



Cook Islands Audit Office

Performance Audits & Special Review Manual

(2018)



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PART 1: INTRODUCTION

The Cook Islands Audit Office

The foundation of the Audit Office is in Article 71 of the Constitution of the Cook Islands. Article 71(1), states, “The Audit Office of the Cook Islands shall be the auditor of the Cook Islands Government Account and of all other public funds or accounts, and of the accounts of all Departments and offices of executive government and of such other public, statutory or local authorities or bodies as may be provided by law.” The Constitution further states in Article 71(2), “The Audit Office shall, at least once annually, forward to the Speaker of Parliament for presentation to Parliament a report containing such information as is required to be submitted by any enactment, together with such other information relating to the Cook Islands Government Account or other funds or accounts which under this Constitution or under any other enactment are required to be audited by the Audit Office as that Office considers desirable. In Article 71(3), “There shall be established by enactment a Public Expenditure Committee comprising of a chairperson appointed by the Minister of Finance and other members whose number and manner of appointment shall be prescribed by Act.

The Public Expenditure Review Committee and Audit Act 1995-96, effects Article 71(4) of the Constitution, which states, “the Act referred to in subclause (3) of this Article shall provide to the Public Expenditure Review Committee sufficient powers to investigate expenditure from the Cook Islands Government Account and other public funds or account of executive government and such other public statutory of local authorities or bodies as may be prescribed by law, and shall have such other functions, duties, powers and responsibility as shall be provided by enactment.

The Public Expenditure Review Committee and Audit Act 1995-96 (PERCA Act), clearly makes the distinction between the roles of the Public Expenditure Review Committee and the Office of the Public Expenditure Review Committee and Audit (here after referred to as the Audit Office).

Part 3 of the PERCA Act, outlines the establishment, management, and functions of the Office of the Public Expenditure Review Committee and Audit (Audit Office). The Director of the Office ensures the performance of the Office and its staff, of the legislative mandate that it is accorded, in supporting the PERC in maintaining the financial integrity of the Cook Islands machinery of government through its review and audit function.

Section 30 of the PERCA Act also states that, “The Director shall, subject to the provisions of this Act establish, review and regulate the procedures of the Office of the Public Expenditure Review Committee and Audit in accordance with generally accepted auditing practices.” The purpose of this Manual is to give effect to this Section of the Act, and outlines the procedures and processes that the staff of the Audit Office should follow in the conduct of its duties, with regard to review and audit.

This Manual will be continuously updated as required, to ensure that the Audit Office maintains the highest standards of best international practice in the discharge of its duties.

What are special review and performance audits?

Under section 27 (g) and (h) of the PERCA Act 1995-96, the Audit Office may “*pursue any concern that arises in respect of the management of public resources which in its opinion justifies further investigation*” as well as “*carry out such other reviews as may from time to time be necessary.*” This section provides bearing on the duties of the Audit Office to conduct performance audits and special reviews to support the PERC in the discharge of its legal obligations.

Performance audits review a public entity performance by:

- Assessing the quality of information and policy advice given to Government by officials;
- Identifying and agreeing performance expectations and criteria;
- Collecting and analysing information on performance;
- Identifying and assessing the range of performance outcomes;
- Recommending improvements to address performance shortcomings, the intended and unintended direct and indirect impacts of such improvements;
- Reporting to Parliament and/or local authorities.

Performance audits have a range of potentially beneficial outcomes, both for the audited entity and for the public sector governance. These benefits include, but are not limited to:

- Developing methods to evaluate areas or issues of public sector management;
- Encouraging best practice and beneficial changes through discussions with the audited entity (and sometimes its main stakeholders) and by making recommendations;
- Increasing the financial auditor's understanding of the audited entity and/or of the wider environment in which public entities operate;
- Reduction of costs through economies on usage of personnel or other resources;
- Greater outputs from same inputs
- Clarifying objectives and policies
- Better of achievement of objectives by improving targeting
- Better access to information
- Helping the public, clients and industry
- Better control and management of manpower, assets and resources
- Tightening controls against fraud
- Better improved financial accounting systems
- Better financial management information
- Improved accountability for expenditure to Parliament
- Clearer and more informative presentation of information
- Increasing wider understanding of public sector management, particularly for Members of Parliament and/or local authorities.

Special Reviews and Performance audits begin as a result of one or more of the following:

- Complaints received from a member of the general public in respect of the management of public resources by a public entity, or one or more of its members, office holders, employees, suppliers, consultants and service providers;

Note: "all complaints are required to be in written format addressed to the Director of Audit. If a verbal complaint is received, the Audit Office staff member receiving the complaint is required to fill in a standard complaint form";

- Anomalies identified from previous Special Reviews, Performance and financial audits; and
- Any complaints or investigations referred to the Audit Office by PERC.

Once a potential performance or special review audit has been identified through any of the above methods, the Special Reviews Register is updated, and a hard copy of the complaint is filed in the SPR cabinet under 'Pending'.

In ranking topics for performance audits, the following risk factors should be considered:

- Evidence of possible mismanagement;

- Financial materiality;
- Significance of the program to the activities of the entity;
- Environmental factors such as complexity, diversity and change which may add to the inherent risk of the program;
- Visibility of the program, as reflected in its political sensitivity or importance to the Nation; and
- The ability of the Audit Office to devote sufficient suitable resources to the audit.

Performance Audit Powers

Section 31 of the PERCA Act 1995-96 enables the Director of Audit to or any person authorised by him, at any time to:

- have **access** at all reasonable times to all documents, books and accounts, public money, public securities Government contracts and books and accounts relating thereto and subject to audit and to any place where they are kept;
- may **require** any person to supply any information or answer any questions relating to documents, books and accounts, money, or operations subject to audit and examination by the Office;
- may by **notice** in writing, require any person having possession or control of any documents, books and accounts subject to audit and examination by the office to deliver all or any of them, at a time and place and to such person specified in the notice;
- **inspect, measure** or **test** any real or personal property to which the contract relates;
- **enter** any land, building, or place (other than a dwelling house) where the contract is being performed.

Starting a Performance/Special Review audit

The Director of Audit assesses and makes the final decision on the prioritisation of pending special reviews or performance audits and the appointment of the auditor and team leader for these reviews. The Director will seek the approval and endorsement of the PERC to conduct the reviews or performance audits, prior to commencement.

Receiving of Public Complaints

Complaints may be received from a member of the general public, a Head of Ministry, a Minister of the Crown or a Member of Parliament or any other Government official.

The Director of Audit may instigate a special review, performance audit or an investigation depending on the nature and complexity of the complaint. The seriousness and materiality of the complaint in terms of public assets, funds or cash, the level and impact on society or in the community as a whole, and the complexity or in some cases, simplicity of the nature of the allegations made, will also be considered. The Director will seek direction and endorsement from the PERC to carry out the special review, performance audit or investigation, prior to doing so.

The Director of Audit, may also instigate a special review, performance audit or an investigation on information received from a “red-flag” or unfavourable audit finding resulting from a routine or special purpose financial audit.

Selecting the audit team

The Audit Manager for Special Reviews and Performance Audits with the approval of the Director may appoint staff of the Cook Islands Audit Office to the audit teams, and with due regard to the current workload, skills, and interest and career development needs of individual auditors.

Audit Office staff appointed to the audit team should inform the Audit Manager for Special

Reviews and Performance Audits, in writing, whether or not the auditor has a conflict of interest, potential or perceived conflict of interest, that could affect their independence while working on the audit.

This information will be recorded by the Audit Manager. Where a conflict of interest clearly exists, the auditor will be reassigned to another audit.

The Audit Manager and the Director will also determine who will have oversight of the audit from within audit team (appointment of team leader). Once the audit team has been assigned, a file is prepared and an audit plan/timetable is drawn up by the audit team leader, before the audit may begin.

Initial meeting with audit entity

The Audit Manager for Special Reviews and Performance Audits as well as the audit team leader should identify at the planning stage (as per the paragraph above), the appropriate means of making contact with the audit entity.

The purpose of this initial contact is to discuss the proposed audit, identify any impediments to the audit proceeding as planned, and to seek initial agreement on timeframes. It also helps the audit team and the Audit Manager establish the working relationship with the audit entity. The initial contact by letter to the audit entity, should be at least three days before entry. Where there maybe high risk cases, the Director may at his/her discretion overrule the initiation letter into the audit entity. This is to safeguard information and documents that might be altered or destroyed once initiation letters are delivered.

For audit topics where the audit entity is not defined until scoping, the decision on timing and method of initial contact with the entity, is also at the Director's discretion.

Scoping the audit

The auditors should begin by familiarising themselves with the topic area for the audit, and the entity being audited. The team should examine any information that the Office holds about the audit entity and its activities, before initiating contact with the audit entity. This information may include, but is not restricted to:

- The structure of the audit entity;
- Its functions;
- Whether, and to what extent, stated program objectives have been met;
- Business activities and operations
- Outputs as per their Appropriation;
- Performance measures;
- The entity's wider operating environment;
- The intended and unintended direct and indirect program impacts; and
- External factors likely to impinge on the entity's operation.

Compiling this information may involve:

- Examination of previous audit reports, public reports, reviews, and media reports;
- Internet and library searches; and
- Discussions with relevant external stakeholders and experts.

The audit team should establish whether any similar work has been undertaken by other central agencies (e.g. PSC, OPM, MFEM, Ombudsman and the Anti-corruption Committee), and make contact with these agencies as necessary.

The team should also consider using modelling techniques to identify possible options, risks and hypothesis.

PART 2: RELATIONSHIP MANAGEMENT AND SHARING INFORMATION

Relationship with the audit entity

The purpose of an audit is to establish and report on how an entity has performed. It is important to maintain continuous, complete and open communication with the entity. The most successful audits are those where the findings, conclusions and recommendations are accepted, and acted upon by the entity. This is more likely to happen if a constructive working relationship is established with the audit entity and sustained throughout the audit.

It is good practise to provide the audit entity with regular briefings on:

- Progress of the audit;
- Any major changes to the audit that occur (e.g. in terms of scope, objectives or timetable);
- Any issues impeding the progress of the audit; and
- Preliminary audit findings including any adverse findings.

Such briefings should encourage the audit entity feedback on the information provided.

Managing relationship difficulties

The staff of entities undergoing an audit, often question the audit teams right to carry out the audit, their personal competence, and/or the validity of their information. They will often, understandably, see themselves as the “experts”, in their agency’s business. By contrast, the audit team will be seen as having little direct knowledge or experience.

In these circumstances, and any others that may potentially create tension, the audit team should adopt the following principles:

- Treat the entity’s staff with courtesy at all times – the Office’s good reputation must be upheld;
- Respond firmly and politely. In any case of unacceptable behaviour by a member of the entity’s staff, maintain a firm and polite manner, and consider terminating the meeting if a reasonable approach is not working;
- In all cases where a member of the entity’s staff does not have previous knowledge of the auditor’s responsibility, explain the role and powers of the Audit Office in clear, precise and unthreatening terms. Where there is an apparent lack of co-operation, ensure that the person understands their responsibilities (as per PERCA Act Section 31) to cooperate with the Cook Islands Audit Office enquiries;
- Take any unresolved matters or issues to a more senior member of the entity’s staff; and
- Keep a senior member of the Audit Office informed, and document the events in the audit file.

Issues may also arise when the audit entity seeks to have a “minder” or senior manager to attend all interviews with staff. This should not be permitted, as the presence of senior managers or minders, may inhibit the free exchange of information. Audit entity staff should be given the opportunity to freely provide information to the audit team, without fear of reprisal.

Providing information to central and other agencies

An audit will often identify matters of interest to agencies other than the agency being examined - for example, the audited agency may be breaching regulations in the way that it carried out its activities. Also, where an audit examines more than one audit entity, the audit team may identify matters in one agency, that are of interest, to another agency, with which the team is also in contact with as part of the audit.

As a **“rule of thumb”**, the auditor **should ensure** that all significant matters identified as a result of the audit are to be communicated to the appropriate person or body within the entity. At no time, should information be communicated to external parties, without the prior written approval of the Director of Audit. When assessing the significance of each matter identified, the auditor must consider the nature of the matter, relevant characteristics of the entity, and the degree to which the matter would impact on the entity and its operations. The auditor must ensure that all significant matters arising from the audit are communicated on a timely basis to the entity.

In addition, if the auditor is concerned that a report may not be distributed to all relevant stakeholders, the auditor must implement an approach whereby all relevant stakeholders are appropriately informed of the contents of the report.

The auditor needs to adopt due discretion in passing information to agencies outside of the entity being audited for two reasons:

1. other agencies are third parties, and should not normally be provided information in advance of it being reported to Parliament; and
2. information that needs to be passed on must be held sensitively, and in such a way that, relationships between agencies, are not put at risk.

However, in certain circumstances, information will need to be passed on. For example, when:

- a serious breach of regulation has occurred, and/or, may be occurring in other agencies (and therefore a central agency needs to be informed);
- there is a difference in fact or view between agencies that needs to be resolved, before the audit report is prepared; and
- the information itself forms part of the draft report to be shown to several agencies for confirmation of facts or views, before the report is published.

In these circumstances, the auditor should seek the advice of the Audit Manager for Special Reviews and Performance Audits.

PART 3: PREPARING AND APPROVING THE AUDIT PLAN

The Audit Plan

The audit plan is a critical document in the performance and special reviews audit process. Its primary purpose is to establish why an audit is done, what the audit will cover, the cost of the audit and other milestones and deadlines. The plan must be well balanced, reasonable, and support the purpose of the audit. The audit plan then becomes the working document that is used to carry out the audit.

While the audit plan must contain certain information, it should also be recognised, that there are different types of audits, for different purposes that will require different information, specific to that particular type of special review or performance audit.

The audit plan may need to be revised and adjusted during the audit. Revisions that modify the original objectives of the audit, add to the budget cost, or involve substantial changes to the audit methods, must be approved by both the Audit Manager for Special Reviews and the Director of Audit.

The cover sheet of the audit plan must contain the following information:

- Purpose – state that the purpose of the proposal is to seek Management’s (Director and Audit Manager) approval of the Special Review or Performance audit,

Previous considerations – state any prior work the Office has done on the topic with the audit agency
- Summary – provide a short summary of the audit proposal, no more than two paragraphs.
- Financial Implications – state how many hours the audit will take, and the cost. Refer to the full budget, which will be attached as an appendix to the proposal.
- Other Implications – state any other implications that the audit may have. E.g. how the audit will affect other audits that may have been already planned and approved for future action.
- Consultation – state who has been consulted on the proposal, both internal and external parties.
- Recommendations –recommend that Management:
 - Consider the plan;
 - Note the financial implications of the plan;
 - Approve the plan; and
 - Any further recommendations from Management to improve the plan.

The second part of the plan must include:

- Background information on the need for the audit, and how this need was instigated, e.g. information on the complaint, directive or anomalies from other prior audit reports on the entity.
- Whether the plan is new or has been amended; and
- The working title of the audit:
 - a) Subject

Describe the subject in as much detail, to ensure that it is understandable to a lay reader.
This should include:

- a description of the entity and/or entities involved;
- how the entity and/or entities fits into the machinery of government;
- the aims of the business unit/s being audited;
- the parts of the business to be audited;
- why the audit is being undertaken;
- amounts of money involved; and
- relevant graphs, tables, statistics and other information that may also be included.

b) Scope, Methodology and Fieldwork

The scope should describe in more detail the nature of the Audit coverage and the boundaries of the audit. This includes the agency/agencies, and the management or operational systems to be examined. It may also describe areas that will be excluded from the audit.

Clearly define the actions and activities that will be conducted during the audit. This includes the methods to be used to collect evidence. Provide a brief overview of the fieldwork that will be undertaken.

c) Mandate

State and refer to the specific section of the Public Expenditure Review Committee and Audit (PERCA) Act 1995-96 that justifies the audit undertaking.

d) Relationship to government strategies

Illustrate how the audit relates to the functions of the Cook Islands Audit Office, as well as, other government and national strategies (e.g. The National Sustainable Development Plan, National Policies, Specific Sector Plans, Sector Policies, Strategic Plan for the Audit Office, etc.)

e) Risks to the Office

Outline the risks inherent in the audit e.g. entering an area of political or media controversy, or examining a topic on which the Office has little in-house expertise. State how the risks will be managed.

f) Benefits to the Office

State what strategic objectives may be achieved by conducting the audit, e.g. reputation, credibility, improvement in management, knowledge building, and other benefits that may result from conducting the audit.

g) Reporting Objectives

State the target audience for the report and the key messages that maybe expected from the report.

Basic Structure of an Audit Plan

HEADING	CONTENT
<p>1. Introduction</p>	<ul style="list-style-type: none"> • How did the need for the audit arise? (Complaint, directive, newspaper article, etc.) • What is the issue to be audited? • What is the scope of the audit? (What is to be included/excluded?) • What are the methods to be used to collect evidence?
<p>2. Background</p>	<ul style="list-style-type: none"> • Why is the audit being conducted? • What are the reasons for the Audit Office to conduct the audit? • Who is the entity involved? • What is the mandate of the entity? • Are there any other stakeholders involved and what is the connection to the audit entity and issue to be audited?
<p>3. Audit objective</p>	<ul style="list-style-type: none"> • How will the audit fulfil the legislative functions of the Audit Office and its role in relation to supporting PERC as a result of the Audit?
<p>4. Audit scope</p>	<p>Describe in detail:</p> <ul style="list-style-type: none"> • What will the audit cover? • What is excluded from the audit scope? Why?
<p>5. Target Audience</p>	<ul style="list-style-type: none"> • Who are the audiences targeted for the Audit Report? • List the main audiences/users for the report. These usually include: <ul style="list-style-type: none"> ➤ Parliament ➤ Responsible Minister(s) ➤ Select Committee(s) / Board of Directors ➤ The entity(ies) who are the subject of the audit ➤ Other agencies. <p><i>Note: Other interested groups can include the media, industry or sector groups and the general public. However these interested groups may only receive access to the reports after they have been tabled in Parliament.</i></p>
<p>6. Fieldwork</p>	<ul style="list-style-type: none"> • What fieldwork is required to conduct the audit? (Describe the methodology – interviews, file reviews, observations, etc.) • Where will be undertaking fieldwork and why? • When will the fieldwork begin? • When will the fieldwork be completed? • Will there be any non-core fieldwork/meetings undertaken?
<p>7. Report Structure</p>	<ul style="list-style-type: none"> • What is proposed structure for the report? (E.g. it is likely to follow the analytical framework that has been developed for the audit, it might contain a context chapter etc.) <p><i>A statement noting that the structure of the report may change depending on the feedback from management may be included.</i></p>

<p>8. What do we want to achieve? / Expectations</p>	<ul style="list-style-type: none"> • What does the audit want to achieve? (E.g. provide assurance that the policies, processes and systems are in place to ensure the business of the audit entity are efficient and effective, promote and improve public awareness, ensure that the recommendations from the audit are acted on by the audit entity.) • What does the audit entity expect from the audit? (The entity to be audited may also have some outcomes to be achieved from the audit, which may be noted.)
<p>9. Timeframe and Budget</p>	<ul style="list-style-type: none"> • What is the timetable for the audit? • Are there any changes to the timetable from what was initially envisaged? • What is the budget implications? • Are there any changes from what was initially proposed, expenditure and hours to date?

PART 4: UNDERTAKING FIELDWORK

Planning the fieldwork

Establish the various fieldwork activities and identify the most efficient order for undertaking them. For example, there may be information that is readily available, that will save time on fieldwork visits, if collated from easily accessible sources.

Consider the best distribution of work among the team members, taking account of skills and availability. Review the methods for collecting and recording information.

Remember to take into account planned annual leave and statutory holidays for all personnel involved in the Audit, as well as those of key staff members from the audit entity.

Setting up fieldwork visits

The audit team should agree with the entity how to set up fieldwork visits. Sometimes the Head Office of the audit entity will want to undertake the initial contact on behalf of the audit team, and sometimes the team may make direct contact, usually by combination of phone (to introduce the team and the purpose of the visit) and letter/email (to give more detail of the audit and what is expected from the visit).

Whatever means is selected, it is important to ensure that the person in charge of the location is aware of the visit and that their co-operation has been secured. The audit team needs also to clearly explain:

- The length of the visit;
- The audit process;
- What information needs to be collected during the visit and how it will be used;
- The members of staff whom the team will need to meet; and
- Any facilities required by the audit team.

It can be useful when setting up an interview, to provide the people you are going to interview with a list of questions or an indication of the types of things you wish to discuss. This can be reassuring to the person being interviewed. It can allow them to prepare for the meeting (they may provide written answers to questions or collate useful documentation), or may enable them to include additional people in the meeting if required. It also reduces the amount of explanation time required at the beginning of an interview.

However, there are circumstances when providing a list of questions prior to the interview might result in the interviewee withholding information. This may jeopardise the audit review finding. If it is suspected that this may be the case, an alternative approach should be employed.

Process for undertaking fieldwork

Begin the visit by briefing the relevant manager and reviewing with him/her the information provided about the visit.

Arrange and confirm with the audit entity, the day and time of when you are making the visit to conduct the fieldwork.

Capture the required evidence by photocopying, recording, taking photos, making notes or obtaining original documentation. Use the worksheets developed during the planning phase to check that all required evidence has been collected.

Mark all evidence with details of such as source, which member of the team collected it, and when it was collected.

Hold an exit meeting with the relevant manager at the completion of visit. Provide initial feedback on the results, but **emphasise that the information provided is provisional, and will be subject to more detailed analysis.**

Maintain contact with the audit entity if, and as agreed. It is good to provide the relevant manager with an Audit Office business card, so that have contact details of the audit team, should further information become available.

Where promising lines of enquiry may emerge during fieldwork that, if pursued, could substantially change the scope, cost, timeframe or risks of the audit, the team must seek approval from the Audit Manager or the Director, before undertaking any new work that differs substantially from the approved audit plan.

Collecting evidence – standards and risk

All statements in audit reports must be thoroughly verified. – The strength of argument used to support conclusions depends on the validity of facts gathered.

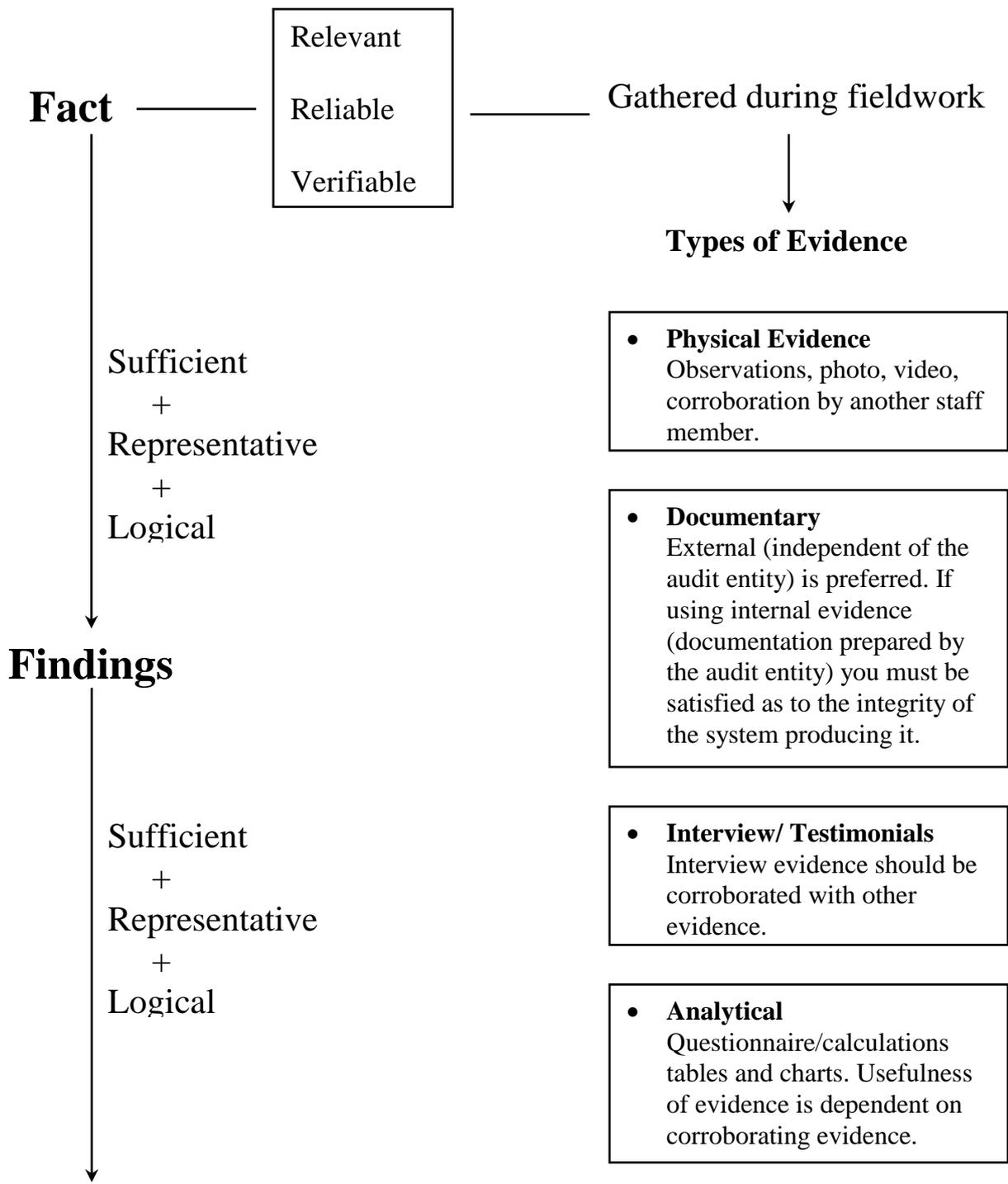
Auditors need to make judgements about the reliability of evidence gathered, and will need to determine whether the evidence is:

- Relevant;
- Reliable;
- Sufficient;
- Representative;
- Logical; and/or
- Verifiable.

The auditor will need to ask questions, such as:

- How significant is the comment being made?
- How reasonable or self-evident is the comment?
- How persuasive is the evidence? Persuasive is not conclusive – does it need to be corroborated?
- Is there a likelihood of conflicting expert opinion?

There are a number of ways in which evidence can be collected. Each has different strengths and weaknesses, and generally facts are best confirmed through more than one type of evidence. **Remember, people's perceptions are not necessarily the truth! Perception is not evidence.**



File Review

File review is a common method of collecting evidence. The auditor should:

- obtain a list of the relevant files for review;
- look through the documents on the files and photocopy documents that provide evidence relevant to the audit;
- record relevant details or data if source documents are not copied;
- note any documents or processes that appear to be absent from the files or documents; and
- check to see if absent information is held elsewhere or confirm that it does not exist.

Observation

Observation provides a first-hand understanding of the work of the audit entity staff, and how processes or systems work. It involves gathering of evidence by observing facilities and work, and enables the audit team to compare activities with policies, manuals, statements made in interviews, and presentations made by the audit entity. This is among the strongest forms of audit evidence.

The auditor should document evidence through photographs, video, notes, recordings, charts, maps, etc.

Interviews

Interviews are an important and frequently used way of collecting evidence. If possible, the auditor should provide interviewees in advance with an outline of the topics to be covered.

Prepare a structured list of interview questions and discussion points beforehand to make good use of the interviewee's time.

It is preferable that file notes be typed up within three days of the interview. It may also be necessary to contact an interviewee again, perhaps over the phone or by email; to be sure you have accurately interpreted the facts and views provided.

Consider also the value of seeking written confirmation from the person interviewed that the notes of the interview represent an accurate record of what was said.

All interview evidence should be carefully corroborated with information from other sources, especially where it is to be used to support important findings.

Re-performance

Re-performance is a technique whereby the auditor carries out the same processes as the audit entity to see if the same result is achieved. It tests systems and provides evidence of the extent to which the audited entity has been effective in undertaking a task.

Confirmation

Where evidence is known to be questionable, its accuracy may be directly confirmed with the audited entity. Such confirmation should be in writing.

Verification of Data

Audits typically rely on data collected and supplied by others. The audit team should verify that the data itself and the systems producing the data are reliable. It should also ensure that any samples are extracted according to the stated methodology, and information is recorded accurately.

Processes and tests used to assure the quality of data should be documented.

PART 5: PREPARING A SUMMARY OF FINDINGS

The Summary of findings should cover:

- expectations/audit criteria used in the audit;
- key findings and the proposed structure of the final report;
- preliminary conclusions; and
- any substantial variations or departures from the expectations or objectives in the audit plan.

The process for producing the Summary of Findings

As fieldwork is undertaken, the evidence collected should be analysed. The results of the analysis should then be compared with the audit expectations, and an assessment made of the extent to which the audit entity has met them, and the implications of any shortcomings. Any residual findings should also be assessed and their significance evaluated.

The auditor should then review all findings and identify the most important. These should be used to form the basis of the report. Some auditors prefer to produce an initial draft report at this stage, but a more concise summary of findings is preferable, because it avoids the risk of investing time and effort in drafting a report that the Audit Manager or Director may disagree with.

The audit team should seek management's agreement on:

- key findings (and how they are to be expressed and interpreted);
- risks (an update on the risks identified at the proposal stage and agreement on what new risks, if any, have emerged during fieldwork);
- any additional fieldwork or analysis identified as necessary (taking account the cost and time of the audit to date);
- the proposed structure and format of the final report; and
- any changes required to the summary of findings to take account of managements views.

Communicating findings to the audit entity

The Audit Office has a policy of “**no surprises**”, meaning that, wherever possible, the audit team should discuss all important findings with the audit entity as they arise. The team should seek the entity's reaction and incorporate its views in making the assessment.

The summary of findings offers one of the best opportunities during an audit to communicate findings in an unthreatening and coherent way, and to seek input and responses before the formal draft report is produced. The team should provide a clear and detailed summary of findings.

PART 6: PREPARING THE AUDIT REPORT

Report Structure

Reports usually contain the following elements:

- **Executive Summary.** An overview of the audit as a whole, including the main findings, conclusions, and recommendations.
- **Introduction and Background.** Why and how the audit was done, what it covers, background to the topic, organisations involved, and structure of the report.
- **Audit Scope and Objective.** What does the Audit aim to find out, what information will the audit/review be based on. This must be clearly and fully described in more detail.
- **Findings and discussions.** Findings should relate to the expectations and lead to the conclusions. It should detail the main findings.
- **Conclusions and recommendations.** The conclusions should flow from findings, and the recommendations from the conclusions. It should also be detailed. The report should recognise the difficulties faced by the entity and any significant actions undertaken which have improved performance and overcome deficiencies. The tone of the report should be positive and constructive. Facts should be clearly distinguished from opinions. The report should identify evidence to support the findings and recommendations.

This section should also explain how the Audit recommendations were developed. It should identify the cause of problems in the entity's operations and note causes outside management's influence or control. Where possible, recommendations should specify necessary remedial action by the entity.

It is essential that the report make recommendations wherever Audit findings require action by the entity.

Finally, this section should identify any issues that require further study and investigation. These will be issues that do not fall within the objective of the Audit, but which are significant enough to be pursued elsewhere, or by the Audit Office at a later date.

When finalising the report structure, the Auditor must take into consideration the best possible format that clearly conveys to the reader the main audit findings. **Avoid repetition and unnecessary long words.**

Once the fieldwork has been completed, the audit team should decide the structure of the draft report, in consultation with colleagues and management, and should take account of the following:

1. **Accuracy:**
Reports must be accurate and findings supported by sufficient evidence. Matters of fact should be reported accurately. Errors of fact in a report will damage the credibility of the entire report and the Audit Office.
2. **Audience:**
The report should be written to suit the capabilities, interests and time constraints of the audience. Short, sharp everyday words are the best means of getting the audience's attention and understanding, particularly when the issues are complex.

3. **Balance:**
Both sides of an argument should be presented. A balance of praise and criticism should be apparent. The entity's view should be properly and adequately reflected where appropriate.
4. **Clarity:**
Reports are to be written in a clear, easily understood fashion. The language should be simple.
5. **Language:**
 - avoid clichés and slang
 - never use a long word where a short word can be found;
 - never use the passive where the active can be used instead;
 - never use a foreign phrase, scientific word or jargon if a straight forward everyday English word can be used;
 - avoid affection and desires to “impress” readers;
 - make the best effort to be simple through the use of short paragraphs and simple sentences;
 - write in third person and;
 - Performance Audit report should refer to the Cook Islands Audit Office **Audit**, rather than audit.
6. **Logic:**
Reports are to present arguments that are logical. Errors will also be very damaging to the credibility of the report and the Audit Office.
7. **Purpose:**
Reports are to identify their purpose clearly.
8. **Structure:**
It is important to start sections and paragraphs with a statement of the main topic or idea to be developed. The remainder of the section or paragraph should develop that topic in a logical and coherent fashion. The key feature that should be incorporated in this approach, is the need to identify the main idea at the start, and not to bury it in the middle of your piece of writing,.
9. **Timeliness:**
Reports are to be issued in a timely manner. This means producing a quality product within the timeframes of the Audit Plan.
10. **Usefulness:**
For the report to be useful, it must have value in terms of providing information and assurances to Parliament, and the public about the efficiency and effectiveness of public sector agencies in utilizing and managing public funds. The report should specify where improvements can be made and the likely impacts of implementing or not, such improvements.

Drafting the Report

The main responsibility for preparing the report rests with the audit team, but the team should undertake the writing in consultation with colleagues within the Audit Office.

Note: *Although hard copy drafts of the report may be discarded during the review and quality assurance process as changes are made before finalisation, it is recommended that the electronic copies of the draft reports be kept on file. Electronic draft copies should be labelled draft 1, draft 2, draft 3, etc or 1st draft, 2nd draft, 3rd draft, etc.*

It is commonly recommended that the Auditor prepare the main report before starting work on the executive summary. In fact the executive summary is usually prepared after the 1st draft of the main report.

Executive Summary

What is an Executive Summary?

An Executive Summary is a statement designed to provide a **quick overview** of the main audit report in such a way that readers can rapidly become acquainted with the strongest aspects/critical issues within the report.

An executive summary previews the main points of the main report; it is written for non-technical people who don't have time to read the main report. The executive report contains enough information for a reader to get familiarized with what is discussed in the full report without having to read it.

Writing and Executive Summary

When preparing the executive summary the Auditor must keep in mind the following:

- **as a rule, no longer than 3 pages**
- **it is addressed to the Minister of PERCA, from the Director of Audit**
- **only covers the main issues/findings identified in the audit report.**

The basic format used for executive summaries is:

- Introduction/ Background - A brief explanation on the audit topic, audit entity and how the audit came about. This also provides an opportunity for the Auditor to briefly state what the objectives of the review are.
- Audit Authority - If not mentioned in the main report, the Auditor may need to explain to the reader under what authority Audit is conducting this audit/review.
- Main Audit Findings - State the main audit findings or issues identified from the review. Note that the reader may only be interested in the key issues, so there is no need to repeat all the issues identified in the report.
- Usually the executive summary may only contain two or three issues.
- Conclusion - Summarise the audit findings from the report into few paragraphs.

Note: Ensure that there is a clear linkage between the objectives to the findings and then to the conclusion when writing the executive summary.

The inclusion of the following sentence:

“Recommendations have been made to the appropriate authorities to address areas requiring improvement.”

Will be included in the conclusion to inform the reader of recommendations the Auditor has made in the report. **At no time will those recommendations be stated in the executive summary.**

PART 7: SECURING QUALITY CONTROL THROUGHOUT THE AUDIT

Peer Review

Peer Review is a key element of the Performance audits and Special Review quality assurance process.

The purpose of peer review is to provide an independent check on the quality of all key products relating to the audit. These are the proposal, plan, and draft report. The peer reviewer can also provide ad hoc advice to the audit team at any time, but must remain independent, and should therefore not be drawn into undertaking fieldwork or analysis. If this should occur, a new reviewer should be appointed.

The peer reviewer should ensure:

- all the products of the audit reflect a consistent purpose and focus that link transparently to the objectives of the audit;
- that all reporting is consistent with the audit plan (or any divergence explained);
- arguments, inference, and conclusions are clear, logical, fair, and free from bias; and
- presentation, structure, and writing style of documents are appropriate, of good quality, and appropriate to the intended audience (making suggestions for improvement as required).

Peer review takes time and effort to do well, and the audit team should therefore give the reviewer sufficient time (at least one week) to do it. The peer reviewer should discuss issues with the audit team and provide comments in writing. Minor comments can be noted on the document. The audit team should record in writing any reasons for not addressing concerns that the peer reviewer has raised. Any significant disagreements should be discussed with the peer reviewer and management.

Substantiating the report

Audit evidence is information collected and used to support Audit findings, i.e. to arrive at an assessment of whether normal audit procedures are being met. The relationship between audit criteria, program and evidence, is that without good criteria, you cannot design an effective audit program, and without an effective audit program, you cannot obtain convincing evidence to support your findings, in an economic, efficient and effective manner. Evidence can be in physical, oral documentary, or analytical forms, and must be relevant, reliable and sufficient,

Relevancy requires that the evidence bears a clear and logical relationship to the audit objectives. It is important to ensure that they are consistent with, and relate directly to the audit objectives that have been established. Evidence is *reliable* if it actually represents what it implies to represent. *Sufficient*, is when there is enough relevant and reliable evidence to convince a reasonable person, beyond reasonable doubt, that the performance audit findings, conclusions and recommendations are warranted and supported.

The Audit Report rests upon relevant, reliable and sufficient evidence.

PART 8: REPORT FINALISATION

Finalisation and Issuing of the Report

Once quality assurance of the audit report is completed a final draft copy is prepared and forwarded to the Director of Audit to sign.

The report is then issued to stakeholders as follows:

- Minister of Finance and PERCA
- Head of the Government entity being reviewed
- Minister in charge of Government entity being reviewed
- Financial Secretary
- Chairman of PERC
- Other necessary stakeholders (including those to which recommendations have been addressed to)

Where recommendations have been addressed to a particular individual within a government entity (e.g. Finance Manager or Divisional Head), the report must be addressed directly to the Head of that government entity. It is the responsibility of the Head of that entity to ensure that the relevant personnel are informed of audits recommendations and any response to should be relayed through.

Where the Government entity being reviewed is a Ministry, whose Head is appointed by the Public Service Commissioner, a copy of the report will also be forwarded to the Public Service Commissioner.

Steps for Issuance of Audit Report.

Once the Audit Reports has been completed the following steps are followed for the issuance of the final audit report.

The Auditor:

- Step 1. Ensure that sufficient copies have been printed for the stakeholders and an extra copy for the Audit file.
- Step 2. Once this is done the Auditor must then complete a “Special Reviews Final Report Issuance Form”. This can be found on the server at “O:\Perca\Special Reviews\Templates”.
- Step 3. Ensure that all copies of the Audit Report have been signed by all members of the audit team as well as the Director.
- Step 4. All signed copies of the Audit Report and the “Special Reviews Final Report Issuance Form” is then passed on to the Administrations Officer.

The Administrations Officer role:

- Step 5. Responsible for ensuring that all copies of the report have been stamped with the
- a. “confidential” stamp on the front page
 - b. “ large audit office” stamp where the Directors signature is
 - c. “small audit office” stamp on the bottom right hand corner of all other pages.
- Step 6. Deliver all necessary copies of the Audit Report to the listed stakeholders.
- Step 7. Fill out and update the Special Reviews Report Issuance Book and her own checklist.
- Step 8. Pass on the extra copy of the Audit Report and the all other documents (i.e. her checklist and the “Special Reviews Final Report Issuance Form”) to the Audit Administrator.

The Audit Administrator:

- Step 9. Makes a copy of the extra copy of the Audit Report for file and signs the “Special Reviews Final Report Issuance Form”.
- Step 10 Pass on the extra copy of the Audit Report and the all other documents (i.e. the checklist and the “Special Reviews Final Report Issuance Form”) to the Auditor in charge of the review.

The Auditor:

- Step 11 Transfer the entire Audit File to a manila file and label accordingly.
- Step 12 Sign the “Special Reviews Final Report Issuance Form” and file it and the Office copy of the report in the Audit file.
- Step 13 Pass Audit file on to Audit Manger for Special Reviews.

The Audit Manager:

- Step 14 File the Audit File in the Special reviews Audit File Cabinets.
- Step 15 Update the Special Reviews Register on PERCA.

14 day response follow-up

Section 32 (2) of the PERCA Act 1995-96 states that;

“(2) The Director shall, in addition to providing a report to the Committee, separately report to the person in charge of a department, Crown agency or local authority in respect of any matters that may relate to an audit, review, investigation or inquiry, and may require the person in charge to respond to the Director within 14 days of that person receiving the report.”

In the case of special reviews, investigations or performance audit reports, responses are particularly required from stakeholders to which recommendations have been addressed to in the report.

Where no responses have been received from stakeholders within 14 days, a follow up letter will be issued to only those stakeholders where recommendations within the report have been addressed to. To ensure that each of these entities/individuals have sufficient time to provide a response to the audit report, an extra 7 days from the date that the letter is issued will be given for them to respond.

It is important for the Auditor to inform all necessary stakeholders that, if they fail to provide a response to the audit report before the end of the 14 days (or the extended 7 days) provided to them, their comments may not be incorporated into the final version of the report which will be tabled in Parliament.

Note: *all responses from stakeholders must be in writing and addressed to the Director of Audit by way of a letter. Responses that do not meet this criteria will not be included in the report to key stakeholders and Parliament.*

PART 9: RECORDS MANAGEMENT

Record keeping is an important aspect of project management because:

- audit evidence should be easily identifiable and retrievable;
- it provides evidence that the audit team has followed due process (because there should be files containing evidence on all important issues); and
- it ensures only those documents relevant to the audit are archived.

Cook Islands Audit Office (CIAO) files are kept in two forms:

- a) Electronic working paper copy kept on the Audit Office server.
- b) Working paper hardcopy files, which are located in the audit team's space during the audit, and are archived after the audit's completion.

Electronic Working Papers

As with financial audits all projects must have electronic copies of audit work papers stored on the CIAO server.

All electronic files are kept on the "*O:\Perca\Special Reviews*" folder and filed according to the financial year the review was completed in.

Example: If a review is completed and issued on August 2009, then it will be filed in the folder labelled 2009-2010 as it falls within the year July 2009 to June 2010.

A folder is then created in "*O:\Perca\Special Reviews\2009-2010*" and the work papers saved in it.

Note: All soft copies of work papers, correspondences and reports must be clearly labelled and dated. All correspondences must be dated on the day they were delivered to the recipient.

It is recommended that subfolders clearly identifying correspondences, interviews, reports and other work papers be created within the folder to enable easy access to relevant documents by anyone needing the information.

Working paper hardcopy files

Working papers are the link between the fieldwork and the Audit report. It should contain:

- An adequate and valid basis for the Audit opinions expressed in a report;
- A basis for support for the auditors;
- An effective link between successive audits and;
- The basis for quality assurance review;
- The evidence accumulated in support of the Audit findings, conclusions and recommendations; and
- Copies of issue papers and draft Audit reports.

It should be fully indexed and cross referenced to the issues papers and the final report.

Once a review is completed and the final report issued to stakeholders, all work papers and other audit documentation must be transferred into a manila folder. The folder should be labelled and filed into one of two four drawer cabinets kept in the SPR division side of the office.

Hard copy files are to be labelled accordingly:

“(Financial year) (Quarter A, B, C, D) (allocated file number) – (Name of Review)”

e.g. *10/11 A 12 – Test Review of Test Subjects.*

All audit files completed within the last two years are kept in the two cabinet drawers in the SPR division. All older reports (3 years to 7 years) are kept in the office lundia filling cabinets.