



Understanding Key Audit Products – Introduction to Regularity/Financial Statement and Value-for-Money Audit



Port of Spain, Trinidad and Tobago

6 February, 2014

10:45 – 12:00

Context of Presentation



The presentation covers audit products:

1. Regularity Audits and Hearings on Regularity Audits
 2. Value-for-Money (VFM)/Performance Audits
 3. Assessing Risk and Significance
- Questions

Regularity Audits



Definition:

Regularity audits involve an “examination and evaluation of financial records and expression of opinions on financial statements” with “financial systems and transactions including evaluation of compliance with applicable statutes and regulations.”

Source: INTOSAI Working Group on Environmental Auditing, “Environmental Audit and Regularity Auditing,” pp. 4-5, 2004

Hearings on Regularity Audits



- Can be frustrating for oversight committee members – less likely to yield any systemic change
- Can be boring and repetitive for committee members (findings can be similar for each department)
- Timely and often the cause of significant backlogs – can render the findings less relevant

Source: CCAF-FCVI Inc. Training for Oversight Committees

A More Systemic Approach to Regularity Audit; Reviewing Performance Audit



Interest in a more systemic approach:

- ❖ Many oversight committees gradually moving away from holding hearings on individual transactions and increasingly focused on systemic issues
 - ❖ Focus on systems/controls and performance/results/outcomes

- ❖ Aim is to find solutions to larger problems rather than to force an individual to take action on an individual transaction

- ❖ Requires a different approach to committee hearings
 - ❖ Planning is essential: “What do we want to accomplish? What type of change are we trying to bring about”

Source: CCAF-FCVI Inc. Training for Oversight Committees

Description of Performance Auditing



- No single definition
- Often called “value-for-money” (VFM) auditing
- An independent, objective and reliable examination of whether government undertakings, programs, systems, activities or organizations are performing in accordance with the principles of **economy, efficiency and effectiveness**.
- How well is government managing its activities, responsibilities, and public resources?

Source: CCAF-FCVI Inc. Performance Audit Training

Description of Performance Auditing: Economy



- **Economy** – keeping the costs low
- Minimising the cost of resources used for an activity, having regard to appropriate quality.

- Audits of economy may provide answers to questions such as:
 - Do the means chosen or the equipment obtained – the inputs – represent the most economical use of public funds?
 - Have the human, financial or material resources been used economically?
 - Are the management activities performed in accordance with sound administrative principles and good management policies?

Source: INTOSAI Performance Audit Guidelines

Description of Performance Auditing: Efficiency



- **Efficiency**—Whether resources have been put to optimal or satisfactory use
- Whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources.

Auditing efficiency embraces aspects such as whether:

- Human, financial, and other resources are efficiently used;
- Government programs, entities and activities efficiently managed, regulated, organised, executed, monitored and evaluated;
- Activities in government entities are consistent with stipulated objectives and requirements;
- Public services are of good quality, client-oriented and delivered on time; and
- The objectives of government programs are reached cost effectively.

Source: INTOSAI Performance Audit Guidelines

Description of Performance Auditing: Effectiveness



- **Effectiveness**—the extent to which a program or entity is achieving its goals and objectives.

In auditing effectiveness, performance auditing may assess:

- Whether government programs have been effectively prepared and designed and whether they are clear and consistent;
- Whether the objectives and the means provided (legal, financial, etc.) for a new or ongoing government program are proper, consistent, suitable, or relevant;
- The effectiveness of the organizational structure, decision-making process and management system for program implementation.

Source: INTOSAI Performance Audit Guidelines

Performance Audit Approaches



- **Systems (process) oriented approach**

- Systems and controls in place to manage risks?
- Systems and controls operating effectively?
- Desired results being monitored?

- **Results oriented approach**

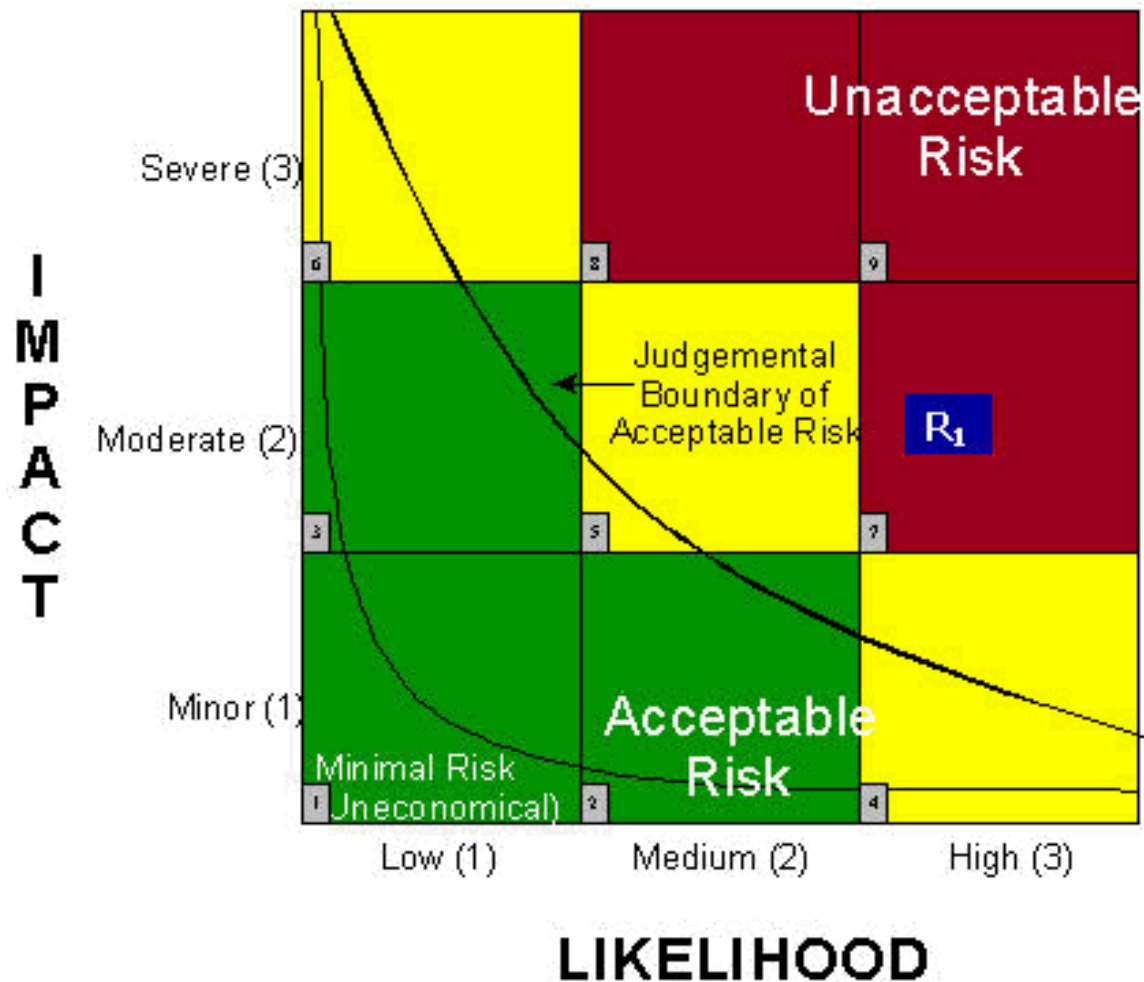
- What are the results?
- Are they the desired results?
- If not, examine systems and controls to determine cause

- **Compliance oriented approach**

- Whether an entity complied with specified authorities / requirements or whether its transactions were carried out in compliance with specified authorities.

Source: CCAF-FCVI Inc. Performance Audit Training

Assessing Risk and Significance



Source: CCAF-FCVI Inc. Performance Audit Training

Questions?

