

## Introduction

Performance auditing goes beyond examining adherence to rules and procedures, and seeks to assess the extent to which due care is taken to ensure economical and efficient operations, and how effective an entity or program has been in achieving its stated goals. To this end, the performance auditor has to rely on evidence from a great variety of sources all of which need not be of a documentary nature. The supplementary guidelines are intended to provide additional guidance to practitioners in dealing with this challenging requirement. Irrespective of the nature or source of evidence, it is necessary to recognize that evidence, in order to be admissible, must possess certain essential attributes which are:

Relevance

Evidence must be relevant to its related audit conclusion. Otherwise it is not conclusive, regardless of any other consideration.

Objectivity

Objective evidence is usually more persuasive than subjective evidence. Objective evidence is achieved when two or more auditors, working independently, are very likely to arrive at the same result.

Timeliness

Timely evidence is typically more persuasive than evidence produced after a delay.

Authoritativeness

Authoritative evidence is usually more persuasive than non-authoritative evidence.

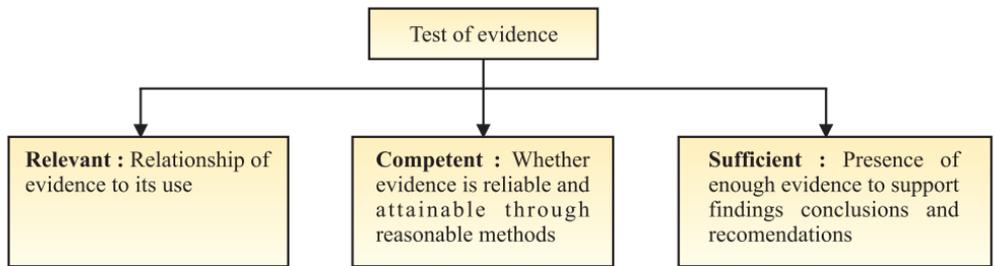
Directness

Direct evidence is usually more persuasive than indirect evidence.

These essential attributes, together with certain additional considerations which will be described later, will form the basis of evaluating the admissibility of evidence on which the performance auditor bases his findings.

Evidence may be defined as the data and information obtained by auditors in the course of a Review to document findings and support opinion and conclusions. Evidence gives auditors a rational basis for forming opinion and judgments. Considerable amounts of audit team work consist of obtaining, examining and evaluating evidential matter. It is evidence that must support the contents of an audit report including all observations and conclusions leading to recommendations.

The foundation of good audit is effective evidence gathering and data collection. According to auditing standards of CAG competent, relevant and reasonable evidence should be obtained to support the auditors' judgments and conclusions. Evidence may be categorized as physical, oral, documentary and analytical. Evidence should be presented following the rules of relevancy, competency and sufficiency.



The quality of evidence or data collected is of prime importance in performance audit. The office's credibility depends on the quality of evidence gathered in the audit examination as gathering either too much or too little evidence could be expensive or risky.

The evidence may be facts about inputs, description of processes, information about outputs or outcomes. The evidence may also be perceptions or opinions: for instance public's opinion about quality of public services. Evidence may also be

needed to develop specific criteria. For instance, criteria for judging quality of services may be the public's expectation.

There are many ways to collect evidence, some of the most commonly used are :

- Observations/Photos
- Literature searches
- Reviewing programme/ entity data
- Benchmarking
- Surveys
- Case studies
- Interviews
- Questionnaires
- Focus Groups
- Expert opinion
- Reviewing other studies and previous audit reports

Chapter 5 of the 'Performance Auditing Guidelines' contains the standards and procedures in respect of audit evidence that the performance auditor must observe to ensure quality. Appendix D of the guidelines introduces some of the more important evidence gathering techniques such as surveys, benchmarking, focus groups, interviews, case studies as also the various sampling methods that could be adopted in a performance review. Appendix E of the guidelines describes some of the evidence analysis techniques usually used by auditors. The guidance given here supplements the instructions contained in the performance auditing guidelines.

## **Audit Criteria and Evidence**

An audit is fundamentally a comparison of audit evidence to audit criteria to determine findings. The evidence is the information collected through various methods. The

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audit criteria are the expectations or rules of how conditions should be. When evidence is compared to criteria one can determine whether the auditee does or does not conform. This determination is a finding. There must be strong link between audit objectives, criteria and data collection and analysis tools used in audit. After audit objectives and criteria are finalized the following steps are taken to determine the appropriate data collection technique to be used.

- Determining the data that will answer the audit objectives/questions
- Identifying appropriate sources/types of data which are cost effective and defensible
- Deciding on suitable methods for collection of data
- Analysis of data collected

### Choosing a method

Choosing the appropriate set of techniques for gathering evidence is crucial to audit process. The subject of audit, audit objective and audit criteria determine the choice of methods. Often, more than one method is necessary. Documents of the auditee such as files, accounts, registers, evaluation reports, progress report etc. provide the prime source of evidence in any performance audit. The other methods can supplement or provide reliability of the evidence from the auditee's documents.

*Direct observation or photos* could provide useful guidance in determining existence of tangible assets, state of maintenance of assets and environmental degradation. Direct observation could also be used in assessing quality of services, deficiency in processes etc.

*Questionnaires, Surveys and Interviews* could provide insight into public perception of Govt. programmes. It would help in identifying deficiencies in implementation of social welfare and service delivery programmes.

*Expert opinion* is usually sought when auditors require professional advice to assess process or programmes of technical nature.

*Focus groups* are used when consultation with different groups of persons like NGOs, departmental people, experts, consumers having an interest in the

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programme are needed to identifying problems, understanding their causes and determine remedial measures.

*Benchmarking* would enable assessing performance of public utility, service delivery projects, commercial undertakings etc. by comparing with entities performing similar functions or with the best practices.

*Literature searches* would be helpful in deeper understanding of topics of technical nature, environment, etc. so that current trends and developments are known to the Auditors.

In respect of externally aided schemes or projects involving private funding, studies, evaluation or appraisals made by financing agencies would provide useful insights to the auditors on the deficiencies and achievements of the schemes. Case study of the audit issues provides insight into the precise working of an activity or scheme. It is useful to identify good practices and to demonstrate impact of specific action or event.

For choosing the most appropriate methods auditors should consider the audit environment, the resources available, the time-frame of the review, the competence and skills of audit team etc. Auditors should also pay attention to integrate different approaches so as to apply multiple approaches for collecting evidence on the same issues from different perspective.

## **Evidence gathering methods**

Some of the methods, other than those given in Appendix D of performance of auditing guidelines, commonly used for evidence gathering during performance audit are described below :-

### **Observation/Photos**

Observation consists of looking at a process or procedure being performed by others. Observation provides audit evidence about the performance of a process or procedure but is limited to the point in time at which the observation takes place. It also involves examination of tangible assets to ensure its existence and assess its state of maintenance.

It is used	<ul style="list-style-type: none"> <li>- to help gain understanding of the audit entity.</li> <li>- To verify the existence of physical assets, tangible results or lack of results of Government programmes.</li> </ul>
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By observing carefully auditors can develop first hand opinion about the activity or behavior under study. Inspection of processes while they are in operation will give sufficient understanding and credibility during discussion with the entity. Observation helps fill in details and nuances that do not come from other investigations.

*Points to be kept in mind when observing activities directly*

- Approach the observation on a common sense way and make it active, rather than theoretical.
- The auditor should tactfully explain to the staff of the entity what he is trying to achieve by observing the activity.
- The auditor must not upset the normal flow of work.
- Everything which is observed should be carefully recorded since it may become key evidence.

Direct observation is necessary to an understanding of programmes providing services to public or inspection and enforcement functions. For example long lines of people awaiting service at hospitals, airports, customs clearance etc. reflects on the quality of service or inspection. Observation involves steps like selecting, watching and recording objects, events or activities that play a significant role in administration of Government programmes. The observed conditions can be compared with the criteria and consequence analyzed to develop audit findings. Photos and observed examples may have a powerful impact on the reader of the Audit Report. In respect of photos proposed as evidence the date, time and place of the event or object recorded may be noted in the photo itself with proper attestation by the auditor and a representative of the entity to avoid any dispute when the Audit Reports are discussed.

## *Strength & Weakness*

- Observation provides only anecdotal evidence unless it is combined with planned programmes of data collection.
- Observation of people is more difficult than observation of physical assets.
- The observer must be trained to know what to look for and must approach it with an open mind.
- Observations of activities are best done when the auditor fits unobtrusively into the environment. But there may be limits on the usefulness of evidence obtained without the knowledge of those involved.
- It provides a means for collecting substantial amounts of data in a relatively short time.

## **Searching Public Database or Literature on the subject**

Much information on the subjects of audit would be available in published works or research papers of institutions or universities. It can provide general background information or detailed information about the issues relating to the audit topic. Literature search involves examination of two types of documents. The first type consists of general research reports, papers and books in the subject. From this it is possible to obtain basic knowledge on the fundamental principles, characteristics and concepts that apply to the topic under review. The second type is specific studies in the area including past audits or evaluations. This may provide detailed data.

While literature searches can be made at various points in the audit cycle, it is best to do it at the commencement of a new audit project. It provides a quick way to access a considerable amount of information for purposes ranging from background understanding on the subject to familiarity with current thinking on the subject.

In the last few years the increase in the amount of information that can be found on the Internet has been enormous. The accessibility of this information makes it a

very attractive source. In view of the variety of sources and the volume of information available it is absolutely essential to be able to distinguish between useful and useless information and to assess the varied quality of the information found.

Websites of various organizations including Government departments, Research institutions, public bodies, international organization etc. contain information such as policy statements, evaluation studies, progress reports, statistical data, maps, research findings, contact addresses, etc. These could be very useful while conducting preliminary study during performance audit as well as including hard facts in the Audit Report. However, meticulous care is to be exercised while using the information to ensure its accuracy, authenticity and reliability. Information from websites which have only restricted access cannot normally be used, unless the data are not of a confidential nature and the agency allows access of their database by Audit.

### *Strength and weakness*

- It can provide very useful information at very low cost.
- Specific methodological difficulties could be identified and techniques and procedures developed or discovered for coping with them.
- Sources of usable secondary data may be uncovered which would lessen the need to collect generally more expensive primary data.
- There is danger that the data gathered from literature search may not turn out to be relevant or compatible with the audit objective/criteria.
- Accuracy of the secondary data is often difficult to determine.

## **Programme/entity database and files**

Reviewing programme/entity database, records and files help in

- Understanding the programme/entity
- Generalizing from a small sample of population to the whole population

- Preparing case history of important issues
- Supplementing or confirming data from other sources.

This is the most commonly used evidence gathering technique in performance audit. All departments and agencies maintain files or records as part of administration or management of programmes. Such data fall into two categories - administration and performance. Examples of administrative data are minutes of meetings, administrative reports, application forms, routine files of the department, operating manuals, *etc.* Performance data includes information on various characteristics of the programme. They are collected by the departmental managers for periodic assessment. The entity files and data provide information on the economy, efficiency and effectiveness of the programme and might include such information as client satisfaction, client service, measures of accuracy, production impacts etc.

When computer processed data of the entity is used in audit programmes the audit team should determine whether the data is reliable or relevant. To determine the reliability of the data the audit team may either

- conduct a review of the general and application controls in the computer based system including tests as are warranted or conduct other tests and procedures and internal risk analysis to test for physical security exposures and application control exposures.
- When all the auditee's records which are considered essential to complete an audit are inadequate or unauditible, the audit team should consider pursuing alternative techniques as a means of accomplishing the audit objectives. But such steps shall be taken only after considering the relationship between the cost of obtaining audit evidence and the usefulness of the information obtained.

Review of programme/entity records presents several opportunities and limitations. The limitations are :

- Data files may not be always available due to various reasons, for instance they may not be centrally kept but spread over several units.
- Due to change in administrative rules over time, time based comparisons would be difficult.

- Data may be incomplete due to improper maintenance of files.
- Quality of data is dependent on the operating effectiveness of internal controls.

The advantages are :

The cost of collection of data may be low. As the entity is familiar with the data, it may have more confidence in the data. This would make audit findings and conclusions more credible.

Important, significant or controversial documents should be photocopied for retention and their source recorded so that contesting of evidence at the time of discussion of Audit Report can be avoided.

## Questionnaires

Questionnaires comprise lists of questions designed to obtain information on a specific subject. When the cost of interviewing a large number of people would be prohibitive, questionnaires are a valuable means of gathering information. The information from questionnaire tend to fall under two broad categories - facts and opinions.

Questionnaires are suitable in circumstances when

- There is need to minimize the time and cost involved in collecting information.
- The information is not otherwise available
- The auditor is trying to identify strength and weaknesses in an organization
- An assessment of quality of service is being made on the basis of rating given by customers.
- Audit evidence is required to support particular conclusion from the study.
- The design of a questionnaire will have a direct impact on the quality of evidence. It is to be ensured that :
- The questions will not be irritating or annoying for the respondents

- The respondents will have some information, knowledge or experience or opinion on the topic of question.
- The proposed style is suited to the target group.
- The questions require respondents to answer only about themselves or matters of facts they can realistically answer for others.

The questions are on a topic and kind which the respondent will be willing to answer.

#### Dos and don'ts in devising questions

- Avoid use of leading question i.e. questions which suggest an answer.
- Make sure that the wording is completely unambiguous
- Avoid vague questions
- Be sure to include sufficient options in the answer
- Use only the minimum amount of technical jargon.
- Keep the question as short and straightforward as possible.
- Include only those questions which are absolutely vital for the study
- Don't make unwarranted presumptions in the questions.
- Avoid words or phrases which might cause offence.
- Do not ask too many open-ended questions: they take too much time to answer properly and too much time to analyse.

The questionnaire is composed of a structured set of questions. The questions can be open ended or closed ended. Open-ended question allow the respondents to reply freely in their own words. They are used to collect qualitative information such as ideas, in-depth views and opinions and require respondents to rely solely on their knowledge or memory.

Closed-ended question require the respondents to select a specific category or

rating to indicate their answers and are used to collect information in a standard form from all respondents.

- Advantages of questionnaires are :
- They are economical
- Easier to arrange
- Supply standardized answers
- Encourages pre-coded answers for speedy collection and analysis of data

Disadvantages are :

- Pre coded questions can be frustrating for respondents and deter them from answering.
- Pre-coded question can bias the finding towards the question-setter rather than the respondents way of seeing things.
- Postal questionnaires offer little opportunity to check truthfulness of the answers given by respondents.

## Expert opinion

Experts are persons who have recognized skills or knowledge in particular fields. They could have expert knowledge of an entity or its business or of a scheme/project or a particular issue. Their expertise is recognized based on their qualifications and experience as also on the currency of their knowledge and their involvement in the field. When several experts are consulted, even if they disagree, their opinions can be summarized in a systematic way and the results can add credibility to audit reports.

Expert opinion is sought

- When advice is needed about a new or highly technical subject
- When only professional disciplines are qualified to judge whether a criteria is met.

Expert opinion can be sought individually or experts can be consulted interactively. Experts are asked to provide answers to specific audit questions and their considered conclusions will be the main source of evidence supporting an observation. A written, signed opinion has higher value as evidence. It is best to obtain services of experts who have proven record of success in their field, recognized by their peers.

Opinion from recognized experts can be used as the primary source of evidence in situations that are inherently subjective or difficult to quantify.

### Strengths and weaknesses

In some situations the opinion of the expert may be the only source of evidence available.

- The credibility of the evidence and its value would depend on the reputation of the professional expert.
- Opinion of experts recognized and approved by the auditee may have more value as audit evidence.

## Using results of other studies and audits

Many potential audit issues have a long history. There are several studies, often unpublished, such as consultant's reports, internal audits and evaluations on the audit subject that can provide useful information.

It is useful :

- In planning any audit to identify criteria and/or check out potential matters of significance
- In support of audit findings where the evidence of earlier studies can be validated.

The main types of such data are :

*Internal audits and evaluations* -Where they exist, they are often very useful. The general approaches and processes followed by internal audit and evaluation could be ascertained and the data validated.

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*Consultant's reports* provide a very mixed source. Some follow clear and defensible methodologies and may be reliable. Others with expertise and unreliable methods have to be viewed with caution.

The quality of work may be hard to determine because consultant's reports do not always include evidence to support conclusions. Working papers may not be available and the level of client involvement may not be discernible either.

*Studies from Universities, Research institutions, scholars, voluntary agencies etc.* These provide a useful source of information where it can be determined that the studies are unbiased and scholarly examination of the issue and acceptable standard methodologies have been adopted.

*Examination by Legislature Committees* - Committees of the Legislature conduct examination of issues coming before it by conducting public hearing and seeking reports and evidences from Govt. departments, public utilities, expert bodies, voluntary agencies. etc. The Reports of the Committees would provide valuable guidance to audit in determining audit issues, fixing audit criteria and identifying sources of evidence.

## **Evidence Evaluation and analysis**

Appraisal of evidence is process of analyzing, integrating and reviewing evidence. Some of the appraisal work is conducted in the course of evidence collection and the rest after the evidence is collected. Appraisal of evidence is centred around the quality characteristics of evidence as the appraisal procedure is actually a confirmation of the quality of evidence. Only evidence possessing such quality characteristics could be used for drawing conclusion on audit item. Auditors should therefore exclude evidence irrelevant to the audit objectives and select and use the most objective evidence. Auditors should also make judgment on the sufficiency of the amount of evidence, the representativeness of sample items in the sample evidence and compliance of evidence collection procedures. By this way it would be possible to determine whether important audit evidence has been obtained and abandon unimportant evidence.

Often 'intuitions', common sense or professional judgment are the auditor's only tools for evaluating evidence. However the following principles and guidelines may

provide auditors with a systematic standard for evaluating any and all evidence. Evidence may be evaluated on the basis of its persuasiveness, meaning the confidence it offers the auditors in reaching conclusions with respect to audit objectives.

If evidence is sufficient, competent and relevant to the audit objective then it is persuasive. Evidence is sufficient if there is enough of it to reach a definite conclusion; competent if it is credible; and relevant if different results would not lead to different conclusions about the audit objective. Evidence is not often absolute in quality; it can be more or less relevant, sufficient and competent and therefore more or less persuasive; but it is usually not conclusively persuasive. The following guidelines provide a structure for measuring persuasiveness and therefore quality of evidence.

Relevance	Evidence must be relevant to its related audit conclusion. Otherwise it is not persuasive regardless of any other consideration.
Objectivity	Objective evidence is usually more persuasive than subjective evidence. Objective evidence is achieved when two or more auditors, working independently, are very likely to arrive at the same result.
Documentation	Documentary evidence typically is more persuasive than undocumented evidence.
Externality	Third party evidence is generally more persuasive than evidence from within the organization being audited
Sample size	Larger samples are generally more persuasive than smaller samples.
Sampling method	For two reasons statistical samples are usually more persuasive than non—statistical samples. Statistically random samples help avoid sampling



	<p>bias and because they are based on Laws of probability. Statistical samples allow auditors to quantify their level of confidence in sample results.</p>
Corroboration	<p>Corroborated evidence is usually more persuasive than uncorroborated evidence. Corroborated evidence is the same or similar evidence acquired from two or more independent sources.</p>
Timeliness	<p>Timely evidence is typically more persuasive than evidence produced after a delay.</p>
Authoritativeness	<p>Authoritative evidence is usually more persuasive than non-authoritative evidence.</p>
Directness	<p>Direct evidence is usually more persuasive than indirect evidence. A direct count of inventory by auditors is more persuasive than someone else's counted figure. Also, an original document is more persuasive than its copy.</p>
Adequacy of controls	<p>Evidence from a well controlled and reliable system usually is more persuasive than evidence from a poorly controlled or questionable system.</p>

Although each of the eleven guidelines uniquely contributes to the evaluation of audit evidence they all testify to the relevance, competence or sufficiency of the evidence. Guidelines regarding objectivity, documentation, externality, sampling methods, timeliness, authoritativeness and directness all reveal the competence of the evidence.

The sufficiency of the evidence is determined by size and sampling methods. Corroboration of evidence may be considered a competence issue, since its nature



is independently verified, improving its reliability. Corroboration may also be considered a sufficiency issue and corroboration constitutes greater amount of evidence, making it more convincing.

Applying the above guidelines does not obviate the need for professional judgment. Instead, they provide a practical and systematic tool for confidently determining the quality of audit evidence.

## Introduction

The Performance Auditing Guidelines issued by this office constitute the authoritative basis for the conduct of Performance Auditing in the department. This includes the entire gamut of activities commencing with the formulation of strategic plans, selection of topics based on these plans, planning of individual audits, audit execution, finalization of reports and subsequent follow up. During the conference of Accountants General held in the year 2005, it was recommended that supplementary guidance was required to be issued to facilitate due implementation of Performance Auditing Guidelines when undertaking Performance Audits. It has now been decided that supplementary guidance will be issued at two levels, one will be a series of 'Supplementary Guidelines' and the other will be a series of 'Practice Guides' The Supplementary Guidelines entitled 'Evidence Gathering, Analysis and Evaluation Techniques in Performance Audit' is the first in the series. The Supplementary Guidelines are mandatory in their application.

The auditing standards of CAG states "competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organization, programme, activity or function under audit". Evidence that meets these requirements provides the basis of an audit report. A considerable amount of audit work consists of obtaining, examining and evaluating evidence. No audit report can be approved unless it is supported by competent, relevant and sufficient evidence. It is expected that this Supplementary Guide will enable our audit teams to collect evidence and to analyse and evaluate it to ensure that they meet the prescribed standards.