

TABLE OF CONTENTS

<u>ACKNOWLEDGEMENTS</u>	i
<u>EXECUTIVE SUMMARY</u>	ii
<u>AN APPROACH TO PERFORMANCE AUDIT</u>	1
<u>Objective</u>	1
<u>Expected benefits for TCU and the public sector</u>	1
<u>Background of the Office of the Auditor General of Guyana</u>	1
<u>Definition of performance audit</u>	2
<u>Reasons for selecting the planning and examination phases</u>	2
<u>Challenges/Constraints</u>	3
<u>Acceptance to change by the client</u>	3
<u>Experienced and capable personnel</u>	3
<u>Financial and Technical Resources</u>	3
<u>Audit Advisory Committee</u>	3
<u>Audit Approach</u>	3
<u>Expected outcomes</u>	4
<u>Planning and examination phases for performance audit</u>	4
<u>Planning phase</u>	4
<u>Identifying the ministry to be audited</u>	5
<u>Survey / Survey Report</u>	6
<u>Examination phase</u>	6
<u>Audit Evidence Gathering</u>	8
<u>Audit Findings/Observations</u>	8
<u>Implementing a Quality Management System</u>	8
<u>Training</u>	9
<u>Conclusion</u>	9

Appendix 1 - Basic Performance Audit Approach

[Appendix 2 - Roles and responsibilities of key players](#)

Appendix 3 - Key Elements of the Office's Performance Audit Quality Management Framework

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EXECUTIVE SUMMARY

The *Audit Act of Guyana* was recently amended for the Auditor General to conduct performance audit. Therefore, this strategy paper will be beneficial to my Office as it outlines an approach suitable to the Office for conducting performance audit. Once the methodology and concepts have been accepted by the Auditor General, it will be a guide and a useful tool for audit staff to do performance audit. Also, audit staff will benefit from training sessions, and the Office will report more significant issues to Parliament.

Because financial and compliance audits are being done, we will have to inform our clients that the Auditor General now has a mandate to conduct performance audit. We will explain the tools, concepts, and methodology that will be used to scrutinize their performance for better accountability.

I have chosen to focus on the planning and examination phases of the performance audit. The planning phase is the first step in starting a performance audit and is the preliminary work to build the structure of the rest of the audit. The examination phase is designed to gather sufficient and appropriate audit evidence to allow the auditor to support all the statements made in the report. Preparing a strategy for the two phases will be very useful for other team members in order to have an understanding of the tools, concepts, and methodology to apply when doing their audits.

The objective of this strategy paper is to provide a simple and practical approach to conduct performance audit at the Office of the Auditor General of Guyana. The implementation of this approach will begin upon approval of the Auditor General of Guyana. This project will take about 12 months to complete, and I will conduct training courses so that audit staff will have the knowledge to do this type of audit. To be successful, it is important that the project have management's full support.

AN APPROACH TO PERFORMANCE AUDIT

Objective

Expected benefits for TCU and the public sector

The objective of preparing a strategy paper for performance auditing is to outline a simple and practical approach that will be suitable to adopt at the audit Office in Guyana. This will entail significant changes in scoping from the way performance audit is being done at the Office of the Auditor General (OAG) in Canada.

Once the Auditor General of Guyana has accepted the concepts and methodology, the strategy paper will be beneficial to the Office in the following ways:

- It will be a useful tool to guide us in carrying out performance audit.
- Audit staff will benefit from training, which will help them to conduct performance audit.
- More significant issues will be reported to Parliament.

Background of the Office of the Auditor General of Guyana

The Office of the Auditor General of Guyana is a constitutional office, dedicated to promoting public accountability. The Auditor General is appointed by the President of Guyana, acting in accordance with the advice of the Public Service Commission. The Constitution ensures that the Auditor General is not subject to the direction or control of any person or authority. The tenure to the Office is not limited, but the Auditor General must demit the Office on attaining the age of 65.

The Auditor General is the independent external auditor of the entire public sector. His Office conducts financial and compliance audits of all ministries and departments in Guyana and some aspects of performance audits for foreign-funded projects. The laws of Guyana detail specific provisions regarding the duties and powers of the Auditor General in relation to central government agencies and other entities in which the state has controlling interest.

The Auditor General also audits all local government agencies under the *Local Government Act*, and all trade unions under the *Trade Union Act*. In addition, the Auditor General is appointed as auditor of other public sector entities, either under specific legislation or by agreement. Such entities include a number of developmental projects funded by international agencies, for example the United Nations Development Program, World Bank, and the Inter-America Development Bank.

Our Auditor General has implemented many changes in the Office to ensure that there is better accountability to Parliament. He had the *Auditor General Act* amended to provide greater independence from the public sector and to conduct performance

audit, among other things. For this reason, I would like to propose an approach to introduce the performance audit methodology in the OAG of Guyana.

Part v of the *Audit Act*, section 24, states, as external auditor of the public accounts of Guyana, the Auditor General shall be responsible for conducting:

- a) financial and compliance audit, and
- b) performance audits.

These audits shall be conducted with respect to:

- a) the consolidated financial statements,
- b) the accounts of all budget agencies,
- c) the accounts of all local government bodies,
- d) (iv) the accounts of all bodies and entities in which the state has a controlling interest, and
- e) (v) the accounts of all projects funded by way of loans or grants by any foreign state or organization.

Definition of performance audit

Performance audit is a systematic, purposeful, and objective examination of government activities. It provides Parliament with an assessment of the performance of these activities, with information, observations, and recommendations designed to promote accountable government. Its scope includes examination of the economy, efficiency, cost-effectiveness, and environmental effects of government activities; procedures to measure effectiveness; accountability relationships; protection of public assets; and compliance with authorities. See Appendix 1 for the basic performance audit approach.

Reasons for selecting the planning and examination phases

The **planning phase** is the first step in starting a performance audit. It is the preliminary work to build the structure of the rest of the audit. Effective planning contributes to effective audits and effective use of the audit team's time.

The **examination phase** is designed to gather sufficient and appropriate audit evidence. This allows the auditor to support all of the statements made in the report by carrying out tests and procedures to obtain evidence in the most cost-effective manner.

The *Auditor General Act* was amended to include performance audit, and approval was granted in July 2004 to conduct this type of audit. Thus, selecting and clarifying these phases in performance audit will be a good step in the right direction for enhancing the audit capability in our Office.

As this type of audit is new to our auditors, the concepts and methodology presented in this approach will be useful to guide the audit teams in carrying out their audits.

Challenges/Constraints

Acceptance to change by the client

In Guyana, our Office conducts compliance and financial audits in the public sector. Therefore, in carrying out performance audit we will need to inform our clients about the type of audit that will be done and about the concepts and methodology that will be used to judge their performance. Some clients may not adapt to the change favourably, which could be a setback for the audit.

Experienced and capable personnel

The performance audit team requires experienced and capable auditors to carry out its assignment in a professional manner. While auditors in the Office have experience in financial and compliance audit, they will need training in the performance audit process.

Financial and Technical Resources

The availability of necessary fiscal and technical resources (computers, Internet, intranet, Microsoft programs) available to all audit staff are important factors in the successful completion of performance audits. However, because of financial constraints, these resources would not be available to all audit staff in the near future.

Audit Advisory Committee

The Audit Advisory Committee plays an important role in identifying key issues of an audit, giving advice on the survey report about the lines of enquiries, and monitoring the audit findings. The committee meets two to four times during an audit. Members of a committee, from both inside and outside the Office, are selected on the basis of their skills, insights, relevant knowledge, and experience. Outside advisors are recognized as leaders in their field of expertise.

The Audit Advisory Committee provides a forum where the audit team can seek advice on the objectives of the audit, the general approach, and the significant matters and issues that are to be reported. The team also presents information to the committee at the critical decision points of the audit. Our Office will require an Audit Advisory Committee for performance audit.

Audit Approach

The performance audit team members will be trained to carry out the concepts and methodology for performance audit before they are engaged in an audit. The Assistant Auditor General will be responsible for the entire audit – that is, the planning of the chapter proposal, survey, examination, and reporting phases. The Executive Committee will approve the audit. The Principal Auditor will have the primary responsibility to manage the audit, assign tasks, supervise the audit team, and prepare the list of main points. The Audit Advisory Committee will review and advise on matters pertaining to the audit in the survey report, examination plan, and audit observations. The Quality Reviewer will review the audit findings and evidence to

ensure that there is sufficient appropriate evidence to support the findings. See Appendix 2 for the roles and responsibilities of key players in the performance audit.

Expected outcomes

The expected outcomes of conducting the performance audit are as follows:

- Implement the concepts and methodology when doing the performance audit.
- Prepare a performance audit report for the entity audited.
- Promote the accountability process for the public sector.
- Improve auditors' practical knowledge and skills for conducting performance audits.
- Execute the audit mandate effectively.
- Increase effective and efficient training offered by the OAG of Guyana.
- Report more significant issues to Parliament, which will enhance the credibility of the Office.

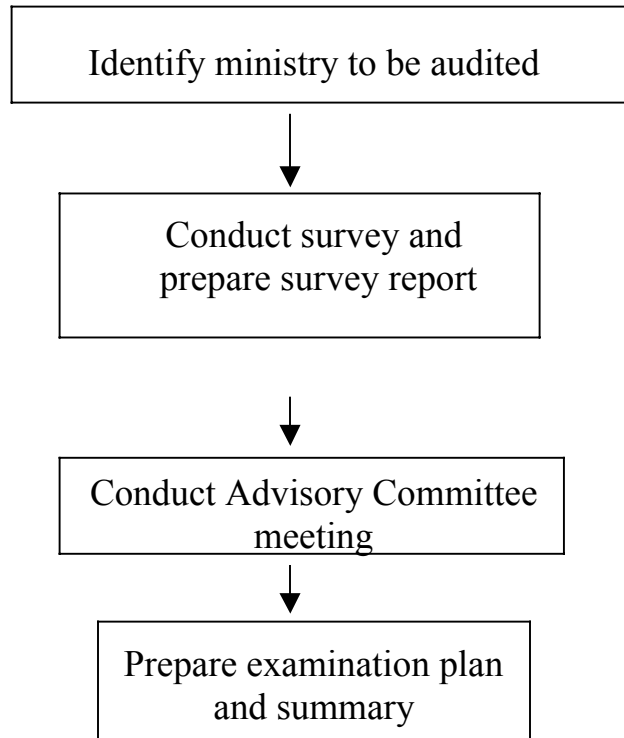
Planning and examination phases for performance audit

The performance audit project will begin in October 2005 and is estimated to be completed at the end of September 2006. The Auditor General of Guyana has a mandate to present his audit report to Parliament not later than 30 September of each year. The phases are as follows:

Planning phase	October to December 2005
Examination phase	January to June 2006
Reporting phase	July to September 2006

Planning phase

The planning phase is estimated to take about three months. The Assistant Auditor General will be responsible for the performance audit planning. The following diagram shows the main steps in planning the audit.



Identifying the ministry to be audited

At the beginning of the planning phase of the audit, the Assistant Auditor General (AAG) will prepare the planning memorandum for the ministry to be audited. It will be presented to the Management Committee for approval. The planning memorandum will describe:

- the objectives and scope of the audit and issues to be audited;
- objectives of the ministry's program, sub-programs, and key responsibilities;
- the audit cost, estimated hours, and number of people involved; and
- the timing of the audit phases, date of the start and end of the audit, and date of the Advisory Committee meeting and survey report.

Because the performance audit will be done for the first time in such a structured way, professional judgment, individual initiative, and decisions will be made about what and how much to audit. The audit approaches and methodology used to assess performance and the staff skills and experienced assigned to the audit will be important factors.

Survey / Survey Report

The purpose of the survey is to gather sufficient knowledge of the subject matter and the entity to conduct the audit and to develop the examination plan. The Principal Auditor will have primary responsibility for the survey phase and will be assisted by the audit team identified. To gain good knowledge about the entity, the auditor will document interviews; review the entity's policies, last audit report, Cabinet documents, estimates, reports, and results commitments, and analyze their expenditure trends. Tests of the controls will also be done to see how effective they are and how much we can rely on the systems.

At the interviews, risk assessment will be done by asking management the following questions:

- What can go wrong in the entity?
- What is the probability of it going wrong?
- How can it affect the entity?
- Can the risk be minimized or controlled?

By assessing the risk, the Principal will determine what areas to audit and how to conduct the audit work. Matters of potential significance identified during the survey will be scoped to lines of enquiries in the survey report. At the end of the survey stage, the lines of enquiries, objectives, criteria, and issues identified will be documented in the survey report, which will form a basis for the examination plan.

The results of the survey will be documented in the survey report by the Principal Auditor. The AAG will approve the survey report, which will be presented to the Advisory Committee for consultation and advice. The advice given by the Advisory Committee may cause lines of enquiries to be changed, which will cause the examination plan to be adjusted. The Advisory Committee will comprise the Deputy Auditor General responsible for that entity and outside experts.

Examination phase

The examination phase will take six months to complete. The purpose of this phase is to gather sufficient and appropriate audit evidence to allow the auditor to support all the statements made in the audit report.

The examination plan will be prepared by the AAG. With consultation and advice of the Advisory Committee and the Quality Reviewer, the plan will be finalized and then approved by the Auditor General. Audit procedures with appropriate details to address the audit objectives and criteria will be documented in the examination plan.

The Principal Auditor and audit team are responsible for the examination phase. The examination plan will be the primary tool used in carrying out the examination process. The audit tests and procedures will be designed to obtain evidence in the most cost-effective way.

The examination plan will contain the following:

- the name of the entity and year of audit;
- the audit objectives and criteria;
- final audit scope, major consideration for scoping decisions, reasons for any scope limitation, and risks identified in the survey phase;
- specific issues selected for audit and the objectives for each issue, criteria, and their sources;
- for each project, description of the audit approach and methodology – that is, nature, extent and timing of evidence to be collected for identified risk, and tests for reliance on controls;
- description of the audit staff for each line of enquiry, and the hours, and estimated cost for each project; and
- timing of the audit, milestones, control points, and identification of Advisory Committee and Quality Reviewer.

At the completion of the drafting of the examination plan, the AAG, Principal, and audit team will attend a meeting called the Entry Conference with the management of the entity to be audited. At this meeting, the AAG will introduce the audit team, and the audit issues and any other matters of importance to the audit will be discussed.

The audit activities under this phase will include the following:

- Design the examination plan with audit tests and procedures to obtain evidence in the most cost-effective way.
- Meet with management to discuss the audit objectives and criteria to be used in conducting the audit.
- Deploy the audit team to the entity and assign audit tests to be carried out for the project.
- Supervise the audit work and co-ordinate the team members.
- Collect sufficient and appropriate audit evidence from review of documents, performance records, observations, confirmation, inspection, and interviews with management and staff.
- Review, evaluate, analyze, and interpret and compare data collected against predetermined audit criteria.
- Develop primary audit findings and assess them for significance, reportability, and cause and effect.
- Discuss audit findings with the client.
- Prepare a list of main points and hold Advisory Committee meeting to ensure that the criteria have been met.
- Issue a draft Management Letter to the client for response on observations.

Audit Evidence Gathering

Audit evidence is the information collected during the examination phase of the audit and used to provide a factual basis for determining whether criteria have been met. Audits should have sufficient and appropriate evidence to support the contents of the audit report. The audit objectives and criteria will determine the kind of information to be gathered and analyzed. Physical, testimonial, documentary, and analytical evidence will be gathered to support audit conclusions.

At the end of this exercise, the Principal will consult with the AAG and Advisory Committee to decide if there is sufficient and appropriate evidence to support audit observations made against each audit objective and whether criteria have been met.

Audit Findings/Observations

The Principal and the AAG will meet to review audit findings to determine if they are positive or negative. If the findings are negative, the impact will be assessed in terms of significance, reportability, cause and effect. If the findings are significant, the auditee will be informed to determine if they are aware of them and what actions are being taken or will be taken to address the situation.

All findings will be discussed with the AAG and the Audit Advisory Committee for their advice on whether they are fair, are significant enough to report, improve value for money in performance or accountability, and report on audit objectives only. The Principal will prepare a draft Management Letter which will be given to the AAG, who will prepare and issue a draft copy to the management of the entity for their response on the observations raised. The management response will be incorporated in the audit report, which is presented to Parliament at the end of the reporting phase.

Implementing a Quality Management System

The Auditor General of Guyana aims to ensure that we deliver high-quality audit work that meets our standard for excellence when reporting to Parliament. For this reason, we will need to introduce a Quality Management System (QMS) when conducting our performance audit. A Quality Management team will be formed to ensure that quality is built into the audit process. The key elements of quality management for performance audit are based on:

- leadership and planning,
- audit management,
- client focus,
- people management, and
- continuous improvement.

The OAG of Canada's performance audit Quality Management Framework will be used as a guide to implement this system in my Office, see Appendix 3 for key elements.

Training

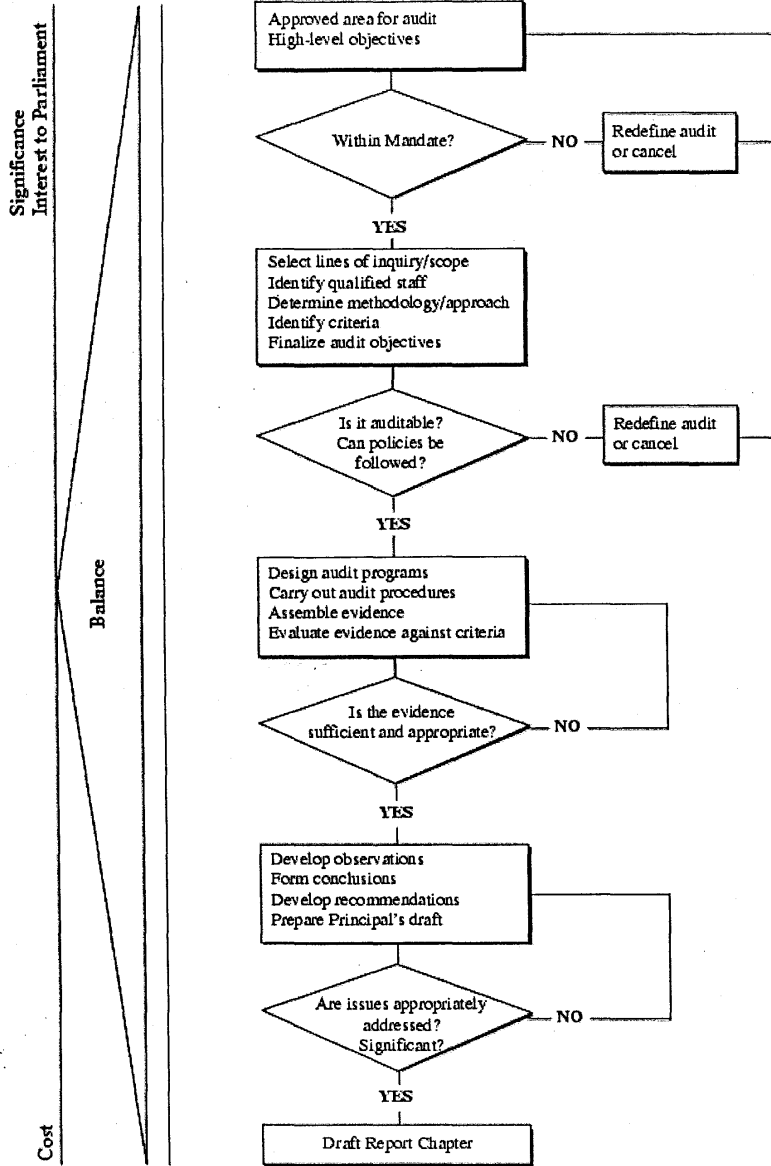
The training that I have received from the OAG of Canada will be beneficial to the OAG of Guyana. As our Office is equipped with a training division, I will deliver training sessions to impart the knowledge that I have gained in performance audit tools, techniques, and methodology. Audit staff of all levels that are selected to do performance audit will receive training before the audit begins. The training sessions will be conducted in August 2005 so that the audit team will have the required knowledge to start the audit in October 2005.

Conclusion

I am confident that this project will help to enhance the capability of performance audit at the OAG in Guyana. We will be able to report matters of significance to Parliament and other stakeholders, and reinforce good management and better accountability among the public sector by scrutinizing their performance.

Appendix 1

Basic Performance Audit Approach



Appendix 2

Roles and responsibilities of key players

To implement this strategy paper for the planning and examination phases for performance audit in the OAG of Guyana, the involvement of all staff will need to be considered to ensure that audits are done in a cost-effective manner. The roles and responsibility of the key players are outlined below:

Designation	Roles	Responsibilities
Auditor General	Management	Approve audits Committee.
Senior Deputy	Quality Reviewer	Review audit.
Auditor General	Management Committee	Examination plan and observations raised.
Deputy Auditor General	Advisory Committee	Give audit advice to AAG and principal. Review audit file.
Assistant Auditor General	Audit Manager	Ensure that the audit is managed in a cost effective way.
Principal Auditor	Audit Supervisor	Assigned task and supervise team.
Audit Team		Perform audit assignments.

Appendix 3

Key Elements of the Office's Performance Audit Quality Management Framework

