

Performance Audit Scenario

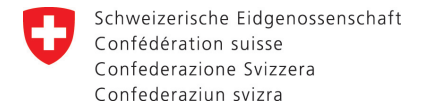
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Antwerp, 06 June 2018

Internal Audit Training of Trainers



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Introduction to Performance Audit



Definition of Compliance Audit

INTOSAI: An independent examination of the efficiency and effectiveness of government undertakings, programs or organizations, with due regard to economy, and the aim of leading to improvements.

IAS (EC): Performance auditing is an independent and objective assessment of an entity's activities, processes and internal controls systems, with regard to one or more of the three aspects of economy, efficiency and effectiveness, aiming to lead to improvements.



The 3 E's

- **Economy**: minimizing the cost of resources – they should be available on time, in appropriate quantity and quality and at the best price
- **Effectiveness**: meeting the objectives set and achieving the intended results
⇒ **doing the right things**
- **Efficiency**: getting the most from the available resources – best relationship between resources employed and results achieved (input vs output)
⇒ **doing the things right**



- In the public sector, this is achieved by respecting the public procurement rules and the tendering procedures.
- But the cheapest is not always economically the most advantageous. If it works poorly, it needs high maintenance or rapid renewal.

Efficiency

- '7 sheets of paper and 12 signatures to provide coffee and lunch for 6 persons'
- How many files per official?
- Progress reports monthly, quarterly, annually?
- Proportionate control strategy, using available resources to the best effect?

'Proportionate' is the key-word



Effectiveness

- Target n° of students trained?
- Regional unemployment reduced?
- Transport costs between A and B reduced by 25%?
- Trade increased between A and B?

In the minimum time?



Types of Performance Audit

- Auditing performance directly
 - » Focus directly on the performance achieved
 - » Concentrate on inputs, outputs, results and impacts
- Auditing control systems
 - » Adequacy of policies and procedures implemented by managers for promoting, monitoring and evaluating performance



Differences with other types of audits

	Performance audit	Financial audit	Compliance audit
Objective	Assesses whether an entity is achieving economy, efficiency, and effectiveness in the employment of available resources.	Assess whether accounts are reliable.	Assesses whether rules and regulations are implemented and followed.
Scope	Policy, programme, project, activity, process, system, organisation, etc.	Financial transactions, accounting and control procedures.	Similar to performance audits any policy, programme, project, activity, process, system, organisation etc. for which rules and regulations are defined. Generally audits on financial management and on non-financial management processes may be distinguished
Method	Vary from audit to audit.	More standardised.	Standardised to certain extent but may be adjusted.
Audit criteria	Open to the auditor's judgement. Criteria specific to each individual audit, e.g. external standards, benchmarks and good practices, common sense, etc.	Standardised criteria set by legislation and regulation.	Criteria set by the external authority or organisation for the audited object.



Preliminary survey in Performance audit (1/2)

What:

- » Analysis of key documents (checklists, manuals, flowcharts, statistics)
- » Interviews with key staff

Why:

To define the specific risks of the process and to identify the objective and the scope of the audit.

No difference comparing with other types of audits



Preliminary survey in Performance audit (2/2)

Deliverables:

1. Question-tree
2. Engagement planning document
3. Audit matrix (including audit criteria)



The Question Tree (1/2)

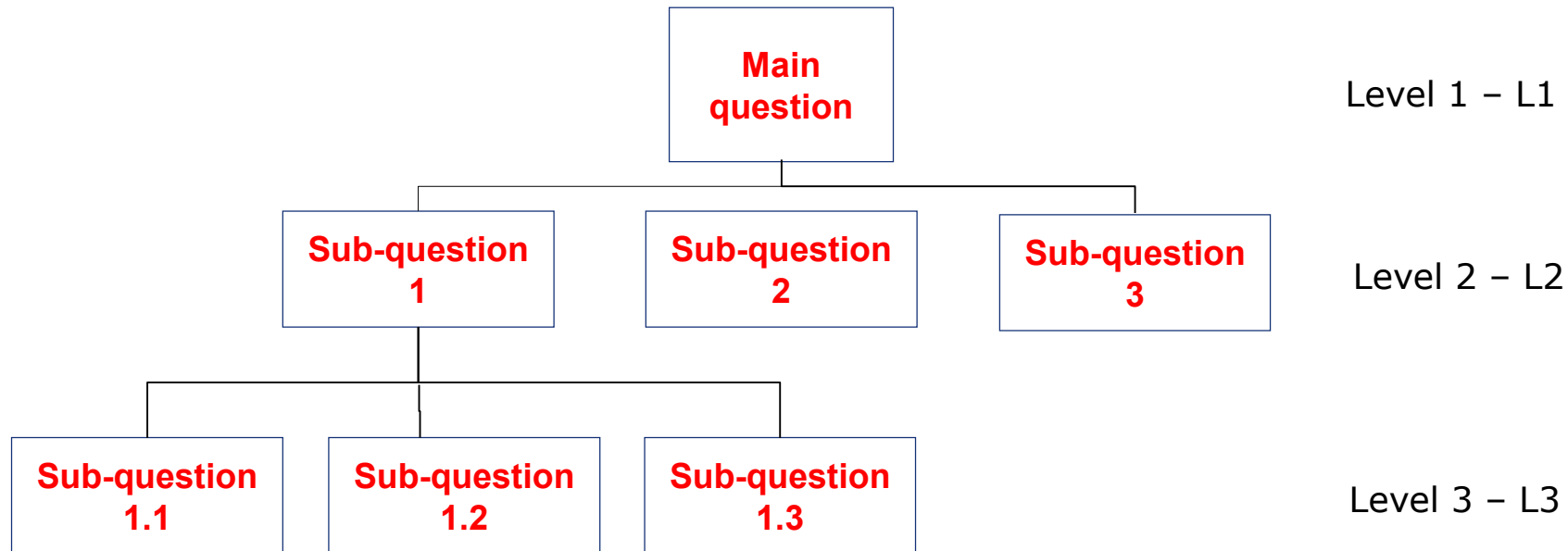
In performance audit engagements, the overall objective is set out in the form of a **main question the audit has to answer** (Level 1 – L1). The reply to this question represents the basis for the conclusion of the audit.

The main question is further detailed in sub-questions (L2, L3, Lx) which can be answered by carrying out specific audit procedures.

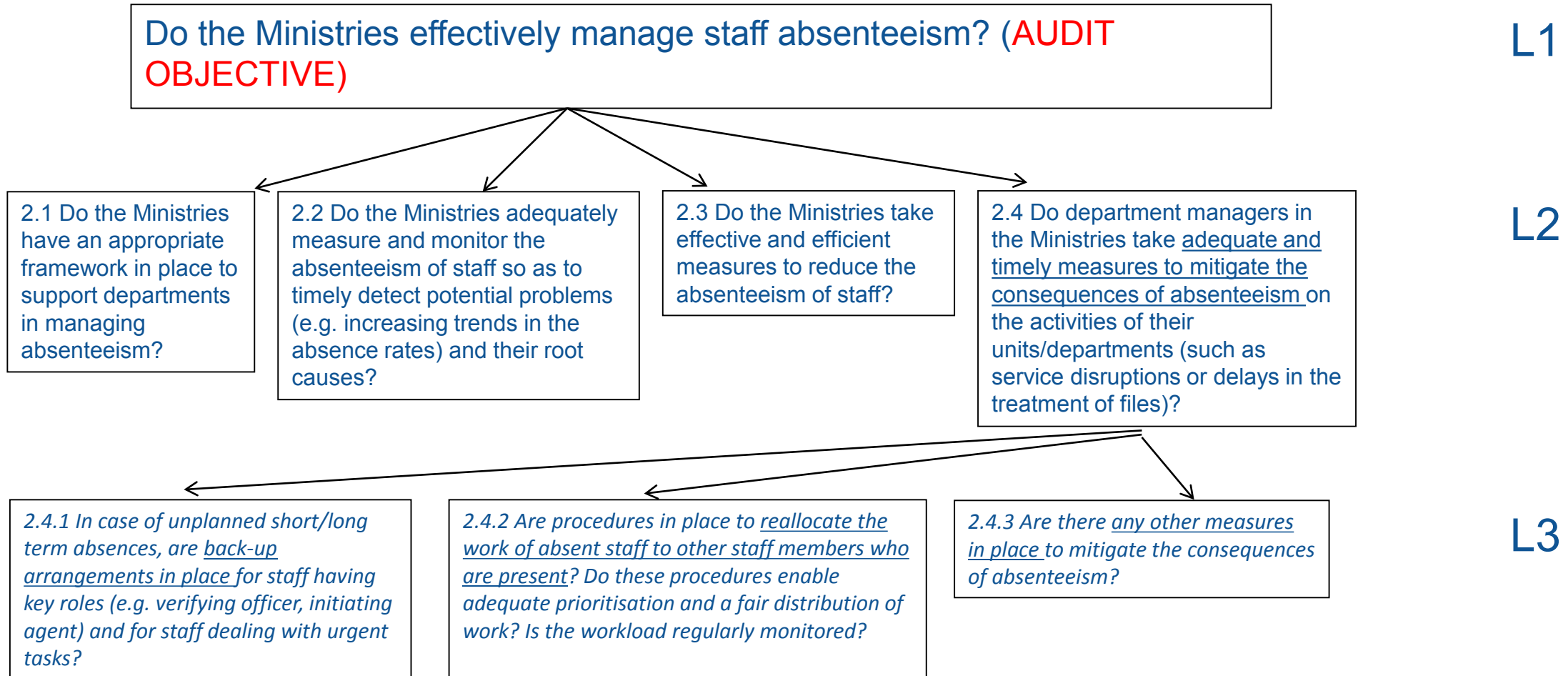
The set of questions related to a performance audit is called a "**Question tree**".



The Question Tree (2/2)



Example of Question Tree



Advantages of the Question Tree

Formulating the audit objectives using the question tree scheme:

- Facilitates structuring and performing the audit work in case of non-standard audit topics.
- Enables a better use of audit resources by focusing the audit to the key areas (namely those that allow to reply to the main question).
- Contributes to avoid over-ambitious objectives or too large scope (and to limit the possibilities of misunderstanding or stakeholders expectations not met).

Question Tree: How to formulate a good question tree

- » Select only **relevant** questions (related to risk detected during the preliminary survey and related to the 3 Es).
- » Draft **only «Yes/No» questions** (to reduce the subjectivity/judgemental nature of the reply and to help building a more solid conclusion).
- » Ensure that questions are **collectively exhaustive** (together, they allow to reply to the preceding higher level question).
- » Ensure that questions **do not overlap**.
- » Avoid **useless/out of scope** questions.

Question Tree: Tips

- » Brainstorm and do not hesitate to use flowcharts to structure ideas.
- » When defining the questions do not forget that the answer could be an audit finding that should add value to the process audited.
- » Keep in mind that the object is to assess performance, not compliance.
- » Maximum three levels of questions.



Performance audit on administrative services (1/2)

Specific context of the audited process

Media

- long queues for submission of relevant documents and forms
- lack of simple and understandable guidance available to the public how to fill in properly relevant forms and documentation
- few municipality personnel working in the offices
- short opening hours - citizens have to take a day off from their normal work in order to submit the forms or collect the documents ready, usually they have to show up in the office at least twice
- lack of option to submit and/or collect the documents by post or courier or online
- extended response time for clarifying issues and questions and long time for collection of completed documents

Municipality indicators

- » personal registration is currently 3 days (four years ago it used to be the same day)
- » ID Card is 22 days (four years ago it used to be 10 days on average)
- » driving license is 15 days (four years ago it used to be 8 days)



Performance audit on administrative services (2/2)

Audit objective

To assess whether the processes in place in the municipality of Orotavia to deliver administrative services to citizens are **effective** and **efficient**.

Audit Scope

- a) The design of the service delivery processes.
- b) Their implementation.

Question LEVEL 1 – Main question

Are the processes in place in the municipality of Orotavia to deliver administrative services to citizens efficiently and effectively designed and implemented?

From Question Level 1 to Questions Level 2

Are the processes in place in the municipality of Orotavia to deliver administrative services to citizens efficiently and effectively designed and implemented?

1. Have the processes been designed taking into account the risks and opportunities?

2. Are the procedures cost-effective and efficient for the municipality of Orotavia?

3. Are the procedures effective and efficient for the citizens of Orotavia?

4. Is the knowledge of Orotavia staff adequate?

5. Is the performance of the delivery of administrative services adequately monitored?

From Questions Level 2 to Questions Level 3

Are the processes in place in the municipality of Orotavia to deliver administrative services to citizens efficiently and effectively designed and implemented?

1. Have the processes been designed taking into account the risks and opportunities?

2. Are the procedures cost-effective and efficient for the municipality of Orotavia?

3. Are the procedures effective and efficient for the citizens of Orotavia?

4. Is the knowledge of Orotavia staff adequate?

5. Is the performance of the delivery of administrative services adequately monitored?

From Questions Level 2 to Questions Level 3

Are the administrative processes effective and efficient for the citizens of Orotavia?

3.1. Are the citizens well informed about the administrative processes?

3.2. Are there unnecessary controls/steps in the processes?

3.3. Are there bottlenecks in the processes?

3.4. Are all relevant citizens' data available in a central database?

3.5. Can citizens update their data online?

3.6. Can citizens communicate remotely with municipality staff?

Audit Matrix template

Question tree	Audit program		Potential findings		For each audit test:		
List of questions	Criteria	Testing procedures	Potential answers and conclusions	Potential recommendations	Testing results	X-ref WP	X-ref Report
Last level of subquestion	What do we measure against?	<u>Test A</u> <i>What</i> evidence will answer the question <i>Where</i> will we get it? <i>How</i> are we going to get the evidence? <i>What will we do</i> with it once we get the evidence?	<i>Potential</i> conclusion based on our planning and preliminary survey (before the fieldwork)	<i>Potential</i> recommendation based on our planning and preliminary survey (before the fieldwork)	<u>Test A</u> OK/Not OK/OK but	<u>Test A</u> X-ref WP	<u>Test A</u> Obs. X (if applicable)

Preliminary Survey

Fieldwork

