

A PRACTITIONER'S GUIDE TO PERFORMANCE AUDITING

Concepts and Methodology

By



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Foreword

The revised edition of *A Practitioner's Guide to Performance Auditing* stems from Muhammad Akram Khan's continued quest to build upon his solidly established expertise – both practical and theoretical – in performance auditing. His body of publications are a testimony to his search for applying the principles of performance audit to a variety of environments and contexts.

I met Muhammad Akram Khan for the first time in 1984 at the Office of the Auditor General of Canada, where I was a Director of a portfolio dealing with what at that time was called Value-for-Money Auditing—these days referred to as Performance Auditing. He was one of the early recipients of a one-year prestigious Fellowship of the Canadian Comprehensive Auditing Foundation (CCAF) financed by the Canadian International Development Agency (CIDA). The objective of the Fellowship, which is still in existence, was to build capacity among the Supreme Audit Institutions of developing countries for comprehensive auditing.

Little did I know then that our paths would cross at crucial moments in our respective professional lives. Indeed, Muhammad Akram Khan was then the first Fellow to graduate from the CCAF Fellowship to represent Office of the Auditor General of Pakistan. He has become one of the most visible and vocal proponents of performance audit ever since. Indeed, upon his return to the Office of the Auditor General of Pakistan, he transferred his knowledge and experience gained to his colleagues through training and publications.

He has continued to publish a series of theoretical and practical handbooks and guides on performance auditing. In 1997 he acceded to the position of Deputy Auditor General of his country and in 1999 to Ministry of Finance as Additional Secretary.

Upon his retirement, he joined the United Nations as Chief Resident Auditor in most important peacekeeping operation missions, including East Timor, DR Congo and Sudan from 2003 to 2007. Coincidentally, I was at that time leaving my post at the UN as Director of Internal Audit and did not have the opportunity to work closely with him. However, I learned that he was the first and only Chief Resident Auditor to challenge the needs assessment process for the number of troops at one of the largest peacekeeping operations, which indeed resulted in an important troop reduction with sizable savings to the United Nations and peacekeeping contributing Member States. During his years as Chief Resident Auditor he found the time to author and publish a number of groundbreaking guides on auditing corruption and governance.

After returning from his stint at auditing peacekeeping, Muhammad Akram Khan successfully transitioned to a career of consultant still pursuing, as witnessed by this publications, his passion for putting in writing his practical experience in performance auditing. I was a direct partner in two successful applications of his vast knowledge, first in his homeland and recently in Vienna at the Organization for Security and Co-operation in Europe (OSCE).

Foreword

In 1994 he was instrumental in convincing the Auditor General of Pakistan to host an INTOSAI (International Organization of Supreme Audit Institutions) sponsored seminar through IDI (INTOSAI Development Initiative) for the Southeast Asia region on *Auditing Aid Effectiveness from a Recipient Perspective*, where he would be one of the lead facilitators. I had designed and piloted the seminar in Kenya the previous year on behalf of IDI for African Supreme Audit Institutions and was looking for a partner to facilitate a similar seminar in Southeast Asia. The seminar was addressed to senior auditors from Supreme Audit Institutions in the field of development aid. The seminar was most successful due to Muhammad Akram Khan's leadership as a trainer and experience as a performance auditor. Recently, Muhammad Akram Khan performed a complex performance audit as a consultant at the Organization for Security and Cooperation in Europe (OSCE). He gave a seminar on performance auditing to internal auditors of OSCE and auditors invited from a number of other international organizations. Since his retirement from the UN he has contributed several research papers to the World Bank Institute on various aspects of auditing.

This revised edition includes elements of his recent research and experience. He has illustrated the concepts of performance auditing with real-life case studies. He takes the reader along, step by step, through the entire process of performance auditing: from planning to report writing. I highly recommend it as a reference book for both national and international public sector internal audit entities.

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Preface to Second Revised Edition

The first edition of the present Guide (2005) received due attention of Internal Audit and Government Audit professionals. I received several messages from its users about the value of the Guide and felt encouraged by the feedback. Besides, I presented portions of this Guide in various training sessions and most of the participants gave an encouraging feedback. During the last four years, my practice of performance auditing and thinking on the subject has deepened further. The present edition attempts to share some of my fresh insights on the subject.

I have followed a unique approach in sharing my knowledge of performance auditing as a practical skill by applying techniques of performance auditing to a single real-life comprehensive case through all stages of audit. The present edition includes a real-life case study (made anonymous for this Guide) from the planning stage to the reporting stage. It takes the reader along, step-by-step, from day one the audit was conceived to the last day when it was reported. It shows all milestones of the performance audit as discussion of various methods and techniques proceeds through successive chapters. The reader can see how an actual performance audit develops into an audit report.

The present edition also includes a number of new illustrations on preliminary survey report, audit criteria, and audit program. All these illustrations consist of modified material from real-life to give the user of the Guide a feel of practical scenarios. The Guide also contains a totally new chapter on Data Analysis (Chapter Six). The chapter illustrates various techniques that the auditors can use for analyzing the data and drawing conclusions. Besides, the Guide has an improved presentation through more colorful graphics and systematic tables and annexes. The chapter on “Execution of Performance Audit” in the first edition has now been developed into Chapters Seven and Eight. Chapter Seven discusses the methodology of developing a performance audit program. It now also contains a case study (not included in the first edition) to illustrate the theoretical discussion. Chapter Eight now illustrates the actual mechanics of implementing a performance audit. Most of the material in this chapter is the same as in the first edition. I have revised the language of the first edition significantly. It may appear to be a totally re-written book.

I am confident that the professional auditors would find the present edition much more useful than the first edition.

I am thankful to Mr. Joseph Pleier, who encouraged me to undertake the revision. But for his encouragement, I may not have taken up this job.

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Acronyms

BMPI	Building Material Price Index
CPM	Commission for Protection of Minorities
EIA	Environment Impact Assessment
EIRR	Economic Internal Rate of Return
EOD	Explosives Ordnance Disposal
FIRR	Financial Internal Rate of Return
GAAP	Generally Accepted Accounting Principles
GAMP	Generally Accepted Management Practices
GIT	Government of Island of Tropics
GMBA	General Manager Budget and Administration
HOC	Head of Commission
IAS	International Accounting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IRR	Internal Rate of Return
MIS	Management Information System
NPV	Net Present Value
OECD	Organization for Economic Cooperation and Development
PAC	Public Accounts Committee
PSR	Preliminary Survey Report
SAI	Supreme Audit Institution
SOP	Standard Operating Procedure
VFM	Value for Money
WHO	World Health Organization
WPI	Wholesale Price Index