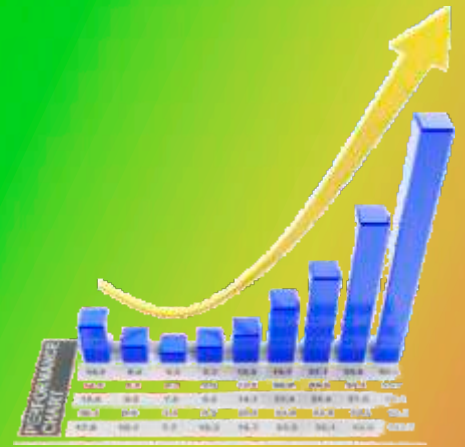




REPUBLIC OF GHANA



AN

AUDITEE'S GUIDE

TO THE

PERFORMANCE AUDIT PROCESS



*Good Governance
and Accountability*



Our Vision
To be one of the leading
Supreme Audit Institutions
in the world, delivering
professional, excellent, and
cost effective auditing
services

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Foreword

In recent years, Audit Service has been working tirelessly to bridge the communication gap between the Service and its stakeholders to foster professional working relationship.

It is in line with this that the Service has developed this reference guide to help auditees understand the performance audit process to facilitate cooperation during the audit process. Performance audits involve many man-hours and given the time and effort put in by both auditors and auditees, it is important that the process unfold as smoothly and as efficiently as possible.


The use of this guide will benefit both auditors and auditees as audits will be conducted more smoothly to bring out findings and recommendations that will lead to improvements in the operations of Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) in the management of public resources.

I would therefore like to introduce this reference Guide which is intended to promote communication between performance auditors and officials of audited entities.

I wish to acknowledge the dedication and hard work of the development team and reviewers in coming up with the Guide. I also thank the Canadian Comprehensive Auditing Foundation (CCAF) for its capacity building support which has resulted in this Guide among many others.

Finally, I deeply appreciate the contributions our key stakeholders in the MDAs made to embellish the Guide in compliance with the standards set by International Organisation of Supreme Audit Institutions (INTOSAI) and in conformity with the Service's communication Policy.

Thank you.


RICHARD Q. QUARLEY

AUDITOR-GENERAL

INTRODUCTION

Although Audit Service has been conducting performance auditing for the past ten years, many public sector agencies are yet to appreciate the concept of performance auditing and the benefits to be derived from such audits. This deficiency has created the situation where performance auditors experience numerous challenges in the course of auditing. Performance auditing requires auditors to go beyond auditing the financial statements of public offices to examine how these offices use their resources and the impact of their activities.

2. Managers are the main target of performance audit but most of them are not aware that it is supposed to bring them insight into their operations. They therefore assign all responsibility of answering questions to accountants and non-management staff. Performance auditors are therefore unable to access all the data needed to support their findings because they do not get to talk to the right people in the organisation to obtain the right documents. This lack of collaboration frustrates both auditors and auditees and delays the audit process.

3. This Guide outlines the performance audit process and the expected roles of the auditees and auditors during the audit process. The Service hopes the use of the Guide will promote a professional working relationship with the auditees based on mutual respect, trust and integrity while maintaining our independence and objectivity.

1.0 ROLES AND RESPONSIBILITIES OF AUDITORS AND AUDITEES

4. Audit Service expects its officers and staff of audited entities to observe the following roles and responsibilities in the course of a performance audit. These roles and responsibilities may be supplemented by formal or informal administrative liaison arrangements.

1.1 What the audited entity should expect from the Audit Service

5. At the start of an audit, Audit Service will formally write to notify the head of the MDA or MMDA of its intention to conduct an audit. The letter will include the audit topic, names of staff on the audit team, date of commencement and request for a contact person.

6. The audit team will hold an entrance meeting with audited entity officials, including the head of the entity to launch the audit in the entity and to discuss the objectives and initial scope of the audit, roles and responsibilities and initial information needs of the audit team. The audit team will regularly communicate with the audited entity during the audit on the progress, to ensure that the audit work is done on time.

7. The Service will issue draft copies of audit report to the audited entity management to seek their comments on findings and recommendations. The Service will consider the substance of the entity's comments and may revise the draft report, as appropriate, after which the report is printed and submitted to the Speaker of Parliament. Staff of the Service will remain professional and make every effort to resolve disagreements in a timely and respectful manner throughout the audit.

1.2 What the Audit Service expects from audited entities

8. After receiving formal notification of the audit, the entity is expected to respond and accept responsibility for the audit area and identify one of its officials as the contact person for the audit. The heads of entities are to ensure that their officers establish a constructive working relationship with the auditors and supply the information required for Audit Service to fulfil its mandate.

9. The audited entity is expected to provide the audit team with unimpeded access at all convenient times to the entity's documents as the audit team deems necessary to complete the audit. The contact person should also facilitate access to all persons the audit team want to interact with and not only the accounting staff.

10. At the entrance meeting, the audited entity is expected to make every effort to ensure that the appropriate entity officials attend this meeting to discuss initial scope and objectives of the audit, roles and responsibilities and initial information needs of the audit team.

11. The audited entity is expected to ensure that all its officials involved in the audit are sufficiently briefed concerning the purpose, nature and timetable of the audit in the entity at the beginning of the audit process. The responsible entity officials are expected to read and sign off on meeting and interview minutes prepared by the audit team.

12. The audited entity management is expected to provide timely, consolidated, and coordinated comments and feedback concerning key aspects of the audit at appropriate decision points in the audit. This relates to confirmation and validation of facts, and the findings, conclusions, and recommendations in draft audit reports. It also includes discussion on corrective actions to be taken. In addition, the head of the audited entity is expected to acknowledge that the entity is required to respect the confidentiality of draft audit reports provided to it for their review and comments.

13. The audited entity shall inform the Audit Service if any confidential audit document is lost or made public. The audited entity is expected to make every effort to resolve disagreements quickly, professionally and respectfully.

2.0 ACCESS TO INFORMATION BY THE AUDIT SERVICE

14. Section 11(2) of Audit Service Act 2000, Act 584, gives the Auditor-General and his assignees right of access to information and documents in audited entities to enable them carry out audit assignments.

2.1 What access includes

15. Auditors are entitled to receive all information that they deem relevant and necessary to enable them to carry out their audits and examinations. Auditors require documents, reports, and explanations from staff and/or agents of public bodies. The fact that a document is not accessible to the public is not a valid reason for denying access to the Auditor-General's staff.

16. Auditors should have access to documents that may be subject to solicitor/client and other privileges. To ensure that this access does not affect the privilege attached to the documents, Audit Service makes a formal written request for access to such documents, pursuant to the Audit Service Act and undertakes to respect the confidentiality of the information. An appropriate senior management official of the entity responds in writing that the entity will comply with its duty under the Act and that provision of the documents to Audit Service will not constitute a waiver of any privilege attached to the documents.

17. As the auditors identify the information needed and who to interview, the audited entity is to give them access. The information that the audited entity should supply, upon request, includes all forms of communication (written, visual, auditory and electronic) whether they be in final or draft form. This includes any relevant correspondence, memorandum, book, report, plan, map, drawing, diagram, analysis, survey, pictorial or graphic work, photograph, film, microfilm, sound recording, video tape, or machine readable record. Auditors may take extracts and make photocopies of the information, unless its security classification dictates that extracts or copies cannot be made. Auditors may also need to inspect facilities or observe activities during the audit process.

18. It is important that, when the audit team identifies entity staff for an interview, the staff be made available. It is not an acceptable practice for the entity to coach staff prior to an interview or filter information requested by the Service. As a general rule, only the entity staff members who are being interviewed should be present during the interview in order to encourage candour and completeness in their responses. Under certain circumstances, the audit team and the audited entity may agree that it is appropriate to have observers present at an interview.

2.2 When access should be given

19. Access to information begins once the entity has been notified of the commencement of a performance audit. Timely access to information is essential for the Auditor-General to meet his reporting obligations to Parliament. It can be affected by such factors as the format and location of the requested information or the availability of the officer in charge of the information. Nevertheless, entity officials should entreat their employees to make themselves and information available, as they would for any other important business of the entity.

20. Audit Service requests for information should be responded to expeditiously. As a guide, information that is easily accessible should be provided immediately upon request by the audit team. For less readily available information, the audited entity should provide the information within a time frame agreed on as reasonable between the audit team and entity officials. The audit team and the contact person should maintain a register of documents requested and received during an audit.

21. Auditors who encounter problems obtaining information during an audit will report the problems to the audit team management. If the problems continue, the audit team management will attempt to resolve the issue with the contact person, or, if necessary, with the entity's senior management. In some circumstances, a delay in providing requested documents or information by the auditee can amount to a denial of access, creating an entity-imposed limitation on the scope of an audit. The Auditor-General is required by professional standards and by Audit Service Act to report such cases to Parliament.

2.3 Managing information during audits

22. Audit team members have access to an audited entity's information and to individuals who can provide the information. Auditors must comply with the security arrangements that apply to the specific documents provided by the entity. At the start of an audit, the audit team will provide the entity with the names of audit staff carrying out the audit. If there are any changes required to be made to this list during the audit, the audit team will notify the contact person in a timely manner.

23. The draft reports, which the audit team provides to the audited entity during the audit, are confidential documents and must be returned to the Audit Service within 30 days after receipt. Entity staff must ensure that these documents are not photocopied and that their contents are treated with appropriate discretion. Disclosing the Auditor-General's findings, prior to the tabling of the audit report, is viewed as an infringement of the rights and privileges of Parliament.

24. The Service ensures the confidentiality of its audited entities' documents by ensuring the documents are handled with the appropriate level of security. The Service's Code of Ethics requires all staff to uphold professional secrecy. Auditors are not to disclose information gathered during an audit to third parties before the report is published. Members of the public therefore, cannot obtain access to pre-study memos, draft audit reports, or other audit documents, such as audit working papers, held by the Service.

3.0 THE PERFORMANCE AUDIT PROCESS

25. The performance audit process involves the pre-study and main study phases.

3.1 Pre-study phase of a performance audit

26. During the pre-study phase, the audit team acquires appropriate knowledge of the audited entity regarding the activities or programmes to be audited and current issues facing the entity. Based on that knowledge, the audit team presents its preliminary findings to the Auditor-General in an internal document called a pre-study memorandum. The Auditor-General will then decide whether the team should carry out a detailed examination or curtail the audit. Some general information about the Pre-study phase are as follows:

- The audit team will hold an initial meeting (entrance meeting) with relevant officials of the entity to introduce the audit team and launch the audit in the entity.
- The level of the entity officials participating in audit meetings and briefing sessions will depend on such factors as the subject matter for discussion and availability of individuals. However, we believe that it is important that the head of the audited entity be sufficiently briefed on both the planned audit and audit in progress.
- To reinforce on-going communication, contact persons for both the Audit Service and the audited entity should have the authority and responsibility to set up regular meetings throughout the pre-study, ensure that appropriate individuals attend, and help resolve any problems or barriers to completing the audit. The entity's contact person should coordinate the entity's comments.
- The audit team and entity officials should maintain a register of documents requested and received during an audit. When the Service requests information from an audited entity, the entity should respond to such requests expeditiously. As a guide, information that is easily accessible should normally be provided immediately the team request for it.
- For less readily available information, the audited entity should provide the information within a time frame agreed on as reasonable between the audit

team and entity officials. Documents may be provided in electronic and/or hard copy format, as appropriate and applicable in the circumstances.

3.2 Main study phase of a performance audit

27. The main study phase of a performance audit comprises the data gathering and analysis stage and the reporting stage.

3.2.1 Data gathering and analysis stage

28. During the data gathering and analysis stage of the main study, the audit team gathers and examine evidence that will support or refute the preliminary findings. The team carries out detailed field work to gather information on the focused area of the audit through interviews, document reviews and analysis, observations and inspections. The audit team visits selected sections of the entity relevant to the focus area to gather the evidence required. Some general information about the data gathering and analysis stage are as follows:

- In the course of main study phase, the audit team may decide that the scope of the audit needs to be changed significantly. In such a case, the audit team and appropriate entity officials should discuss the rationale, timing, and approach, recognising that the Auditor-General will make the final decision.
- The Service will inform the audited entity whether its minutes of meetings and interviews will require sign-off by appropriate entity officials.
- The audit team will periodically offer to brief entity officials, senior management as required on emerging findings throughout the examination phase.
- As the audit evidence is acquired, the Service will endeavour to obtain confirmation and validation of facts from entity officials to help ensure the accuracy, relevance, and completeness of the evidence. The process may require a series of meetings with entity officials to ensure agreement on the facts gathered during the audit examination and field work stages. The audit team and the audited entity should resolve issues as quickly as possible.
- At the end of the data gathering and analysis stage the audit team needs to get the entity officials to understand the nature and the implications of the findings

and proposed recommendations and obtain answers from the Service to any questions. The discussion should include, among other things, the suitability and practicality of the draft recommendations.

3.2.2 Reporting stage of a main study

29. In the reporting stage, the audit team presents, in writing, the observations, conclusions, and recommendations relative to the objectives of the performance audit. In line with INTOSAI standards, the Service produces a draft audit report and sends a confidential copy to the entity management to give them the opportunity to confirm and validate the facts and to comment on it before they are published. Where more than one entity is included in the scope of an audit, an audited entity may be required to respond to only those portions of the report that are relevant to it. Some general information about the reporting stage are as follows:

- Draft performance audit reports will often include recommendations to point to the direction in which positive changes can be made for the deficiencies reported. Recommendations address areas where there are significant risks to the entity if deficiencies remain uncorrected.
- In drafting the recommendations, the entity's senior management is requested to provide the audit team with suggestions to enable the team develop clearly stated and action-oriented recommendations that are practical and feasible to implement.
- Audited entities normally have thirty days to provide their comments on draft audit reports. These comments must be in writing and signed.
- The audit team may need to meet with entity officials during an exit meeting to discuss the entity's comments, to gain a full understanding of the comments and/or to obtain any additional significant information related to the comments. Such meetings are scheduled to fall within a period that meets the Service's report production schedule.
- After the exit meeting, the audit team may revise the draft report taking into consideration comments of the entity as appropriate. The audit team captures the responses of the auditees but if the responses will not change the findings,

the team maintains its findings. However the Service will not publish anything that it believes to be false or misleading.

- Publishing an audited entity's response to a draft report gives the entity the opportunity to inform Parliament whether they agree with the findings, and what actions the entity intends to take to implement the recommendation and the timelines of the activities. Parliamentarians are more favourably disposed to responses that are clear and concise and that describe specific actions and their timing.

3.2.3 Quality Assurance Review

All audit reports, whether performance or financial audit, produced by the Audit Service are subjected to critical quality assurance reviews to ensure that the reports comply with international auditing standards. The review process includes the Auditor-General who is responsible for the overall quality and content of the reports before publication.

4.0 SUBMISSION OF THE AUDITOR-GENERAL'S REPORT TO PARLIAMENT

30. When the report is completed, the Auditor-General submits it to the Speaker of Parliament who tables the report in Parliament and subsequently refers it to the Public Accounts Committee (PAC) for review. The PAC conducts a public hearing on the report often in the full glare of television during which officials of the entity are questioned about the findings and recommendations made in the said report. PAC tables its report on the outcome of the public hearing and its recommendations to the house of Parliament.

5.0 WHAT HAPPENS AFTER AUDITOR-GENERAL AUDITS AN ENTITY?

31. To assess our performance and to identify possible areas for improvement, it is important to obtain feedback from entities audited. Therefore, the Service conducts post-audit surveys about various aspects of the audit experience after tabling of reports of the Auditor General in Parliament.

32. The Service also conducts follow up on specific audits after the tabling of the report to determine the extent to which the entity has implemented audit recommendations. The timeframe for the follow-up will depend on the urgency, duration and resources needed to implement the recommendations. Audit Report Implementation Committees (ARICs) are therefore expected to ensure that their entities implement the recommendations of the Auditor-General's report. The results of a follow-up may be reported to Parliament in a new audit report.

6.0 PERFORMANCE AUDIT FREQUENTLY ASKED QUESTIONS

i. What is a performance audit?

33. It is an audit that examines the economy, efficiency and effectiveness with which audited bodies use resources in carrying out their responsibilities and the impact of these activities on the environment. It is sometimes called “value for money” audits because it can determine whether there is value received for the money being spent. Simply put, performance auditing examines whether Ministries, Departments and Agencies are “doing the right things, in the right and least expensive way”.

Economy is minimising the cost of resources used for an activity, having regard to appropriate quality.

Efficiency is the relationship between the output, in terms of goods, services or other results, and the resources used to produce them.

Effectiveness is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

Performance audit covers specific financial operations as well as the full range of the entity’s activities including both organisational and administrative systems.

ii. What is the difference between Performance Audit and Financial Audit?

34. Performance auditing focuses on economy, efficiency and effectiveness of the organisation in managing its programmes and activities. The audit criteria for performance audits are more subjective and auditors use unique criteria for each individual audit. Also, Performance audit reports are published on adhoc basis. Financial Audits are mainly designed to enable the auditor to report whether in his opinion the financial statements show a true and fair review and whether the accounts comply with relevant statutes. Financial auditing focuses on the accounting system and management systems of an organisation. The audit criteria for financial audits are less subjective and auditors use standardised criteria which is common for all audits. Financial audit reports are published on regular basis.

iii. How will a Performance Audit benefit my organisation?

35. Performance auditing will help your organisation by identifying deficiencies in the operational management of programmes and activities. Performance auditors come up with recommendations that when implemented will help your organisation to improve on the management of programmes and activities.

iv. What is the mandate of the Audit Service for conducting Performance Auditing

36. Section 13 (e) of the Audit Service Act 2000, Act 584 and Article 187 of the 1992 Constitution, gives the Auditor-General the authority to audit programmes and activities of all the public institutions and organisations established by an Act of Parliament. The Auditor-General select areas to audit based on the following key factors:

- Parliament interest
- Public interest, and
- Environmental impact of an activity.

v. Why has my organisation been chosen for a Performance Audit?

37. Your organisation was chosen because it is a public institution which has been entrusted with public funds to manage. Therefore your organisation is being audited to provide Parliamentarians, the media and citizens the assurance that you are achieving value for the funds in your care.

vi. How long will the Performance Audit process take?

38. The timeframe for a performance audit process can take up to 12 months. During this process, much of the audit team's work is done in our own offices. At the entrance conference, the audit team will provide the auditee with a work plan indicating the timelines for the audit. The process involves:

- Pre-study phase where the audit team acquires appropriate knowledge of the entity regarding the audit area. The pre-study phase takes a period of about ten weeks.

- Main study phase involves (data gathering or field work) and analysis stage, and reporting stages) when the audit team gathers and examine evidence that will help them complete the audit and the reporting stage where the audit team compiles the audit observations, conclusions and recommendations into a report. The field work takes about ten weeks. The examination of the evidence is done in the offices of the Audit Service.
- The reporting stage takes about six months and the work is carried out in the offices of the Service. However, the audit team may have to go back to the auditee for more information when the need arises.

vii. What auditing standards do you use?

39. Performance audits are carried out in accordance with International Organisation of Supreme Audit Institutions (INTOSAI) standards. These include International Standards for Supreme Audit Institutions (ISSAI) 40 and 3000-3100 and International Standards on Quality Control (ISQC) 1.

viii. What are the backgrounds of auditors who carry out a Performance audit?

40. Audit Service has performance auditors with extensive experience and a variety of professional and academic backgrounds, including: economics, surveying, architecture, engineering, management, environmental science, communication, education, accounting and finance. Performance auditors have also had training in performance auditing both locally and internationally. Our audit teams comprise individuals with varied expertise but if the team lacks any specialised knowledge in the subject area, subject matter experts are hired to augment the audit team. Auditors also collaborate with auditees to understand the entity's operations and apply performance auditing techniques to the audit.

ix. We have had other reviews of our organisation - how is Performance Audit different?

41. The other reviews such as internal auditing and monitoring and evaluation are requested by management of the organisation or government. However, because

Audit Service is an independent body, performance auditors show objectivity in their work by ensuring that they are independent of the audited entity. When performance auditors go to an organisation to audit and find out that a review is going on in the same area of the audit, the team will inform the Auditor-General who will decide whether or not the audit should go on.

x. How do you distinguish between performance auditing and monitoring and evaluation?

42. Performance audit typically focuses on economy, efficiency and effectiveness with a view to securing financial savings and qualitative improvements to government programmes. Performance audit normally leads to a published report. The audit team does not usually become involved in implementing recommendations of an audit. Monitoring is the systematic collection and analysis of information as a project progresses. It is aimed at improving the efficiency and effectiveness of a project or organisation. It is based on targets set and activities planned during the planning phases of work. It helps to keep the work on track, and can let management know when things are going wrong.

43. Evaluation is the comparison of actual project impacts against the agreed strategic plans. It looks at what you set out to do, what you have accomplished, and how you accomplished it. It can be formative (taking place during the life of a project or organisation, with the intention of improving the strategy or way of functioning of the project or organisation). It can also be summative (drawing learnings from a completed project or an organisation that is no longer functioning).

44. Monitoring and evaluations do not usually lead to a published report. Typically a report is made available to the sponsoring body (and possibly stakeholder groups). The monitoring and evaluation team may be asked to assist in implementing recommendations.

45. During a performance audit, the team may assess the quality of monitoring instituted in the performance of the activity and programme being audited to determine how monitoring that activity contributes to the entity's efficiency and

effectiveness. Monitoring therefore is an organisational function that is subject to auditing.

46. Evaluation has some similarities to performance auditing but with a limited scope. The scope of performance auditing includes assessment of economy, efficiency and effectiveness whereas evaluations may be limited to assessment of impacts (effectiveness). Performance audit uses evaluation as a method of assessing the effectiveness of a programme.

xi. What happens when a Performance Audit involves more than one organisation?

47. Some performance audits involve multiple ministries, agencies or other government organisations (cross-organisational audit). Participating organisations will be informed at the beginning of the process if they are to be part of a cross-organisational audit. Each organisation will be asked to provide a key contact person. Draft audit reports will be given to each of the organisations to respond to the sections of the findings that apply to them. Organisations will be expected to implement the recommendations that apply to them.

xii. What does the Auditor-General do with performance audit reports?

48. The Auditor-General presents performance audit reports to the Speaker of Parliament who in turn submits the reports to the Public Accounts Committee (PAC) for review. The PAC will request representatives of both the Auditor-General and the audited entity to the PAC hearing. Performance audit reports are also distributed to public and university libraries and also posted on the website of Audit Service.

Glossary of terms

Audit team – A team of auditors responsible for conducting a performance audit which may comprise both Audit Service and contract staff. The audit team reports to the Assistant Auditor-General in charge of the team.

Auditee/Audited entity – Ministries, Department and Agencies; Metropolitan, Municipal and District Assemblies or any other entity (for example, schools) that is subject to an audit under the Audit Service Act.

Auditor - A member of an audit team responsible for conducting an audit. The auditor may be either an employee of Audit Service or a consultant assigned to the audit team.

Audit team leader – A member of the audit team who has overall responsibility for conducting a performance audit that may involve one or more entities. The team leader is responsible for managing the entire audit cycle and a team of performance auditors, and ensuring the quality of audit products produced by the team. The team leader is the contact person for Audit Service for the audit he is responsible for.

Contact person – An official of the Service or audited entity who serves as the primary liaison person or point of contact between Audit Service and the entity.

Confidential documents – documents, such as draft audit reports, provided to entity officials or to other appropriate external parties during a performance audit. Recipients are required to ensure the confidentiality of these documents and to return them to Audit Service.

Draft audit report – An initial draft report provided to audited entities for review and comment prior to publication. Entity management’s views are obtained on the validity and completeness of audit observations, conclusions, and recommendations.

INTOSAI – International Organisation of Supreme Audit Institutions

ISSAI – International Standards of Supreme Audit Institutions

ISQC – International Standard on Quality Control

Mission Statement

The Ghana Audit Service exists

To promote

good governance in the areas of transparency,
accountability and probity in the public financial
management system of Ghana

By auditing

to recognized international auditing standards the
management of public resources

And

reporting to Parliament