devices, check the accuracy and authenticity by reperformance. | | | |

B.4 Payroll Processing**Risk Listing:**

1. Inadequate segregation of duties
2. Inaccurate Payroll database
3. Statutory Non-Compliance

Impact Analysis:

1. Inadequate Segregation of Duty resulting in unauthorized access to records increasing the possibility for manipulation
2. Ghost employees in the payroll resulting in fictitious salary costs for the organization
3. Payment made in excess to new appointees
4. Salary paid to resignees resulting in recoverable amount from the dealing finance personnel
5. Salary paid not as per the terms and conditions resulting in higher payouts
6. Programme logic inaccurate resulting in wrong salary processing and inaccurate payouts
7. Inadequate authorization for document authenticity
8. Statutory non-compliances resulting in penalties and offences as per extant Statutory Regulation

Information required from Auditee:

1. Payroll database
2. Appointment letter
3. List of New Appointees
4. List of resignees
5. List of employees transferred / promoted
6. Authorized Payroll Register

Task to perform:

- | | | | |
|---|--|--|--|
| 1. Check that the person capturing the attendance and the person processing the payroll is different, to ensure adequate segregation of duty. | | | |
| 2. Compare the employee details as per the attendance register and employee details as per Payroll register and check for any dummy names in the payroll register | | | |
| 3. Obtain list of new appointees for the last three months and verify that in case of new appointees the date of Updation of the entry in employee list is on the date as mentioned in the Appointment letter | | | |

| | | | |
|---|--|--|--|
| 1. Obtain list of resignees during the period of audit and check if any names still appear in the payroll employee list | | | |
| 2. Obtain the salary details from the payroll register and select a sample of employees and check if the salary details updated are as per the appointment letter | | | |
| 3. Obtain list of employees who have been transferred/promoted during the period of audit and check if their salary details have been modified as per the transfer order/promotion letter | | | |
| 4. If the payroll processing is done by a software, reperform the calculation to ensure that the logic built in the software is correct | | | |
| 5. Check if the payroll calculations are authorized by the concerned person prior to transferring it for payment | | | |
| 6. Verify PF/GIS/ TDS are in compliance with the prevailing Statutory Norms. | | | |

B.4 Performance Appraisal

Risk Listing: Appraisal not aligned to performance

Impact Analysis:

1. Non-definition of Key Result Areas resulting in inadequate communication of role profile and non-alignment of role to the organization's objectives
2. Appraisal not aligned to performance resulting in mismatch between the position and the person
3. Non-confidentiality of appraisal records resulting in employee dissatisfaction and unrest
4. Noncompliance with organization's policy resulting in inefficiency

Information required from Auditee:

1. Appraisal Records
2. Appraisal Policy
3. Key Performance Indicators (KPI) if available

Task to perform:

| | | | |
|---|--|--|--|
| 1. Obtain the Key Performance Indicators (KPIs) defined for each role if available | | | |
| 2. Obtain the appraisal sheets and check if the appraisal is done based on the KPIs defined | | | |
| 3. In case of non-availability of standard KPIs, ensure the following: | | | |
| a. Appraisal is done by the concerned functional head to whom the employee reports | | | |
| b. The scores given are adequately justified | | | |
| 4. Ensure that the appraisal records are kept safe and confidential. Check who are the authorized persons for handling the appraisal records and ensure that the records are not made available to anyone other than the authorized persons | | | |
| 5. Check if the salary increment for persons promoted is as per the approved pay scale | | | |

B.4 Training & Development

Risk Listing: Increasing Training Costs

Impact Analysis:

1. Training provided to ghost employees resulting in fictitious training costs
2. Training feedback forms not analyzed adequately resulting in training inefficiencies and lack of benefit to the trainees
3. Non-availability of supporting documents for justifying the cost incurred
4. Cost in excess/short of the budget resulting in higher payouts or inefficiency

| | | | |
|---|--|--|--|
| Information required from Auditee: | | | |
| 1. Details of training programmes | | | |
| 2. Training attendance sheet and feedback form | | | |
| 3. Supporting documents for training costs | | | |
| 4. Training budgets and approvals | | | |
| Task to perform: | | | |
| 1. Obtain the list of training programmes conducted during the period of audit | | | |
| 2. Verify the attendance register capturing the training information and also check the training feedback forms | | | |
| 3. Enquire on the decisions taken based on training feedback forms | | | |
| 4. Check the supporting documents for the relevant training program (viz. food, location, trainer's cost, etc) and ensure that the cost incurred is supported by the underlying documents | | | |
| 5. Check if the cost is within the training budget or approval is obtained in case of deviations, if any | | | |
| C. Complete Audit Workpaper File | | | |
| 1. Complete the audit workpaper file for necessary review. | | | |
| D. Hold audit exit meeting | | | |
| 1. Hold an exit conference with management to discuss the results of the audit. | | | |
| 2. Review all findings with Management and obtain their preliminary response. | | | |
| E. Prepare and Distribute Draft Audit Report | | | |
| 1. Prepare a draft version of the audit report. Ensure that all significant recommendations are appropriately included in the report. | | | |
| F. Obtain Management Responses | | | |
| 1. Obtain a management response to all recommendations. Review responses to ensure they address all issues identified. | | | |
| G. Prepare Final Report and distribute | | | |
| 1. Prepare final report and distribute to relevant officials. | | | |
| H. Final Administrative Procedure | | | |
| 1. Ensure all review notes are addressed and cleared. | | | |

Audit Program 2: Sample Audit Programme for Procurement Performance Audit

| Particulars | Description |
|------------------------------|---|
| Name of the Organization | ABC |
| Audit Conducted by: - | Internal Audit Department |
| Audit Programme Prepared by: | |
| Audit Programme Reviewed by: | |
| Audit Scope: | Assess the operational and management processes of the Procurement. To provide an understanding of the procurement functions, the efficiency and effectiveness of the overall processes and operations, as well as compliance with financial regulations. |

| | |
|--------------------------|--|
| Audit Objectives: | <p>To examine the core services (Procurement Planning, PO management, receipt of material, Inventory management, etc.) provided by the AFD and determine the efficiency and effectiveness of procurement process in the organization.</p> <p>To examine the procurement capabilities and practices applied across. Also sought to define key limitations and challenges, as well as to identify opportunities for improvement and strengthening of the public procurement processes.</p> |
|--------------------------|--|

| Particulars | Done by | Date | Working paper Reference |
|--|---------|------|-------------------------|
| A. Planning Procedures | | | |
| 1. Prepare an audit engagement letter and send to auditee management | | | |
| 2. Hold an audit entry meeting with management. | | | |
| 3. Update the Work Program based on prior audit recommendations. | | | |
| B. Review Procedures | | | |
| B.1 Procurement Planning | | | |
| Risk Listing: | | | |
| 1. Budget: Unauthorized purchase commitments 2. Non-compliance to organization policy 3. Unauthorized procurement 4. Purchase Requisitioning: Absence of documented PR, Absence of Schedule of Authority for approving PR, Purchase requisition not approved, Lack of PR tracking 5. Standard contract terms do not exist and are not used 6. Contracts are not renewed on a timely basis | | | |
| Impact Analysis: | | | |
| 1. Delayed procurement, responsibility for excess/ delayed procurement cannot be affixed 2. Procurement in excess of allocated budget and in excess of requirement 3. Production delays on account of miscommunication | | | |
| Information required from Auditee: | | | |
| 1. Procurement policy 2. List of PR issues during the review period 3. Details of procurement committee and changes in committee during the period of audit 4. Obtain copy of Schedule of Authority (SoA), if available with the agency 5. Obtain a list and contract files of all the contracts entered into | | | |
| Task to perform: | | | |
| 1. Assess the budget estimated for procurement: <ul style="list-style-type: none"> - Enquire if the purchase budget has been defined - Check whether the budget is monitored at regular intervals - Check if the variance analysis has been done and approvals taken for any discrepancies | | | |
| 2. Absence of documented PR <ul style="list-style-type: none"> - Understand the process of documenting PR - Test sample transactions for availability of PR | | | |

| | | | |
|---|--|--|--|
| 3. Absence of Schedule of Authority (SoA) for approving PR <ul style="list-style-type: none"> - Inquire from the Head, Procurement whether SoA is established - Check whether delegations have also been mentioned in the SoA. For example, if the Head, Operations is unavailable, then who is responsible for authorizing PRs in his absence. - Also find out if the SoA is reviewed and revised regularly and whether it is adhered to in practice | | | |
| 4. Purchase requisition not approved as per SoA <ul style="list-style-type: none"> - Check the approval of a sample of PRs (manual/ system based) and compare it against authorized SoA - Check if PRs were approved as per SoA or not | | | |
| 5. Lack of PR tracking <ul style="list-style-type: none"> - Inquire from the procurement personnel on how PRs are tracked and whether the requisitions lists are updated - Inquire from other departments on the level of coordination with respect to the procurement department - Identify instances of delays in procurement and whether the requesting department are informed of such delays | | | |
| <ul style="list-style-type: none"> - Check that the contract has been reviewed by Legal personnel noting the recommendation in the file - Check that the contract has been signed by both parties and according to delegation - Check the reasonableness of the contract e.g. terms and conditions, period, exchange rates, charges, etc. - Check that the contract is still valid or binding and legally enforceable (Within the period stipulated) - Check that all amendments in the contract are authorized by the Delegated Officials | | | |

B.2 PO Management

Risk Listing:

1. Risk of procurement at higher price/ of sub optimal material
2. Risk of vendor changing terms of procurement
3. Absence of defined format for RFQ
4. Segregation of Duties
5. Delay in issuing Purchase Orders
6. Approval of POs
7. Unauthorized amendments to the PO thereby weakening the whole procurement process
8. Splitting of POs to subvert the authority matrix
9. Standard PO terms do not exist and are not used

Impact Analysis:

1. PO raised without authorized requisition
2. PO not raised/ mismatch in PO and PR
3. Lack of control over release of POs which may result in unauthorized purchase commitment / non-compliances to PO preparation and issuance controls
4. Communication of different information to vendors resulting in incomparable quotes
5. Lack of transparency in selection of vendor
6. Unauthorized procurement resulting in financial losses
7. Dilution of controls
8. Organization policy for procurement not being followed

Information required from Auditee:

1. Obtain listing of all POs issued during the period of audit.
2. Obtain Purchase order status report

| Task to perform: | | | |
|---|--|--|--|
| 1. Understand & document the process of raising the POs and obtain the relevant DOA for the same. | | | |
| 2. Check whether POs are raised on the basis of valid and approved PR | | | |
| 3. For a sample compare PO & PR and verify whether there are differences in the same. Discuss reasons with the management and identify root cause of the same as to whether over/ under ordering is not carried out | | | |
| 4. Obtain a list of POs raised and verify that all POs are supported by valid PRs and have PR reference in the PO | | | |
| 5. Verify physical copies of the PO that are released to the vendors to check that all POs are signed by authorized person only | | | |
| 6. Verify that all POs have been raised at approved rate & quantity to the intended vendors | | | |
| 7. Discuss whether there is a process to ensure that no manually hand-written POs are raised and obtain a listing of POs raised along with the file with hard copies of POs and verify that all PO's have been raised in system/ERP | | | |
| 8. Absence of defined format for RFQ <ul style="list-style-type: none"> - Obtain sample RFQ at the time of conducting walkthrough - Test sample procurement transactions to confirm whether identical RFQs are sent to make sure there is no discrimination/ bias for and against certain vendors - There should be defined format for RFQs and identical RFQs should be sent to the vendors | | | |
| 9. Segregation of Duties <ul style="list-style-type: none"> - Confirm from the person responsible for keeping the quotes the procedure for receipt and possession of vendor quotes - Check if the quotes are received by independent personnel and kept in custody until such time the Procurement Committee is convened | | | |
| 10. Approval of POs <ul style="list-style-type: none"> - Understand the process of raising POs (system based or manual) - Check if any authority limits for approval of POs have been defined - In case of manual environment, vouch sample POs and check whether authorization is obtained as per authority limits - Check if POs are being created in excess of the PR value and understand what controls are in place to ensure that the PO value does not exceed the PR value | | | |
| 11. Understand the PO terms and condition <ul style="list-style-type: none"> - Understand if any standard terms have been set for PO - Understand the frequency of review of the standard terms of PO - Compare the PO terms with the standard terms vetted by the procurement committee to see if they are in compliance with the same - Check if the POs are serially controlled and accounted for | | | |
| B.3 Receipt of Material | | | |
| Risk Listing: | | | |
| 1. Risk of collusion with vendors leading to dumping of material | | | |
| 2. Risk of material open to pilferage | | | |
| 3. Financial losses due to excess payment made to vendor | | | |
| 4. Shortage of material leading to delays | | | |

Impact Analysis:

1. Inaccurate stock records
2. Receipt of material without PO
3. Allowable limits for short receipts not defined
4. Non recording/ recovery of shortages
5. Material not received by the due date leading to delay in production
6. Physical damage/ loss of material
7. Unauthorized access/ issue of material
8. Inventory arrangement not aligned to ensure convenience in issue of materials

Information required from Auditee:

1. Obtain Goods Inward Register

Task to perform:

| | | | |
|--|--|--|--|
| 1. Check if the organization has defined policies and procedure for receiving material and recording receipt information by the Stores In-Charge (official receiving materials) | | | |
| 2. Check if the goods have been received as per the PO quantity, rate, description, terms, etc | | | |
| 3. Understand the tracking of due date vis-à-vis the receipt date of material either in the system or manually and understand whether the exceptions are reviewed and followed up with the vendor | | | |
| 4. Check for the Segregation of Authority matrix for approvals of the requisitions at the stores/ warehouses | | | |
| 5. For sample transactions/issues validate the material requisition & issue note for the following: <ul style="list-style-type: none"> - Requisition is approved as per the defined matrix; - Quantity & type of material is as per the requisition note; - Correct & timely update of system vis-à-vis the manual records. | | | |
| 6. Check whether segregation of duties have been ensured while assigning responsibilities to various personnel; Person responsible for conducting physical verification should not have access rights to make stock adjustment entries. | | | |
| 7. Review the process for authorization for adjustment of discrepancies. | | | |

B.4 Invoice Processing & Payment**Risk Listing:**

1. Unauthorized invoice processing
2. Inaccurate / Duplicate invoice processing
3. Goods received not accounted for in the financial statements

Impact Analysis:

1. Invoices processed/ and paid without goods being received
2. Unauthorized/ Inaccurate payments to vendors
3. Delayed payments to vendors
4. Advances paid to vendors not settled at the time of payment processing
5. Inaccurate accounting of payments

Information required from Auditee:

1. Payment vouchers with all relevant supporting documents;
2. Relevant PO and PR copies;
3. Money Receipts;
4. Stock Registers;
5. Advance Ledgers and Sub-ledgers.

Task to perform:

| | | | |
|---|--|--|--|
| 1. Check if the invoices are properly verified against POs and goods receipt/proof of performance prior to payments being processed | | | |
|---|--|--|--|

| | | | |
|---|--|--|--|
| 2. Understand if the organization has defined authority matrix for invoice entry and approval | | | |
| 3. Segregation of duties between the person parking the invoice and the person approving the same. | | | |
| 4. Verify if the invoices are reviewed and approved by the user department and procurement department before processing | | | |
| 5. Three-way match should be performed between PO, GRN and Invoice. Also, check if the IT system restricts processing of invoice higher than the value of inventory received | | | |
| 6. Check if the organization has defined policies, procedures and schedule of authority for payment to vendors. | | | |
| 7. On a sample basis, check payment voucher along with supporting documents for accuracy by the Accounts Payable Manager and Cheque signatories | | | |
| C. Complete Audit Workpaper File | | | |
| 1. Complete the audit workpaper file for review. | | | |
| D. Hold Exit meetings | | | |
| 1. Hold an audit exit conference with management to discuss the results of the audit. | | | |
| 2. Review all findings with Management/obtain their preliminary response. | | | |
| E. Prepare Draft Audit Report | | | |
| 1. Prepare a draft audit report and ensure that all significant recommendations are appropriately included in the report. | | | |
| F. Obtain Management Responses | | | |
| 1. Obtain management responses to all observations and recommendations. Review responses to ensure they address all issues identified. | | | |
| G. Prepare Final Report and distribute | | | |
| 1. Prepare final report and distribute copies to management and other relevant offices/officials. | | | |
| H. Final Administrative Procedure | | | |
| 1. Perform the following administrative steps. a. Ensure all review notes are addressed and cleared. b. Prepare comment tracking matrix for Supervisory Committee (This is not clear!!!. What is Comment Tracking Matrix? Need to explain). | | | |

Format 5: - Sample of an Audit Engagement Letter

The Head
Agency
Address

Subject: - Performance Audit of **topic name** for the period **xxx**

Sir,

The objective and scope of audit

As mandated by the Internal Audit Charter 2014 and amendments thereto, and in accordance with the Internal Audit Manual and Performance Audit Guidelines, the IAU shall conduct performance audit of *(Name of the programme/Division/Unit) for the audit period covering from (State the FY or years or the project duration since inception till date/completion date).*

The objectives of our performance audit is to ascertain economy, efficiency and effectiveness in (name of the programme/project) with focus on (name of the sub-activity) and also to assess the interventions and initiatives instituted by relevant authorities to improve the activity of the programme.

Responsibilities of the Auditors

The performance audit shall be conducted in accordance with the Internal Audit Manual, the Performance Audit Guidelines and International Standards for Professional Practice of Internal Auditing. Those standards require that we comply with ethical requirements. As a part of a performance audit in accordance with these standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

We will issue audit findings in the form of audit observations from time to time during the course of audit requiring additional information, proper explanation and appropriate action from the management.

Responsibilities of the Management

Our performance audit will be conducted on the basis that the management, and those charged with governance acknowledge and understand that they have responsibility to provide us with:

- i. Access to all information which management is aware that is relevant to the conduct of our internal audit such as records, documentation and other matters;
- ii. Additional information that we may request from management; and
- iii. Unrestricted access to person within Management from whom we determine it necessary to obtain audit evidence.

As part of our performance audit process, we will request from management, and those charged with governance, written confirmation concerning representations made to us in connection with the audit. We look forward to full cooperation from your staff during our audit.

Audit Entry Conference

The Audit Entry Conference shall be conducted at the commencement of audit. Amongst others, the contents of this engagement letter will be discussed in the Entry Conference. Details of Audit Schedules shall be discussed in the Entry Meeting.

Disclosure of fraud and corruption

If the management is aware of fraud and corruption that took place in the entity, they should disclose to the auditors during the audit entry conference or in the course of audit. It is the responsibility of the management to institute adequate system of internal controls to prevent and detect fraud and corruption.

Custody and control of documents

The responsibility for custody and control of documents shall rest with the management. The internal auditor shall not remove documents from the entity's premises without management's consent. At the end of the audit, the internal auditors shall handover all the documents to the management.

Audit Exit Meeting

An Audit Exit Meeting will be conducted on a date mutually acceptable to both the management and the audit team on completion of field audit. During the exit meeting, the internal auditor's findings will be discussed.

Reporting

Based on the minutes of the Exit Meeting, a draft report shall be issued within two weeks from the date of Exit Meeting for management's response on the audit paras.

A final audit report shall be issued within two weeks from the date of receipt of management's response against our audit paras as stated in the draft audit report. The Final report will be submitted to Secretary/Head of Agency with a copy to CCA for necessary reference. Copies of the final report shall be shared with auditee unit for management's appropriate actions against our recommendations. Management shall submit the action plan within 30 days from the receipt of final audit report.

(Chief Internal Auditor)

Internal Audit Unit, Name of Ministry/Autonomous Body/Name of Dzongkhags

Format 6: - Minutes of the Entry Conference

| Particulars | Information |
|--|-------------|
| Name of Auditee Unit | |
| Date of meeting | |
| Place of meeting | |
| Agenda of the meeting | |
| Members present (total no.) | |
| Names of members- Auditee Personnel including designation & Email ID | |
| Names of members- Auditor Personnel | |
| Key issues discussed in the meeting | |
| Distribution of minutes to | |
| Name of Minutes keeper | |
| Signature of the members present | |

Format 7: - Daily Diary**Internal Audit Unit, Name of Ministry/Autonomous Body/Dzongkhags****Auditor's Profile**

| | | |
|---|--------------------------------|--|
| 1 | Name of auditor: | |
| 2 | Name of auditee unit: | |
| 3 | Audit party number: | |
| 4 | No. of working days allowed: | |
| 5 | Date of commencement of audit: | |
| 6 | Period from - to: | |

| Sl. No. | Day: | Date: | | |
|---------|---|------------|----------|------------------|
| A. | Work /Activity description | Start time | End time | Duration of work |
| 1 | Number of vouchers verified (for instance) | xx | xx | xx |
| 2 | Number of memos issued (for instance) | xx | xx | xx |
| 3 | Verification of cash book (for instance) | xx | xx | xx |
| 4 | Verification of stock register (for instance) | xx | xx | xx |
| 5 | Verification of records and files (for instance) | xx | xx | xx |
| B. | Irregularities noticed (if any during the conduct of audit) | | | |
| C. | Remarks (additional comments, if any) | | | |

Date: (when the internal auditor submits his daily diary report after completion of audit)

Signature of the auditor

Format 8: - Audit Memo/Audit Observation

| | |
|---|--|
| Audit Observation Title and Date: | <i>Discrepancy in the items issued by Stores</i> |
| Activity or Function Examined (Scope): | <i>Procurement of non-perishable mess items for FY 2017-18 was reviewed</i> |
| Audit Criteria: | <i>Clause 1.3 under distribution section of the MoU states that quantities of items required for the office</i> |
| Audit Test/ Procedures Applied: | <i>Ascertained the following: i. Are the supplied items as per Food Release Note? ii. Verify documents and identify any inconsistencies as per food release note and received items.</i> |
| Audit Observation conditions existing on the ground: | <i>It was found that discrepancy in the issued items by the As per the MOU signed between A Agency and B Unit on a quarterly basis, A Agency had supplied the items to school based on the Food Release Note. However, some discrepancies were noted in the quantity issued by the FCBL (way bills) and the quantity mentioned in the Food Release Note.</i> |
| Supporting Evidence: | <i>Food Release Note, Way Bill and excel sheet workings</i> |
| Cause: | <i>Lack of check and balance</i> |
| Effect/ Consequences: | <i>There is a risk of under and/or over procurement of items in absence of monitoring. This will result in shortage and or wasteful expenditures.</i> |
| Potential Recommendation: | <i>The dealing person should cross verify Food Release Note with Waybill and report any discrepancies to the management. Management should write to A Agency informing the discrepancy with a copy to B Agency Management needs to institute proper mechanism of monitoring the quarterly release items</i> |
| Prepared By: | |
| Name and Designation of IA in the team | |

Format 9: - Minutes of Exit Conference

| Particulars | Information |
|--|-------------|
| Name of Auditee Unit | |
| Date of meeting | |
| Place of meeting | |
| Agenda of the meeting | |
| Members present (total No.) | |
| Names of members- Auditee Personnel including designation & Email ID | |
| Names of members- Auditor Personnel | |
| Key issues discussed in the meeting | |
| Distribution of minutes to | |
| Name of Minutes keeper | |
| Signature of the members present | |

Format 10: - Contents of Audit Report

1. Cover Page with title of the performance audit assignment with month and year of audit duration
2. Transmittal letter addressed to the Head of Auditee Agency signed by the Chief of IAU/CCA
3. Title Sheet
4. Abbreviations and Acronyms
5. Table of Contents

Components of main Performance Audit Report

| 1. Title Sheet | |
|--|--|
| 1. Title of the Report | : Performance Audit Report on |
| 2. Internal Audit Reference No. | : IAU/2019-20/123451 |
| 3. Head of Auditee Agency (<i>Both present and during the period of audit, if different Heads were involved</i>) | : Mr./Ms....., EID No. Designation |
| 4. Period of Audit | : FY 2018-19 |
| 5. Schedule of Audit | : Audit Planning: to : Audit Execution: to : Audit Exit Meeting: |
| 6. Audit Team | : Team Leader(s): 1. Mr/Ms., EID No. 2. Mr./Ms. EID No. Team Members: 1. Mr/Ms., EID No. 2. EID No. 3. EID No. |
| 7. Overall audit supervisor | : Name, EID No. and Designation |

Table 2. Table of Content**TITLE SHEET****ABBREVIATIONS AND ACRONYMS****EXECUTIVE SUMMARY****CHAPTER 1: ABOUT THE AUDIT**

- 1.1 Background
- 1.2 Mandate of IAU
- 1.3 Internal Auditing Standards
- 1.4 Performance Audit Objectives
- 1.5 Performance Audit Criteria
- 1.6 Audit Scope and Limitations
- 1.7 Performance Audit Methodology

CHAPTER 2: INTRODUCTION

- 1.1 Overview (*of the subject/area of audit*)
- 1.2 Financial/Budget outlay, etc.
- 1.3 Other issues

CHAPTER 3: AUDIT FINDINGS

- 3.1 Achievements (*and positive initiatives*)
- 3.2 Lapses and Deficiencies
 - 3.2.1 Absence of effective coordination
 - 3.2.2 Non-existence of
 - 3.2.3 lack of
 - 3.2.4 Failure of

CHAPTER 4: MANAGEMENT RESPONSES

- 4.1
- 4.2

CHAPTER 5: RECOMMENDATIONS

- 5.1
- 5.2

CHAPTER 6: CONCLUSIONS**CHAPTER 7: APPENDICES AND ANNEXURES**

- 1.7 Appendices
 - 1.7.1 Appendix I
 - 1.7.1 Appendix II
- 1.8 Annexures

Format 11: - Format of Audit Follow-up

| Previous audit observations and compliance | | | | | | | |
|--|-------------------|----------|-----------------------|-----------------------------------|---|------------------------|----|
| Pending Paras | | | | | | | |
| Sl. No | Report No. & Year | Para No. | Detail of para status | Paras settled based on compliance | Dropped because of inclusion in latest report | Total No. of O/S paras | XX |
| XX | XX | XX | XX | XX | XX | XX | XX |
| | | | | | | | |
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Annexure 1: - General Performance Audit Checklist**H. Financial Aspect**

| S. No | Particulars | Audit Party response |
|-------|---|----------------------|
| 1 | Check if Action plan is made and approved and estimates are sanctioned before execution of any work. | |
| 2 | Check if the process for review of actual performance against action plans is in place | |
| 3 | Check whether actual results are compared to budgeted amounts on a periodic basis | |
| 4 | Check whether expenditure has been incurred strictly in accordance with the guidelines / instructions issued in respect of the scheme and to serve solely the purpose for which the scheme has been sanctioned | |
| 5 | Check whether cash accounts, Stores and Stock accounts, vouchers and requisite documents / records / registers are properly prepared and separately maintained, if so prescribed | |
| 6 | Check when moneys relating to a scheme/ programme are kept in a bank, whether the opening of the bank account and its continuance are duly authorised and whether remittances into and withdrawals from the Bank account are in order | |
| 7 | Check whether the physical and financial achievements with reference to prescribed targets are closely monitored by the relevant authority by way of conduct of meetings and remedial steps are promptly taken in case shortfalls, lapses or defects when the same are detected by the management | |
| 8 | Check whether in respect of incomplete works, reasons for non-compliance are ascertained, analysed and commented | |
| 9 | Check whether there are instances of blocking of funds, wasteful or unfruitful expenditure | |
| 10 | Check whether advance received if any has been recorded in the Advances Register and regularly monitored | |
| 11 | Check whether the unutilised amounts at the end of the year/scheme are refunded as prescribed by Government's FRR and budgetary procedures | |
| 12 | Check whether assets are recorded separately in the register of fixed assets | |
| 13 | Check whether expenditure statements or accounts with vouchers, certificates, statements, etc. and progress reports are regularly submitted to the relevant authority by the due dates as prescribed. | |
| 14 | Check whether the expenditure figures are reconciled with the Bank Book figures and are not boosted by fictitious adjustments or by drawing huge amounts as Advances and not rendering detailed accounts within a reasonable period. | |
| 15 | Check whether proper utilisation certificates in respect of assistance / grants received for implementing the schemes are furnished promptly. | |
| 16 | Whenever funds are provided by the department and the works are executed by the Engineering or Works department, close monitoring of progress of works should be done by the funding institution and suitable action be taken to get the works completed in time. | |

| S. No | Particulars | Audit Party response |
|-------|---|----------------------|
| 17 | Whenever the Completion Registers are required to be maintained in respect of schemes, see that <ul style="list-style-type: none"> (i) Completion register are being maintained properly indicating the assets created, (ii) Revenues realised from assets correctly assessed, demanded and collected, (iii) Suitable action taken to ensure safety of the assets. | |

I. Technical/Performance Aspect

| S. No | Particulars | Audit Party response |
|---|--|----------------------|
| Economy: can be achieved by means of procuring the inputs/resources with the required quality specifications for the scheme/project/programme/activity/work with the least cost. Audit checks for Economy can be suggested as follows: | | |
| 1 | What are the different inputs/resources/goods/services used in the project/ scheme/ activity/ programme/ work to be audited? | |
| 2 | From where have these resources been purchased? | |
| 3 | What are the methods of procurement followed? | |
| 4 | How does the procurement process ensure best specified quality at the least available market price? | |
| 5 | Has current market price ascertained by different sources including online sources while placing the orders? | |
| 6 | Has the entire procurement been done considering the economic order quantity to obtain the best price with possible discount, etc.? | |
| 7 | Has the procurement process been done as per the prescribed rules and procedures? | |
| 8 | Have each of these inputs/resources/goods/services been obtained complying with the economy principle in mind to meet the requisite quality and quantity parameters? | |
| 9 | What are the audit evidences that proper quality checks of the inputs/ resources/goods/services have been conducted? | |
| 10 | What are the audit evidences that the inputs/resources/goods/services have been procured by ascertaining the competitive market prices existing in the market? | |
| 11 | Have the different services including consultancy and professional services etc. been obtained by availing the best possible market rates? | |
| 12 | Have the laid down principles and procedures for better contracts been adhered to for purchase of goods and services to obtain reduction in costs through better contracting, negotiation, and bulk purchase, wherever economically prudent and permissible as per rules to avoid future revision of prices or fees? | |
| Efficiency: shows input-output ratio. All inputs must be identified, measured for the respective outputs and by-products. Cost benefit analysis shall be conducted to measure the extent of efficiency in the process. | | |
| 1 | What are the inputs like raw materials, utilities like water, electricity etc. used in the process? | |

| S. No | Particulars | Audit Party response |
|---|---|----------------------|
| 2 | What are the other resources used viz. finance, human resource, physical and IT resources, etc.? | |
| 3 | What are the outputs obtained per quantity of different inputs used? | |
| 4 | What is the relationship or ratio between each input and output used in the scheme or project or work or activity including raw materials, utilities, finance, human, technology resources? | |
| 5 | What are the alternatives available? | |
| 6 | Are the alternatives cost effective and environmentally acceptable? | |
| 7 | Can the processing been improved by better technology, and if so, can it be done cost effectively? | |
| 8 | Is there any duplication of effort or lack of coordination in the process? | |
| 9 | How can the input be minimised and output maximised cost effectively? | |
| Effectiveness: doing things on time with planned impact. | | |
| 1 | What are the physical outputs or targets envisaged in the programme or project? | |
| 1 | What is the time frame for each of the milestones/targets to be achieved while implementing the project or programme? | |
| 2 | Have the planned physical targets been achieved on time? | |
| 3 | What are the planned objectives? | |
| 4 | What are the actual objectives achieved? | |
| 5 | Have the physical targets been of the planned quality specifications? | |
| 6 | What is the envisaged or planned impact or outcome? | |
| 7 | What is the actual impact or outcome? | |
| 8 | How can the outcome be improved and brought to the desired level? | |

J. Social Aspect

| S. No | Particulars | Audit Party response |
|-------|---|----------------------|
| 1 | Who are the beneficiaries? What are the different categories of beneficiaries? How are they benefited? | |
| 2 | Check whether proper documents are maintained to prove that the beneficiaries under each scheme are properly selected by following the procedure laid down in the guidelines of the scheme and follow-up action is taken to ascertain that benefits have been actually accrued to the intended beneficiaries. | |
| 3 | Check whether funds utilized have actually reached the genuine beneficiaries and best possible results are achieved or not? | |
| 4 | Have all the laid down laws, rules and procedures been followed? | |
| 5 | Is there any discrimination or unfair practice in execution of the project or programme? | |
| 6 | Are there any complaints? Is there a complaint redressal mechanism in the organization, and If so, how effective is it? | |
| 7 | Have all the applicable environmental regulations been followed in execution? | |
| 8 | Are the material used environmentally acceptable? | |

| S. No | Particulars | Audit Party response |
|----------|--|-------------------------|
| 9 | Are any undesirable environmental impacting quality of the air, water, land, waste, biodiversity, flora, fauna, and ecosystem due to improper execution of the project, and, if so, proper mitigation measures been taken? | |
| 10 | Check whether social and environmental audits where required by scheme/project/programme guidelines are conducted regularly and the audit findings are acted upon | |

Annexure 2: - Checklist on Performance Audit on power sector

| Audit Objectives: | |
|--------------------------|--|
| Sl. No. | Particulars |
| 1. | To ascertain that the infrastructures for operationalization and installation of Power Plants and Equipment are made as per the Detailed Project Report (DPR) prepared and approved for the hydro power project |
| 2. | To ascertain that expense for the infrastructure construction works are met from approved budget appropriations duly authorized by appropriated authorities after ascertainment of the requirements and following requisite bidding procedures |
| 3. | To ascertain that the development of infrastructure facilities is adequately planned, executed through competitive biddings, and acquired in an economical, efficient, and effective manner |
| 4. | To ascertain if the construction works were awarded in compliance to the extant procurement rules and regulations |
| 5. | To ascertain that the work contracts are awarded to the lowest evaluated bids detailing the quantum of works to be executed, drawings and designs, specifications, estimates, BOQs, agreed quoted rates with construction scheduling, and appropriated tender terms and conditions |
| 6. | To ascertain if the construction works viz. Reservoir Dam, Tunnel, laying of Penstock pipe, Powerhouse, are executed as per drawings and designs, specifications, estimates, BOQs, and completed within the construction schedule deadlines were executed economically and efficiently |
| 7. | To ascertain if the project management's monitoring was adequate and effective for smooth implementation of the project |
| 8. | To ascertain the progress of the work (if the project is ongoing) and the causes of cost overruns if any, for the completed projects |
| 9. | To ascertain whether the project activities were taken up economically, efficiently and effectively as desired by the overall objectives spelt out in the project document |
| 10. | To ascertain if there is any cost escalations and extension of project completion schedule, and whether the project activities were taken up economically, efficiently and effectively in planning, execution and monitoring of the project |
| Sub-objectives: | |
| Sl. No. | Particulars |
| 1. | To ascertain that adequate project formulation was based on survey and investigation on the proposed site, preparation of feasibility report and detailed project report supporting the viability of the Project |
| 2. | To determine that adequate planning prior to implementation of the Project in terms of Project objectives, system design, organizational set up, budget framing, statutory clearances and fund arrangement were carried out |
| 3. | To determine that adequate rehabilitation package for displaced population are planned and executed appropriately |
| 4. | To ascertain that interest payments, for the loan component of the project cost, are made out of approved appropriation and as per repayment schedule, duly authorized, correctly computed, paid, classified and recorded in the Books of Accounts and appropriately reflected in the financial statements |
| 5. | To ascertain that the exchange rates are applied correctly in case of interest payments involving foreign currency |
| 6. | To ascertain that the expenses incurred are for the project operations only |

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| 7. | To determine the extent to which management control mechanisms are in place and operating effectively | |
| 8. | To ascertain the progress of the work (if the project is on-going) and the causes of cost overruns if any, for the completed projects | |
| Audit Methodologies | | |
| Sl. No. | Particulars | |
| 1. | Review of the following project documents | |
| i. | Project Formulation Documents | |
| ii. | Project Feasibility Reports | |
| iii. | The Detailed Project Report | |
| iv. | The Survey and Investigation | |
| 2. | Review of construction related documents as under: | |
| i. | Drawings, designs, blue prints, estimates, BOQs, for infrastructure facilities viz. roads, buildings, storage godown, communication system etc | |
| ii. | Drawings, designs, blue prints, estimates, BOQs, for power plant and equipment viz. construction of Dam, Tunnel, laying of penstock pipe and construction of power house | |
| iii. | Notice Inviting Tenders (NITs) | |
| iv. | Tender documents | |
| v. | Tender evaluation documents and Minutes of the committee meeting | |
| vi. | Work orders issued to contractors | |
| vii. | Contract agreement is duly signed by both the parties | |
| 3. | Review of the accounting and related records to as under: | |
| i. | Taxation Rules and Regulations | |
| ii. | Companies Act of Bhutan | |
| iii. | Running Accounts Bills (RA) and Measurement Books (MB) | |
| iv. | Material at Site Account (MAS) and Register | |
| v. | Performance security/bank guarantee letters | |
| vi. | Payment schedules of the agreement | |
| vii. | Site Order Book, Contractor's Ledger, Hindrance register, extracted material Account register, Site Order Book, Work Cost Sheet | |
| viii. | Financial Rules & Regulations 2016 | |
| ix. | Asset Register | |
| x. | Budget and budget appropriation | |
| xi. | Debt agreements, debt repayment schedules and interest computations | |
| 4. | Review of other documents as under: | |
| i. | Organization structures | |
| ii. | Statutory clearances | |
| iii. | Policy documents relating to land | |
| iv. | Administrative and financial sanction orders | |
| v. | Technical Sanction orders | |
| vi. | Insurance related documents | |

| Criteria: | | |
|-----------|---|--|
| i. | Initial survey on types of geography, rock formation, seismic area, rainfall, catchment area, land requirement and kind of project viz. run-off river project or reservoir project should be carried out | |
| ii. | Feasibility Report should be on the techno-economic viability of the project | |
| iii. | Project objectives should be adequately defined | |
| iv. | Adequate planning in term of Organizational structure, Budget should be in place | |
| v. | Requisite statutory clearances should be obtained | |
| vi. | Sources of Funding arrangement should be finalized | |
| vii. | Adequate system design should be in place for implementation of the project | |
| viii. | Physical possession of the land should be obtained | |
| ix. | Rehabilitation package should be worked out for population displaced | |
| x. | Infrastructure facilities should be identified, and cost estimates prepared for implementation | |
| xi. | Infrastructural relating to power plant and equipment should be identified and cost estimates prepared for implementation | |
| xii. | The award of the contract should be made after following requisite tender formalities and on the basis of competitive bid with due consideration to past experiences, financial soundness and technical expertise | |
| xiii. | Tender Committee should be constituted as per the threshold levels laid down in the Procurement Manuals | |
| xiv. | Administrative approval and Technical Sanction should be in place | |
| xv. | The award of work contracts should be placed to the lowest evaluated bidder | |
| xvi. | Work orders should mention the quantity, specifications, rates and delivery timeframe | |
| xvii. | Contract agreement incorporating clear-cut terms and conditions should be signed prior to commencement of the work contracts | |
| xviii. | Infrastructure works should be completed as per drawings and designs, specification and within the construction schedules for installing and commissioning the power plants and equipment for power generation as anticipated in the project document | |
| xix. | Mobilization and Secured Advances should be paid as per stipulated provisions of the contract agreement | |
| xx. | Performance guarantee either in bank draft/cash warrant or Bank guarantee should be obtained and available on record | |
| xi. | Infrastructural relating to power plant and equipment should be identified and cost estimates prepared for implementation | |
| xxi. | Running bills should be claimed and paid as per payment schedules | |
| xxii. | Requisite work-related records/books should be maintained in the prescribe forms | |
| xxiii. | Measurement should be in confirmation to drawing, design and estimates | |
| xxiv. | Payment to contractors for works should be based on the quantities recorded in the MB | |
| xxv. | Gross amount passed for payment in respect of Running Account Bills should be charged against appropriate works | |

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| xxvi. | The infrastructure values reflected in the financial statement should be the value recorded in General ledger | |
| xxvii. | All infrastructure works should be adequately insured to safeguard the assets | |
| xxviii. | Interest payment should be made from the approved budget/funds set aside | |
| xxix. | The payment of interest amount should be made as per the repayment schedule | |
| xxx. | The payment of interest amount should be authorized by the MoF | |
| xxxi. | Primary responsibility for the accuracy and completeness of the domestic debt records should be clearly assigned and accepted | |
| xxxii. | Appropriate procedures should be in place to ensure that Public Accounts reporting activities are performed in a timely, accurate and complete manner | |
| xxxiii. | The exchange rate prevailing on the date of interest payment should be applied and equivalent amount of Ngultrum charged to the government consolidated fund account. | |
| xxxiv. | The repayment of principal amount of loan should be authorized by the MoF as provided under PFA 2007. | |
| xxxv. | The repayment of principal amount should be paid through the normal budgetary and accounting process of preparation of disbursement vouchers (as provided under FRR 2001 and 2016) | |
| Sources of Criteria: | | |
| i. | Bilateral agreement between the two Royal Government of Bhutan and the other government/organization involved in funding the project (PHPAI and PHAP II, MHP with GoI and with other governments/organizations for other projects) | |
| ii. | Prefeasibility Study Report, Feasibility Report and DPR of the project | |
| iii. | Agreements/Contract Documents of the Project Authority for contractors, suppliers and other third parties | |
| iv. | Bureau of Indian Standards and CWC guidelines on related project activities | |
| v. | Relevant laws, rules and regulations of RGoB | |
| vi. | Service Rules, Procurement Manual, Financial Manual, etc. of the Project Authority | |
| Achievements | | |
| 1. | Commencement of project activities on time; | |
| 2. | Floating of tender and selection of contractors for various project components; | |
| 3. | Meeting of project milestones on time; | |
| 4. | Settlement of displaced population due to take-over of their land by the project authority; | |
| 5. | Employment opportunities for the unemployed people; | |
| 6. | Business opportunities for the people; | |
| 7. | Market opportunities for agricultural produce for the local people; | |
| 8. | Transfer of knowledge and skills from foreign expats to local employees; | |
| 9. | Overall economic development of the country. | |

| Audit Procedures | | |
|------------------|---|----------------------|
| Sl. No. | Particulars | Audit Party response |
| Economy | | |
| i. | Review the Project Formulation Documents to ensure that initial survey and investigation on the proposed project sites were carried out, feasibility report and detailed project reports were submitted | |
| ii. | Review the Feasibility Report to ensure that report contained core issues viz. techno-economic analysis cost involvement, techno-economic viability of the project, Technical Assessment, Economic Analysis, Financial Analysis, Environmental and Social Impact Analysis | |
| iii. | Ascertain sources of supply of materials to assess overall economic activities from operation of additional economic activities due to project implementation | |
| iv. | To see that project objectives are defined adequately with overall aim of attaining the 3 Es | |
| v. | To ascertain if there is adequate system design in place for the implementation of the project and related activities | |
| vi. | Review procedures relating to land acquisition and compensation payments to ascertain physical possession of the land | |
| vii. | Ascertain if the tendering procedures are followed as per the threshold levels laid down in the Procurement Manual | |
| viii. | Review if the Notice Inviting Tenders are issued for pre-qualification bids, and ascertain if the pre-qualification bid documents supports that short listing of bidders are done in a transparent manner considering the past experiences, financial soundness and technical expertise | |
| ix. | Ascertain if the separate technical and financial bids are invited from the qualified contractors | |
| x. | Review technical related tenders to ascertain if the technical bids were evaluated by technocrats. Equally, to ascertain if the financial bids of only those bidders whose technical bids are approved are opened for financial evaluation | |
| xi. | Review tender evaluation documents, Minutes of the committee meeting, and comparative statements to understand the reasons of rejection of lowest tenders, and to support that the works are awarded on the basis of competitive and lowest evaluated bids | |
| xii. | Review the work orders to confirm that the awards were made to the lowest evaluated bidder | |
| xiii. | Review the work orders to confirm that the specifications, bid price, commencement date, and completion date are appropriately reflected | |
| xiv. | Review the contract agreements to ascertain if the liquidated damages, performance security, retention money, and price escalation factors are duly incorporated in the agreement | |
| xv. | Review the Taxation Rules and Regulations to ascertain if the provisions for payment of sales tax, excise /custom duty are clearly spelt out and in conformity with the extant Tax Rules and Regulations | |
| xvi. | Review the contract agreements to ascertain if the provisions relating to entitlement of various types of advances and mode of adjustments are clearly stipulated in the agreement | |

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| xvii. | Review the contract agreements to ascertain if the implementing agency is required to issue materials to the contractors. If so, to ascertain whether the materials issue rate/recovery rates are clearly specified in the agreement | |
| xviii. | Review the contract agreements to ascertain if payment schedules are clearly specified in the agreement for regulating the payments to the contractors | |
| xix. | Check the running account bills, MB, Site Order Book, to see that appropriate approvals are sought for extra works, additional works, and alterations works | |
| xx. | Check the Running Account Bills with the Works Cost Sheet to ascertain that amounts passed in the running account bills were proper and necessary | |
| xxi. | Cross the Running Account Bills with MB and MAS A/c to see that payments are based on the quantities recorded in the MB and that advances are adjusted in the subsequent running account bills | |
| xxii. | Check the Running Account bills to ascertain that recoveries on account of Statutory deductions, cost of materials if issued by the government, Security deposits, Secured and Mobilization advance are affected in accordance with the terms of the agreement | |
| xxiii. | Check the Budget document to understand the details of debt, provisions for interest payments, repayment schedules, and to confirm if the debt repayments with interest are correctly computed and duly authorized by the MoF | |
| xxiv. | For delays in repayments, inquire into the reasons thereof, and verify if the lender had imposed penalties for the delay | |
| Sl. No. | Efficiency | |
| i. | Review the Detailed Project Report and Survey and Investigation Report to ascertain the overall performance of the project in terms of its implementation of various activities and also to understand the Purpose and Objective of project | |
| ii. | Ascertain if the project funds were released as the agreed funding schedules | |
| iii. | Ascertain if there is any discrepancy between the Running Accounts Bills (RA) and Measurement Books (MB) | |
| iv. | Review the project performance to ascertain the progress of works in terms of both physical achievements and financial disbursement/expenditure | |
| v. | Ascertain if the advances are released in line with the provisions of the contract agreement | |
| vi. | Review the Material at Site Account (MAS) to ensure that the secured advance releases are for materials actually received at site and duly verified by designated signatory | |
| vii. | Ascertain if the performance security/bank guarantee are properly accounted for and validity in case of time overruns are looked into | |
| viii. | Review Running bills to ascertain that the claims were prepared as per provisions of the contract agreement and progress of works | |
| ix. | Ascertain payments were affected as per payment schedules of the agreement following completion of certain activity milestone | |
| x. | Check the running account bills and final bills with the estimates and BOQs to ascertain variations, if any | |

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| xi. | Check the MB, Contractor's Ledger, MAS A/c., hindrance register, extracted material Account register, Site Order Book, Work Cost Sheet to see that requisite requirement on the maintenance stipulated under the Financial Rules & Regulations of 2001 and 2016 are duly observed | |
| xii. | Check the Asset Register to ascertain that infrastructures acquired either through construction or purchases are correctly reflected | |
| Effectiveness | | |
| i. | Review the Organization structures to see that appropriate project management is in place to oversee the project implementation | |
| ii. | Review the Budget documents to ensure that budgets are well defined in the annual budget appropriations | |
| iii. | Review the Project related documents to ascertain that statutory clearances required for the project implementation are obtained and documented | |
| iv. | Check the asset register to ensure that the land acquired is recorded | |
| v. | Check the policy documents relating to land acquisition to ascertain that rehabilitation package is worked out for population displaced and implemented appropriately, and to ascertain that fair compensation payments were made to those who opted for cash compensation in lieu of land replacement | |
| vi. | Check the project related document to see that administrative and financial sanctions are obtained and approved by appropriate authority | |
| vii. | Check the project related document to see that Technical Sanction is obtained and approved by appropriate technical authority | |
| viii. | Check the contract documents, asset records and Insurance related documents to see that all infrastructures relating to power plants and equipment are adequately insured | |
| ix. | Check the measurement recorded in the MB against the physical structure with reference to drawing, design, estimates to see that physical measurement confirms to the drawing, design and estimates | |
| x. | Check the Running Account Bills, to see that the quantum of work done recorded and claimed for confirms to the physical measurements of the structure | |
| xi. | Crosscheck the Running Account Bills with the BOQs/estimates to ascertain any deviation in quantities are within the allowable ceiling, and the causes of such deviations | |
| xii. | Review the labor strength of the project to ascertain the degree of employment opportunities created by the project | |
| xiii. | Crosscheck the transportation expenditures for the period against the number of transporters to assess the contribution of project to the transport sector of the economy | |

Annexure 3: - Performance Audit Checklist for Construction Project**Overall audit objective**

| Sl. No. | Particulars |
|---------|--|
| 1. | To ascertain the economy, efficiency and effectiveness in the operation and management of the construction project |
| 2. | To ascertain if the overall construction objectives are achieved |

Sub-objectives

| Sl. No. | Particulars |
|---------|--|
| 1. | Ascertain if the project was chosen after in-depth feasibility study was conducted |
| 2. | Ascertain if works were properly authorized, executed and completed on time, and within prevailing procurement and financial norms |
| 3. | Ascertain if the records are maintained as per the prescribed norms |
| 4. | Ascertain if the structures built are without defects and currently used for the intended purpose |
| 5. | Ascertain if the structures and work details are as per the specifications and designs of the drawings |

Audit Criteria

| S. No. | Particulars |
|--------|--|
| 1. | Feasibility and pre-feasibility report – Technical and Financial feasibility report; |
| 2. | Project structure designs and drawings; |
| 3. | Plan outlay and budget provision; |
| 4. | Approval of technical and financial sanctions from competent authority; |
| 5. | Proper contract agreement between the organization and the contractor; |
| 6. | Payments as per the BoQ rates; |
| 7. | Deductions as per the norms and contract documents; |
| 8. | Date of work completion and handing-taking as per detail contract specification; |
| 9. | Reasons for delay in project completion – hindrance register; |
| 10. | Quality, brand and specification of materials supplied as specified in BoQ |
| 11. | Rationale and approval for additional works, if any, and rates paid; |
| 12. | Physical existence of the structure; |
| 13. | Current utilization status and the beneficiaries |

Checklist for Planning

| Sl. No. | Particulars |
|---------|---|
| 1. | Availability of time and budget; |
| 2. | Identify internal auditors with relevant technical competency for the audit; |
| 3. | Collection of information about the construction project: objectives, plans and activities; |
| 4. | Collection of information about the unit/division: background and organizational mandate; |
| 5. | 12 FYP outlay for the construction project and its significance within the agency's overall FYP plans and programmes; |
| 6. | Annual plans and programmes with budget allocation for the construction project |

Audit Procedures

| Sl. No. | Particulars | Audit Party response |
|---------------------------|--|----------------------|
| Economy | | |
| 1. | Check if the need for the project were well defined and based on the socio-economic benefits to the people; | |
| 2. | Ascertain if the construction site is geographically suitable and free from environmental adverse impact in the future; | |
| 3. | Ascertain adequacy of funds to ensure timely completion of the project; | |
| 4. | See if the budget release applications were put up to proper authority on time; | |
| 5. | Ascertain each budget release was properly sanctioned; | |
| 6. | See if the drawings have both the administrative and technical sanctions and were properly scrutinized by responsible site supervisor/engineer; | |
| 7. | Ascertain that necessary committees were instituted, and works were awarded to the lowest evaluated bidder; | |
| 8. | Crosscheck the bids with bids of similar construction in other agencies to understand possibility of reasonableness of rates quoted; | |
| 9. | Wherever possible and necessary, conduct test on the quality of materials used; | |
| 10. | Check the quality certificate for materials used in the construction; | |
| 11. | Ensure that materials used are as specified in the BoQ; | |
| 12. | If there is a change in materials used, check if prior approval was obtained from competent authority; | |
| 13. | Inquire further on any mismatch between the quality of materials used from the specification stated in BoQ and report the same to appropriate authority, if any; | |
| 14. | Check the secured advances are paid only against the existing quantity of materials at site; | |
| 15. | Where time extension was granted, check the reasons and basis for time extension; | |
| 16. | Review additional works, if any, carried out by the contractor; | |
| 17. | Ascertain overall cost implications from such additional works; | |
| 18. | If there is any defect pointed out, ensure that these are rectified, and the cost should be borne by the contractor or as provided under the contract terms | |
| Sl. No. Efficiency | | |
| 1. | Ascertain that contract documents are all properly signed in every respect by both the parties; | |
| 2. | See if the witnesses had also signed in the space provided for in the contract document; | |
| 3. | Confirm that the proper office seals were used in the signatory; | |
| 4. | Ascertain that necessary committees were instituted, and works were awarded to the lowest evaluated bidder; | |
| 5. | See if the works executed were as per approved appropriations; | |
| 6. | Check rates and payment made through Running Account (RA) bills against the Measurement Book (MB) and BoQ; | |
| 7. | Check if the Site Engineer had maintained periodic Work Progress reports; | |
| 8. | Check if such work progress reports match with the value and volume of completed works at the site; | |

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| 9. | Ensure there is no overwriting on the bills; | |
| 10. | Compare the figure and words of payments made and ensure they always match; | |
| 11. | Conduct frequent arithmetical accuracy test on sampling basis; | |
| 12. | Ascertain if the secured and mobilization advances are deducted as per the contract terms; | |
| 13. | Check if the TDS and other statutory deductions are levied and remitted properly; | |
| 14. | Check if the liquidated damages are properly levied as per the contract terms; | |
| 15. | Any abnormal deviation should be looked into for its occurrences; | |
| 16. | Check the hindrance registers maintained differently by the contractor and the site engineer; | |
| 17. | Ensure that the two hindrance registers match with each other; | |
| 18. | Check if the hindrance registers were endorsed and countersigned by the project engineer; | |
| 19. | Ascertain the reasons and justifications provided for in the hindrance register; | |
| Sl. No. | Effectiveness | |
| 1. | Check if the works are completed within the stipulated time as per the contract; | |
| 2. | Ascertain there was a proper handing/taking carried out between the agency and the contractor; | |
| 3. | Ascertain the causes of additional works to understand that it was due to policy making, or an implementation issue, or some unforeseen oversight lapses; | |
| 4. | Ensure that measurements were carried out jointly by the Site Engineer and the contractor; | |
| 5. | Conduct physical verification of the structure as against the drawings and other specifications; | |
| 6. | Ascertain the current utilization of the structure/property; | |
| 7. | Interview some beneficiaries of the project. | |

Annexure 4: - Performance Audit Checklist for Procurement Activity**Overall audit objective:**

To ascertain the economy, efficiency and effectiveness in the procurement of goods

Sub-objectives:

| Sl. No. | Particulars |
|---------|---|
| 1. | To ascertain that procurement of goods are made following proper procurement procedures |
| 2. | To ascertain that proper purchase/supply orders with clear terms and conditions are placed with the suppliers who were already identified |
| 3. | To ascertain that goods were received in good condition |
| 4. | To ascertain that goods received are of desired brand and specifications |
| 5. | To ascertain that goods are received in full quantity as specified in the Supply Order |

Audit Criteria:

| Sl. No. | Particulars |
|---------|---|
| 1. | Procurement of goods should be made following proper procurement procedures depending on the threshold level specified in Chapter 4 of the Procurement Rules and Regulations 2009 (2014 Revised). |
| 2. | The purchase/supply order duly approved with clear terms and conditions should be placed with the suppliers already identified based on the Tender Evaluation Report. |
| 3. | All goods should be received in good condition and correct quantity and specification |

Audit procedures

| Sl. No. | Particulars | Audit Party response |
|---------|---|----------------------|
| | Economy | |
| 1. | Check whether necessary procurement planning is carried out with respect to need assessment of items/goods and supporting budget provision; | |
| 2. | Check whether proper procurement procedures are followed depending on the threshold level; | |
| 3. | Check from the NIQ whether adequate time was given for submission of bids based on the threshold level; | |
| 4. | Check that rates in purchase/supply order were as per quoted rates; | |
| 5. | Check whether comparative statement of rates is prepared or not; | |
| 6. | Check whether it was properly evaluated by the evaluation committee on the basis of objective criteria set out in the bidding document; | |
| 7. | Check that quantity rejected, if any, was returned to the supplier at the risk and cost of the supplier; | |
| 8. | Check that goods received are of desired quality and specifications; | |
| 9. | Review the inventory records to ascertain overall accountability of stocks; | |
| | Efficiency | |
| 1. | Check that purchase/ supply order with duly approved clear terms and conditions was placed with the suppliers already identified; | |

| | | |
|----------------|---|--|
| 2. | Check that the Property Officer or the official receiving the goods/items had inspected, examined or counted the goods before its acceptance and certificate of inspection recorded on the challans/bills and Good Receipt Note (GRN) prepared; | |
| 3. | Check that goods were received in good condition and in correct quantity; | |
| 4. | Check that replacements of returned goods were received and accounted for and payments for the rejected furniture deducted before making the payment. | |
| Sl. No. | Effectiveness | |
| 1. | Check if the goods purchased are used for the intended purposes; | |
| 2. | Interview with key officials on the utility aspect of the goods procured and collect feedback if the same items can be ordered; | |

Annexure 5: Checklist on Performance Audit on Education's School Feeding Programme (SFP)

Audit Objectives:

To ascertain economy, efficiency, and effectiveness in the management of SFP with a focus on improving nutrition and reducing nutrient deficiencies in school children.

Sub-objectives:

To assess if there were interventions and initiatives instituted by relevant authorities to improve nutritional status of school children.

Criteria:

| Sl. No. | Particulars |
|---------|--|
| 1. | Standard Dietary Requirement, Recommended Dietary Allowance, and Minimum Dietary Requirement to ensure daily intake of adequate nutrients; |
| 2. | adequate and systematic monitoring system to review daily nutrient intake; |
| 3. | adequate strong quality control system in the school feeding commodity supply chain; |
| 4. | Quality control assessment standards of BAFRA may be used; |
| 5. | availability of menu options to ensure intake of adequate required nutrients; |
| 6. | effective usage of Food Commodity Reports and Food Release Notes to ensure right and optimal quantity of food items supplies. Supply of lesser quantity will deprive school children of adequate quantity of nutrients while excess supply will result in spoilage of food items, especially perishable vegetable items. |

Sources of Criteria:

| Sl. No. | Particulars |
|---------|---|
| 1. | Food Commodity Reports prepared by schools and submitted to the Department/Ministry; |
| 2. | Food Release Notes prepared by the Department/Ministry to determine supply of food items to schools; |
| 3. | Recommended Dietary Allowances (RDA) from Food and Nutrition Board, Institutes of Medicine, National Academies; |
| 4. | School Feeding Management Handbook for Bhutan 2015; |
| 5. | Operational Guidelines for Central Schools 2014; |
| 6. | Annual Education Statistics; |
| 7. | Food & Nutrition Policy for School; |
| 8. | Relevant documents from World Food Programme; |
| 9. | Media reports on the subject. |

Methodologies:

| Sl. No. | Particulars |
|---------|---|
| 1. | Documentary review of manuals, guidelines, rules and regulations; |
| 2. | Literature review of nutrition related documents and papers; |

| | |
|----|--|
| 3. | Analytical review of data; |
| 4. | Interview of key officials of Department of School Education (DSE), FCB, and school principals and teachers; |
| 5. | Field visits to the selected schools. |

Overall achievement:

| Sl. No. | Particulars |
|---------|--|
| 1. | SFP has supported schools in providing meals to school children; |
| 2. | SFP has helped in eliminating short-term hunger amongst the school children thereby improving children's concentration and performance |
| 3. | SFP has supported schools in providing meals to school children; |
| 4. | SFP has helped in eliminating short-term hunger amongst the school children thereby improving children's concentration and performance |

Audit Procedures

| Sl. No. | Particulars | Audit Party response |
|----------------------|---|----------------------|
| Economy | | |
| 1. | Check whether the procurement procedures are followed; | |
| 2. | Check if the non-perishable food items are purchased through centralized procurement system in order to enable cost savings; | |
| 3. | Ascertain if there is storage facility in schools to reduce wastage/spoilage through increase in shelf-life of food items; | |
| 4. | Check if there is periodic reconciliation of stock balances as per the books and physical balance; | |
| Efficiency | | |
| 1. | Review the existing check and balance mechanism to ascertain proper segregation of between procurement, storage, and issuance of items – to avoid misuse and mismanagement of stocks; | |
| 2. | Review how the kitchen equipment are used. For instance, usage of bulk electric cooker; | |
| 3. | Check if the stock entries are made when there are receipts and issues of items; | |
| 4. | Check if the closing balances are correctly carried forward as opening balances; | |
| 5. | Check if the manufacture dates are verified before issuing from the stores for consumption. | |
| Effectiveness | | |
| 1. | Assess the minimum nutrient requirements – carry out nutritional content analysis of food basket provided in the schools to ascertain if the daily nutrient intake by school children meet the recommended daily requirement of children and adolescents in different age groups; | |
| 2. | Conduct nutritional content analysis on meals served – check whether daily intake of nutrients meet the Recommended Dietary Allowance (RDA); | |
| 3. | Check if there are regular health check-ups of students to calculate BMI and see any interventions from relevant authorities; | |
| 4. | Check if the relevant authorities have conducted periodic monitoring on nutritional status of the school children; | |

| | | |
|-----|--|--|
| 5. | Check if the schools have proper menu planning to ensure inclusion of food variety that can provide good nutrients and balanced diets as good nutrition and health support learning and educational performance of children; | |
| 6. | Check the quality assessment mechanism to ascertain the quality of food supplies; | |
| 7. | Check if external third-party experts, such as BAFRA, are involved in reviewing food quality; | |
| 8. | Ascertain how much the programme had supported in promotion of local produce and benefits to local communities through purchase of vegetables from local farmers' cooperatives; | |
| 9. | Assess the impact on 'mandatory mid-day meal' in the school for children as a result of this programme; | |
| 10. | Interview some students to assess how much the programme has influenced them on introduction of 'zero waste or clean plate policy' – take only the amount they can consume to avoid plate wastage; | |
| 11. | Interview some parents to assess programme's support to the economically deprived children in having access to education and preventing short-term hunger; | |
| 12. | Interview some parents to assess benefits from the programme on improving nutritional meals to school children which has positive effect on academic performance through increasing concentration and attendance in classes; | |
| 13. | Interview principals and teachers to assess on the promotion of SAP (School Agriculture Programme) in boarding schools as a result of the programme. | |

Annexure 6: Checklist on Performance Audit on Import and Distribution of Liquefied Petroleum Gas (LPG)

Audit Objectives:

To ascertain if due regard is provided to ensure economy, efficiency and effectiveness in the import and distribution of LPG.

Sub-objectives:

| Sl. No. | Particulars |
|---------|--|
| 1. | To review adequacy and effectiveness of control systems on import and distribution of LPG; |
| 2. | To review adequacy and reliability of information system on import of LPG; and |
| 3. | To ascertain factual correctness of the records maintained by different LPG agencies. |

Audit Methodologies

| Sl. No. | Particulars |
|---------|--|
| 1. | Review of relevant legal documents, such as, Rules and Regulations, and Government policies; |
| 2. | Review of records, such as, correspondences and financial records maintained by Department of Trade (DoT) and their regional offices, Department of Revenue & Customs (DRC) and their regional offices, and LPG agents and distributors; |
| 3. | Cross-verification of records produced by LPG agents and distributors against the records produced by DoT and DRC; |
| 4. | Data analysis of information gathered; |
| 5. | Interview with key officials of government agencies and LPG agents and distributors; |
| 6. | Physical visit to entry and exit points at the border checkpoints and the LPG go-down respectively; |
| 7. | Physical verification of LPG cylinders in stock vis-à-vis book records |

Criteria:

| Sl. No. | Particulars |
|---------|---|
| 1. | Allocation of monthly subsidy quota by Government of India; |
| 2. | Identification and licensing of agents and distributors; |
| 3. | Records on total quantity of LPG imported over certain duration; |
| 4. | Records of LPG consumers under different agents and distributors; |
| 5. | Yearly trend of LPG supplies; |
| 6. | Supply of non-subsidized LPG to specific sectors; |
| 7. | Price fixation. |

Sources of Criteria:

| Sl. No. | Particulars |
|---------|--|
| 1. | Bilateral agreement between the two Governments of India and Bhutan; |
| 2. | Records with DoT and its regional offices; |

| | |
|----|---|
| 3. | Records with agents and distributors on quantity of LPG supplied; |
| 4. | Government's intervention policy documents on supply of non-subsidized LPG; |
| 5. | Price fixation regulations systems of DoT |

Achievements

| Sl. No | Particulars |
|--------|--|
| 1. | DoT's initiatives to streamline overall system through new policies, standards, capacity building and facilitation agreements with principal suppliers, agents and distributors; |
| 2. | Improved working relation with principal oil companies in India; |
| 3. | Increasing coverage of distribution points in the country; |
| 4. | Introduction of Card system and POL mCoupon system; |
| 5. | Introduction of supply of non-subsidized and commercial LPG cylinders. |

Audit Procedures

| Sl. No. | Particulars | Audit Party response |
|---------|---|----------------------|
| | Economy | |
| 1. | Check whether the distribution procedures are followed; | |
| 2. | Check if the supply of non-subsidized LPG cylinders has resulted into additional availability of subsidized LPG cylinders for the general population; | |
| 3. | Review the pricing mechanism, basis of providing commission to agents and distributors, if any; | |
| 4. | Review the home delivery system | |
| | Efficiency | |
| 1. | Review the information systems of DoT and DRC to see discrepancies in information, if any; | |
| 2. | Review the coordination system amongst the regulatory authorities such as DoT, DRC and others; | |
| 3. | Review the home delivery system; | |
| 4. | Physical verification of LPG cylinders in stock vis-à-vis book records to ascertain discrepancies, if any; | |
| | Effectiveness | |
| 1. | Interview some consumers on their overall satisfaction of the LPG availability and price; | |
| 2. | Review new LPG issues to different individuals to ascertain if the deserving people were provided new LPG cylinders. | |

Annexure 7: Checklist on Performance Audit on Hospital Laboratory and equipment**Audit Objectives:**

To ascertain that the procurement of Hospital/Lab Equipment are made out of approved budget appropriations duly authorized by appropriate authorities after ascertainment of the requirements and following requisite bidding procedures are economically, efficiently and effectively utilized.

Sub-objectives:

| Sl. No. | Particulars |
|---------|---|
| 1. | To ascertain that need analysis of the laboratory equipment are properly carried out. |
| 2. | To ascertain that procurement of plants and equipment was made following proper procurement procedures depending on the threshold level. |
| 3. | To ascertain that the medical equipment's are procured at competitive bids. |
| 4. | To ascertain that the requisite supply orders are placed to the selected bidder detailing the quantity, specifications and quoted rates with delivery timeline. |
| 5. | To ascertain the timely delivery of the goods with right specifications and quantity are made. |
| 6. | To ascertain that the lab equipment issued to the individual are made accountable for safe custody of the goods. |
| 7. | To ascertain that the periodic physical verifications are carried out and certificates to that effect are properly documented. |
| 8. | To ascertain disposal/surrender of the old and unused equipment are made as per requisite norms. |
| 9. | To ascertain that there is proper stores management system to safeguard and ensure proper utilization of plants and equipment |

Audit Methodologies

| Sl. No. | Particulars |
|---------|---|
| 1. | Review of budget documents; |
| 2. | Review of procurement documents; |
| 3. | Review of assets register and inventory management records; |
| 4. | Review of related accounts and financial records |

Criteria:

| Sl. No. | Particulars |
|---------|--|
| 1. | Budget appropriation duly approved by the Parliament. |
| 2. | Procurement of plants and equipment should be in compliance with the provisions of the extant Procurement Rules and Regulations. |
| 3. | Need Analysis conducted for purchase of lab equipment. |
| 4. | Appropriate tender committee and tender evaluation committee should be constituted to oversee procurements. |
| 5. | Reports on evaluation of bids based on the objective criteria set out in the bidding document. |

| | |
|-----|--|
| 6. | The purchase/supply order duly approved with clear terms and conditions based on the Tender Evaluation Report. |
| 7. | All plants and equipment should be received in good condition and correct quantity and duly accounted for in Asset Register. |
| 8. | Proper verification of receipts by responsible official before making payment. |
| 9. | All payments should be duly sanctioned and approved by the Head of Agency. |
| 10. | The procurement should be made after following required tender formalities and at competitive rates. |
| 11. | The award of supply contract should be placed to the lowest evaluated bidder. |
| 12. | Supply order should mention the quantity, specifications, rates and delivery timeframe. |
| 13. | The specifications of the materials received should match with those mentioned in purchase order. |
| 14. | The goods received should be supported by GRN and recorded in the asset register. |
| 15. | The goods issued should be supported by GIN and requisition. |
| 16. | Appropriate stock record should be maintained by individual for the custody of the plants and equipment. |
| 17. | The physical verification should be carried out at requisite interval. |
| 18. | Periodic and year-end physical verification report with details of disposals as per the provisions in the Property Manual |

Achievements

| Sl. No. | Particulars |
|---------|--|
| 1. | Floating of tender and selection of contractors for equipment and medical items; |
| 2. | Receiving items and supplies on time without causing shortage in the hospital; |
| 3. | Efficiency and effective utilization of lab equipment and medical supplies. |

Audit Procedures

| Sl. No. | Particulars | Audit Party response |
|----------------|---|----------------------|
| Economy | | |
| 1. | Check the budget document and see that the expenditures are met of the approved budget appropriation. | |
| 2. | Check whether proper procurement procedures are followed depending on the threshold level. | |
| 3. | Check from the NIQ whether adequate time was given for submission of bids based on the threshold level. | |
| 4. | Check that the tender evaluation committee has carried out proper evaluation of bids on the basis of objective criteria set out in the bidding document. | |
| 5. | Check that before each sitting the Chairman and each member of the committee declared the conflict of interest. | |
| 6. | Check that prescribed bid security in the form acceptable to the procuring agency was furnished by the bidders. | |
| 7. | Check that purchase/ supply order with clear terms and conditions duly approved was placed with the suppliers already identified by head of agency/ Chief Administrative Officer/ Procurement Officer/Administrative Officer. | |
| 8. | Check that rates in purchase/supply order were as per quoted rates. | |

| | | |
|----------------|--|--|
| 9. | Check that quantity rejected, if any, was returned to the supplier at the risk and cost of the supplier. | |
| 10. | Check that replacements of returned plants and equipment were received and accounted for and payments for the rejected plants and equipment deducted before making the payment. | |
| 11. | Check that the successful bidder was notified in writing that its bid has been accepted. | |
| 12. | Check whether comparative statement of rates is prepared or not. | |
| 13. | Check that bills were duly verified and certified by the Property Officer or the official receiving the plants and equipment with respect to its receipt and accountable. | |
| 14. | Check that any payments exceeding the original budget appropriations are made after proper re-appropriation duly approved by the head of agency. | |
| Sl. No. | Efficiency | |
| 1. | Check that all deliberations and decisions of the committee were recorded and documented. | |
| 2. | Check that plants and equipment were received in good condition and in correct quantity and met the quality and other specifications. | |
| 3. | Check the asset utilization register or log books, if any, for different equipment | |
| Sl. No. | Effectiveness | |
| 1. | Check that appropriate tender committee and tender evaluation committee was constituted to oversee procurements. | |
| 2. | Check that the tender committee was represented adequately depending on the value of procurement. | |
| 3. | Check that bid security of unsuccessful bidders were returned upon award of contract to the successful bidder but not later than 30 days after the expiry of the period of bid validity. | |
| 4. | Check that Performance Security in accordance with the contract terms was furnished by the supplier within 15 working days of the receipt of notification of award. | |
| 5. | Check whether there is a Property/Stores Officer to look after the plants and equipment. | |
| 6. | Check that the Property Officer or the official receiving the plants and equipment had inspected, examined or counted the plants and equipment before its acceptance and certificate of inspection recorded on the challans/ bills and Good Receipt Note (GRN) prepared. | |
| 7. | Check that equipment are issued to users only against duly approved requisition forms from head of agency/Chief Administrative Officer/ Procurement Officer/ Administrative Officer. | |
| 8. | Check that Goods Issue Notes are prepared for each issue and stock records updated promptly and obtained acknowledgement from the recipient of plants and equipment. | |
| 9. | Check that there is a system of periodical reconciliation of stock balance against physical balance. | |

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