



## Session 4.0

### Defining Audit Topic and Objective

#### Overview

In the previous session we have learnt that there are several topics on sustainable forest management under the category of policy and legislation, forest management and socio-economic and financial aspects. Furthermore, we have learnt several risks to forest arise from unsustainable forest management.

Performance auditing should be directed towards areas where an external, independent audit should add value in promoting the 3E's. Subsequently, the SAI must carefully consider the strategy for selecting topic for performance audits before defining the audit objective and the scope of audit.

In this session, we will introduce how to define an audit topic and audit objective(s) in auditing the performance of forest management.

#### Learning Objective

By the end of this session participants will be able to select an audit topic in auditing forest and define its audit objective(s) to be conform to the Standards and Guidelines for Performance Auditing based on INTOSAI's Auditing Standards and Practical Experience and the Guidance Material on Auditing the Forest.

#### Basic Concept

**Audit Objective:** A precise statement of what the audit intends to accomplish and/or the question the audit will answer. This may include financial, regularity or performance issues.

**Audit Scope:** The framework or limits and subjects of the audit.

**Audit Topic:** An object or area that can be the focus of the audit.

#### Audit Topic

Auditors should select audit topics that are significant, auditable, and reflect the SAI's mandate. The audit should lead to important benefits for public finance and administration, the audited entity, or the general public. Where there is an overlap between other types of audit and performance auditing, classification of the audit engagement will be determined by the primary purpose of that audit. Aside from audits carried out under legal mandate at the request of the Parliament or other empowered entity, performance audit topics should be selected on the basis of problem and /or risk assessment and materiality or significance (not only financial significance, but also social and/or political significance), focusing on the results obtained through the application of public policies. The selection process for audit topics should aim to maximize the expected impact from the audit while taking account of audit capacities. The processes of strategic planning and establishing the annual audit program, are useful tools for setting priorities. (ISSAI 3100E, pg. 3)



## Government Risk Management

Risk management is a systematic approach for setting the best course of action under uncertainty by identifying, assessing, understanding, acting on, and communicating risk issues. The main objective of the risk management is to manage the risk to tolerable level.

The government response to the risks can be the following :

1. **Tolerate:** for unavoidable risks, or risks that are not severe, the government may imply actions to make it avoidable;
2. **Treat:** for risks that can be reduced or eliminated by prevention or other control action;
3. **Transfer:** where another party can take on some or all of the risk in order to be more economically or more effectively, e.g. sharing risk with a contractor, or management techniques such as public-private partnership; or
4. **Terminate:** for intolerable risks, but only where it is possible for the organisation to exit.

In choosing one of the responses above, the government needs to consider some factors include cost, feasibility, probability and the potential impact. Another factor to consider is the opportunity to exploit the positive impact that might arise whenever tolerating, treating or transferring a risk i.e. where the potential gain seems likely to outweigh the potential downside. It is also important to be aware that excessive caution can be as damaging as unnecessary risk taking. The government usually responses to the risk by controlling the risk or making sufficient and effective Internal Control Systems. The more effective the

Internal Control System will make less risk. That is why, the auditor needs to consider Internal Control System in order to choose the prioritized risk.

Generally most of the government programs hold risks that neither be transferred, nor terminated. Therefore, if those risks have negative impacts to public, the only way to reduce the impacts is by putting control in place. In this case Government Risk Management is somewhat similar to Internal Control System.

## Internal Control System

According to INTOSAI Guidelines for Internal Control Standards for the Public Sector, internal control is an integral process that is affected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

- Executing the orderly, ethical, economical, efficient and effective operations;
- Fulfilling accountability obligations;
- Complying with applicable laws and regulations; and
- Safeguarding resources against loss, misuse and damage.

Internal control is a dynamic integral process that is continuously adapting to the changes faced by an organization. Management and personnel at all levels have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity's mission and general objectives.

## Components of Internal Control

Internal control consists of five interrelated components:

- Control environment;
- Risk assessment;



- Control activities;
- Information and communication; and
- Monitoring.

Internal control is designed to provide reasonable assurance that the entity's general objectives are a prerequisite for an effective internal control process.

The **control environment** is the foundation for the entire internal control system. It provides the discipline and structure as well as the climate which influences the overall quality of internal control. It has overall influences on how strategy and objectives are established, and control activities are structured.

After setting clear objectives and establishing an effective control environment, **an assessment of the risks** faced by the entity provides the basis for developing an appropriate response to risk.

The major strategy for mitigating risk is through internal **control activities**. Control activities can be preventive and/or detective. Corrective actions are a necessary complement in internal control activities to achieve the objectives. Control activities and corrective actions should provide value for money. Their cost should not exceed the benefit resulting from them (cost effectiveness).

Effective **information and communications** is vital for an entity to run and control its operations. The management's entity needs access to relevant, complete, reliable, correct and timely communication related to internal as well as external events. Information is needed throughout the entity to achieve its objectives.

Finally, since internal control is a dynamic process that has to be adapted continuously

to the risks and changes faced by an organization, **monitoring** of the internal control system is necessary to ensure that internal control remains tuned to the changed objectives, environment, resources and risks.

These components define a recommended approach for internal control in government and provide a basis against which internal control can be evaluated. These components apply to all aspects of an organization's operation.

### Selection Criteria to Choose Audit Topics

According to ISSAI 3000, performance auditing on forest should be directed towards areas where an external, independent audit may add value in promoting economy, efficiency, and effectiveness in sustainable forest management. The SAI usually has greater freedom in selecting performance audit objects and audit approaches. The SAI must carefully consider the strategy to set up the priorities in order to select the audit topic. Interest in change of the topic shown by, for instance, the government or stakeholders may contribute to this selection process.

The choice of audit areas should take place without any outside pressure or in other words, the SAI must maintain its political neutrality. But maintenance of the SAI's independence does not prevent requests from the executives to propose matters for audit. However, if the SAI wants to pursue adequate independence, the SAI must be able to decline such request.

Strategic planning is the basis for selecting audit topics and possible pre-studies. The planning might be carried out with the following steps:



## 1. Determining the potential audit areas from which the strategic choices are to be made.

The selection of audit areas involves strategic choices with consequences for the SAI. The number of potential areas is considerable and the SAI's capacity is limited. This means that choices must be made with care. As discussed in the previous session, we can say that in auditing forest, auditor has several topics related to forest management as possible areas to be considered. As mentioned above, the SAI has to make priority of the topics.

## 2. Establishing the selection criteria to be used for these choices.

The main selection criterion is probably the audit's primary contribution to the assessment and improvement of the functioning of central government and the bodies connected with it.

The general selection criteria would be, and not limited to, as follows:

- a. **Added value:** The better the prospects of carrying out a useful audit in good quality, and the less the policy field or subject has been covered earlier by audits or other reviews, the greater the added value might be. Adding value is about providing new knowledge and perspectives.
- b. **Important problems or problem areas:** The greater the risk for consequences in terms of economy, efficiency, and effectiveness or public trust, the problems tend to be more important. A problem may be judged important or material if it would influence the user of the performance audit report. Active

and problem-oriented monitoring makes it easier to identify the areas of audits.

- c. **Risks or uncertainties:** The strategic planning may be based on risk analysis, or – less theoretical – analysis to indicate the existing or potential problems. The stronger the public interest involved where there is reason to suspect inefficiency, then both the risks and uncertainties are greater as well. The accumulation of such indicators or factors linked to an entity or a government program may represent an important signal to SAIs and should induce them to plan audits whose range and scope will depend on the indices detected. Factors that may indicate higher risk (or uncertainty) could be the following:

- The financial or budgetary amounts involved are substantial, or there have been significant changes in the amounts involved;
- Areas traditionally prone to risk (procurement, technology, environment issues, health, etc, or areas of unacceptable risk) are involved;
- New or urgent activities or changes in conditions (requirements, demands) are involved;
- Management structures are complex, and there might be some confusion about responsibilities;
- There is no reliable, independent, and updated information on the efficiency or the effectiveness of a government program; and



- The effort performed by the entity to minimizing the occurrence of the risk or activities taken to mitigate the existing risk.

The Guidance Material on Auditing the Forest uses risk based approach in choosing audit topics. The auditor needs to consider all risks related to sustainable forest management and the effectiveness of Internal Control System (ICS) including the Government Risk Management (GRM) in mitigating those risks. After identifying all risks, assessing the effectiveness of the GRM/ICS, the auditor should prioritize the area(s) or topic(s) that has possibility to have greater risks as consideration. The guidance material provides certain tool (audit design matrix) to help the auditor to develop researchable questions and audit criteria.

As mentioned in the explanation above, ISSAI 3000 mentioned that the number of potential areas is considerable and the SAI's capacity is limited. This means that choices must be made with care. In many cases, one prioritized risk can be related to more than one topic. The auditor needs to choose the most important topics to be considered.

The Guidance provides example by using four selection criteria in prioritizing audit topic, which are:

- Risk to good management
- Significance;
- Auditability; and
- Impact of Audit

### ***Risk to good management***

Assessment of risks to good performance in the agency requires the SAI to assess whether the management of the activity to be audited is likely to be deficient in economy, efficiency and effectiveness.

Evidence of risk to good management includes:

- Management inaction in response to identified weaknesses;
- Adverse comment by the legislature or media;
- Non-achievement of stated objectives such as revenue raised or clients assisted;
- High staff turnover;
- Identified weaknesses in internal control;
- Significant underspending or overspending;
- Sudden program expansion or contraction;
- Overlapping or blurred accountability relationships;
- Sudden changes in policies;
- Non-budgeted expenses;
- Etc.

An agency program or activity that is more complex to manage and operates in an uncertain environment is more likely to have problems associated with performance. Some possible indicators of high complexity and uncertainty are:

- Highly decentralized operations with devolved management decision making responsibilities;
- Multiplicity of interested parties;
- Use of rapidly changing and sophisticated technology;
- Dynamic and competitive environment; and
- Controversial social and political debate surrounding the issue.





The stage of the agency's program development should also be kept in mind when assessing management performance. For example, in the development stages it will be particularly important for the agency management to set measurable, operational objectives, which clearly identify how the program will contribute to the agency's objectives.

During program implementation it will be important to ascertain whether appropriate performance measures are maintained and analysed to assess performance, and whether there is a clear identification of roles and responsibilities for each level of the program/activity. If the program has been in place for some time it will be important to assess whether a formal evaluation has been undertaken to ascertain whether the program is continuing to meet relevant needs and the extent to which those needs still exist or are being met by other programs.

### Significancy

Financial materiality is an aspect of significance. This factor is based on an assessment of the total value of government assets, liabilities, annual expenditure and/or annual revenue of the auditable area. In general terms, a matter may be judged material if knowledge of it would be likely to influence the users of the performance audit report. The more material the area, the higher is the priority for selecting it as a key area. It is analogous to financial materiality in financial audit.

However, significance in performance audit is a wider concept than financial materiality. Significance will rate high where the activity is considered to be of particular importance

to the success of the project (agency) and where improvement would have a significant impact on the operations of the project (agency). A low ranking in relation to 'significance' would be expected where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or be likely to have minimal impact.

Public interests can give meaningful input to the auditor to prioritize the audit topic. Public interests may consider the following:

- Mass media;
- Results of studies conduct by industries, professional, or groups who have interests to auditee;
- Results of research by academic;
- Work done in other countries;
- Financial materiality;
- Critical key to successful factors;
- Visibility;
- Etc.

### Auditability

Auditability relates to the audit teams ability to carry out the audit in accordance with professional standards. A variety of situations may arise that may cause auditors to decide

The significance, risk to the management, likely impact of audit and auditability of an activity will influence prioritisation in identifying key areas or lines of enquiry. If an area of the project is ranked highly on all or most of these elements, it would be identified as a key area for detailed audit inquiry.

not to audit a particular area of a selected project even though it is significant. In reaching such a decision,



auditors may consider the following:

- The nature of the activity is inappropriate; for example, it may not be practical to attempt to audit the technical considerations of a research facility;
- It does not have to acquire the required expertise;
- The area is undergoing significant and fundamental change;
- Suitable criteria are not available to assess performance;
- Relevant records may not be available for examination during execution phase of the audit;
- The locations where fieldwork is required are not accessible due to natural disasters or other reasons;
- The quantity and quality of personnel, such as skills or expertise, and experiences in conducting audited areas;
- Available audit time frame;
- Significant changes in audited entities;
- Etc.

If an area is high on significance, then it might be included for selection. Similarly, if an area is of high risk to management, then it might be included for selection too. However, even if an area is high on significance and risk, it may not be selected because it has low impact of audit and/or low on auditability. While significance and risk are the primary factors, impact of audit and auditability are supporting factors. In other words, an area is not selected simply because it is highly rated on the impact and auditability. Rather, we have to first consider significance and risk. Once significance and/or risk are assessed or rated high, then we need to consider audit impact and auditability. It may sometimes happen that an area of high significance and/or risk cannot be selected because audit

impact is likely to be low and/or auditability is low. On the other hand, there is not much point in selecting an area with high likely audit impact and auditability if both significance and risk are low. It is evident that selection of key areas on the basis of these factors involves professional judgment of the auditor. Therefore, different auditors may very well arrive at different decisions while selecting key areas of the same project. To minimize such individual variations, a team approach to selection of key areas is suggested.

### **Impact of Audit**

One of major importance in identifying the key area is the added value expected from the audit. A preliminary estimate of the likely benefits from a particular area should be made at the planning stage itself. If detailed audit inquiry into a particular area of the selected project is not likely to have any significant impact, then our audit recommendations are unlikely to generate appropriate action. While considering this factor, the question that the audit team needs to answer is "Is the audit likely to make a difference? If detailed audit in the concerned area of the project were not likely to make a difference, then there would perhaps be no justification in applying limited audit resources in that area at the expense of other areas of the project also demanding audit investigation.

The following list of possible impacts classifies benefits by reference to:

#### **1. Economy**

- introduction of charges where none previously imposed, or revision of charges;



- reduction in costs through better contracting, bulk buying, procurement system, etc;
  - reduction in costs through economies on usage of personnel or other resources;
  - rationalization of facilities;
  - cost recovery through cost revision;
  - etc.
- 2. Efficiency**
- greater outputs from same inputs;
  - reduction in redundancy and duplication, and improvement in coordination;
  - etc.
- 3. Effectiveness**
- better identification/assessment of needs;
  - clearer objectives and policies;
  - introducing better sub-objectives and targets;
  - better achievement of objectives by changing nature of outputs or improved targeting;
  - etc.
- 4. Improved Quality of Service**
- shorter waiting lists;
  - reduced response times;
  - fairer distribution of benefits;
  - better access to information;
  - wider range of services and greater choice, extended service coverage;
  - helping the public, clients, industry, etc;
  - improved equity in access to programs;
  - etc.
- 5. Improved planning, control and management**
- improved management planning;
  - clearer definitions of priorities and better-defined targets;
- better-targeted incentives;
  - better control and management of human resources, assets, projects and other resources;
  - tighter controls against fraud, more firm fraud control system;
  - improved financial accounting systems;
  - better financial management information;
  - improved computer security system;
  - etc.
- 6. Improved accountability**
- improved forms of account;
  - improved external control and monitoring by department/ministry;
  - better performance compared to similar organizations;
  - better and/or more accurate performance indicators;
  - improvement in the clarity of outputs and procedures;
  - improvement in the management and accountability of state finance;
  - improvement in financial reports;
  - improved benchmarking with other similar audited bodies;
  - more informative and clear disclosure of information;
  - etc.
- The greater the opportunities for audit impact, the higher the priority to be given to that area of the project.

Some SAIs may choose topics based on strategic choices rather than selection criteria (for example, with regard to the type of performance audit, policy spheres, relationship with reforms within the public sector etc). Sometimes these strategic choices may reflect the constitutional and legal conditions and the established traditions. They may also reflect 'political realities' (i.e. certain topics are not expected to be subjected to auditing).





## Prioritizing Audit Topics or Selecting Key Areas

From the above stages, the auditor has already known many aspects to be considered in order to rank the prioritized topics. The aspects to be considered are identifying risks, forest management effort, evaluating management effort, and choosing audit topic and priority.

### Phase I: Identifying risks

At this stage, the SAI is expected to be able to identify risks pertinent to each topic or sub-topic in the audit. In identifying the risks, auditors should take into consideration the special characteristics of forest in question and the key players involved.

**How:** Risks related to forest management are difficult to assess and complex, and sometimes comprehensive data is unavailable. If this happens, SAIs may use external sources to identify risks. These sources include academic papers, studies done by NGOs, interviews with relevant officials and representatives, and information from the media.

### Phase II: Understanding the forest management entity's efforts to mitigate risks

The forest management entity may already be undertaking efforts to resolve the various issues it faces. With this in mind, the SAI should gain an understanding of the steps taken by the management entity and other key players involved.

**How:** The SAI could get an understanding of the management entity's efforts to mitigate risks by reviewing legal regulations, standard operating procedures, policies, and

instruments set out by the government; and by interviewing some key players.

### Phase III: Evaluating and testing the capacity of the management entity to mitigate risks

This phase is connected closely to the previous phase. The SAI's capacity is crucial when it comes to identifying risks and assessing the entity's effort in mitigating those risks. This evaluation and test should result in the SAI having an understanding of what the management entity has done to mitigate the risks, as well as information on important topics and sub-topics, and whether the entity's control systems are inadequate or have the potential to create further risks.

**How:** Relevant staff and senior officials of the forest management entity should be interviewed. During interviews, the entity's various control systems and procedures could be discussed in order to gain a better understanding. Additionally, sample-testing could also be undertaken to check whether the systems and procedures are sufficiently effective and reliable.

### Phase IV: Choose audit topics and priorities

This is the most important and crucial stage. The SAI's capacity is very important when it comes to choosing audit topics and priorities. The SAI needs to consider the auditors' capacity to answer questions about the audit and its findings, the level and nature of public attention surrounding the subject, the amount of money involved, and the nature and extent of the impact that might result from the audit findings.



**How:** SAls could conduct interviews with government officials, analyze previous audit reports, and research on public opinion regarding the topic and sub-topics to be audited.

After knowing the above aspects, the auditor needs to link those aspects and uses the result to choose the prioritized audit topics. In doing this link, the auditor can formulate a table or matrix as shown below.

Table 4.1 Selecting Audit Topic

No	Potential Risks	The Effectiveness of GRM/IC	The Prioritized Risk	Audit Topics that have relation to the Prioritized Risk	Selection Criteria				Priority
					Risk to Good Management	Significancy	Impact	Auditability	
1	2	3	4	5	6	7	8	9	10
1.	Risk A	H/M/L	H/M/L	Topic A.1	H/M/L	H/M/L	H/M/L	H/M/L	
				Topic A.2	H/M/L	H/M/L	H/M/L	H/M/L	
				Topic A.3	H/M/L	H/M/L	H/M/L	H/M/L	
2.	Risk B	H/M/L	H/M/L	Topic B.1	H/M/L	H/M/L	H/M/L	H/M/L	
				Topic B.2	H/M/L	H/M/L	H/M/L	H/M/L	
				Topic B.3	H/M/L	H/M/L	H/M/L	H/M/L	
3.	Etc								

## Audit Objective and Scope

Setting audit objective and scope is another important step in performance audit. To conduct the audit in economic, efficient and effective way, it is very important to set the audit objective and scope very early in the planning stage. Audit objective and audit scope will direct the auditor in deciding the audit evidence, method in analyzing evidence and so on. The changing in the audit objective will cause the changing in the audit scope and afterward activities.

By understanding the audited entity's mandate and function, auditor can select the key areas or prioritized audit topic of the entity that need to be further evaluated. Based on the selected or, also known as, key areas as well as lines of inquiries, the next step that the auditor will do in conducting performance audit is setting the audit objective and audit scope for each of the key

area. We will use term "key area" from now on to refer to selected audit topic.

### Audit Objective

Audit objective is a **precise statement** of what the audit intends to accomplish and/or the question the audit will answer. It is important that the definitions are distinct as this will affect the next steps in audit process.

**Ambiguous or vague audit objective must be avoided.** Even minor changes to the audit question or the problem to be studied may have a major impact on the general scope of the audit.

Audit objectives should be **SMART** i.e. Specific, Measurable, Achievable, Realistic, and Timely.

- **Specific** - Be precise about what is going to achieve.
- **Measurable** - The objectives are quantifiable.



- **Achievable** – Possibility to reach the goal.
- **Realistic** – Be considerate in the resources required (men, money, machines, materials, minutes).
- **Timely** – About when or for how long the objective will be achieved.

In short, formulating audit objective is like **elaborating on the following two questions:**

- **What?** What is the audit question or the problem to be studied?
- **Why?** What are the audit objectives?

The “**what**” question can be thought of as the fundamental research question into a government program that the auditors seek the answer. Consequently, it is important that it is based on rational and objective considerations. In general, a SAI must apply a holistic perspective that best favors the public interest and the general mission for its performance auditing. Audit objectives relate to the reasons for conducting the audit and should be established early in the execution process to assist in identifying the matters to be audited and reported on. In determining objectives, the audit team must take into account the roles and responsibilities of the SAI and the expected net impact of the audit as defined in the strategic audit plan.

The statement of audit objectives should **articulate what the audit is going to accomplish**. This means phrasing the objectives to identify the audit subject and the performance aspect to be included. Because it is rare for one audit to cover all aspects of value for money, it is important to know, in planning, what aspects are going to be included.

The objective of a performance audit might be to **express an opinion on economy,**

**efficiency, and/or effectiveness** of management. At times, the auditor provides positive assurance on one or more aspect of value for money (i.e. has an objective of providing assurance on one or more aspects of value for money). Therefore, the auditor must design the remainder of the audit to permit such an overall opinion to be reached. On the other hand, the auditor may set an objective of only reporting exceptions. In this situation, the auditor might design a different approach to the audit.

Audit objectives are normally **expressed in terms of what questions the audit is expected to answer** about the performance of an activity; for example, results achieved, in-terms of economy or efficiency. Ideally, audit objectives would be consistent with the achievement of results of the entity, sector or functional area.

Audit objectives should **clearly define what the auditor intends to achieve** or conclude on at the end of the audit. The objective should help to determine the criteria and audit approach, the audit procedures used and the conclusion reached. For example if the audit objective is to express an opinion only on efficiency, the criteria, approach, procedures and conclusion will only relate to efficiency.

If the audit objective is to determine if value for money was actually achieved, the reminder of the audit should have a “results” focus. An alternative might focus only on systems or procedures. The decision to focus on results versus systems will again affect the conduct of the audit. An objective of concluding on results versus systems will affect the scope, criteria, approach and conclusions of the audit. In each case, different audit objectives will have a



### *Training Module on Forestry Audit*

significant impact on the way the audit is conducted.

Audit objectives should be conditioned by the need to maximize the net benefits and impacts from the audit. In setting objectives the audit team takes into account the expected net impact of the audit defined in the audit plan. It is good that audit management practice for audit objectives and scope to be discussed with the entity management.

Each and every audit conclusion in reporting style must be made against the corresponding audit objectives. Suppose the audit objective was to ensure whether the procurement of material was done at the lowest cost (economy) with due regard to appropriate quality. In that case the auditor may come to anyone of the following conclusions:

1. Yes, the procurement of material was done at the lowest cost with due regard to appropriate quality, or
2. No, the procurement of material was not done at the lowest cost with due regard to appropriate quality, or
3. Yes, the procurement of material was done at the lowest cost however, appropriateness of quality was not considered at the time of procurement decision, or
4. Yes, the procurement of material was done at the lowest cost with due regard to appropriate quality however, excessive volume of material was procured in compare to actual requirement.

It should be noted that if there is no audit objective, there can be no appropriate audit conclusion.



### *Defining Audit Topic and Objective*

The overall audit objective of a performance audit is to express audit opinion that value for money has been achieved (or not been achieved) from the project as a whole. To arrive at conclusion to the overall audit objectives the auditor has to establish sub audit objectives for each time of inquiry. Each sub audit objective may relate to only one of three Es or a combination of three Es, depending on the nature of activities in each line of inquiry. Therefore it is important to frame the audit objective in clear manner so that the audit will be guided in proper direction and specific conclusion could be arrived for each audit objective.

The impact of audit objectives extends throughout every phase of the audit, from the selection of scope, approach, and staff, to the execution phase of the audit, and the timing and nature of reports. Time invested in determining an audit's objectives are usually time well spent because an audit with clear objectives is unlikely to result in wasted resources, delays and poor quality reports.

The Guidance Material on Auditing the Forest from INTOSAI-WGEA uses the audit objective and researchable question in formulating audit plan. The concept of audit objective in this guidance is the same with explanation above. The guidance elaborates the audit objective by developing one or more researchable question in order to make the user of the guidance and the auditor easy to determine audit objective.

*For example:*

*The Audit Objective:* "To examine the effectiveness of forest rehabilitation program in reducing drought".

*Researchable Question (RQ):* "Does rehabilitation of forest program play a role to reducing drought?"



### *Training Module on Forestry Audit*

### *Defining Audit Topic and Objective*

#### *Sub Researchable Question (SRQ):*

- a. "Does the government administer the rehabilitation site/area based on hydrology cycle?"
- b. "Does the government choose the plant that support the current ecosystem and hydrology cycle?"
- c. –etc–

### **Audit Scope**

The audit scope defines the boundary of the audit. It addresses such things as specific questions to be asked, the type of study to be conducted and the character of the investigation. Further, it comprises the work of collecting information and the analyses to be executed.

The scope of an audit is determined by answering the following questions:

- **What?** What specific questions or hypotheses are to be examined? What kind of study seems to be appropriate?
- **Who?** Who are the key players involved and the audited entity?
- **Where?** Are there limitations in the number of locations to be covered?
- **When?** Are there limitations on the time frame to be covered?

After defining the motives and the objectives for the study as well as the general audit question or the problems to be considered, it is important to define the specific questions to be answered or the hypotheses to be examined (the plausible causes of the problem). In practice, they will form the basis for the selection of data collection methods.

It is very difficult to audit everything in practice considering audit scope with its cost effectiveness. Scoping the audit involves narrowing the audit to a relatively few matters of significance that pertain to the audit objective, can be audited with the resources available, and are critical to the achievements of the intended results of the audit subject. Once the audit objectives are clear then we must also be clear about what will be included in the scope of audit. Audit scope refers to the framework, boundary, limit, subject and nature of the audit. It should have a clear scope that focuses the extent, timing and nature of the audit. Audit should select issues on the basis of their relevance to the SAI's mandate, significance and auditability.

Audit scope is normally defined by stating what an audit intends to cover and the relevant time frames. In setting the scope of the audit, the auditor balances issues of economy, efficiency, and effectiveness in policy/program implementation and legislative compliance. The audit objective provides the basis for deciding the scope of the audit. The scope clarifies to what extent we will carry out the examination of key areas / line of inquiry (e.g. which phase of a project will be examined, the duration of project is to be examined, what sources of information needed, whether information from external sources or only internal sources of data are considered).

The scope statement should describe the parts or functions of the organization/program that are the subject of the audit and to which the audit conclusions apply as well as the time period covered by the audit.





### Training Module on Forestry Audit

Audit scope ensures that the examination is clearly bounded to produce an audit of adequate coverage. It normally addresses a combination of parameters, as follows:

- ✓ Organizational segments;
- ✓ Programs, sub programs and/or sub-program components;
- ✓ Services or products lines; and
- ✓ Specific aspects of entity performance, for example equity, access, and delivery of service.

The audit scope ensures that the examination phase is clearly bounded. It enables decisions on resource requirements and audit procedures to be made and to produce an audit in a reasonable extent and cost. The scope could also be defined by stating what an audit will not cover.

### How to Set the Audit Objective and Scope

Auditor has to develop audit objective that directing to the opinion of economy, efficiency, and/or effectiveness of management. Auditor could develop audit objective on each key area or line of inquiry defined in the previous step.

The following steps could be implemented in setting up the audit objective and scope:

1. List out the key areas or lines of inquiry; and
2. For each key area or line of inquiry, put questions representing the economic, efficiency and effectiveness.

In order to make it easier, we can replace the three Es words with more specific, concrete, and auditable criteria, for example:



### Defining Audit Topic and Objective

We can replace *effective* with “Are they achieving their objective?”

We can replace *economical* with “Do the benefit out weight the cost?”

We can replace *efficient* with “Are services provided in a timely manner?”

The unclear audit objective will not contribute much in drawing the conclusion on what the audited entity has done. Below is provided the example of bad audit objective and better audit objective:

**Bad :** Determine if the entity is safeguarding the assets.

**Better :** Is the Jakarta Hospital guarding the medical equipment from theft?

The bad audit objective gives the auditor very broad objective and does not lead anywhere. For instance, when an audit is performed to a major university that has several teaching hospitals; we could miss the teaching hospitals all together if we use the first objective. The auditor might end up examining on investments of the school’s scholarship fund or something else.

### Summary

The selection of audit topics should be executed at the strategic planning stage. It may serve as an instrument for strategic decisions concerning the direction of audit. Planning might be carried out in these steps: determining potential audit areas, establishing the selection criteria, and identifying the main sources of information for the potential audits. The appropriate audit work plan makes it easier, for instance, to ensure the performance audit coverage is comprehensive and realistic.



Audit objectives relate to the reasons for conducting the audit and should be established early in the execution process to assist in identifying the matters to be audited and reported. In determining objectives, the audit team must take into account the roles and responsibilities of the SAI and the expected net impact of the audit as defined in the strategic audit plan. The audit objectives and scope are interrelated and should be considered together. Thorough advance planning will prevent problems in the way the audit should be handled arising at a later stage. At the same time, planning that is too detailed may sometimes inhibit innovative thinking and openness. Audits are carried out in a complex world. Therefore, it is rarely and possible to devise a comprehensive audit design that predicts the progress of a performance audit in every detail.

As objectives and scope vary from one audit to another, the audit team needs to assess whether an audit could be carried out. The issue must be both auditable and worth auditing to be included in the audit scope. The auditor have to consider, whether there are relevant approaches, methodologies, and criteria available and whether the information or evidence required is likely to be available and could be obtained efficiently. Furthermore, reliable and objective information should exist and there should be reasonable chances of obtaining this information. Other aspects to be considered are the compliance to the audit mandate, resources, professional skills required, and conditions in terms of timing. Personnel with relevant skills must be available, and an audit should not be overruled by other studies already being made by other bodies.

## References

1. ASOSAI, 2000, 5<sup>th</sup> ASOSAI Business Project.
2. INTOSAI, ISSAI 5120E - *Environmental Audit and Regularity*.
3. INTOSAI, ISSAI 3000E - *Standards and Guidelines for Performance Auditing based on INTOSAI's Auditing Standards and Practical Experience*.
4. INTOSAI, ISSAI 3100E - *Performance Audit Guidelines – Key Principles*
5. INTOSAI, Appendix to ISSAI 3100.
6. INTOSAI, 2010, *The Guidance Material on Auditing the Forest*, Working Group on Environmental Auditing, June 2010.