1. INTRODUCTION TO ENVIRONMENTAL AUDIT
1.1. Introduction to auditing, performance audit.
Session Learning Objectives

- Environmental audit *versus* financial, compliance and performance audit.
- Overview of the system of auditing standards and existing environmental auditing ISSAIs.
Auditing terminology

Individual exercise

10 minutes
Key to the exercise 1.1

Materiality - concept relating to the importance/significance of an amount, transaction, or discrepancy.
Criterion - a specific statement of what should be happening
Sample – a subset of individuals from within a statistical population to estimate characteristics of the whole population
Audit design matrix - a tool for determining what to audit and how
Economy - keeping costs low
Efficiency - getting the most from available resources
Effectiveness - meeting the objectives set
Performance auditing - analysing and assessing the performance of government programs or public services
Accountability - The obligation to demonstrate and take responsibility for performance in light of agreed-upon expectations. It answers the question: Who is responsible to whom and for what?
Audit scope - framework or limits and subjects of the audit
Tiger - an object with stripes and claws
Group discussion

• Define:
  – financial, compliance and performance audit

• What is environmental audit? Where does it belong?

15 minutes
# Financial, compliance, performance auditing

<table>
<thead>
<tr>
<th></th>
<th>Performance auditing</th>
<th>Compliance and financial auditing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>Does performance meet the 3Es?</td>
<td>Is there compliance?</td>
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<tr>
<td><strong>Focus</strong></td>
<td>The organization and its objectives</td>
<td>Accounting transactions</td>
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<tr>
<td><strong>Academic base</strong></td>
<td>Economics, political science, sociology, etc.</td>
<td>Accounting</td>
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<tr>
<td><strong>Methods</strong></td>
<td>Methods vary from audit to audit</td>
<td>Standardized methods</td>
</tr>
<tr>
<td><strong>Assessment criteria</strong></td>
<td>Unique for each audit</td>
<td>Standardized criteria</td>
</tr>
<tr>
<td><strong>Reports</strong></td>
<td>Varying format</td>
<td>Standardized format</td>
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</table>
1.1. Introduction to auditing

**Inputs**
- Economy

**Outputs**
- Efficiency

**Outcome**
- Effectiveness
# Audit Design Matrix

<table>
<thead>
<tr>
<th>Objectives / Researchable Question(s)/Lines of inquiry</th>
<th>Criteria</th>
<th>Key Information Required</th>
<th>Source(s) of Information</th>
<th>Methodology</th>
</tr>
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<tbody>
<tr>
<td>Objective 1</td>
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<td>Objective 2</td>
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1.1. Introduction to auditing

Environmental Auditing Training Course 11
Performance auditing approaches, **ISSAI 3100**

- The **system**-orientated approach - focuses on whether management and control systems are sound.

- The **results**-orientated approach - examines whether objectives have been met.

- The **problem**-oriented approach has its starting point in a problem or a “known” deviation from what should or could be. It aims at verifying the assumed problem and examining the causes to it.
Basic questions in performance auditing

• Have the right things been done?
• If so, have things been done in the right way? and
• If not, what are the causes?
Performance auditing guidance

- INTOSAI generally accepted principles of performance auditing
- US GAO - Generally Accepted Government Auditing Standards (GAGAS)
- European Court of Auditors (ECA) performance audit manual
## ISSAI framework

<table>
<thead>
<tr>
<th>Level</th>
<th>Subject</th>
<th>ISSAI No</th>
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</thead>
<tbody>
<tr>
<td>1. Founding Principles</td>
<td>Lima Declaration</td>
<td>1</td>
</tr>
<tr>
<td>2. Prerequisites for functioning of SAIs</td>
<td>Independence, Transparency and Accountability, Ethics, Quality</td>
<td>10-40</td>
</tr>
<tr>
<td>3. Fundamental Auditing Principles</td>
<td>General-, Field-, and Reporting Standards</td>
<td>100-400</td>
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</tbody>
</table>
# ISSAIs for environmental audit

<table>
<thead>
<tr>
<th>ISSAI 5110</th>
<th>Guidance on conducting audits of activities with an environmental perspective</th>
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<tbody>
<tr>
<td>ISSAI 5120</td>
<td>Environmental audit and regularity auditing</td>
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<td>ISSAI 5130</td>
<td>Sustainable development: the role of supreme audit institutions</td>
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<tr>
<td>ISSAI 5140</td>
<td>How SAIs may co-operate on the audit of international environmental accords</td>
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</table>
Overview of performance audit process

Discussion in groups

• Discuss and present performance audit process in your SAIs.
• Describe similarities and differences.
• Present common elements of performance audit process schematically.

40 min
Auditing cycle

1.1. Introduction to auditing

Planning
- Objective
- Audit questions
- Criteria
- Methods

Follow-up

Field work

Analysing the findings, writing report

Releasing the report

Clearing the findings/report

Follow-up
Searching for audit problems

Discussion in groups – 10 minutes

How are the audits initiated in your SAI?

Where do you find problems that need auditing?
Finding audit issues, results of group discussion

- Ask auditees
- Area scanning → database of papers on issues
- Follow major expenditures
- Media review
- From other (also financial) audits
- Whistle blowing
- Questionnaires to public
- Study of document of other institutions, e.g. sector reviews
- Participate in workshops
- Internet search engines
- Meet NGOs
Weighing audit issues, results of group discussion

1.1. Introduction to auditing

Environmental Auditing Training Course
Designing the audit

Key elements to establish when designing:

• **What is the objective of the audit?**
  – What do we wish to find out?

• **What questions** must be answered to obtain the audit objective?

• Are there relevant national standards/criteria supporting the audit objective?
  – What yardsticks will be used?

• **What information do we need?**

• **What methods** can we use?
  – Where are the data and how will they be collected and analyzed?

• **What do we expect to find?**
  – What conclusions can we draw?
## Audit design matrix

<table>
<thead>
<tr>
<th>Audit objective</th>
<th>Audit questions</th>
<th>Criteria</th>
<th>Evidence/information sources</th>
<th>Methodology</th>
<th>Risk areas/expected findings</th>
</tr>
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<tbody>
<tr>
<td>What do we wish to find out?</td>
<td>What questions must be answered to obtain the audit objective?</td>
<td>Are there relevant national standards/criteria supporting the audit objective?</td>
<td>What information do we need?</td>
<td>How will the data be collected and analyzed?</td>
<td>What do we expect to find? What conclusions can we draw?</td>
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<td>What yardsticks will be used?</td>
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1.1. Introduction to auditing
Auditors’ qualification

• Practice is varied
• Often there is a mix of various backgrounds (natural science, law, social science, finance) in environmental audit teams
• Experts are invited to contribute
• Each audit demands different knowledge – so academic preparation is never sufficient.