

# ARABOSAI NEWSLETTER



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## "THE VISIONS AND DIRECTIONS FOR THE NEW ARBOSAI STRATEGIC PLAN IN THE EXCEPTIONAL AND EMERGENCY CIRCUMSTANCES"



**By Mr. Rafil Y. Khudhair President of Federal Board of Supreme Audit in the Republic of Iraq and First Vice-Chairman of ARBOSAI Governing Board**

The spread of Covid-19 pandemic brought the world into an unexpected confrontation with serious repercussions that has not affected only on the achievement of the third SDGs regarding " Good Health and Well- Being" but also becomes an the alarm for other SDGs and requirements related to confronting the pandemic and how institutions should deal with its repercussions in terms of implementing their plans set to achieve their objectives in the exceptional and emergency circumstances.

Hence, the Arab Organization of Supreme Audit Institutions (ARBOSAI) in general and member SAIs in particular have faced many challenges in terms of implementing their operational plans and the

nature of audit activities including (financial, compliance, and performance audit). Therefore, it is necessary to review the nature of their plans and programmes in line with the exceptional circumstances of Covid-19 and take new procedures that will contribute to ensuring the quality and maximizing its impacts according to a systematic vision and an intellectual approach characterized by modernity and leadership.

This approach should also enhance the ability to increase the efficiency and professionalization of ARABOSAI, developing its performance by using new means as well as activating the communication with auditees.



This considers the core of strategic management as it is the management a long-term future which is full of ambiguity, risks and changes which makes it necessary to break the logic of traditional thinking and transfer into strategic thinking and vision.

This matter, which our organization took into consideration and was just noticed from the beginning due to the increasing repercussions of the pandemic, which clearly affected the implementation of the approved action plans of 2020, and called for an extraordinary virtual meeting during April 2020 in which the draft project of ARABOSAI exceptional plan discussed its support to member SAIs in confronting the repercussions of the emerging Covid-19. This project was exceptional and focused on the preparation of ideas and projects and their implementation, as it was the outcome of constructive cooperation between ARABOSAI committees and bodies and clearly showed that we did not stand idly by and that our movements and steps were systematic and planned. Now, that we are on the threshold of preparing to develop the general framework for the new ARABOSAI

strategic plan of 2023-2027, we must be inspired by the lessons from what is happening now to meet the existing challenges by using the strategic management approach to be able to draw the goals and objectives of the organization and define long-term directions to achieve these goals within an appropriate timeline and in an unstable environment and acceleration of events. It is also necessary to follow-up and assess implementation and the extent of progress of the achievement to face the main challenges represented in the followings:

- The clarity of future vision and strategic priorities to be applicable.
- Understanding the rapid changes in the work environment, exploiting the available opportunities and reducing the impact of emerging risks in a way that ensure the enhancement of the points of strengths and weaknesses elimination.
- Appropriate allocation of capabilities and resources and effectively directing the efforts of ARABOSAI in the long term to ensure the proper use of available resources.

**SECTION**

**1**



**INSIDE ARABOSAI**



## The 61<sup>st</sup> Meeting of the Governing Board of ARABOSAI



**T**he 61<sup>st</sup> remote meeting of the Governing Board of ARABOSAI was held virtually from 30<sup>th</sup> November to 01<sup>st</sup> December 2020.

During the meeting Governing Board members discussed many important topics on its agenda, including the report of the Chairman of the Governing Board on the activities of the Board and the activities of the Organization since the 59<sup>th</sup> meeting of the Governing Board, in addition to the reports of the General Secretariat and sub-committees of the Organization, and the presentation of the SAIs' reports on their participation in the activities of committees and working groups emanating from the International Organization of Supreme Audit Institutions (INTOSAI), the approval of the Organization's accounting system, the closing account for the year 2019, and the 2020 budget.



# The Twelfth Meeting of the ARABOSAI's strategic Planning Committee



The Strategic Planning Committee held its Twelfth meeting virtually on 1<sup>st</sup> November, 2020. The meeting focused on discussing the operational plans of ARABOSAI structures for 2019 and the sub priority projects that have been implemented and the analysis of the obstacles encountered their implementation. The Committee also discussed the operational plans for 2020 – 2022 prepared by the ARABOSAI bodies, in addition to discussing progress indicators of the programs implementation related to the strategic goals set by the heads of committees. The committee reached to develop practical recommendations that help support efforts to implement these projects in the remainder of 2020 or carry them over to 2021, the most important of which are:

Coordination between the organization's bodies in implementing the programs and projects of the sub priorities on one side and with the General Secretariat, considering that it has a role in communicating with regional and professional organizations.

The necessity for the organization's bodies to consider the projects that were included in the sub-strategic priorities that were implemented in coordination with the IDI, when preparing the results of implementations its operational plan for the year in which the program was implemented and when the developed indicators to measure the progress in implementing these priorities have been used.



Request the organization's bodies to update the strategic planning committee by semi-annual reports about reflect the results of the implementation of the operational plan along with the important obstacles that prevented the implementation of projects with the sub strategic priorities assigned to them, so that the committee, and to include can prepare a report on the results of implementing the operational plans to the Strategic Plan Follow-up Committee.and to include the results of the implementation of the exceptional plan in the strategic plan, to highlight the efforts made by the structures during 2020.

Among the prominent matters that were discussed in the meeting was the discussion of the proposed procedural paper to start preparing the projects of the organization's strategic plan for 2023-2028 in accordance with international best practices in the field of strategic planning. A team was formed headed by the Federal Board of Supreme Audit in the Republic of Iraq and membership of SAIs of Palestine, Kuwait, Qatar and Algeria in addition to the General Secretariat of ARABOSAI to present a proposal for a methodology for developing the strategic plan for the next period to be presented to members of the committee at the next meeting.



# The Third Meeting of the ARABOSAI's Auditing Sustainable Development Goals Committee

The Auditing Sustainable Development Goals (SDGs) Committee of the ARABOSAI held its third meeting virtually on October 28<sup>th</sup>, 2020. The main purpose of this meeting was to review and follow up the topics and recommendations



emanating from the first meeting held virtually in February of 2020 and the second exceptional remote meeting held during May of 2020, and to report the progress in achieving the committee's strategic and operational plans to the Governing Board during its 62<sup>nd</sup>

meeting. The meeting was attended by representatives of committee members, namely SAIs of Kuwait (chairing the committee), Egypt (vice chairman), Jordan, Tunisia, Iraq, the Sultanate of Oman, Qatar and Lebanon, in addition to the General Secretariat of

ARABOSAI.

The meeting also witnessed the participation of the representative of the INTOSAI Development Initiative (IDI), Mr. Abdelhakim Belazreg, who gave a presentation on the IDI program related to the SDG3.





Among the main projects and activities reviewed by the committee, there was collaborative audit on SDG 3 (Good Health and Well-being) in partnership with the IDI, and the project on auditing SDG4 (Quality education) which includes a training workshop and a collaborative audit. Other activities includes the review of Voluntary National Reports (VNRs) by SAIs, and the translation of manuals and guidance related to auditing the implementation of SDGs

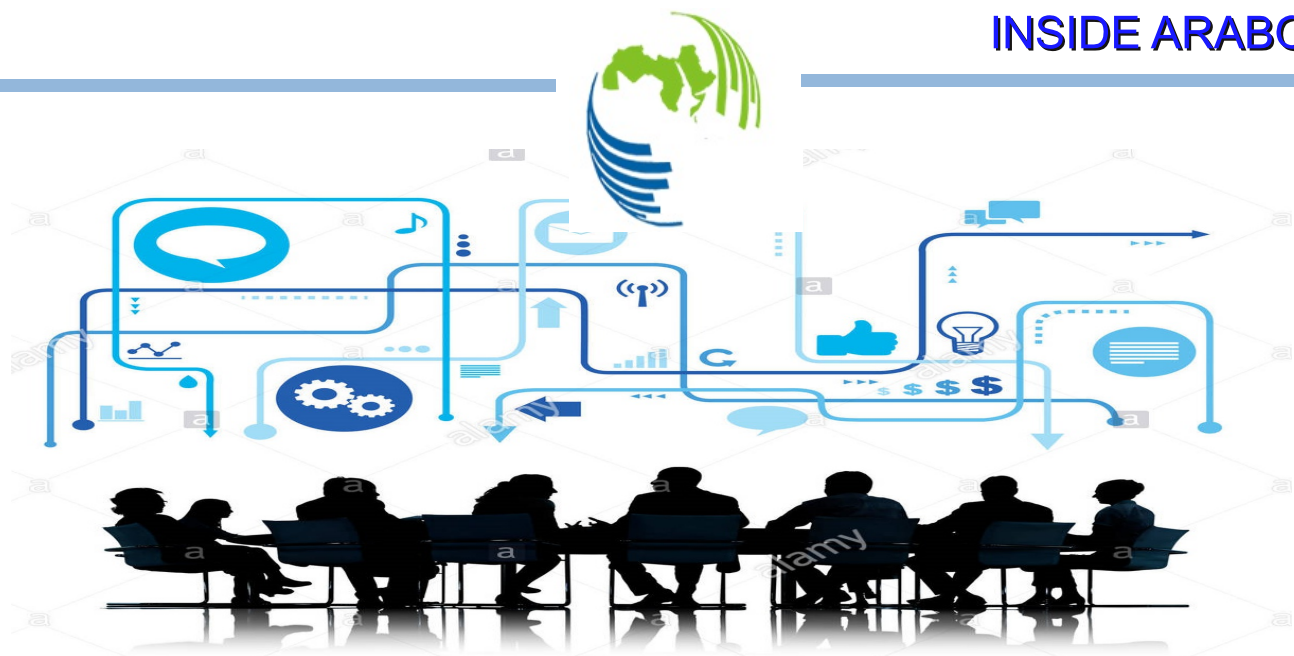
The major part of the meeting was devoted to examining the progress made in achieving projects and activities listed in both the exceptional plan and operational plan of 2020, and to update this latter along with the committee's strategic plan for the remaining years (2020-2022).

It worth noting that, due to the COVID-19 pandemic, many activities were postponed and others were

added to help quick responding to the new challenges, The next Committee meeting is going to take place during the first quarter of 2021 and its recommendations will be discussed during the 63<sup>nd</sup> Governing Board meeting.



AUDITING  
SUSTAINABLE  
DEVELOPMENT GOALS



## The 16<sup>th</sup> Meeting of the ARABOSAI Professional standards committee

The ARABOSAI Professional standards committee (PSC) held its 16th annual meeting on November 2, 2020, during this meeting, ARABOSAI PSC issued several outputs such as , six research papers dealing with” Impact of risk assessment on materiality”, Impact of audit report, Quality assurance review, impact of internal audit on the work of the external auditor, the compliance audit function and its impact on risk assessment, Analytical Procedures and their Impact on Identifying Risks.

Besides, to enhance SAI professionalism within the region, Professional standards committee issued a new financial audit guide which will be applied by ARABOSAI members, in this regards PSC plans to train SAI staff on this guide soon.

These reports are available on the ARABOSAI’s website at the following links:

[http://www.arabosai.org/Ar/%D9%86%D8%B4%D8%B1%D9%8A%D8%A7%D8%AA\\_11\\_403](http://www.arabosai.org/Ar/%D9%86%D8%B4%D8%B1%D9%8A%D8%A7%D8%AA_11_403)

In addition, PSC of ARABOSAI discussed its exceptional plan related to COVID 19 and approved the publication of many interesting documents which deal with the subject.

Finally, in order to enhance its work, ARABOSAI PS committee discussed its new regulation which will definitely improve the efficiency of its work.



## ARABOSAI's first e-learning experience

As part of its strategic plan, the implementation of an E-learning was one of ARABOSAI's priorities. During the last year IDI trained LMS administrator and E-Learning specialist from different Arabic SAIs.

The context of the Corona virus has further encouraged distance learning. Aware of this challenge, ARABOSAI has accelerated the process with IDI to set up an online training platform. With this, the learning platform was set up on the link:

[arabosai.idielearning.com](http://arabosai.idielearning.com)

ARABOSAI wishes to thank IDI initiative as a strategic partner and their experts especially M.ArchanaShirsat Mr. Minor Snachez and Mr.AbdelhakimBen Lazreg for all their effort.

The platform allows to store and display gradually the components of the training (the inputs in pdf or powerpoint format...) It also allows the use of the forums to allow participants to ask and answers questions asked by the trainer. Webinars are made thanks to the use of Blackboard which allows to record in video format the webinar.



The launch of the LMS take place in December 14 with the presence of : His Excellency **Sheikh Bandar Bin Mohammed Bin Saoud Al Thani**,



President of the State Audit Bureau of Qatar (SAB), President of the (ARABOSAI).

His Excellency **Nejib Ktari** , President of the Tunisian Court of Accounts, General



Secretary of the (ARABOSAI). His Excellency **Abdelkader Ben Maarouf**, President of the Algerian Court of Accounts.

Two training sessions have been conducted to date. The first was about public policy assessment and was hosted by Algerian ISC between December 14 and 17, 2020 and involved 30 participants from 15 Arabic SAIs.

The second course was related to the audit of sustainable development goals, which took place between 21 and 24 December 2020, was hosted by ISC of Morocco and involved 31 participants from 17 Arabic SAIs.

As ARABOSAI GS we are aiming to



implement the E-learning as a permanent method of training and for this we are seeking the support of all ARABOSAI members. We need here to reiterate our thanks to all SAIs expert who was working hard to make this project successful.

# SECTION

# 2



# Workshop and Training



## “Public policies Evaluation according to the INTOSAI - GUID 9020”



The Algerian Court of Accounts, in cooperation with ARABOSAI, organized a distance learning meeting on “**Public policies evaluation according to the International Standard of the INTOSAI GUID 9020**”, from 14 to 17 December 2020, via the e-learning platform Blackboard Collaborate.

The objectives of the meeting are as follows:

- Strengthen the institutional capacities of SAIs in the field of evaluation to increase the effectiveness of professional performance;
- Improve the professional capacity of the participants to keep pace with the INTOSAI Guidelines in the field of public policies evaluation;
- Explain the dimensions and importance of public policies evaluation for improving public performance and strengthening accountability and transparency in public administration;

- Introduce participants to evaluation methods and tools, as well as to the structuring and implementation stages of the evaluation process in accordance with the INTOSAI International Standard “GUID 9020:Evaluating public policies”;
- Promote cooperation and exchange of experience and good practice in the field of evaluation between participating SAIs;
- Achieve sustainable development requirements in the training of member SAIs;

The meeting covered the following topics:

- General concepts about public policies and how they are formulated;
- Evaluation of public policies by SAIs;
- Operation of the control work (planning and implementation of the evaluation process, quantitative and qualitative analysis techniques);
- The experience of the Court of Accounts in the evaluation of public policies;
- Presentations by participating SAIs about public policy evaluation.



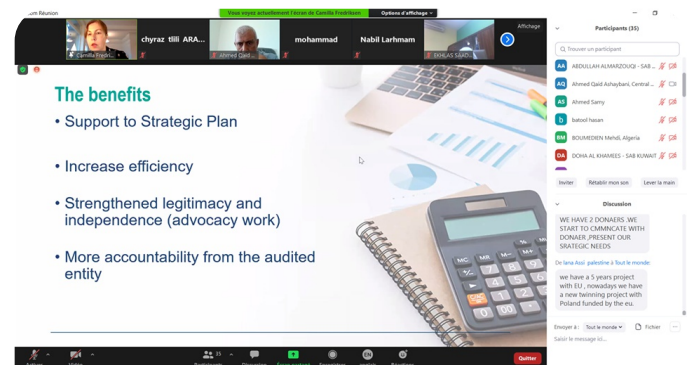
## SAI-Donor engagement workshop

The Arab Organization of Supreme Audit Institutions in cooperation with the INTOSAI Development Initiative organized the workshop on “SAI-Donor engagement workshop” during the period from 7 to 10 December 2020.

As with other recent events, this workshop was held in a virtual format due to Covid-19. A total of 34 participants took part in the event.

The workshop was aimed at empowering SAIs to engage in fruitful and mutually beneficial partnerships with donors while leading their institutional strengthening strategy. Topics covered include Deciding on Support; Engaging Donors; Understanding donor operations; Concept Note development Planning; executing and monitoring a donor

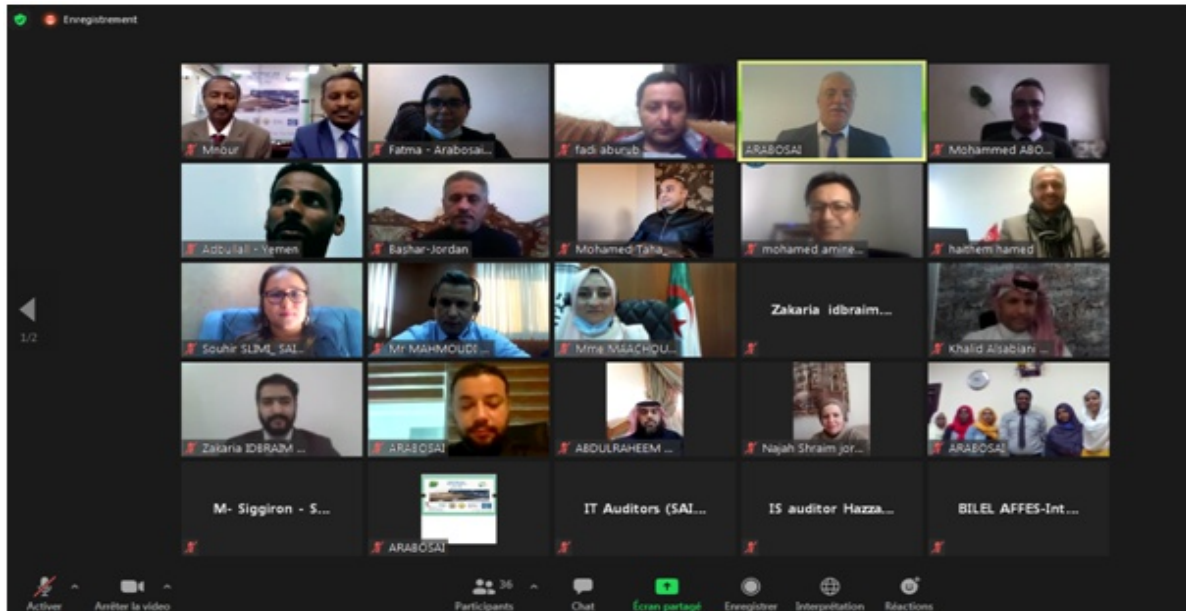
funded Initiative; coordination of support, and last but not least, SAI Independence.



The key areas shared included, the challenges faced the success factors that have contributed to the achievement of results and what could have been done better during the training interventions and implementation of the strategies.



# Conference On “Big Data and its Impact on Reports”



The National Audit Chamber of the Republic of Sudan hosted in partnership with ARABOSAI, a scientific meeting on “Big Data and its Impact on Reports”.

The conference held from 18 to 20 January 2021 with the participation of experts from Sudan, AFROSAI-E, Indonesia, India and more than 30 participants from 11 Arab SAIs.

These recommendations were agreed upon by the participants at the conference:

-The need to create learning hub dedicated to the regional IT Audit team.(Immediate assignment).

-The need for SAIs to carry on researches on the big data social science.

-The need to leverage SAIs IT team

competences and skills focusing on data science, statistics, coding languages, IT skills, finance skills.

-Regional collaborative audits to be carried out by regional SAIs under the supervision & sponsorship of IDI and the Working Group on Information Technology Audit ( WGITA).

-SAIs should initiate to the government, maintain their objectivity and impartiality, the need to maintain and deal with big data, in terms of technologies ...etc. so as SAIs can be able to audit.

-SAIs must adjust their mandates to be able to reach and audit clients IT environment include big data.

- Based on the SAI structure auditing big data should be assigned IT auditors managed by IT Audit department.



# SECTION

# 3



**COOPERATION**

**AND**

**PARTNERSHIP**



## TAI AUDITS INITIATIVE IN ARABOSAI

INTOSAI Development Initiative (IDI) has recently launched a new initiative dealing with a global cooperative audits on the transparency, accountability and inclusiveness of the use of emergency funding for COVID19 TAI Audits TAI audits are:

- Post Audits
- Guided by compliance audit ISSAIs.
- Follow an agile approach in taking up audits, completing audits in a short time frame and in reporting on the audits in a timely manner. (within the framework of national mandates and capacities).
- Manageable scope.
- Examination of compliance frameworks and/or compliance of transactions in high risk areas as determined by the SAI
- Conclusions on transparency, accountability and inclusiveness of compliance frameworks and transactions
- Contribute to systemic change in the current crisis and more robust compliance frameworks for future

crisis.

During his last meeting, ARABOSAI Governing Board welcomed this initiative and encouraged ARAB SAIs to join it.

Currently, IDI, in cooperation with the ARABOSAI is implementing the TAI Audits initiative in ARAB region. In this regard, the two organizations hosted a joint webinar on January 19, 2021 on SAILEadership & Stakeholder Conversation, this webinar was an opportunity not only to develop a common understanding of the TAI Audits initiative and explain how will IDI support SAIs. The webinar, was also an opportunity to hear about ARAB SAIs experiences and lessons learned on the audits of emergency funding for COVID 19.





# Strategy, Performance Measurement And Reporting



STRATEGY  
PERFORMANCE  
MEASUREMENT  
& REPORTING



Strategy, Performance Measurement And Reporting (SPMR) is an IDI initiative that supports Supreme Audit Institutions (SAIs) throughout their strategic management cycle.

As part of this initiative, ARABOSAI implemented the first phase "Objective and comprehensive evaluation of the current performance of the SAI using the Performance Measurement Tool for Supreme Audit Institutions" since August 2020.

In October, ARABOSAI launched the implementation of the second phase of "developing a strategic plan and dividing it into subsequent operational plans", by the organization of a training session on "engaging with stakeholders" in which a stakeholders mapping and analysis of their expectations of SAI was conducted.

In November, ARABOSAI held a training session on "strategic planning and strategic management." with the participation of 8 Arab SAIs.

SECTION

4

NEWS



News from ARABOSAI  
Members



## NEWS from QATAR



### The Professional Certification Program

In its pursuit to enhance the efficiency and professionalism of its employees in the audit field and to emphasize the importance of continuous professional development in improving the quality of the reports it issues and improving operational performance indicators, the State Audit Bureau (SAB) has launched – starting from November 2020 - the implementation of Professional Certification Program.

The Program aims to qualify auditors of through lectures and pilot tests to prepare them to pass the final exams for professional certificates. The launching of the Program was preceded by issuing a guide for professional certificates related

to SAB work, which includes an introduction to each certificate and the requirements for obtaining it.

In view of the precautionary measures adopted to confront the outbreak of the Coronavirus pandemic, the Program has been limited in its first stage to two certificates. These are the Certified Internal Auditor (CIA) and the Certified Public Accountant (CPA) certificate.





## NEWS from BAHRAIN



### **COVID-19 and Role of SAI: SAI Initiatives towards health measures of staff and Government response: Emergency and Post Emergency Phases**

Following the outbreak of the COVID 19 pandemic, the National Audit Office of the Kingdom of Bahrain (NAO) implemented measures to ensure the health and safety of its employees. It introduced a working from home policy which rotated the presence of employees at the NAO's headquarter throughout the working week. This measure guaranteed that social distancing could be adhered to as only a limited number of personnel were present in the office at any one time.

The NAO provided its employees with the required tools so that they were able to perform their work remotely and efficiently which ensured that work was not disrupted. In addition, the guidance provided by the Bahrain Ministry of Health as to using masks, washing hands and general measurements for keeping

safe were applied.

The NAO also participated in a workshop on disinfection and sterilization procedures. Daily cleaning was introduced and weekly disinfection operations at the NAO's headquarters were conducted by a professional cleaning company.

What's more, throughout the COVID 19 pandemic the NAO has followed through with its commitment to develop the professional and technical capacity of its employees and at the same time ensuring the health and safety of its employees by providing virtual internal training courses for its staff on topics such as "INTOSAI Professional Standards", "Positive Approach in Drafting Audit Reports",



“Understanding the Bahrain Legal System ”and “General Accounting and the Government’s Financial Framework” amongst others.

On top of that, webinars offered through other audit organizations formed also part of the ongoing virtual training of the NAO’s employees. Since April 2020 the NAO has taken part in several webinars organized by INTOSAI, ARABOSAI, the World Bank and other organizations. Most of them dealt with COVID-19 and its implications for Audit.

However, the NAO took also part in INTOSAI’s webinar on “SAI-civil society cooperation/citizen engagement in the interest of enhanced SAI impact and improved accountability” and the webinar of Saudi Arabia’s General Court of Audit: “Measuring impact and added value of audits.” Recently, the NAO took part in SAI India’s International Centre for Environment Audit and Sustainable Development international webinar on “Climate Change and its implications for Sustainable Development” which included sessions by international speakers on climate change and

sustainable development goals and auditing implementation of climate change mitigation and adaptation.

As a response to the outbreak of the COVID 19 pandemic the government of the Kingdom of Bahrain took early measures and established rules and regulations in order to protect its citizens and residents. Currently, stationary and mobile COVID 19 testing units help monitor the spread of the virus and facilities are set up to deal with COVID 19 patients. Face masks are distributed, and their wearing is monitored.

Government measures have helped to support Bahrain’s economy. The Kingdom of Bahrain is now offering free vaccinations to its citizens and residents to protect them against the virus and to further reduce the spread of COVID 19 in order to ensure a return to normal life as soon as possible.



## NEWS From IRAQ



### Guidelines for Health Sector Staff

In order to enable auditors to conduct audits in health sector during the Pandemic, a document titled (Guidelines for auditors during the Pandemic) was issued.

The guidelines ,at the regulatory level ,include: keeping auditors healthy and safe while conducting audits in the Ministry of health and its formations, developing a work plan to conduct audits according to work scope, specifying the number of auditors and the time needed for auditing, distributing tasks to auditors in light of part time work and organizing an official memorandum for work with prioritizing audits according to the materiality, verifying the efficiency of health sector internal control system especially the internal

controls during this period, in addition to reviewing internal control reports, if any and verifying the due documentation of (funding, expenses, deposits and inventory income and outcome documents...etc) during this period.

**Precautious measures adopted by (central and governorate)crisis cells** :such as verifying breaches of and non-compliance with the decisions of the higher committee that was set up for the pandemic control, verifying the precautious andprotective measures adopted and their management and the adopted accountability systems for cases of poor performance or breaching emergency measures, making sure





that the ministry and parties concerned are monitoring prices of medications and medical supplies available in the private sector to protect citizens from the greed of some opportunists and developing plans to face the pandemic and specifying health locations set for the infected and verifying the ambulances efficiency and adequacy to cope with current situation.

Other measures include requesting the number of laboratories available for COVID 19 tests according to their absorbing capacities alongside a statistic on (negative and positive) tests made to verify whether they are coping with actual need, verifying the availability of a work plan that organizes the medical staff work in addition to tables specifying their work hours in a way that cope with quarantine absorbing capacities, treatment wards and the actual need as we as the extent to which the plan is being committed to.

The financial management of the

state of emergency in light of the pandemic through verifying the availability of the necessary provisions to purchase the medical supplies, equipment and medications to face the pandemic and disclosing whether they have been received or not, verifying that the ministry and the related parties are duly controlling the amounts received including the accuracy of the accounting processes, their classifications and analyses, in addition to verifying the official control on the medical supplies and equipment received by internal or external parties by statistical book keeping, controlling the supplies and equipment received through contracts and applying the official matching, managing cash and in-kind donations, verifying the accuracy of the amounts and (internal or external) supplies received as donations and strengthening the control over them.



## NEWS from EGYPT

### Adoption of Audit Tools by the Auditors General of COMESA's Member States

The ASA-Egypt chaired the virtual meeting organized by the COMESA General Secretariat at the experts' level from AFROSAI member SAIs during the period 15-18 September 2020 to review the instruments that facilitate the work of the COMESA Board of External Auditors (COBEA), and reformulated them to conform with the COBEA Charter. These instruments are the Financial Audit Manual, Quality Assurance Manual, the COBEA Rules of Procedures, and the Standard Operating Procedures Manual.

The meeting was concluded with the recommendation to present the four audit instruments to the Auditors General for consideration of approval.

On September 23rd, 2020, the Auditors General meeting was held remotely. At the beginning of the

meeting, the ASA-Egypt was elected the meeting's Chair, and accordingly, H.E. Counsellor/ Hesham Badawy -ASA President- presided over the meeting. It was concluded with recommendation to adopt the four audit tools and submit them to the COMESA policy organs for approval, bearing in mind that the COMESA Council of Ministers approved the COBEA Charter and all the aforementioned audit tools in November 2020.





## NEWS from SUDAN

# PERFORMANCE AUDIT-ANALYSIS GUIDELINES

Auditing performance represents a vital mechanism for improving the work in the public sector and ensuring adequate level of sound control is in place via preventive, detective, corrective and directive controls, since these organizations face complicated challenges in delivering their programs and services. It helps them to maximize their social impact and achieve their ultimate objectives.

This manual was developed by the Supreme Audit Institute of the republic of Sudan to help the performance auditors support their conclusion, observations, evidences, and recommendations.

The purpose of this manual is to review performance ,Measurement and management definitions and to audit the value for money (VFM) with more elaboration and focus on the analysis. It

mainly highlighted the different frameworks, trends analysis, ratios, sorting the indicators, some valuation techniques, and non-financial indicators for public sector, VFM analysis through different industries in the public sector and comparative figures which support the evidences collected by auditors.





## Performance Audit Conceptual Framework: Economy, Efficiency and Effectiveness

The concepts of economy, efficiency and effectiveness (collectively the “3 E’s”) are keys to measuring VFM throughout the Results Chain. In general, VFM can be assessed across the 3 E’s in the following manner:

**-Economy** relates to how cost-effectively financial, human or material resources are acquired and used in an intervention. VFM is typically assessed in terms of the unit costs of inputs involved (e.g. how much a TA costs).

At the economy level, VFM focuses on cost control, and it is important to scrutinize the unit costs of key VFM drivers, such as personnel costs, procurement costs, travel costs, and other costs, and then compare these costs to the quality received and examination of key cost/value ratios.

**-Efficiency** relates to how resourcefully inputs are converted into outputs and subsequent outcomes. Cost efficiency measures can throw light on options for a donor intervention (e.g. will outcomes be achieved more efficiently by a donor managing an activity directly or setting-up a PMU). VFM is typically

assessed on how quickly, accurately, and sustainably outputs can lead to desired outcomes. Quality and approach are keys to maximizing VFM.

**- Effectiveness** relates to how successfully an intervention achieves its intended outcomes and subsequent impacts are realized (e.g. in attracting additional private financing to fund infrastructure investment, increasing the capacity of infrastructure operations, expanding access of target populations). VFM is typically assessed by whether or not the milestones and targets of observable verifiable indicators (OVIS) are achieved. Results matter.

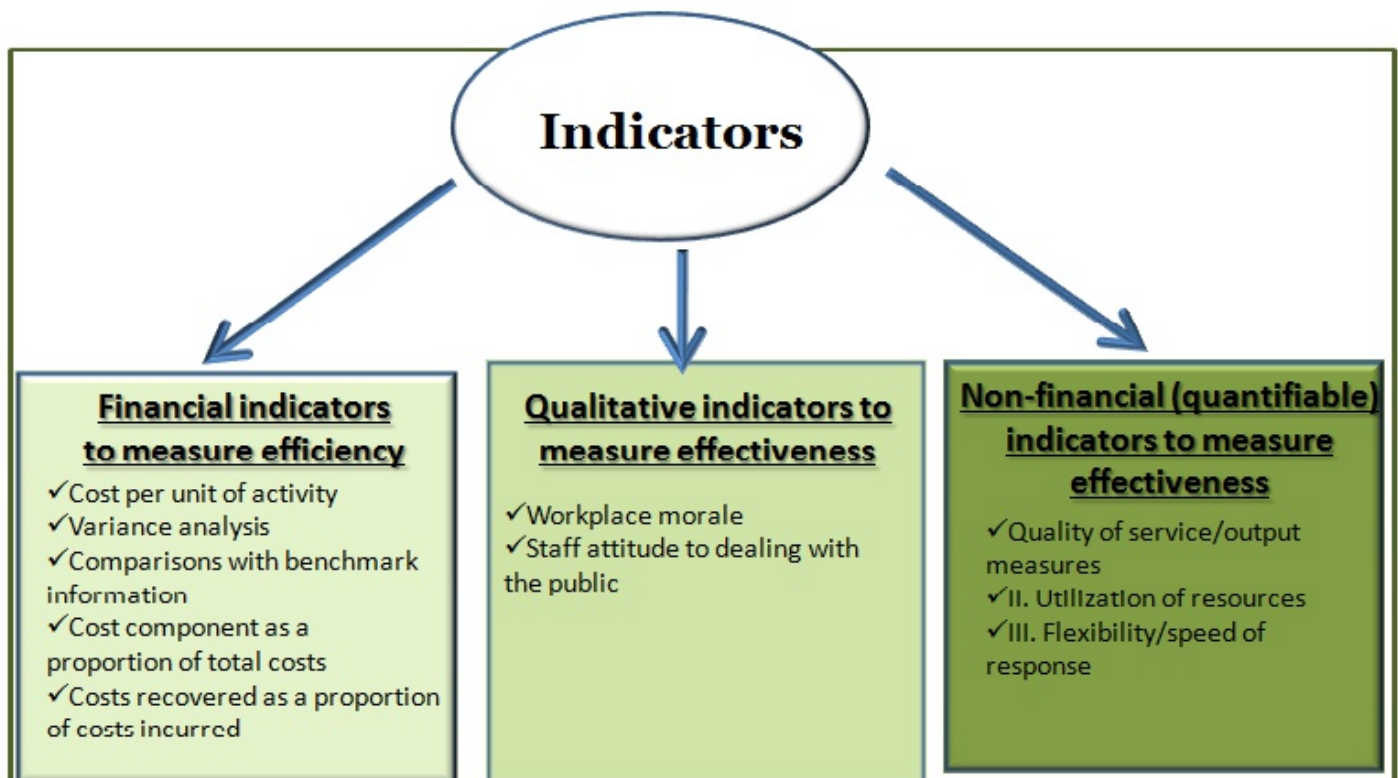
To reach an assessment of the overall value for money (which we will call Overall VFM) of an intervention or program requires weighing the analyses of its economy, efficiency and effectiveness, and reaches a synthetic conclusion. During some projects we also need to audit the Design Stage before implementation, which should also address the issue of sustainability (i.e. whether and how the activity is intended to continue to operate or generate benefits over time).



To assess sustainability one must consider the long-term relevance of the activity, and the prospects for it to become financially sustaining. VFM analysis should also take into account the long-term sustainability of the activity after the donor's involvement, and identify a strategy for devolution or exit based on the expected continuing costs and benefits of the activity.

## Indicators

To access overall performance of a public service (i.e. those areas/issues generally considered being important), indicators can be usefully divided into three groups:



Non-financial performance measures are 'measures of performance based on non-financial performance which may originate in and be used by operating departments to monitor and control their activities without any accounting input'.

Non-financial performance measures may give a more timely indication of the levels of performance achieved than do financial ratios, and may be less susceptible to distortion by factors such as uncontrollable variations in the effect of market forces on operation.

**SECTION**

**5**



**Papers**



## Paper On "The Impact of Risk Assessment on Materiality"

Written by ARABOSAI Secretariat Team and translated by Mrs Mona El-Chami, Senior Governance Specialist, Governance Global Practice, World Bank

Materiality serves as the basis for the application of auditing standards, in particular field work standards and reporting standards. Identifying acceptable risks in the audit process is one of the main dimensions on which the auditor relies in determining the scope and areas of her/his tests for the operations and accounts being audited, and determining the additional procedures that s/he must take. The auditor evaluates the risks for each account using the level of materiality and guessing errors

### **The Concept of Materiality**

The concept of materiality has received wide attention by international professional accountants and auditors organizations and bodies to rationalize the steps taken by their members towards taking their decisions, planning and implementing their tasks, and then writing their reports and facing their legal and moral responsibilities. In the Auditing Standard No. (023), the International Accounting Standards Committee (IASC) defines materiality as a framework for preparing or presenting the financial statements in light of the following conditions:

- Information is material (important) if its deletion or misrepresentation affects the decisions made by the users of financial statements.
- The magnitude of the damage or error and the circumstances of its deletion or misrepresentation.

Information is of material importance when its deletion or misrepresentation in the financial statements affects economic decisions taken on the basis of those statements; i.e. financial information is considered of material importance if their deletion or inclusion influences the economic decisions of the users of the financial information taken from the financial statements. Materiality also depends on the magnitude of the error estimated in the circumstances of its deletion or misrepresentation.



International Auditing Standard No. 320 emphasized the need for the auditor to take into account the concept of materiality when planning the auditing process, when implementing it, and when evaluating the financial statements and their fairness.

### **The Relationship of Materiality to Evidence**

The process of objectively gathering proves and evidence represents the essence of the auditing process. The American Association of Certified Public Accountants has defined auditing as: "a structured and systematic process of collecting and evaluating proves and evidence objectively as far as being related to the results of economic activities...etc.). So, the evidence the auditor uses in the field of materiality must be divided into groups according to the degree of their materiality and according to their relative weight. This depends on the personal judgment of the auditors and their scientific and practical experience. Some stress that there is a direct relationship between the amount of proof that must be obtained when the auditor performs her/his duties and the materiality of the financial element or event subject to audit. The auditor also determines the amount of proves and evidence to be gathered and presents her/his opinion regarding the fairness of expressing that item from among the audited items. The auditor thus defines the acceptable limits for errors and irregularities that may appear in the financial final accounts and the statements under auditing.

The risk of an audit is that the auditor expresses an incorrect opinion on financial information that is materially misstated, as is the case when s/he expresses an opinion without reservation on financial statements without knowing that they are materially distorted, and that they represent the auditor's suspicion in the existence of material misstatements in the financial statements prior to their auditing, with the possibility of not discovering these distortions through the process of auditing the financial statements, where her/his role is to reduce these risks to the lowest acceptable level.

### **Audit Risks and Materiality**

Audit risks can be defined as the risks in which the auditor gives an inappropriate auditing opinion regarding the validity of financial statements.





As for materiality, it is the amount of misrepresentation of the financial information that, in light of the surrounding circumstances, may influence the personal judgment of users of the financial statements who rely on this information. It is mentioned in the International Standard No. (242) on liability of the auditor in considering fraud when auditing the financial statements in that it is the responsibility of the financial auditor who performs the process of a certain auditing designated in accordance with the International Standards on Auditing to obtain reasonable assurance that the financial statements are in their entirety free from material errors, whether due to fraud or error. Due to limitations inherent in the process of auditing, there are risks that cannot be avoided as some fundamental errors in the financial statements will not be detected although the audit is properly planned and executed in accordance with international auditing standards.

International Standard No. (315) on identifying and assessing the risks of a fundamental error indicates that it is necessary to carry out risk assessment procedures in light of the results of the internal control system examination in order to provide a basis for identification and assessment of the risks of material misstatement on the level of financial statements. International Auditing Standard No. (542) added to what is stated in the above standard that the auditor must obtain a sufficient understanding in order to provide a basis to identify and assess the level of material risks in the accounting estimates.

The International Standard No. (612) also emphasized the need for a financial auditor to obtain an adequate understanding of the activities and works of internal auditors.

Identifying risks helps the auditor to design audit tests that focus on important issues, as the auditor uses a risk model to help her/him in planning the audit. This model consists of four components:

- **Audit Risks AR:** These are the risks of the auditor giving an inappropriate audit opinion about the correctness of the financial statements.
- **Inherent Risks IR:** The possibility of a material error in the financial statement in the absence of internal controls.



•Control Risks CR:These risks arise from exposingthe financial statements to material misstatements without being detected or corrected by the internal controls. These risks are related to the existence of deviations or misstated data that could occur in an account or group of accounts, and they carry a material impact individually or collectively.

•Detection Risks DR:These risks entail that the auditor,when implementing Substantive Tests, is unable to discover fundamental errors in the financial statements. Detection risks also representthose risks resulting from the failure to discover the material errors that exist in the financial statements and accounts despite the auditor performing examination, audit or control in detail on that data or accounts.

There are several studies on the adoption of an audit risk offset model, especially what was referred to by American Standard No. (47) on the concept of the components of audit risks as the result of multiplying its components,on the presupposition of the independence of the components of auditing risks. Below we refer to the most important model according to the following equation:

$$\text{Audit Risk} = \text{Inherent Risk} \times \text{Control Risk} \times \text{Detection Risk}$$

To apply the above equation to arrive at the detailed audit of one of the balance sheet items, we assume the applied exampleto that through the following steps:

### **Estimating the degree of inherited risks (potential) for the inventory item**

The degree of inherited risk is estimated by designing a table showing the level of compliance with the specified controls for each account and assigning percentages ranging from (25% - 100%) to show the level of compliance with these controls. This table can be explained as follows:

	Controls	Level of Compliance			
		100%	75%	50%	20%
1	Efficiency and effectiveness of the warehouse department in managing the storage process.			x	
2	The efficiency of management and warehouse workers.		x		
3	Existence of an ongoing inventory of storage	x			



	Controls	Level of Compliance			
		100%	75%	50%	20%
4	Efficiency of warehousing operations			x	
5	The extent of compliance with accounting policies (receiving and supplying)				x
6	Use and control of warehouse documents.	x			
7	Cases of embezzlement and theft that occurred in previous years				x
8	The storage movement is subject to internal control audit		x		
9	The interaction of senior management regarding defects and cases of manipulation and theft			x	
	Total	2	2	3	2

The following equation is used to calculate the inherited risk ratio, as follows:

Score of commitment = (Level of commitment X Number of times of commitment) ÷ total commitment levels

$$= (100\% \times 2) + (75\% \times 2) + (50\% \times 3) + (25\% \times 2) / (2+2+3+2) = 5,5 \div 9 = 61,11$$

Score of inherited risks = 100% - degree of compliance

$$= 100\% - 61,11 = 38,89$$

### Assessment of Control Risks

Control risks are determined by adopting an estimate of (1-10) as default for measuring the level of compliance with the audit controls for the inventory section for each account. Below is a table that lists the controls for the inventory account for the purpose of determining the degree of control risks:

	Controls	Maximum risk level	Actual risk level
1	Existence of a special department for warehouse control.	10	9
2	Separation of liabilities for each store.	10	2
3	Use of warehouse documents when verifying stock movement.	10	1



	<b>Controls</b>	<b>Maximum risk level</b>	<b>Actual risk level</b>
4	Keeping a store card for each item.	10	3
5	Controls for receiving and processing operations and the existence of needed powers.	10	4
6	The existence of a periodic inventory of the contents of the stores and matching the results with the balances in store control cards.	10	2
7	Issuing periodic reports by the warehouse department regarding the stagnant and damaged materials.	10	2
8	Pricing of all stores contents.	10	4
9	Separating new from used materials.	10	10
10	Insurance for the contents of stores against theft and fire.	10	10
	Total score	100	47

**Control Risk Ratio** = (total actual risk levels / total standard levels of risk) x 100%

$$= (47 \div 100) \times 100\% = 47\%$$

### Detection risks

Determining the risks of detection assists the auditor in determining the percentage of detailed audit that can be achieved through the following equation:

$$\text{Audit Risk} = \text{Inherent Risk} \times \text{Control Risk} \times \text{Detection Risk}$$

Audit risk = 5% (This percentage was approved based on the personal experiences of the auditors and most studies and research have adopted this percentage, knowing that it achieves a degree of confidence of up to 95%)

Inherent Risks = 39%

Control Risks = 47%

Detection Risks = (Audit Risks) / (Inherent Risks x Control Risks)



$$\text{Detection risk} = (5\%) / (39\% \times 47\%)$$

$$\text{Detection risk} = (5\%) / (86\%)$$

$$\text{Detection risk} = 58\%$$

$$\text{Detailed audit ratio} = 100\% - \text{detection risk}$$

$$\text{Detailed audit ratio} = 100\% - 58\%$$

$$\text{Detailed audit ratio} = 42\%$$

There are other equations in this field, but they are less used than the above equation model, as shown below:

$$\text{RMM (Risk of Material Misstatement)} = \text{IR (Inherent Risk)} \times \text{CR (Control Risk)}.$$

$$\text{Detection Risk} = \text{Analytical Tests Risks} \times \text{Risks of Substantive Analytical Tests}$$

$$\text{AR (Audit Risk)} = \text{Inherent Risks} \times \text{Control Risks} \times \text{Test of Details Risk} \times \text{Risks of Substantive Analytical Tests}$$

$$\text{Material Error Risk} = \text{Inherent Risk IR} \times \text{Control Risk CR}$$