Session 1.0 Introduction to Audit Forest

Overview

Forestry audit can be undertaken from financial, performance, or compliance audit perspectives. At the beginning, this session provides insights on how each type of audit could be related in conducting forestry audit. However, the method used in the rest of this training module mostly utilizes performance auditing approach. This means, auditors are required to possess skills in performance auditing, as well as broader knowledge on environmental issues.

Public accountability means that those in charge of ministry or the government program hold responsibility for the effectiveness and efficiency of their businesses. Since the programs are exposed to public, there should be a mechanism to ensure the accountability. Audit is the way for stakeholders (taxpayers, financiers, legislatures, executives, ordinary citizens and the media) to 'execute control' and to obtain insights into the program handling and the outcome of several government activities. This is also supported by the fact that a criterion of good governance is that all public services (or all government programs) are subjected to audit. When performance audit is conducted in response to that, it could also provide answers for these questions: Do we get value for money? Or, is it possible to spend the money better or more wisely?

All participants of this course are expected to possess the necessary knowledge and skills in performance auditing. However, there are some variations in the approach to performance audit conducted by different SAIs. In this session, we propose to discuss the best practice approach in performance audit as indicated in the INTOSAI Performance Auditing Guidelines. Since this is not a course on performance auditing, the objective of this session is not to go into great details on the performance auditing process but to build a common ground for all participants.

Learning Objective

Given the brainstorming, lecture, exercise and group discussion participants will be able to:

- explain types of audit on forestry audit;
- classify the 3Es;
- explain the stages in conducting the performance audit as per ISSAI 3000E and performance audit in forest.

Types of Audit in Forestry Audit

In conducting forestry audit, we can use financial, performance, or compliance audit approaches. Firstly, it is important to understand their characteristics.

Financial Auditing

The characteristics of financial audit can be described as follows:

- Uses financial data only to express an opinion on financial position and compliance with rules and regulations;
- Focuses on transactions pointing out errors, omissions, frauds and impropriety;
- Does not comment on the extent to which government departments are meeting the

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expectation of the target groups they are serving; and

- Does not provide recommendations for improving economy, efficiency and effectiveness of the government departments.

When financial audit approach is used in conducting forestry audit, it means the scope is limited to standards and rules compliance of financial reporting, and also examining the appropriate presentation and disclosure of the budget used in any programs related to forest management.

For example, when there is state revenue generated from the issuance of Forest Utilization Permit by the Ministry of Forestry in one country, the SAI may conduct financial audit related to how far the audited entity (the Ministry of Forest) has complied with financial reporting standards in administering, reporting, and disclosing all financial transactions regarding state revenue generated from the exploited forest area.

Performance Auditing

The characteristics of performance audit can be described as follows:

- Uses financial as well as non-financial data to assess economy, efficiency and effectiveness in management of resources;
- Reports on the overall performance of an organization, program or project but remains alert to any errors, omissions or frauds;
- Evaluates to the extent in which government departments are meeting the expectations of target groups;
- Provides general recommendation for improving economy, efficiency and effectiveness of government departments.

When performance audit approach is used in forestry audit, auditors can broaden the scope of audit into the effectiveness of the achievement of the programs, the efficiency of resources allocation, and also the economy of the use of the budget.

For example, auditors from one SAI may undertake performance audit to examine the effectiveness of management of timber harvesting activity, including its related policies, pre-harvesting activities, harvesting activities, and post-harvesting activities. Another example is conducting performance audit to examine the economy, efficiency and effectiveness of a forest rehabilitation program.

Compliance Auditing

Compliance audit deals with the degree to which the audited entity follows rules, laws and regulation, policy, established codes, or agreed upon terms, such as the terms of a contract or the terms of a funding agreement.

Compliance auditing may cover a wide range of subject matters. In general, the purpose of a compliance audit is to provide assurance to intended users about the outcome of the evaluation or measurement of a subject matter against suitable criteria.

In performing compliance audits in the context of the INTOSAI Fundamental Auditing Principles, there are two concepts of significant relevance:

- Regularity – the concept that activities, transactions and information pertaining to an audited entity are in accordance with

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authorising legislation, regulations issued under governing legislation and other relevant laws, regulations and agreements, including budgetary laws and are properly sanctioned.

- Propriety – general principles of sound public sector financial management and conduct of public sector officials.

Depending on the mandate of the SAI, a compliance audit may be an audit of regularity, or propriety, or both. Because propriety is not readily susceptible to objective verification, it may be difficult, and in some cases impossible to audit propriety to a level of reasonable assurance. There are often no clear and objective benchmarks against which to measure propriety – what may be acceptable in one part of the public sector may not be acceptable elsewhere.

One example of using compliance audit approach in forestry audit is auditors in one SAI may conduct compliance audit regarding Forest Zone Establishment regulated by the Ministry of Forestry. The objective of the audit is to examine whether the establishment of forest zone has been in accordance with regulations issued under governing legislation.

Although there are 3 (three) audit approaches that can be used in conducting forestry audit as explained above, this training module would focus on using the performance audit approach.

Performance Audit

Definition

INTOSAI's Auditing Standards defines performance audit as an independent examination of the efficiency and effectiveness of government undertakings, programs or organizations, with due regard to economy, and the aim of leading to improvements.

It is further explained in the INTOSAI Implementation Guidelines for Performance Auditing that Performance Auditing embraces:

1. Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
2. Audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
3. Audit of the effectiveness of performance in relation to achievement of the objectiveness of the audited entity, and audit of the actual impact of activities compared with the intended impact.

The Importance of Performance Audit

Performance auditing is about analyzing and assessing the performance of government programs or public services. It is an information-based activity that requires analytical and creative skills. In contrast to financial auditing, it focuses on the activity rather than the accounts and flow of money. In contrast to compliance auditing, it relates mainly to the intentions behind government interventions and to the concepts of economy, efficiency and effectiveness. Basic questions in performance auditing are:

- Have the right things been done?;

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- If so, have the things been done in a right way?; and
- If not, what are the causes?
- Then, what are the impacts?

The perspectives and the entities to be audited vary, i.e. individual departments as well as government programs and undertakings may be audited.

The Objectives in Conducting Performance Audit

One common objective of performance auditing in many countries is set by the legislator or the SAI itself is to assess and improve the functioning of government programs, central government itself and any connected bodies.

In most countries, providing recommendations is important but in others, recommendations are not given at all, due to legal conditions and historical traditions.

The general goals of performance auditing should be defined in the legislation or be decided on by the SAI. In general, SAIs may seek to achieve one or more of the following general objectives:

(a) To provide the legislature with independent examination of the economical, efficient, or effective implementation practices of government policies or programs;

(b) To provide the legislature with independent, ad hoc analyses of the validity and reliability of performance measurement systems, or statements or self-evaluations about performance that are published by executive entities;

(c) To provide the legislature with independent analyses of problems of economy, efficiency, and effectiveness in government activities and thus contribute to improvements; and

(d) To provide the legislature with independent assessments of the intended and unintended direct/indirect impact of government and agency programs, and whether stated aims or objectives have been met or why they have not been met.

The Concept of Three Es

The three "Es" refer to economy, efficiency and effectiveness. For centuries, the government auditors have been commenting on the waste of public funds, extravagance in expenditure, leakage of revenue, unused capacity, improper acquisition of resources and inefficiencies in the use of resources. But such comments have been, mostly, an "add-on" to the traditional picture of financial auditing in which accuracy or truth and fairness of accounts are primarily concerned. With the advent of performance auditing, the standards to measure economy, efficiency, and effectiveness are being refined and developed. Auditors are now taking a more rigorous look at the operations of the audited entity in the overall framework of the three Es.

Economy

Economy is defined as "minimizing the cost of resources used for an activity without compromising in quality".

Economy relates to all types of resources such as physical, financial, human, and information. The question of economy is relevant to the acquisition of resources. Auditors try to determine whether the resources have been acquired in the *right amount, at the right place, at the right time, of right kind and at the right cost.* This, by

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itself is not very easy. It presumes that there are standards available to judge whether considerations of economy are kept in place when those resources acquired.

Auditors must be very careful in developing standards to make 'value for money' judgments. One example of a standard for economy is to accept the lowest open bid for buying an asset. But it is not that simple. It is a common knowledge that this is not a fool-proof method. Bid-rigging is a practice known in almost all countries. The bidders join hands to suppress genuine competition and thus fool the system of open bidding. Therefore, the crude standard of accepting the lowest bid may not be sufficient. In this situation when we seek economy in relation to quantity, quality, place, time and cost, more comprehensive standards are required to assess whether economy was observed in acquiring the resources.

Efficiency

Efficiency refers to the relationship of inputs and outputs. It is relevant to the *use of resources.* Examples of efficiency are: beds-patients ratio at hospitals, teacher-pupil ratio at schools, and machine-hours to output ratio at factories. An increase in outputs without corresponding increase in inputs or getting the same outputs as before with reduced inputs indicates an increase in efficiency.

Efficiency is usually a matter internal to the organization. Efficiency does not directly affect the external activities of the organization. For example, in case of hospitals, efficiency measures may assess the utilization of hospital beds, operation theatres, or use of drugs, etc. However, those measures may not directly affect the quality of service or the state of disease or health in the community where the hospital is serving.

Measuring efficiency presumes the existence of acceptable standards. It is often necessary for auditors to develop standards if they do not exist. Therefore, auditors often have to work with the audited entity's management and other specialists to identify or develop efficiency standards. Even when standards are available, auditors still need to convince that these standards would be ever relevant. Sometimes efficiency standards become outdated in changing circumstances but they remain in use. For example, the standards of efficiency in an office for processing payment claims may have been devised when computers were not in use. With the advent of computers, the time needed to process a payment claim may change. The auditors need to remain vigilant to such changes before accepting the existing standards.

It is relatively easier to measure efficiency where the inputs and outputs are repetitive or mechanical in nature. We can devise standards for measuring efficiency in such situations. In comparison to that, it is quite difficult to measure efficiency where the inputs and outputs are non-repetitive. For example, it is easier to determine the efficiency of a powerhouse in producing electricity as compared to measuring the efficiency of a doctor, who is examining patients each of whom may come up with unique health problem.

Effectiveness

Effectiveness is defined as an end-oriented concept that measures the degree to which predetermined goals and objectives for a particular activity or program are achieved (the attainment of the right results from the usage of resources and organizational operations).

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Of all the meanings associated with the word of *effectiveness,* probably the most common is related to the achievement of goals. Different people with different value systems have their own concepts of effectiveness, but one thing that brings them close to each other is goal accomplishment or performance in meeting objectives. This is how legislative auditors generally view the effectiveness of their own works.

Although having goal accomplishment as a central to effectiveness gives a clear focus, the problems and implications remain very substantial. The literature on effectiveness comes up with many studies raising issues in this particular perspective. These are some of them:

- Goals are often ill-defined, complex, changing, and contradictory;
- It is often unclear on what level or with respect to what units the attainment of goals should be measured;
- More than one technology or strategy produces the same outcome;
- Goal-based perspectives usually take into consideration the preferences of managers, not all constituencies;
- Goal-based definitions have failed to clarify distinctions between organizational effectiveness, managerial effectiveness, and manager and subordinate behavior and attitudes.

The assessment of effectiveness is by far the most important contributor of an accountability regime and at the same time the most elusive one. One reason may be that there is no single, high level, generally agreed-upon definition of effectiveness.

In daily conversation, being effective describes the capacity or the ability to achieve results. Often, it goes beyond this capacity, and being effective means having reached one's goals, to be successful. The word may also be used to emphasize the impact of one's efforts or actions. Frequently, it merely describes that capability is actually in use, or that a law or a rule is in force.

In practice, when discussing organizations, the word *effectiveness* is typically modified by one of three terms: program, operational, and organizational;

- *Program* effectiveness relates to the continuing relevance of a program, the attainment of its intended objectives, its impact, and its cost-effectiveness;
- *Operational* effectiveness relates to the achievement of output targets, to the delivery systems for the goods and services produced, and to the cost-effectiveness of these systems; and
- *Organizational* effectiveness relates to the overall capability of the organization and the interactions among strategic planning, management structures and processes, and human and financial resources all in relation to the mission and goals of the organization and the external environment.

Some writers have refined the notion of effectiveness by making explicit the consideration of cost-effectiveness, which is the attainment of the objectives at the least cost, at a lesser cost, or at least at a reasonable cost in relation to the value of the outcome. Some have also included both intended and unintended results and outcomes of a program as factors in the measurement of effectiveness. Others still,

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particularly program evaluators, have included the assessment of the continuous need of the program in their concepts of effectiveness. They ask such question: Are the reasons that gave rise to the program in the first place still valid today?

How effectiveness is viewed will depend on who is looking at it. Different views may be taken by the electorate, specific constituencies, customers, governing bodies, managers, and so on. Each view holds validity in its own context.

Stages in Conducting Performance Audit

The performance audit cycle covers several steps. Broadly speaking, it comprises the planning process, the execution process, reporting and the follow-up process. The planning process is often divided into different stages. The first stage is strategic planning, where potential themes and topics are analyzed. Once a topic has been selected for performance audit, a pre-study – resulting in a work plan for the main study – may be undertaken to gather information in order to be able to design a proposal for the main study.

Throughout the main study, which is included in the execution process, the emphasis should be on the production of a final report to be considered by the government, the legislature, the executive bodies concerned, and the public. The report-writing process should, based on experience, be viewed as a continuous one of formulating, testing and revising ideas about the topic. Issues, such as the expected impact and value of the audit, should be considered throughout the audit. By setting deadlines for the writing process, timely reporting may be enhanced.

Follow-up procedure, which is the final process, identifies and documents audit impact and the progress made in implementing audit recommendations. Such processes are vital to provide feedback to the SAI and the legislature.

The Strategic Planning

Strategic planning is the basis for the selection of 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.

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. As for step 2, the general selection criteria would be as follows:

   - *Added value:* The better the prospects of carrying out a useful audit of 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

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- *Important problems or problem areas:* The greater the risk for consequences in terms of economy, efficiency, and effectiveness or public trust, the more important the problems tend to be. A problem may be judged important or material if knowledge about it would be likely to influence the user of the performance audit report. Active and problem-oriented monitoring makes it easier to identify areas for audits.

- *Risks or uncertainties:* The strategic planning may be based on risk analysis, or – less theoretical – analysis of indications of existing or potential problems. The stronger the public interest involved where there is reason to suspect inefficiency, the greater the risks (the less the knowledge), and the greater the uncertainty. 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.

The Planning Phase of an Individual Performance Audit

The basic purpose of the planning phase is to prepare a detailed plan that will enable:

- cost-effective collection of audit evidence during the execution phase; and

- the formulation of specific audit conclusions against each audit objective during the reporting phase.

Thus, it constitutes the foundation of the auditing process and substantially determines the quality of the rest of the audit process (the execution and reporting phases). The planning phase has several key steps as discussed below.

Understand the business or context

This is the first step in planning for the audit of a specific topic. A sound understanding of the business or context will facilitate definition of relevant audit objectives, identification of significant audit issues and the fulfillment of assigned audit responsibilities. Instruction given to the first step of audit planning online is the example of information.

Define audit objective and scope

An audit objective is a precise statement of what audit intends to accomplish. It is put in

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the form of a question that audit intends to answer by the end of the audit. The audit objectives provide a clear direction to the audit process and drive the rest of the planning process. Often the main audit objective is broken down to a number of sub audit objectives. These sub audit objectives could very well define the lines of enquiry. Amongst other things, the nature of the audit objectives is also influenced by the mandate of the SAI and the nature of the entities that form part of context relating to the issue; limitations on the SAI's mandate, if any, and limitations on access to some of the entities.

The audit scope is the sets of boundaries of an audit. It indicates what audit intends to cover and what it does not. It generally includes a statement of a period to be covered in the audit and the entities and agencies that will be visited by the audit team. The purpose of defining the scope is to set an optimal balance between the spread and depth of audit.

Select lines of enquiry

Sometimes it is also known as selecting key areas. Even within a selected audit topic, it may not be wise to spread the audit resources over all the issues. A cost-effective audit often demands that resources are focused on key issues. Just as in identifying potential audit areas during strategic planning, selection of lines of enquiry involves the application of professional judgment and the application of certain factors such as significance, risk, likely audit impact and auditability.

In addition to the overall audit objectives discussed above, sub audit objectives would often be defined separately for each line of enquiry (LOE) to direct the field audit examination for each LOE. As mentioned above, the sub audit objectives could in fact at times determine the lines of enquiry. As such, sub audit objectives and lines of enquiry often go hand in hand.

Identify audit criteria

Criteria are reasonable and attainable standards of performance against which actual performance can be measured. Audit criteria provide the link between the audit objectives and the audit procedures to be carried out during the execution phase. They provide the specific direction for collection of evidence and also the basis for arriving at audit findings. Audit criteria have to be identified or formulated for each audit objective/sub audit objective.

Prepare detailed plans or audit matrix

Audit matrix is also referred to the audit test programs, these provide the link between the planning and execution phases of the audit process. The detailed audit plan brings together in one place the audit objectives, lines of enquiry, audit criteria, likely sources of evidence and the suggested evidence gathering techniques. It provides a ready guide for the field audit teams who are responsible for the collection of evidence but who are not necessarily responsible for the planning phase of the audit process. In some situations, an audit plan may be further developed into detailed audit programs; the latter would indicate the specific action steps to be taken by the auditor in executing the audit techniques recommended in the detailed audit plan.

The Execution Phase

Once the detailed audit plan/program is ready, the audit is ready to move into the execution (or examination) phase. The purpose of the execution phase is to gather audit evidence to test the audit criteria listed

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in the detailed audit plan and then proceed to conclude against the audit objectives.

Gather audit evidence

The first step in the audit execution phase is to gather competent, relevant and sufficient audit evidence which can support the audit conclusions to be arrived later. Evidence is competent if it is valid and reliable, in other words, it represents what it intends to represent. To be relevant, evidence must have direct and logical relationship to the audit criteria. Sufficiency refers to the adequacy of the quantum of evidence to support all the audit conclusions. While competence and relevance are the qualitative characteristics of good evidence, sufficient is a quantitative characteristic.

It is important that evidence collection is cost-effective so that the audit itself provides value for money. In order to ensure this, it is important that the audit planning is done diligently and the detailed audit plan/program is prepared to a sufficient degree of detail.

Document evidence

All evidence gathered should be documented and organized systematically for easy reference and retrieval. Actually, documentation is not a specific step in the audit process that follows gathering of evidence, but an action that requires to be taken at various stages of the entire audit process. However, before the conclusion of the execution phase, it would generally be necessary to cross check all the evidence collected and take a view whether any more evidence is necessary to arrive at conclusions against the audit objectives. Therefore, at this stage it would be helpful if professional care is taken to see that the evidence already collected is properly documented and gaps, if any, are identified.

There are various techniques available for analyzing the evidence such as use of comparisons, flowcharting, content analysis, cost-benefit analysis, interpretation of data distributions, modeling and regression analysis. The selection of the appropriate method would depend on the cost of using a method, the benefits likely to accrue in terms of quality of analytical outputs and the availability of necessary expertise.

The Reporting Phase

Once the evidence has been appropriately analyzed, audit is ready to move on to the reporting phase. The purpose of this phase is to draw conclusions against the audit objectives and communicate them effectively to the users of the audit report.

Draw preliminary audit conclusions

Conclusions are made against the audit objectives defined during the planning phase. Thus audit conclusions complete the audit "circle" by returning back to the audit objectives. Audit conclusions are basically expression of audit opinions *vis-à-vis* the audit objectives. Conclusions based on audit observations, which are concise statements of the audit findings and the corresponding causes and effects (or potential effects) of these findings.

Not all SAIs make recommendations and leave it to the audited entities to take action based on the audit observations and conclusions.

Discuss with Management

Before taking a final decision, preliminary audit conclusions are generally discussed with the audited entity's management to obtain their responses. This could take place through

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formal meetings or by sending a copy of the preliminary conclusions (or even draft audit report) to the audited entity with request for response.

Prepare final audit report

Based on the response of the audited entity to the preliminary audit conclusions, a decision is taken regarding which conclusions to be included in the final report. Moreover, the responses of the audited entity are also often included in the final audit report against each audit conclusion. The final report approved by the head of the SAI is then submitted to the relevant authority (e.g. Parliament, Government).

The Follow-Up Phase

A follow-up process will facilitate the effective implementation of report recommendations and provide feedback to the SAI, the legislature and the government on performance audit effectiveness. The priority of follow-up tasks should be considered in the context of the overall audit strategy as determined by the strategic planning process.

Following up on SAI recommendations may serve four main purposes:

- increasing the effectiveness of audit reports–the prime reason for following up audit reports is to increase the probability that recommendations will be implemented;
- assisting the government and the legislature – following up may be valuable in guiding the actions of the legislature;
- evaluation of SAI performance – following up activity provides a basis for assessing and evaluating SAI performance; and
- creating incentives for learning and development – following up activities may contribute to better knowledge and improved practice.

Results from the follow-up of audit recommendations should be recorded. Deficiencies and improvements identified in the follow-up of audits should, if needed, be reported to the government or the legislature.

Designing Performance Audit on Forest

Stages in conducting performance audit on forest are basically similar to those found in general performance audit. They include planning, execution, reporting and follow up processes. The only distinctive substance is in the methods used during each process. Since the planning stage is the most important one, this module will discuss mostly about this stage, while topics covering examination and reporting phase will be discussed in Chapter 6, 7 and 8.

The Planning Phase

During audit planning, auditor needs to understand at least following information:

- The profile of the government program being audited (role and function, activities and processes in general, development trends etc);
- Legislation and general programs and performance goals;
- Organizational structure and accountability relationships;
- Internal and external environment and the stakeholders;

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- External constraints affecting program delivery;
- Earlier investigations in the field;
- Management processes and resources; and
- Risks related to sustainable forest management.

Auditing forest covers a large of topic areas as many as the demand from stakeholders. On the other hand, SAI has restricted resources. Auditors can apply the same approach like those in performance auditing when auditing forest.

The audit initiative is come from the stakeholders such as Auditor General, the Government or other relevant institutions.

Usually auditing forest is initiated by two issues, general issues and specific issues. The audit plan process can be viewed in Chart 1.1.

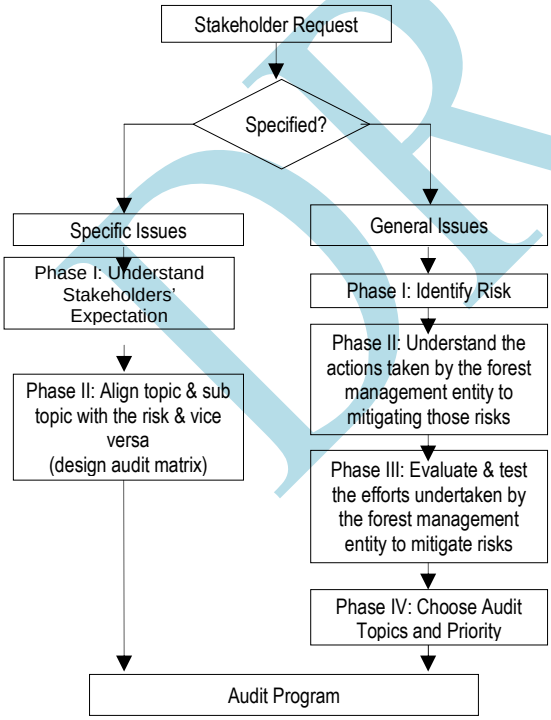

Chart 1.1. The Planning Phase in Forestry Audit

When the request is not specific on certain topic, the auditor has to use the four stages as shown in the chart. When the stakeholder has pointed out specific issues, then the auditor has shorter process. Following paragraphs will describe each step in general when there is no specified topic identified before starting the audit.

Phase I: Identify risks

Auditor has to identify the risk related to forest management. There are 12 risks related to forest which are Illegal Logging, Biodiversity Loss, Forest Fire Risk, Illegal Use of Land, Disaster Risk, Conflict Risk, Revenue Risk, Livelihood Lost Risk, Social Risk, Decrease of Carbon Storage Risk, Destruction of Water Quality, and Shortage of Industrial Supply Risk.

To identify the risks, auditor can collect information from the entity, stakeholders, expert, local community, international community, previous audit report or other sources of information relevant to the forest management.

Phase II: Understand forest management entity's effort to mitigate risks

When risks have been identified, the next step is identifying whether the entity has undertaken certain actions to minimize the occurrence of those risks.

The efforts to minimize the risk taken by the entity can be in the form of policies, enacting legislation, conducting forest biodiversity inventory, designating areas for permanent forest, establishing national forest service or designing annual allowable cut.

Phase III: Evaluate and test the capacity of management entity's efforts to mitigate risks

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At this phase, auditor is assessing the effectiveness of the management entity's efforts to mitigate risks. This phase is important in determining the audit priorities.

In this phase, auditor could interview relevant staff and senior officials of the forest management entity. During interviews, auditor could discuss the entity's various control systems and procedures 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

In order to ensure the effectiveness of audit, the auditors using the audit selection factors will select the topic with the most possibility of the risks that would happen based on the assessment conducted in phase III.

Phase V: Design Audit Matrix

Audit matrix is a tool to help auditor in designing the audit program. From the information collected in previous phases, auditor will lay out those into a comprehensive design matrix.

Audit matrix covers information of audit topic and sub topics, risk, researchable questions and sub researchable question, audit criteria, audit evidence, audit methodology, limitation faced by the auditors and the possible result of the audit evidence analysis. This matrix becomes an input to formulate an audit program that covers general information about the audit assignment.

Summary

We have discussed throughout the session two main topics with regards to the performance audit on forest: performance audit in general as stated by ISSAI and its implementation to the planning stages in performance audit on forest. This session provide road map for the following session in the entire training activities.

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4. INTOSAI, Appendix to ISSAI 3100.
5. INTOSAI, ISSAI 4100 - Compliance Audit Guidelines – For Audits Performed Separately from the Audit of Financial Statements
6. INTOSAI, 2010, *The Guidance Material on Auditing the Forest*, Working Group on Environmental Auditing, June 2010.

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