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To all the Officers,

**Promoting the Performance Audit**

It has turned out in recent times that the financial audit alone is not adequate when the Auditor General reports to the Parliament on the accounting responsibility of the Public institutions. As such, the accountability shall not be fulfilled by basically considering only the matters such as , whether the funds allocated for a certain project, programme or some other objective have been utilized within a specific duration of time, whether the relevant Laws, Rules, and Regulations have been followed in that connection, whether the books and records have been properly maintained.

Accordingly, in the fulfilment of social responsibility expected from the State Audit, an even wide range has to be covered by the audit. Moreover, it is imperative to report as to whether financial, human, and physical resources allocated for a certain activity have been utilized in achieving the primary objectives thereof in an economic, productive, and efficient manner, along with the performance expected therefrom.

Hence, a guideline is given here in a nutshell with respect to planning , execution, and reporting of the audit, inclusive of selecting the relevant area for executing a performance audit, and deciding upon the objectives, scope and criteria of audit.

01. What is Performance Auditing ?

An independent review conducted for evaluating the economy, productivity, and efficiency of the activities in the Public sector.

02. The Approach to Performance Auditing

The following approaches can be observed for Performance Auditing.

(i) System Based Approach

Taking into consideration as to whether the process of management functions properly.

(ii) Result Based Approach

Evaluating as to whether the result or the product expected from a certain program / service has been achieved

(iii) Problem Based Approach

Investigating to find out the reason for a particular problem, verify the changes of the criteria, and carry out analysis.

03. Selection of a Topic for Performance Audit

An area/ field /programme /project can be selected for a performance audit through the aforesaid approaches.

A topic that is possible to be materialized should be selected to carry out a performance audit, and this audit should pave the way for favorable results to the society at large and the auditee as well.

Furthermore, the following matters should also be taken into consideration.

- The significance of the subject selected.
- Risks involving the audit.
- Prioritization in accordance with the resources available.
- Vision on the policy decisions of the Government.
- An issue of national level significance.

04. Planning a Performance Audit

Prior to commencing a performance audit, the following matters should be decided in connection with the expected audit.

(i) **Objectives of the Audit**

Objectives of the audit should be set in order to evaluate whether the economy, efficiency, and productivity of a certain activity have been fulfilled.

(ii) **Scope of the Audit**

When considering to conduct a performance audit on the selected subject/ topic, it is necessary to decide upon the limits or scope, and the nature of the subject.

**(iii) Criteria of the Audit**

The criteria or the targets that should be fair and achievable, set for evaluating as to whether a certain activity has progressed in an economic, efficient, and productive manner.

The audit observations do arise when comparing those audit criteria with the actual situation. The actual situation remaining on or above par with the criteria is deemed favorable, whereas the actual situation failing to reach the criteria, requires improvements to the relevant activity/ situation. Both of these positions are reported in a performance audit.

**(a) Preparation of Audit Criteria**

- Audit criteria should be prepared for the objectives of the audit.
- An understanding as to the scope and limits of the audit is necessary.
- It is necessary to have an understanding on the Acts by which the Public institutions involved in the audit, have been established, together with the vision, mission, objectives and functions thereof.
- An understanding as to who is interested in the relevant auditees, and what their expectations are.

**(b) Sources of Criteria**

The sources of the criteria for performance audits include :

- The relevant Laws, Rules, Regulations and Statutory requirements.
- Expertise of the reputed professional bodies , and the Standards improved by the institutions.
- Performance reports.
- Generally accepted management principles and best practice.
- The Standards and the Key Performance Indicators (KPI) established by the auditee.
- Individual and specialist opinions.
- Scientific knowledge.

- Standards formulated by local or foreign competitive counterparts.

**(c.) Features of Suitable Audit Criteria**

The audit criteria on which the audit shall be based, should conform to reliability, objectiveness, usefulness, comprehensibility, reconcilability, and completeness.

**(d.) Exchanging Opinions with the Institution**

Exchanging opinions on the audit and the audit criteria with the auditee, and building a mutual understanding thereon, play an important role in the approach to the performance audit.

**05. Implementation of a Performance Audit**

This indicates collecting audit evidence in accordance with the objectives and criteria of the audit that have been prepared. The audit evidence collected thus, should be:

- Valid
- Confidential
- Relevant
- Quantitative

The audit evidence should be of testimonial, documentary and analytical nature.

**06. Reporting on the Performance Auditing**

Audit observations, conclusions, and recommendations shall be prepared by analyzing the data arising from the audit evidence gathered during the performance audit thereby compiling the audit report. The following matters should be taken into consideration when preparing the audit observations.

- i. The existing CONDITION
- ii. REASON for the existing condition
- iii. The CRITERIA
- iv. The EFFECT caused due to non- compliance with the criteria

**07. Matters to be Included in the Recommendations of Audit.**

In order to minimize or nullify the unfavorable situations indicated in the audit observations presented, audit recommendations should be presented to the institutions. Such audit recommendations should include many a feature as a given below.

S	-	SPECIFIC	
M	-	MEASURABLE	
A	-	ACHIEVABLE	
R	-	RELEVANT / REALISTIC	the recommendations should be practical and Relevant in a manner that the identified weaknesses can be minimized.
T	-	TIMELY	The duration wherein the audit recommendations should be mentioned.

As such, a performance audit report together with the audit recommendations , should be prepared in accordance with the following format.

- (i) Executive Summary
- (ii) Background of the audit
- (iii) Objectives and criteria of the audit
- (iv) Scope of the audit
- (v) Audit observations and recommendations
- (vi) Conclusion

08. Follow-up

The conclusion of a performance audit should not be limited to reporting on the relevant matters; therefore, it can be stated that the observations , and the recommendations thereon declared through a performance audit report, are deemed to be matters of importance that should be arrived at in agreement between the auditor and the auditee. Hence, the auditee bears the responsibility to implement the recommendations therein within a reasonable time. Accordingly, it is necessary to thoroughly study the recommendations and the outcome in that connection through follow-up. The follow-up action should be taken after being properly planned, and action should be taken to present an observation report by including the observations relating to the follow-up.



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