

INTRODUCTION TO FINANCIAL AUDIT/
COMPLIANCE AUDIT /PERFORMANCE
AUDIT
SESSION-03

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CONTENTS

Introduction to public sector auditing

- Financial Attest
- Compliance Audit
- Performance Audit


PUBLIC SECTOR AUDITING

A systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria




PUBLIC SECTOR AUDITING

Attestation:

- An attestation is a type of engagement in which an attester (auditor, practitioner, accountant) provides a report as to whether an assertion (made by a management) has been prepared in conformity with the appropriate criteria.
 - The purpose is to ascertain the degree of correspondence between those assertions and established criteria and to communicate the results to interested users.
 - Attestations include financial statement audits, reporting on effectiveness of internal control, or the client's compliance with specified laws and regulations, or contracts, or grants.
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PUBLIC SECTOR AUDITING

Audit:

- An audit is a type of attest function in which an auditor provides an independent opinion (positive assurance) about whether management (asserter) has prepared financial statements in conformity with an applicable financial reporting framework (criteria).
 - Appropriate reporting frameworks include U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS).
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FINANCIAL ATTEST

- Audit wherein the auditor
 - Attests to the financial accountability of an entity by examining and evaluating financial records
 - Expresses of an opinion on financial statements.

ATTESTATION ENGAGEMENT

In the attestation engagement the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for forming a conclusion.

The conclusion is expressed in the form of findings, conclusions, recommendations or an opinion.



ATTESTATION ENGAGEMENT

In an attestation engagement with reasonable assurance the auditor's conclusion expresses the auditor's view that the subject matter information is/is not in accordance with the applicable criteria.

In an attestation engagement with limited assurance the auditor states whether or not, based on the procedures performed, the auditor tends to believe that the subject matter is not in compliance, in all material respects, with the applicable criteria.

The procedures performed are limited compared with what is necessary to obtain reasonable assurance



COMPLIANCE AUDIT

- An examination to determine the extent to which the entity has adhered to the laws, rules regulations, policies plans etc., governing it.
- a specific purpose or goal used to assess whether the entity's activities, transactions and events are in conformity and adherence to the laws, rules, regulations, policies, plans, etc., governing the entity.

COMPLIANCE AUDIT

Compliance auditing promotes transparency by providing reliable reports as to whether public funds have been utilized in line with the applicable authorities

It promotes accountability by reporting deviations from and violations of authorities. This information makes it possible to take corrective action and hold public officials accountable



COMPLIANCE AUDIT CONTD...

An independent assessment of whether a given subject matter is in compliance with applicable identified criteria

Compliance auditing promotes transparency by providing reliable reports as to whether public funds have been utilized in line with the applicable authorities



DIRECT REPORTING ENGAGEMENT

In the direct reporting engagement, it is the auditor who measures or evaluates the subject matter evidence against the criteria.

The auditor is responsible for producing the subject matter information. The auditor selects the subject matter and criteria, taking into consideration risk and materiality.

By measuring the subject matter evidence against the criteria, the auditor is able to form a conclusion.

The conclusion is expressed in the form of findings, answers to specific audit questions, recommendations or an opinion.



DIRECT REPORTING ENGAGEMENT

In a direct reporting engagement performed with reasonable assurance, the audit conclusion expresses the auditor's view that the subject matter is or is not compliant in all material respects with the applicable criteria.

When providing limited assurance, the conclusion conveys that nothing has come to the auditor's attention that the findings are not in compliance with the audit criteria. When the auditor has been aware of instances of non-compliance, the conclusion needs to reflect this



PERFORMANCE AUDIT

Performance auditing is concerned with the audit of economy, efficiency and effectiveness and embraces:

- Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies
- Audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies

PERFORMANCE AUDIT

Performance auditing is concerned with the audit of economy, efficiency and effectiveness and embraces:

- Audit of the effectiveness of performance in relation to achievement of the objectiveness of the audited entity, and audit of the actual impact of activities compared with the intended impact.

ECONOMY

According to the Auditing Standards, ‘economy’ means minimizing 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?

EFFICIENCY

Efficiency is related to economy, whether the resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources.

Are we getting the most output – in terms of quantity and quality – from our inputs and actions?



EFFECTIVENESS

Effectiveness is essentially a goal-attainment concept.

It is concerned with the relationship between goals or objectives, outputs and impacts.

- Are the stipulated aims being met by the means employed, the outputs produced and the impacts observed? Are the impacts observed really the result of the policy rather than other circumstances?

EFFECTIVENESS

The auditor might seek to assess or measure effectiveness by comparing outcomes or ‘impact’, with the goals set down in the policy objectives.

This approach is often described as ‘goal achievement’ analysis.



DIFFERENCE BETWEEN FINANCIAL, PERFORMANCE & COMPLIANCE AUDIT

Aspect	Financial Auditing	Performance Auditing	Compliance with Authority Audit
Purpose	To assess whether the accounts are true and fair	To assess whether the program or activity is efficient, effective and economical	To assess whether the related laws/ rules have been observed
Focus on	The accounting system, management system	The organization and management program and activities and results/outcomes	Observance of the law/rule position
Academic background	Accounting	Finance, economics, sociology, law, management science, public admin., accounting	Law, Public sector financial Management
Methodology	Standardized method	Investigative but differs with area being audited	Standardized method
Assessment criteria	Standardized criteria	Unique criteria for each audit	Standardized criteria

THANK YOU

