



# ISSAI IMPLEMENTATION HANDBOOK - PERFORMANCE AUDIT

Draft Version 1



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### Acronyms

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ASOSAI	Asian Organisation of Supreme Audit Institution
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institution
PA	Performance Audit
PAS	Performance Audit Sub-committee
QA	Quality Assurance
QAR	Quality Assurance Review
QC	Quality Control
SAI	Supreme Audit Institution
TOR	Terms of Reference
VFM	Value for Money



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## About the Handbook

### 1.1. Introduction

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The 3i Programme Phase 1 facilitates implementation of International Standards of Supreme Audit Institutions (ISSAIs) by SAIs of developing countries, with a comprehensive capacity building programme for level 2 ISSAIs (Prerequisites for the Functioning of Supreme Audit Institutions) and level 4 financial audit, compliance audit and performance audit ISSAIs.

This handbook on implementing performance audit ISSAIs is a part of the phase 1 of the programme to guide SAIs in the process of implementing General Auditing Guidelines on Performance Audit (ISSAI 3000 – 3100) endorsed in 2010.

### 1.2. Objectives

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This handbook has been written in order to facilitate implementing performance auditing ISSAIs at level 4 in SAIs of developing countries. In this respect the handbook aims to achieve two goals:

1. To explain the nature of performance audit in public sector and guide through strategic considerations in implementing the performance audit standards in SAIs.
2. To provide guidance and illustrations on the process, tools and working papers that could be used in conducting a performance audit using two different approaches – results oriented approach and problem oriented approach.

**The handbook is not intended** to be a performance audit manual. Therefore the handbook does not substitute audit policy documents; strategies; and manuals. Each SAI should set out to describe its own performance audit methodology taking into account: its mandate; resources; stakeholder's expectations; and regulatory environment etc.



### 1.3. Audience

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The handbook targets SAIs who have decided to start the implementation of ISSAIs at level 4, as well as SAIs who are already on journey to implement ISSAIs and wish to continue improving their performance audit processes.

Within a SAI the handbook targets both the senior level staff (management) of performance audit as well as the practitioners of performance audit (auditors and methodology specialists).

### 1.4. Approach

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This handbook follows the performance audit process through the audit phases (strategic planning of performance audit, planning, conducting, reporting and follow-up) but it is not a substitute of an audit manual. The handbook uses a comprehensive case study covering all aspect of performance audit process. In the chapters all ISSAIs related to the audit process are described as well as how this can be used in the audit is demonstrated in the case study. We hope that by doing this we contribute to the discussion about public sector auditing.

### 1.5. Content

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The handbook is divided into three parts:

1. Part 1: ISSAI Implementation Strategy for Performance Auditing
2. Part 2: Establishing ISSAI Based Performance Auditing Practice
3. Part 3: Case Study

First chapter introduces a strategic decision making process for SAIs to move from their current status to ISSAI based performance audit practices. This chapter includes a case study of a SAI going through the strategic planning process.

Part 2 includes seven chapters that discuss performance auditing concepts and process.

Part 3 is the case study that demonstrates an ISSAI based performance audit.



## 1.6. Link between the handbook and the iCAT

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To assist SAIs in integrating ISSAIs in their performance auditing process the Handbook provides a step-by-step process, which may require each SAI to adopt varied strategies and action plans in accordance with their mandate, stakeholder's expectations, national legislation, regulations etc.

The first step for the SAI is to take a comprehensive look at its mandate, stakeholder expectations and environment. The SAI then has to decide if it wants to refer to ISSAIs at Level 3 or Level 4. If a SAI decides that it would like to refer to ISSAIs at level 4 then the first step for the SAI would be to ascertain ISSAI requirements and assess the status of the SAI vis-a-vis the performance audit standard requirements. Next the SAI identifies the causes or reasons for non-compliance and the SAI's needs in order to fulfil the requirements. The ISSAI Compliance Assessment Tool (iCAT) developed under the 3i Programme Phase 1 helps the SAIs with the exercises of mapping its current status with the Performance Audit Guidelines requirements (Level 4 ISSAIs). This handbook shows how to move from identifying the gaps of current practices to the implementation process by determining the priority implementation issues, moving on to building a strategy and action plan and overcoming some of the difficulties that SAIs in the starting position might face.

As such both the iCAT and the guidance on strategy provided in this handbook are meant for SAIs that wish to refer to performance audit ISSAIs at level 4.



## Chapter 1: Performance Audit ISSAI Implementation Strategy

### 1.1 ISSAI Implementation Strategy

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Implementation of ISSAIs is a strategic shift that requires strategic and institutional considerations. Before undertaking such implementation it is advisable to examine key considerations like the mandate of the SAI, stakeholder expectations, resources available and the SAI environment and current practices. After such examination, a SAI would be in a position to decide whether it would like to refer to performance audit ISSAIs and if yes, whether the SAI would like to make such reference at level 3 or level 4 performance audit ISSAIs. Figure 1.1 provides a snapshot of this decision making process.

The guidance detailed in this section is meant for SAIs that have decided to implement level 4 performance audit ISSAIs. This guidance in no way suggests that SAIs may refer to performance audit ISSAIs at level 4 alone. This guidance also does not recommend a bottom up approach to ISSAI implementation. While this guidance is limited to performance audit ISSAI implementation strategy, guidance on the overall ISSAI Implementation strategy will be provided in a separate document. It is important for a SAI to integrate its ISSAI implementation strategy for performance audit with its overall strategy.

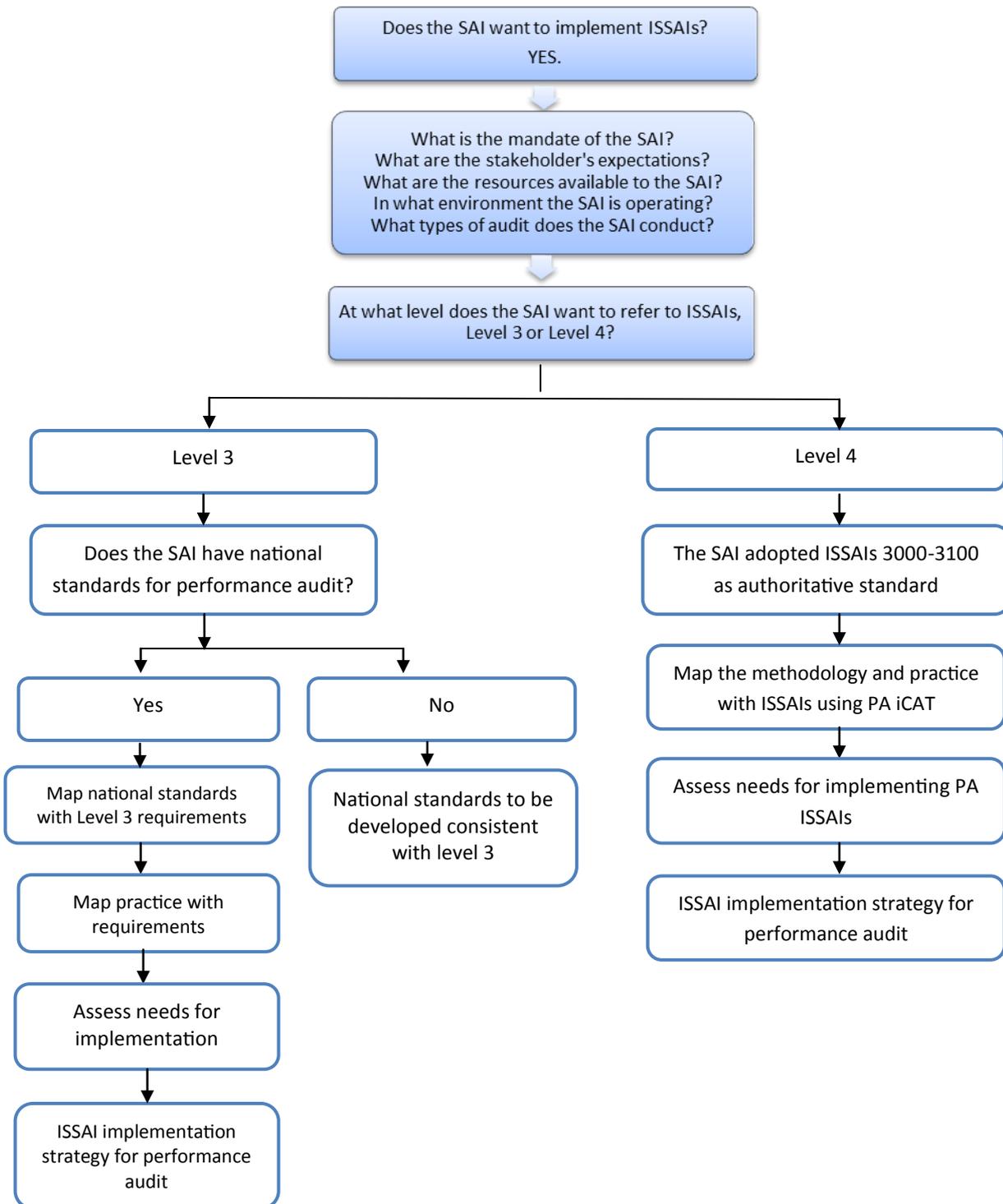


Figure: 1.1: Performance audit ISSAI implementation decision process

As shown in figure 1.1 when a SAI wants to implement ISSAIs and set implementation strategy it needs to consider: what is its mandate, what are the stakeholder expectations from the SAI, what are the resources available to it and what environment it is operating. Along with these four aspects the SAI needs to determine the key question - at which level of ISSAIs it wishes to refer to ISSAIs?

Endorsement Version (EV) ISSAI 100 provides two possibilities when referring to the standards in the auditor’s opinion:



- i. An audit engagement conducted in accordance with standards based on the Fundamental Audit Principles. EV ISSAI 100 explains that the fundamental principles (Level 3 ISSAIs) can be used as the basis on which national standards are developed or basis for the adoption of the Level 4 standards. Therefore the SAI can make reference to the Level 3 standards as the authoritative standards in cases where the SAI has manuals in place and as mentioned above has been observed at the practice level, which correspond with principles laid down on Level 3.
- ii. The SAI may choose to adopt the General Auditing Guidelines (ISSAIs 1000-4999) as authoritative standards. In such cases the auditor shall comply with all ISSAIs relevant to the audit.

Before formulating an ISSAI implementation strategy for performance audit a SAI needs to decide at which level it wants to refer to the ISSAIs. If a SAI decides to refer to ISSAIs at level 3 it needs to have detailed national standards for performance audit. If the SAI does not have standards it needs to develop such standards. The next step would be to map the national standards with the requirements of respective level 3 ISSAIs. While referring to ISSAIs at level 3, it is not enough to check that the national standards follow Level 3 ISSAIs. It is equally important to ascertain that the SAI's audit practice is actually as per the standards. Through this mapping a SAI will be able to identify needs by assessing the gaps in both standards and practice. An implementation strategy can then be formulated to address these issues.

If a SAI aims to refer to Level 4 performance audit ISSAIs it can start by mapping its current performance audit practice with ISSAI requirements at level 4. The PA iCAT can be used for this purpose. The next section in this handbook provides detailed guidance on development of an ISSAI Implementation Strategy for Performance Audit based on the PA iCAT.

## 1.2 Level 2 and Level 4 performance audit ISSAIs

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The ISSAIs form a hierarchy of four levels:

Level 1 - Founding Principles (ISSAI 1)

Level 2 - Prerequisites for the Functioning of Supreme Audit Institutions (ISSAIs 10-99)

Level 3 - Fundamental Auditing Principles (ISSAIs 100-999)

Level 4 - Auditing Guidelines (ISSAIs 1000-5999)

The Level 2 ISSAIs contain INTOSAI's pronouncements on the necessary preconditions for the proper functioning and professional conduct of Supreme Audit Institutions. These include principles and guidance on independence, transparency and accountability, ethics and quality control. The prerequisites may concern the institution's mandate and further legislation as well as the established procedures and daily practices of the organisation and its staff. By issuing pronouncements on these generally accepted prerequisites, INTOSAI aims to advance sound principles for the effective functioning of public sector auditing on an international level.

Level 3 ISSAIs are the fundamental principles for public sector auditing. The INTOSAI Professional Standards Committee is revising the fundamental auditing principles to provide a conceptual basis for



public sector auditing and ensure consistency in the ISSAI framework. EV ISSAI 300 highlights the elements considered to be relevant in performance auditing as they are essential in order to deal with the wide-ranging features of the public sector. However, the iCAT considered level 2 ISSAIs and Level 4 performance audit ISSAIs.

Level 4 ISSAIs are the Auditing Guidelines that translate the fundamental auditing principles into more specific, detailed and operational guidelines that can be used on a daily basis in the conduct of auditing tasks. The General auditing guidelines (ISSAIs 1000-4999) contain the recommended requirements of financial, performance and compliance auditing and provide further guidance to the auditor. They are developed and continuously updated by specialised subcommittees and define the internationally recognized best current practice within their general scope of application. Two level 4 performance audit ISSAIs are:

**ISSAI 3000** – Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience: It describes the features and principles of performance auditing to assist SAIs' performance auditors in managing and conducting performance audits efficiently and effectively. It provides a basis for good performance audit practices and establishes a framework for the further development of performance audit methodology and professional development.

**ISSAI 3100** – Performance Audit Guidelines: Key Principles: ISSAI 3100 focuses on the strategic challenges concerned with the implementation process and the resources needed to conduct performance audit. It highlights the key features of performance auditing and its importance to SAIs, public administration and society as a whole. It is based upon the conceptual framework given in ISSAI 3000. It gives further details regarding the audit objective, the selection of audit topics and the audit process.

The iCAT is based on level 2 and level 4 performance audit ISSAIs. To implement ISSAIs in a SAI the issues pertaining to proper functioning and professional conduct of the SAIs illustrated at level 2 also need to be considered.

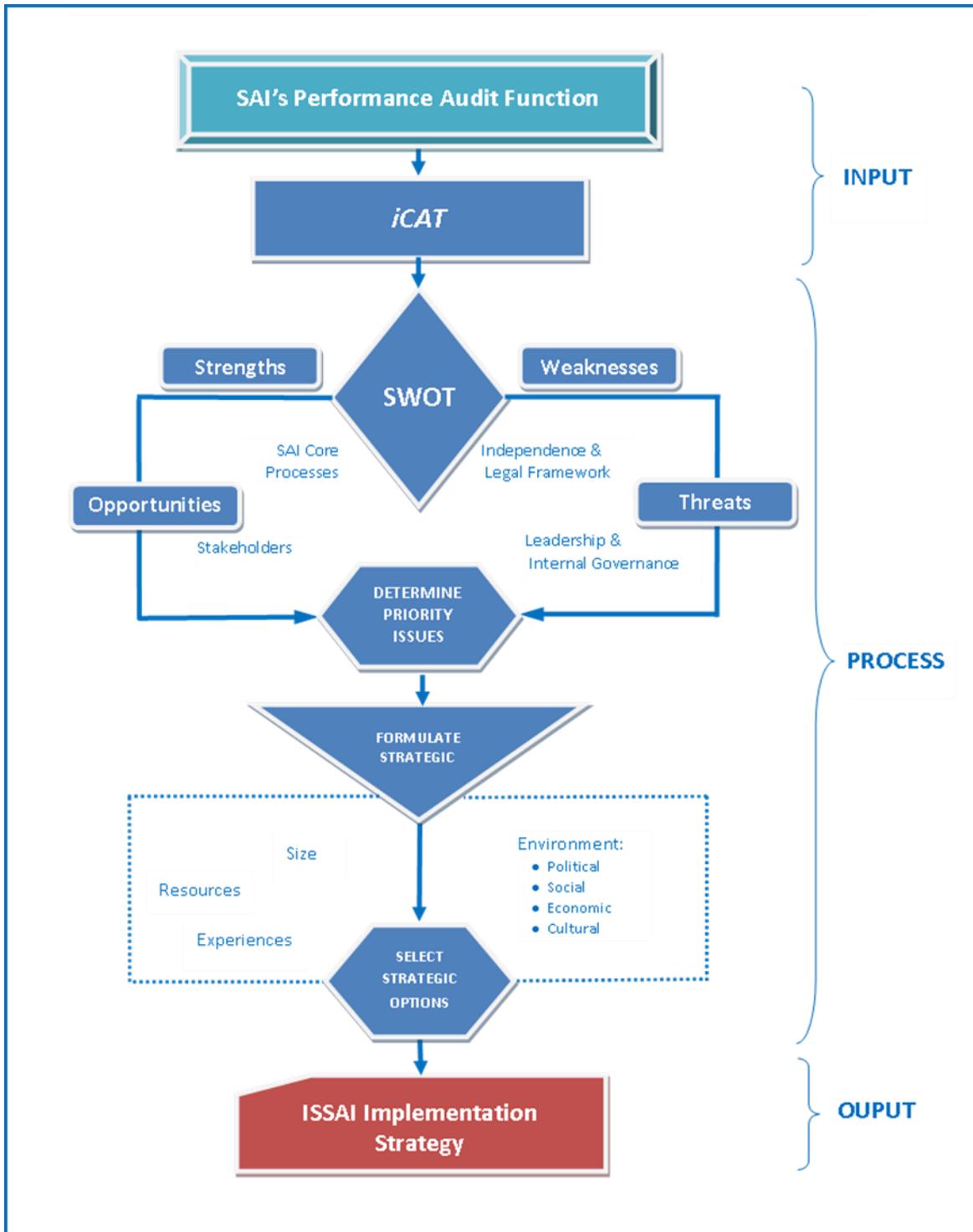
### 1.3 Performance Audit ISSAI Implementation Strategy Framework

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Figure 1.2 illustrates a performance audit ISSAI implementation strategy framework that will assist the SAIs in integrating ISSAIs in their performance auditing process. The framework includes a six step process which starts from conducting the performance audit iCAT. The framework takes into account the factors that SAIs will be required to consider in adopting varied strategies in accordance with its mandate, its nature of activities, experience and the dynamic environment it operates in. Once the strategy is formulated following the framework, it needs to be integrated into the SAI's strategic plan and operationalised through SAI's annual work plan.



Figure 1.2: Performance Audit ISSAI Implementation Strategy Framework





## 1.4 Process for formulating Performance Audit ISSAI Implementation Strategy

As shown in the Figure 1.2, there are several steps for the SAI to follow in formulating a robust and effective performance audit ISSAI implementation strategy. By following these steps a sustainable implementation and integration of ISSAIs into the performance auditing practices of the SAI can be ensured. The steps are explained below:

### **Step 1: Assessing Compliance to ISSAI requirements in Performance Auditing Practices**

The first step for the SAI is to assess the status of the SAI vis-a-vis the ISSAI requirements. The assessment would provide detail information on whether the SAI performance audit practice meets the ISSAI requirements or not. If the SAI meets the requirements, then it provides information on the mechanism in place that ensures meeting the requirement. And if not, it ascertains the causes for non-compliance as well as SAI's needs in order to be compliant. The performance audit ISSAI Compliance Assessment Tool (iCAT) would help the SAI to assess the status of compliance with the ISSAI requirements. It is important to note that the SAI needs to conduct the iCAT exercise objectively as it will form the critical input to formulate practical and implementable strategies. The ISSAI facilitators from each SAI would help the SAIs to conduct the iCAT. The SAIs are recommended to engage the trained ISSAI facilitators to guide and assist the team to conduct mapping exercise using the iCAT.

To assist with the illustration of the ISSAI implementation process, a hypothetical SAI X's case study is established in the text box below. The context is as follows:



## Case Study of SAI X: Institutional set-up and Performance Audit Practice

SAI X has a constitutional mandate to conduct performance, compliance and financial audits and has exclusive audit authority over all government agencies. It has its own Audit Act which clarifies its constitutional powers and functions, organisational structure and audit jurisdiction.

Currently, the SAI does not have the policy on Code of Ethics for its auditors. Therefore, the management of the SAI is still contemplating whether they would require the policy or not. The management is of the view that the conduct of its auditors would largely be determined by their own inherent values and principles. However, it has developed many guidance materials, manuals, handbooks and instructions which provide the detailed guidance on carrying out the performance audit functions. Some of such documents are, Performance Audit Guideline (PAG), Handbook on Quality Assurance Review Process in Performance Audit, Handbook on Audit Criteria, Handbook on Working Papers, Handbook on Performance Audit Planning, Auditor General Standing Instructions, etc.

The SAI also has a Continuing Professional Development Policy which stipulates mandatory requirement of minimum of 40 hours training in a year for performance auditors to be eligible for promotion and other incentives. The SAI recruits graduates, engineers and other professionals who passed the Civil Service Examination in the Performance Audit Division.

The Auditor General's Standing Instructions require that the audited entities provide adequate office space and access to information and documents to the auditors on duty. The instructions also prohibits auditors from sharing classified information obtained in the process of auditing with the third parties unless it is required by the circumstances and upon according prior approval from the Auditor General.

The SAI has institutionalised performance audit planning process and practices. Its established practices ensure gathering required audit evidences. The performance audit reports also undergo series of pre-issuance quality control review process. Every report of the Performance Audit Division is transmitted to the Research & Quality Assurance Division (RQAD) which assures the quality. The Division has a separate desk to check various aspect of reports – technical, legal, language and proof-reading. After all these required checks have been completed, the reports are submitted to the Auditor General for signing off.

While the review process is somewhat elaborate, the Quality Assurance and Control are still not effective to ensure full compliance to the auditing standards and policies resulting to many shortcomings in conducting and reporting of the performance audit in SAI X. Just recently, the mapping exercise of the SAI's performance audit practices using PA iCAT revealed the status of compliance to the ISSAIs requirements as discussed in subsequent paragraphs.

Table 1.1 provides an illustration of few performance audit ISSAI requirements used for assessing compliance. The illustration exhibits cases of compliance with ISSAI requirements in the SAI X. The objective of this illustration is to give an idea on when the requirement is 'Met' with the audit practice in the SAI. Since it has been emphasised that the iCAT should be done considering what it really takes when a particular requirement 'met' i.e. the SAI audit practice is in 'compliance' with the requirement. The example does not illustrate carrying out assessment using iCAT. The guidance for assessment using iCAT had already been given to the ISSAI facilitators through the online e-course on performance audit iCAT.



**Table 1.1: Example of status “Met” for ISSAI requirements**

There are over 115 PA requirements of the iCAT – 19 requirements on SAI mandate and general principles, 21 requirements on strategic planning and planning of specific audit, 51 requirements on conducting and reporting, and 24 requirements on quality assurance and control. However, the table below show only the assessment of few requirements under Level 4 which exhibits the results of an iCAT conducted with status ascertained as “Met”.

Reference	Requirement	Compliance Status	System/Mechanisms/ Instrument of Compliance
ISSAI 3100/ Appendix 3.1	The head of the SAI communicates a clear vision of the purpose for performance auditing and the desired outcomes to be achieved.	Met	Strategic Plan of the SAI clearly communicates the vision and the purpose of the performance auditing.  Specific agendas were set aside for discussion of the issues related to PA in the Annual Audit Conference and the Mid-Term Review Meeting.
ISSAI 3000/2.2	All auditors possess adequate professional proficiency to perform their tasks.	Met	Auditor General’s Standing Instructions of the SAI X provides for composition of audit team with requisite knowledge of the subject matter and experience.  Continuing Professional Development Policy adopted by the SAI stipulates mandatory requirement of minimum of 40 Hours training in a year for auditors to be eligible for promotion. Trainings based on needs are catered through regular in-house trainings, with facilitators both from inside and outside the organisation.  Performance Audit Guidelines stipulates that <i>“The organisation and its auditors must possess the required qualification and competence necessary for discharge of the audit mandates”</i> . The Guideline also stipulates augmenting audit team with Specialist/Consultant in the case of deficiency in collective competency of the team.  The SAI X has also instituted Auditor General Compliance Assurance Award as an incentive scheme to recognize performing auditors. The scheme adopted one of the criteria to vet best audit report of the year as audit approach and professional judgment dispensed in audit. It encourages auditors to excel in their performance.  The existing staff-mix for Performance Audit Division in the SAI includes professionals with qualification of Master Degree in Environmental Studies, Public Policy, MBA and IT professionals. All of the auditors in the Division have a minimum qualification of University degree in diverse fields.
ISSAI 3100, 20 & 21; ISSAI 3000, 4.2, 4.3, 5.2 and 5.3; ISSAI 3000, Appendix 3 – 1, 1.2, 2 and 2.2	Audit evidence obtained to satisfy the audit objectives and questions are valid and reliable.	Met	1. PAG of the SAI provides that <i>“Evidence is competent when it is valid and reliable and actually represents what it purports to represent.”</i>  2. Every audit report is being reviewed by the audit Supervisor and the Research & Quality Assurance Division (RQAD) in the SAI. The review includes checking whether the findings are appropriately backed with sufficient, valid and reliable audit evidences.
ISSAI 3100, 16 ISSAI 3000, 5.3 ISSAI 3000, appendix 3, 1.2	The audit procedure indicates the nature, source and the means for gathering evidence to conclude against the objectives and answer audit questions.	Met	PAG clearly describes the PA procedures. Audit Design Matrix in the Guideline stipulates the prescribed procedures.
ISSAI 3000, Appendix 4	The objectives of quality assurance procedures incorporate guidance and assistance.	Met	1. Several guidance materials were developed in the SAI for PA. These include: Handbook on Quality Assurance Review Process in Performance Audit, Handbook on Audit Criteria, Handbook on Working Papers, Auditor General Standing Instructions, PAG, Construction Audit Manual, Procurement Audit Manual, etc. Development of many guidance materials are also in the process. These include: Environmental Audit Guidelines, Public Utilities Audit Manual, Public Debt Audit Manual, Human Resource Audit Manual, etc.  2. RQAD is institutionalised in the SAI to assist and implement quality assurance process. The Division formulates plans and programmes to improve auditing and reporting processes.



Similarly, the Table 1.2 exhibits few cases of non-compliance with ISSAI requirements.

**Table 1.2: Example of status “Not Met” for ISSAI requirements**

The table below exhibits assessment of requirements under Level 4 using iCAT conducted for a SAI for the status ascertained as “Not Met”.

Reference	Requirement	Compliance Status	Reasons for Non-compliance
ISSAI 3000, 3.2	Strategic planning is the basis for the selection of audit topics and possible pre-studies.	Not met	The audit topics selections are primarily based on the current issues. Some topics in a year are the request audit topics from the Legislatures or the stakeholders empowered by the Audit Act.
ISSAI 3100/22; ISSAI 3000/ Appendix 3/5	The audit report informs the reader of the source and quality of the data, particularly when it contains estimations.	Not Met	There isn't an explicit provision requiring the SAI to reveal such information in the Guideline or in any policy document.
ISSAI 3000/2.3; ISSAI 3100/38a & b	Before using experts, the SAI ensures that the expert is independent of the activity/ programme and is informed about the	Not Met	There is no Code of Ethics developed for the SAI.
ISSAI 3000/ appendix 3, 3.1	Policy statements and legislation are analysed against the background leading to their promulgation and changes.	Not Met	There are explicit provisions in the Audit Act that the SAI cannot review the policy of the government.
ISSAI 3000/ 3.3.3; ISSAI 3000/ Appendix 4; ISSAI	QAC are designed to ensure that all audits are conducted and reported in accordance with relevant auditing standards and	Not Met	QAC are not effective to ensure full compliance to the auditing standards and policies resulting to many shortcomings in conducting and reporting of the PA.

The examples of iCAT from Tables 1.1 and 1.2 would provide the insights on the extent of compliance to the ISSAI requirements for PA. However, to have a full insight, the SAI has to complete the assessment for the whole requirements for PA. The information from the iCAT would assist the assessment team in assessing gaps and also identify the system or practice in place that assured compliance to some requirements.

### Step 2: Conducting SWOT Analysis

After the assessment of compliance to the ISSAI requirements using iCAT, the team will need to do the SWOT Analysis of the SAI performance audit practice to determine its strengths and weaknesses. The exercises would help to explore both opportunities and threats surrounding the SAI, and assist the top management in making the informed decision.

From the iCAT and the ISSAI Compliance Assessment Report (iCAR) the gaps of the auditing practices would be identified. The major areas of weaknesses will be seen from the report. The causes of non compliance to the requirements in iCAT would generally be inhibiting at the broader organisational level concerning institution’s mandate, legislations and the SAI’s established procedures. Once the causes or reasons for non-compliance are identified these can be classified under the following four domains. These four domains are categorized from the Level 2 ISSAIs.



**Figure 1.3: Four main domains under Level 2 ISSAIs**



The first category refers to the institutional capacity of the SAI and describes the requirements under ISSAI 10. The second category refers to the organisational and professional staff capacity of the SAI that is driven by SAI leadership. A combination of Level 2 ISSAI requirements are placed under this category. The third category refers to SAI core processes, which are the SAI level requirements specific to audit processes. The fourth category refers to external stakeholder relations both in terms of reporting requirements and communicating with stakeholders for audit effectiveness and impact.

The SWOT Analysis would help to assess the current situation of the SAI and serve as the guiding factor for framing strategic options for the ISSAI implementation in the SAI. Assessing the current situation of the SAI would involve ascertaining the position of the SAI with regard to the different elements and domains under Level 2 ISSAIs. Through this exercise SAI would be able to identify all the weaknesses and potential threats that undermine the performance audit practices in the SAI. Once the weaknesses and associated threats are identified, it would provide proper direction to the SAI to allocate necessary resources for improvement. This exercise would also help to explore the strengths and opportunities exist that the SAI can capitalise upon to compliment the strategies to assist instituting ISSAI compliant performance audit practices. An example of SWOT Analysis is exhibited in the Table 1.3.



**Table 1.3: SWOT Analysis of SAI X**

<b>Strengths</b>	<b>Weaknesses</b>
<p><b>Independence and Legal Framework</b></p> <ul style="list-style-type: none"> <li>• Clear and strong mandate</li> </ul> <p><b>Leadership and Governance</b></p> <ul style="list-style-type: none"> <li>• Strong and dynamic leadership, leads by example</li> <li>• Competent and strong performance auditors who are trained on continual basis</li> <li>• Clear accountability for audit engagement</li> </ul> <p><b>SAI Core Processes</b></p> <ul style="list-style-type: none"> <li>• Strong system for communicating audit results</li> <li>• Strong legal support</li> <li>• Continuous development for SAI personnel</li> <li>• Several guidance materials developed – Performance Audit Guideline, Handbooks, Instructions, Manual, etc.</li> <li>• Handbook on Quality Assurance Review Process in Performance Audit provides clear guidance on quality assurance process</li> <li>• Institutionalised performance audit planning process and practices – ensures adequate evidences gathering process</li> </ul> <p><b>Stakeholders</b></p> <ul style="list-style-type: none"> <li>• Good relationship with external stakeholders</li> <li>• Good reputation among public administration</li> </ul>	<p><b>Leadership and Governance</b></p> <ul style="list-style-type: none"> <li>• Lack of time or not enough resources allocated to carrying the audits</li> <li>• Absence of Code of Ethics</li> </ul> <p><b>SAI Core Processes</b></p> <ul style="list-style-type: none"> <li>• Lack of skills in organising and preparing working papers that can be easily understood (Documentation principle)</li> <li>• Lack of adequate skills in quantitative methods</li> <li>• No standardised engagement level quality framework in place</li> <li>• Inadequately prepared overall audit strategy</li> <li>• Lack effective practices of quality assurance and control</li> <li>• Lack of clear TOR in engagement of experts</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Assigned and assumed accountability for the audit engagement</li> <li>• Audit manual in place and used</li> <li>• Leadership will support a strong practice</li> <li>• Exclusive authority in the determination of audit scope, areas and methodology</li> <li>• Freedom from external interventions</li> <li>• Excellent understanding of the audited entities</li> <li>• Properly established audit evidences gathering processes</li> </ul>	<ul style="list-style-type: none"> <li>• Heightened reputational risk due to perceived lack of independence</li> <li>• Risk of issuance of an inappropriate auditor’s report</li> <li>• Increased audit risk</li> <li>• Risks of SAI's personnel getting involved with the management of the audited entities – conflict of interest in absence of Code of Ethics</li> </ul>

As evident from the example of SWOT analysis conducted for the SAI X as depicted in Table 1.3, we find linkages between the status of ISSAI compliance ascertained using iCAT and the issues identified under each quadrangle of the SWOT. Further analysing the issues identified under each quadrangle, we get an overview of the problems and challenges confronting the SAIs that had impeded achieving compliance to ISSAI requirements.

The SAIs can also discover its own strengths and good practices which are attributed for facilitating



compliance to ISSAI requirements. Therefore, the SWOT analysis, if conducted objectively, would present a unique set of issues for each SAI depending on the situations circumventing the four main domains of Level 2. For example, ISSAI 3100/Appendix 3.1 requirement presented in the iCAT of SAI X in the Table 1.1 provides that *“The Head of the SAI communicates a clear vision of the purpose for performance auditing and the desired outcomes to be achieved”*. Concurrently, the SWOT analysis for the SAI X revealed that it has a strength identified as *“Strong and dynamic leadership”*. The compliance status of all ISSAI requirements of performance audit, whether met, met to some extent or not met, would generally be linked with the organisational level which can only be discovered by conducting the complete analysis.

The linkage established between the iCAT and the SWOT analysis will explain many of the causal relationship for the gaps identified through iCAT. Therefore, the analysis will also help to identify the reasons for the gaps. When considering the gaps and their causes across domains identified as independence and legal framework, leadership and internal governance, SAI’s core processes and external relationships, it is possible that many of the gaps across domains can be linked under a common issue. Example, ISSAI 3000/2.3 and ISSAI 3100/38a provide that *“Before using experts, the SAI ensures that the expert is independent of the activity/programme and is informed about the conditions and the ethics required”* – a requirement not complied in SAI X as revealed through iCAT (Internal Governance). On further analysis using SWOT, it revealed that the SAI X does not have a Code of Ethics which explains the deficiency observed through iCAT. Therefore, integrating the results of the two tools, iCAT and SWOT would divulge many of the strategic issues that may warrant appropriate interventions.

### **Step 3: Determine the priority issues for the SAI**

Once the SWOT analysis for the SAI has been conducted by the team, the results would present the main issues confronting the organisation. At this stage, the assessing team should list the strengths and weaknesses in different domains. In many cases, similar strengths and weaknesses may exist across domains. The team is expected to cluster issues across domains to come up with the broad issues being faced by the SAI. The issues should be regarded as the strategic priorities if they have the potential of directly affecting or deterring the robust performance audit practices in the SAI. Example, the SAI X does not have *“Code of Ethics for its staff”*. It is an issue of concern for the SAI X as it would largely determine how the staffs conduct themselves to ensure objectivity of their professional duties. Likewise, the issues such as lack of skills and domain experts may be the priority issues for the SAI X.

At this stage, it may involve some analyses for the team to identify common issues across the main domains. Therefore, the team is recommended to involve internal or external experts to help with the analysis for those SAIs that do not have the trained ISSAI facilitators. We anticipate that the trained ISSAI facilitators have the adequate skills for such exercises. Due caution should be applied to identify the priority issues under each domain. It may be important for the team to involve top management, middle level managers as well as the entire staffs, if possible. However, it is recommended to at least engage some representatives or team leaders or a focus group conversant with the policy, practices and constraints being faced in the working environment. Involvement of various levels of staff in the SAI would aid identifying strategic issues from different perspectives.

The priority should be accorded for issues reflected under the weakness quadrangle, and the



resources allocation or strategic move should be focused in such areas to rectify the observed deficiencies and to mitigate the possible threats. However, the SAI should take into account its own strengths as it would present altogether the different opportunities to capitalize upon. It would enhance the achievement of its goal of instituting performance audit practices compliant with the requirements of the ISSAIs.

The illustration through the examples of iCAT and SWOT analysis of SAI X indicated that some of the priority issues confronting the SAI X are:

- Code of Ethics institutionalised for the staff
- Documentation process including working papers
- Developing skills in quantitative methods
- Best practice for reporting and communicating audit results
- Evidence gathering methodology
- Financial and human resources
- Ensure quality reviews

#### **Step 4: Identify strategic options to address the prioritised issues**

Based on the priority issues identified under Step 3 above, the team should work on to formulate various strategic options. As discussed above in the Step 3, the priority issues should accord higher resource allocations and the strategic move should be focused on these issues.

Since the ultimate goal for the team is to institutionalise performance audit practices compliant with the requirement of the ISSAIs in respective SAIs, it is very important for the team to identify a doable strategy.

From the same example of SAI X, it had identified priority issues as listed under the Step 3. At this stage, it is important for the team to identify various strategic options aimed at tackling these issues. Therefore, the team should begin by consulting and brainstorming on the root causes of the issues. As in the Step 3, the team should involve top management, middle level managers, and the focus group to identify various strategic options. Such approach of participation also helps enhancing the acceptability and eliminating bottle-necks arising from the employees during actual implementation of the strategies.

As an illustration to understand this step, we take into consideration few examples of priority issues identified for SAI X. Based on the identified priority issues, some of the probable strategies one can suggest are (*It is important to note that following are examples set for the team, and not an exhaustive list*):

- Develop and institutionalise the Code of Ethics for staff
- Develop Human resources policy
- Establishing a performance measurement framework
- Develop outsourcing policy and comprehensive Terms of References for engagement of experts
- Build team skills for conducting performance audit
- Increase the awareness among the audited agencies about performance auditing



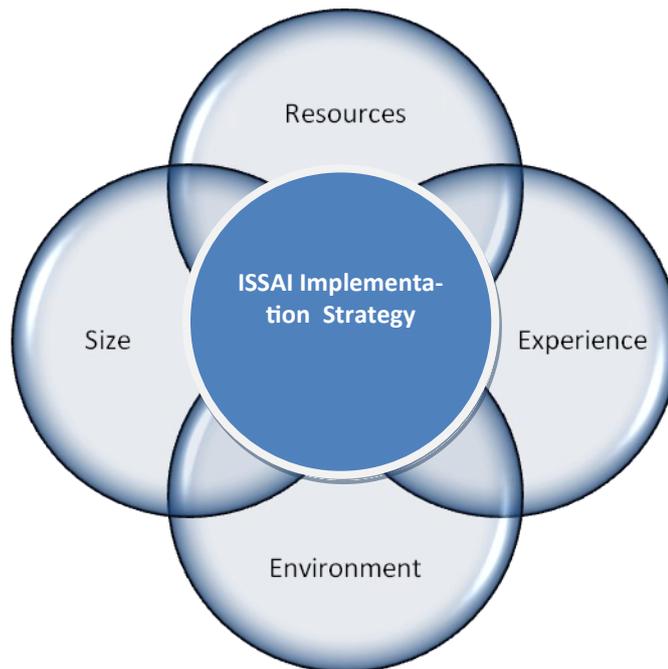
- Establish strong internal governance structure
- Develop sound quality assurance system
- Strengthen relationship with the stakeholders (legislature, media, civil society and NGOs)
- Promote relationship with professional bodies and other Supreme Audit Institutions
- Carry out cooperative audits with other SAIs to encourage experience sharing and continuous learning

**Step 5: Select ISSAI Implementation Strategic Options for the SAI**

Once the team had formulated various strategic options, they should weigh the alternatives on the backdrop of various key factors that would determine the practicality of the strategies. Therefore, while evaluating the strategic options, the team should consider the resources availability, size of SAI, years of experiences in conducting PA and the dynamic environment it operates in. All of these factors need careful considerations as they involve intricate issues that may have a potential to defunct the initiatives or proposed strategies during actual implementation.

Each strategic option identified under Step 4 would undergo various screening processes, weighed against several factors to justify practicality and cost-effectiveness of the proposed strategies. Therefore, the selection of ISSAI Strategic options has to be looked at from four main aspects or factors as exhibited in Figure 1.4.

**Figure 1.4: Factors determining selection of ISSAI Implementation Strategic Options**





## **i. Resources**

The choice for any strategic option has to be weighed against the availability of resources, both human and financial. It is quite common, especially for developing SAIs that this consideration weighs too heavy in determining the choice of available alternatives. Since some proposed strategies may involve bringing in overhaul in the performance auditing practices, which may include bringing in institutional reforms, development and harmonisation of existing legislations, manuals and policy documents, the resource considerations are fundamental to all of these proposed initiatives. The institutional and human resources are also vital considerations in determining whether the SAIs have the capacity to implement the proposed strategies.

## **ii. Size**

Generally, the small SAIs may find it much easier to implement the proposed strategies as they may require limited coordination and harmonisation activities as compared to the big SAIs. However, it may not be the case in all the situations depending on the local contexts and other factors. Therefore, the team should consider the options taking into account the actual context of the SAI's size.

## **iii. Experiences**

There are different SAIs with varied level of experiences in performance auditing. The general rule is that, the SAIs with more years of experiences may have an edge in implementation of the strategies as compared to those SAIs that are just beginning or have no experience of conducting performance auditing. Therefore, the selection of strategic options may also largely depend on the number of years of experiences the SAIs have in conducting PA.

The SAIs should not try to accomplish too much too quickly. Implementation of some strategies are time consuming, and even more so for less experienced. In order to get full scale strategies implemented, it is advisable to look for some quick wins in one or two easy strategies that the SAI has some experience and confidence in dealing with. Starting with small and easy strategies may provide valuable lessons and experiences in dealing with complicated strategies that may bring about major overhaul in the performance audit practices.

## **iv. Environment**

The viability and feasibility of ISSAI implementation strategies in SAIs would also largely depend on the environment the SAIs are currently operating in. Therefore, the team should also scan the environment from various aspects, including social, economic, political and cultural diversity to select the most viable strategic options. In fact, it would be important to note that each SAI is operating in completely different environment, and there may not be a single strategy fit for all SAIs. There are SAIs with institutional set-up under Court system or Westminster system, depending on the country specific political system. Likewise, each SAI is operating in a country with different level of socio-economic development and holding different beliefs and cultural values, thus, having a single straightjacket strategy may not have expected impact.



From the very broad perspectives and the regional location, all the SAIs around the globe are grouped under one of the many regional groups, like, ASOSAI, AFROSAI, ARABOSAI, CAROSAI, EUROSAI, PASAI and OLACEFS. However, it is still possible that all SAIs under the regional group may not have a single situation in common, thus calling for a different and unique set of strategy befitting to SAI's specific needs and situation govern by its environment.

Therefore, the team should take into consideration all the factors discussed above in determining the most viable ISSAI implementation strategy. However, at this stage, it is also very important for the team to facilitate a process for getting the Head of the SAI and senior management involved for selecting the most viable strategic options. In fact, the top management is the main driver and would have a larger role on the success or failure on the implementation of the strategies. Therefore, the endorsement of the ISSAI implementation strategies from the Head of the SAI is very critical.

### Step 6: ISSAI Implementation Strategy

From the same example of SAI X, the team had formulated list of strategic options as in the Step 4 for the SAI to choose the viable strategic options. Taking assumptions of the resource availability, small size of the SAI, moderate level of experiences in conducting PA and conducive environment for selected strategic options, the team had finalised on the following strategic options (*It is important to note that following are examples set for the team, and may not hold true in all situations*):

- Develop and institutionalised Code of Ethics
- Develop Human Resources Policy
- Develop outsourcing policy and comprehensive TORs for engagement of experts
- Further strengthen quality assurance system
- Promote relationship with professional bodies and other Supreme Audit Institutions

Once the strategic options are finalised and endorsed by the Head of the SAI, the strategy should be integrated into the SAI's overall Strategic Plan to provide a clear road map for implementation. It should culminate into an Action Plan through annual operational plan to aid progressive and sustainable implementation of strategy aimed at instituting performance auditing practices, compliant to the requirements of the ISSAIs.

Next section describes the process for formulation of an action plan. An example and format for preparing in action plan is illustrated in table 1.4.

## 1.5. Formulation of an Action Plan

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The action plan will follow from the SWOT analysis and after undergoing consideration of the needs analysis. This will be presented in the form of four domains with the issues that have been identified. Below is an example of an action plan format for one domain – Independence and legal framework.



**Table 1.4: Example and Format of preparing action plan**

Domain 1: Independence and Legal Framework				
Actions steps <i>[What will be done?]</i>	Timeline <i>[By when?]</i>	Person(s) responsible <i>[Who will do it?]</i>	Resources <i>[Human/Funds/ Equipment/Tools, etc]</i>	Evaluation <i>[How will SAI know that is making progress? What are the benchmarks?]</i>
Spearhead and work closely with legislature for the enforcement of financial autonomy provision of SAI-X in the audit act.	Q4 of 2014 (LT)	Auditor General and legal officer	Working group	Enforced the financial autonomy provision
Spearhead and work closely with legislature for proposing amendment of the act to give SAI mandate autonomy of SAI-X in recruitment and professional enhancement of auditors.	Q4 of 2014 (LT)	Auditor General and legal officer	Working group	Amendment of SAI-X recruitment autonomy proposed to the parliament.
Prioritize the audit assignments according to financial and human resources available and staff competency.	Q4 2013 (ST)	Heads of Divisions	No costs	<ul style="list-style-type: none"> <li>• Categorized entities into the category of A, B and C [A: Audit annually; B: Audit once in two years; and C: Audit once in three years].</li> <li>• The amount of budget allocated to entities, nature and risk profile used as criteria for categorisation.</li> </ul>

Note: ST-Short Term Solution & LT-Long Term Solution

Approved by:

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## 1.6 Commitment and direction of the leadership in implementing the Action Plan

Once an action plan has been prepared based on number of issues faced by the SAI in implementing the ISSAIs, the same should be placed before the Head of SAIs as the successful implementation would depend on his/her commitment and necessary directives. The timeline and resources indicated in an



action plan should be agreed and approved by the Head of an SAI.

To demonstrate the commitment to implement the action plan, for example, an executive order or a standing order should be issued by the Head of SAIs re-enforcing the responsible officials to comply with the timeline set in the plan and evaluate the outcome of actions implemented. The SAI should also develop a culture of accountability wherein the responsible officials indicated in the action plan are held accountable for their failure if any, and the performers are rewarded appropriately.

It is also the role of the Head of SAI to seek necessary funding to implement the action plan, especially in the areas of training and procurement of equipment, and putting the related infrastructure in place, which are necessary to achieve the intended outcome.

Since the implementation of ISSAIs may be a completely new area for some of the SAIs, management and adaptation to such changes often become difficult. Therefore, the leadership of the SAI should be committed to managing such changes. The Head of the SAI can delegate the responsibility on implementation of action plan. However, he/she should assume the final accountability.

## 1.7 Guidance on preparing Action Plan

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In translating these options to an action plan, the SAI would need to identify the activities, timelines, resources required and responsibility. The action plans should be evaluated for continuous monitoring to ensure ISSAI implementation is always on track. After the completion of this action plan it should be discussed at the management level and with the responsible officer and approved by the head of the SAI.

### **i. Identifying the activities to reach end result**

In identifying the activities, SAI should list the projects or enhancement to processes that will be undertaken to accomplish the end result.

### **ii. Timelines**

What is also vital in this action plan is the scheduling of each task and as such, SAIs need to set timelines for the accomplishment/approval of each task. The SAI should determine whether these timelines should be short or long term based on their priorities and current environment. The timelines set by the SAI to accomplish task/activity should be realistic, achievable and depends on the SAI environment and availability of resources. Smaller SAI may have to consider reallocating functions/duties or staff may have to multi-task as they do not have dedicated staff to carry out some of these activities. This may require more time to accomplish tasks. The sourcing of funding may be long-term as some SAIs have to go through a budget process.

### **iii. Resources Required**

SAIs need to consider the resources needed to implement the solutions. These resources could entail funding, technical experts, materials, equipment, people, systems among other things. The SAI would also need to consider the cost for these resources based on their current environment and situation.



#### **iv. Responsible Officer**

In order for a strategy to be successful, human resource is one of the most critical factors. Therefore, the SAI would need to consider the persons who will carry out the various tasks. The persons chosen should be responsible and act as a change agent to get all people affected by the strategy/project involved, to ensure their support and commitment. The task/activities to be accomplished should be translated to the responsible officer's individual work plan.

#### **v. Monitoring of Plan**

In the action plan, provision should also be made for the monitoring of the plan. This should be done to measure the timely accomplishment of the planned tasks/activities and identify problems and recommend contingent actions.

## 1.8 Conclusion

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The formulation of a robust performance audit ISSAI implementation strategy is a key to ultimate institutionalisation of vibrant and dynamic performance audit practices, compliant to the ISSAIs requirements. Therefore, this Handbook provides the broad based and structured processes that may prove handy to the ISSAI facilitators or team to formulate the ISSAI implementation strategy for their respective SAIs.

The step-by-step process takes into account several factors to be considered under each step starting from conducting the iCAT to performing SWOT analysis for determining priority issues and exploring alternative strategies to finalising the most viable strategic options, befitting to the nature, experiences and the dynamics of environment the SAIs operate in. The selection of strategic options also takes into account the resource availability as most of the developing SAIs function under constrain of resources. These steps have been illustrated through the example provided for the SAI X for easy understanding of each process.

The gaps between the SAI's current situation or practices and the ISSAI requirements are explained through the causal relationship identified in SWOT analysis conducted for the SAI. The analysis helps to identify several strengths and weaknesses and ascertaining the position of the SAI. Integrating the results of the two tools, iCAT and SWOT reveal many of the strategic issues that may warrant appropriate interventions. It is important to note that many of the gaps identified have a relationship with the deficiencies inhibiting at the higher spectrum or domain identified under Level 2. Therefore, the key to successful institutionalisation of the robust PA practices in the SAI rests on eliminating the deficiencies inhibiting at the main domains.

Subsequent Chapters would discuss the specific ISSAI requirements throughout the auditing cycle. It would also illustrate how a specific deficiency can best be remedied through adoption of best practices and examples provided as an antidote to some of the actual and perceived gaps existing at each phase of performance auditing.



## Chapter 2: Introduction to Performance Auditing

### 2.1 Introduction

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This chapter presents some concepts regarding to performance auditing. First, there are the definition, the purpose and the benefits of performance auditing and an explanation about confidence and assurance in performance auditing.

Then, the chapter contains definitions and examples of some performance dimensions. After this, there is a comparison between performance and compliance audit.

By the end, there is the performance audit cycle and mention to three approaches to conduct a performance audit.

#### 2.1.1 What is performance auditing?

Performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organizations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements (*ISSAI 3000/1.5; ISSAI 300/8*). Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Subject matters need not be limited to specific programmes, entities or funds. They can include activities, output, outcome and impact, such as service delivery by the responsible parties and effects of government policy and regulations on responsible parties, stakeholders, businesses citizens, and society. **The main questions are whether the government is “doing the right thing” and doing this “in the right and least expensive way”.**

#### 2.1.2 The purpose of performance auditing (*ISSAI 3100/Appendix 2.2*)

The purpose of performance audit is to contribute to improved economy, efficiency and effectiveness in the public sector by examining, analysing and reporting on the performance of public entities. Performance audit can bring advantages to governments by promoting good governance and accountability; promoting transparency and provide reliable and independent information; and promote incentives for learning and change and improved conditions for decision making.

While promoting *good governance* is one of the main aims of performance auditing, it also contributes to accountability and transparency by assisting those charged with governance and with oversight responsibilities in improving performance, rather than merely to identify weaknesses or past errors. It does this by examining whether decisions by the legislature, or the executive authorities are efficiently and effectively implemented, and whether the taxpayers or citizens have received value for money. It



does not question the intentions and decisions of the legislature, but instead examines whether possible shortcomings in the laws and regulations have affected those intentions being met. Performance auditing focuses on examining issues that can add value to the citizens, and on areas with most potential for improvement. It provides constructive incentives for the responsible authorities concerned to take appropriate actions.

Performance auditing promotes transparency by affording taxpayers, financiers, ordinary citizens, and the media an insight into the management and outcomes of different government activities. It thereby contributes in a direct way in providing useful information to the citizen while also serving as a basis for learning and improvements. In performance auditing, SAIs should decide within their mandate on what, when and how to audit and should not be restrained from publishing its findings, if not prohibited by law.

### **2.1.3 Confidence and assurance in performance auditing (EV ISSAI 300/21-23)**

As in all audits, the users of performance audit reports will wish to be confident about the reliability of the information which they use for taking decisions. They will therefore expect reliable reports which set out the SAIs' evidence-based position on the subject examined. Consequently, performance auditors should in all cases provide findings based on sufficient appropriate evidence and actively manage the risk of inappropriate reports. However, performance auditors are not normally expected to provide an overall opinion, comparable to the opinion on financial statements, on the audited entity's achievement of economy, efficiency and effectiveness. This is therefore not a requirement of the ISSAI framework.

The level of assurance provided by a performance audit should be communicated in a transparent way. The degree of economy, efficiency and effectiveness achieved may be conveyed in the performance audit report in different ways:

- Either through an overall view on aspects of economy, efficiency and effectiveness, where the audit objective, the subject matter, the evidence obtained and the findings reached allow for such a conclusion; or
- By providing specific information on a range of points including the audit objective, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions.

Audit reports should only include findings that are supported by sufficient appropriate evidence. The decisions made in drawing up a balanced report, reaching conclusions and formulating recommendations frequently need to be elaborated upon in order to provide sufficient user information. Performance auditors should specifically describe how their findings have led to a set of conclusions and – if applicable – a single overall conclusion. This means explaining which criteria were developed and used and why, and stating that all relevant viewpoints have been taken into account so that a balanced report can be presented. The principles on reporting give further guidance for this process.



## 2.2 Benefits of performance auditing

There is a view among some practitioners that only developed countries where corruption levels are generally low should conduct PA. And it would be a mistake to allocate resources to conduct PA in countries where there are wide spread irregularities and misuse of public resources. But it is a complete myth. How can one detect corruption without looking at the results?

Performance auditing leads to knowing better how the public administration works, helps in developing a systemic vision and allows prioritizing control actions on risk activities. PA helps to identify inefficiency and waste. Sometimes, waste of public money amounts more than it is due to corruption.

Some examples of performance auditing findings relating to waste:

- expired medicines – could be bad management or corruption (purchase of larger amount than real need) ;
- new machines unused – could be due to lack of appropriate personnel to operate them, lack of training, or unnecessary purchase due to strong lobby or bribery;
- people with higher salary and out of the target population, receiving benefits from government scholarship program – could be due to weak controls or corruption.



These findings, besides helping to suggest recommendations on efficiency, could give information on possible areas where there is fraud or corruption and, therefore, could indicate possible subjects for future compliance audits. The adequate control of public resources presupposes interaction between performance evaluation and actions against fraud and corruption. In fact, performance and compliance are complementary parts of the bureaucratic control.

PA can also strengthen the cultural diversity, creativity and learning in SAI, leading the auditors to focus on important social, political and economic matters. PA has the potential to increase SAI presence in media because PA themes usually attract public interest. Besides increasing visibility of SAI, it also increases auditor's motivation due to public exposure of their work.

Because one of the PA objectives is to identify potential improvements in public administration (and so help to reduce government expenditures), the credibility and the results obtained due to this type of audit can encourage the government/parliament to put more resources on SAI.

## 2.3 The 3Es

Economy, efficiency and effectiveness, often known as the three Es, form the theoretical platform for



performance auditing. INTOSAI (*ISSAI 3000/1.5, 2004*) describes the concepts as follows:

### 2.3.1 ECONOMY – Keeping the cost low

Economy means minimizing costs of resources used in performing an activity, without compromising quality standards. It refers to the ability of an institution to properly manage its financial resources (*ISSAI 3000/1.1 and 1.5*). The principle of *economy* is about keeping the costs low. The resources used should be available in due time, in appropriate quantity and quality and at the best price. Audits of economy may provide answers to questions such as:

- Do the means chosen or the equipment obtained (i.e., the inputs) represent the most economical use of public funds?
- Have the human, financial or material resources been used economically?
- Are the management activities performed in accordance with sound administrative principles and good management policies?

Examining economy may include verification of management practices, management systems, benchmarking of procurement processes and other procedures pertaining to the performance audit, while the strict examination of the legality of bidding procedures, genuineness of documents, efficiency of internal controls and other aspects should be the object of a compliance audit. Actually, there may be some overlap between compliance audit and performance audit. In such cases, the classification of a particular audit will depend on the primary objective of the audit (*ISSAI 100/41, 2001*).

Even though the concept of economy is well defined, an audit of economy is not that easy to conduct. It is often a challenging task for an auditor to assess whether the inputs chosen represent the most economical use of public funds, resources available have been used economically, and if the quality and the quantity of the 'inputs' are optimal and suitably co-ordinated. It is even more difficult to provide recommendations that will reduce the costs without affecting the quality and the quantity of services.

Economy refers to acquisition of resources of appropriate quality and quantity, at the lowest cost. For instance it can answer the following:

- Has the agency signed up with the best contractor available to provide the service?
- Have hospitals purchased equipment at the most economic cost available?

### 2.3.2 EFFICIENCY – making the most of available resources

Efficiency is the relationship between products (goods and services) generated by an activity and the costs of inputs used to produce them in a certain period of time, maintaining the quality standards. The principle of efficiency is about getting the most from available resources. It is concerned with the relationship between resources employed, conditions given and results achieved; in terms of quantity, quality and timing of outputs or outcomes.



This dimension refers to the effort of the process to transform inputs into outputs. It can be examined from two perspectives: minimizing the total cost or the means required to obtain the same quantity and quality of the output, or optimizing the combination of inputs to maximize the output when the total expense is determined in advance. In this case, the time required for execution of tasks has to be considered. Efficiency can be measured by calculating and comparing the unit cost of producing a good or a service. Therefore, we can consider that the concept of efficiency is related to the economy.

The main question is whether these resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources. *Are we getting the most output – in terms of quantity and quality – from our inputs and actions?* The question refers to the relationship between the quality and quantity of services provided and the activities and cost of resources used to produce them, in order to achieve results. The question is whether the same outcomes or outputs could have been achieved with fewer resources; or the same resources could have produced more outcomes or outputs.

Therefore, efficiency is about maximum output obtained for a given level of input, or the minimum level of input required for a given level of output - spending well. Examples could be:

- Is the department obtaining the best services for the funding allocated?
- Are schools using their computer/IT equipments to the maximum level?

### **2.3.3 EFFECTIVENESS – achieving the stipulated aims or objectives**

Effectiveness is essentially a goal-attainment concept. It is concerned with the relationship between goals or objectives, outputs and impacts. It refers to the relationship between the outcomes of an intervention or program in terms of its effects on the target population (observed impacts), and the desired goals (expected impacts). It means verifying if the changes in the target population could be attributed to the actions of the evaluated program.

Effectiveness comprises two distinct aspects: the attainment of specific objectives in terms of outputs and the achievement of intended results in terms of outcomes. Auditors working on effectiveness can benefit from approaches drawn from disciplines, such as programme evaluation. Where appropriate, the impact of the regulatory or institutional framework on the performance of the entity should also be taken into account (*ISSAI 300, 9*).

The effectiveness assessment presumes that goods and/or services were offered as planned. Examination of the effectiveness or impact evaluation requires specific methodological treatment in order to establish a cause and effect relationship between the variables of the intervention and the effects observed, comparing them with the estimated result if the intervention did not exist (*ISSAI 3000/1.7, 2004*).

Effectiveness is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity. Are the stipulated aims being met by the means employed, the outputs produced and the impacts observed? Are the impacts observed really the result of the policy rather than other circumstances?



Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity entails audit of the actual impact of activities compared with the intended impacts. In practice, such comparisons are usually difficult to make, partly because comparative material is often lacking. In such cases, one alternative is to assess the plausibility of the assumptions on which the policy is based. Often a less ambitious audit objective will have to be chosen, such as assessing to what extent objectives have been achieved, target groups have been reached, or the level of performance.

Effectiveness deal with issues like:

- Are departments or agencies meeting their policy objectives?
- Are departments or agencies achieving their program objectives in all sectors of the community?

### 2.3.4 The fourth E – Equity

In addition to the 3Es that are commonly used, Equity is also increasingly being considered in Performance Auditing as the 4<sup>th</sup>E. So, in many audits, the performance auditor will also be expected to address concerns relating to equity while assessing the effectiveness of a program/activity.

Equity, which can be derived from effectiveness of public policy, is based on the principle that recognizes the difference among individuals and the need for differential treatment. To provide genuine equality of opportunity society must cater more to those born with fewer skills and those born in socially disadvantaged areas. Unequal treatment is fair when it benefits the neediest individual – fair inequality. Therefore, public policies of protection and social development play a key role in building equity (*Performance Audit Manual – SAI Brazil, 2010/11*).

The examination of equity may involve, for example, research of criteria for resource allocation vis-à-vis the spatial distribution and the socioeconomic profile of target population; strategies adopted by the public administrator to adjust the supply of services or benefits to different needs of the audience; strategies adopted by the manager that consider gender issues; strategies that benefit minorities (*PAM Brazil, 2010/12*).

Examples of government programs that consider equity:

- sanitation program that allocates more financial resources to the poorest regions of the country;
- housing program that registers the women as the owner of the property;
- employment program that reserves some places for disabled people.

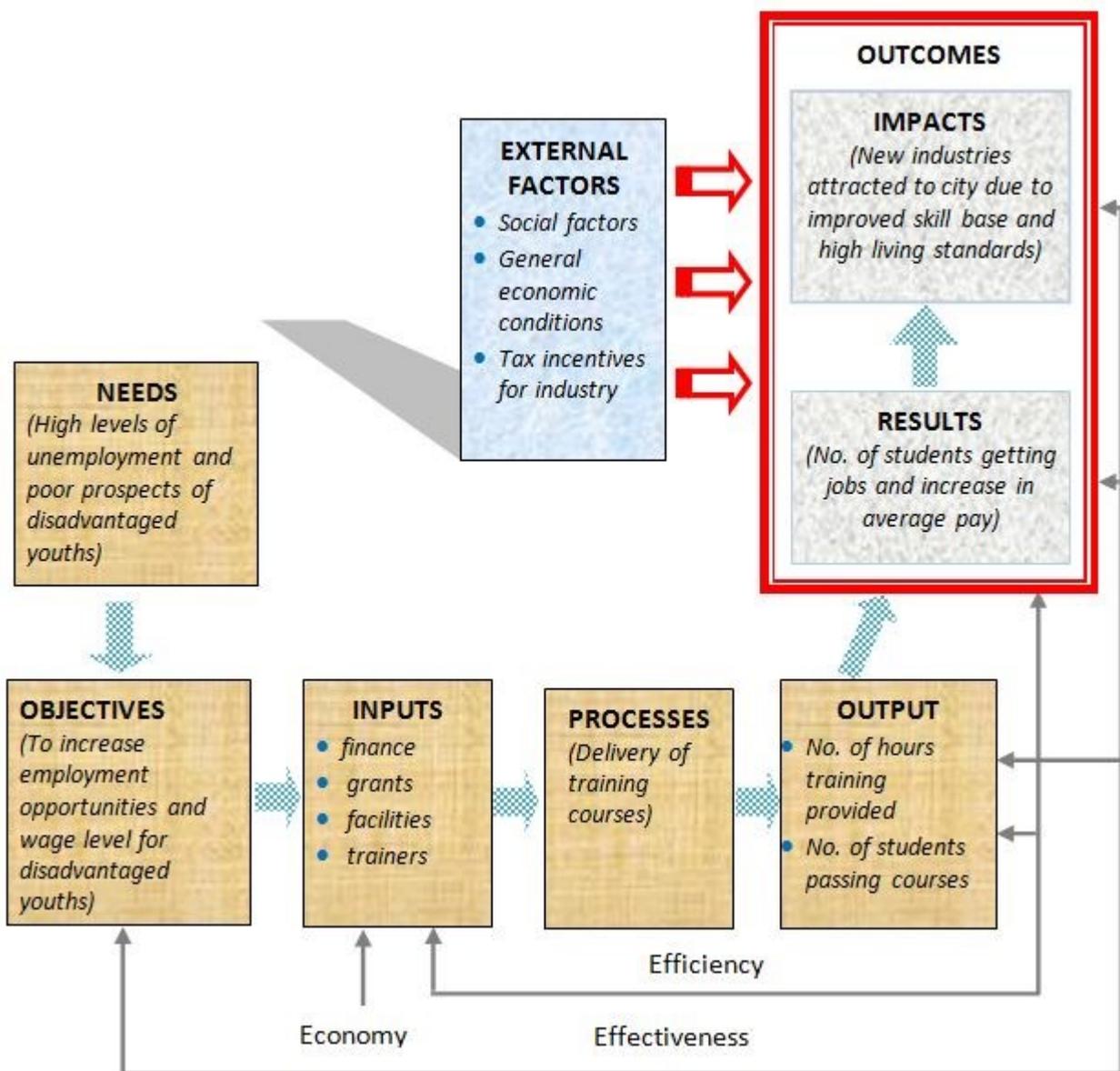
## 2.4 Application of 3Es

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Regardless of their nature, all activities can be analysed as a set of financial, organizational and human resources mobilised to achieve, in a given period of time, an objective or a set of objectives. The use of logic models can help auditors to identify and set out the relationship between economy, efficiency and effectiveness. Auditors should identify potential risks to achieving economy, efficiency and effectiveness while studying program logic models and then develop audit questions. Figure 2.1 shows



a



logic model (PAG Bhutan, 2011/1.4.2).

Figure 2.1 – Logic model

Source: PAG Bhutan, adapted from PAM European Court of Audit.

These three terms (economy, efficiency and effectiveness) are often confused by the auditor. The overriding objective of any activity is effectiveness. **Effectiveness** is a measure of how well an audited activity achieves its objectives. These objectives may be specifically stated or they may be the outputs of the activity. For example, the principal objective of hiring a vehicle to move files from one building to another is that the files are moved to the other building. If this happens then the procedure appears to be effective. Effectiveness generally involves not just producing some sort of deliverable but doing so in a way that optimises the expenditure of public monies.

The other elements of performance audit are logically, subsets of effectiveness, and are the objectives



of the activity or program that are often unspoken. Any expenditure on an activity should be done in the most **efficient** manner. The program outputs being produced using the least amount of resources as possible to produce outputs of the required standard. It would not be efficient for example to hire a ten tonne truck to move a box of files from one place to another even though it would achieve the desired result, if there were smaller, cheaper vehicles available.

**Economy** is concerned with costs of input. In the example above if it is possible to hire two identical vehicles to move the box of files, and management chooses the more expensive of the two, then this is not economical.

Other example to show the application of the 3Es is on a vaccination program. Suppose the objective is to vaccinate 10,000 children under one year during the next six months. The Ministry of Health had a budget to buy the vaccines. If, after a market research, the agency/person responsible for the acquisition of vaccines manages to buy it at cheaper than expected rate (with the same quality), we can say that **economy** was achieved. Let's say in health unit A, the nurse has vaccinated 10 children per day. In health unit B, the nurse has vaccinated 12 children per day. So, the nurse from health unit B was more **efficient**. If, by the end of six months, 10,000 children (or more) received vaccine, the program was **effective** regarding the outputs. If the measles case has decreased among vaccinated children less than one year, the program has been **effective** regarding outcomes.

## 2.5 Performance audit and compliance audit approaches

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As we already know, performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organizations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements (*ISSAI 300/8*). The purpose of PA is to contribute to public management improvement.

Compliance auditing is the independent assessment of whether a particular subject matter is in compliance with applicable authorities identified as criteria. (*ISSAI 400/19*). The purpose of CA is to verify if actions of the manager are according to the laws, rules and official instructions.

Therefore, because of the different purposes of this two audit types, different approaches are required in implementing them. The table below presents some characteristics of the performance auditing and the compliance auditing (*Barzelay, Michael, 1997*).



Table 2.1: Characteristics of performance auditing and compliance auditing

Characteristics	Performance auditing	Compliance auditing
<b>Principle</b>	Economy, efficiency, effectiveness	Compliance with law
<b>Audit purpose</b>	Contribute to public management improvement	Verify if manager acts according to the laws and rules
<b>Auditor role</b>	Performance evaluation	Verify discrepancy between the existing situation and the rule
<b>Auditor knowledge</b>	Social science, policy analysis	Accounting and law
<b>Auditor behaviour</b>	Consultant or public policy analyst	Judge or accountant
<b>Relationship with audited entity</b>	Partnership, cooperation	Independent external agent
<b>Criteria</b>	Legal standards, good practices, professional values, models, experience	Legal standards
<b>Entity image</b>	Service provider	Bureaucracy
<b>Optimal functioning</b>	Activities working in the best possible way	Activities ruled by systems
<b>Manager profile</b>	Flexibility, entrepreneurship	Obedience to procedures
<b>Accountability</b>	Performance accountability	Compliance accountability

Besides the characteristics presented on the table, there could be some other differences between the two audits. According to Barzelay, one factor that is different between performance and compliance auditing refers to the way of perceiving the government organizations. In performance auditing, the government organization is considered as a productive process, that transforms inputs into products and the products influence the outputs and outcomes. In this case, the improvement of the process is considered as the main aim of the public policy. In compliance auditing, the government is considered as a bureaucratic machine, where the processes are standardized, procedures and criteria are established by experts and a strong supervision is required.

The author says that, in performance auditing, the measures of success are embedded in the concepts of economy, efficiency and effectiveness. The image of an efficient organization is related to whether the administration concerns about improving the productive processes and to adapt the programmes' designs according to feedback and changes on public policies objectives. In compliance auditing, that organization works well which has proper operational criteria and regulatory systems that would keep its activities, transactions and people under control.

The major objective of a compliance auditing is to guarantee that organizations and people follow criteria or rules. The goal is to avoid procedures that represent deviation from standards. On the other hand, in performance auditing, the idea is that an organization should be questioned more to the results of its acts than to its operating means.



## 2.6 Performance audit cycle

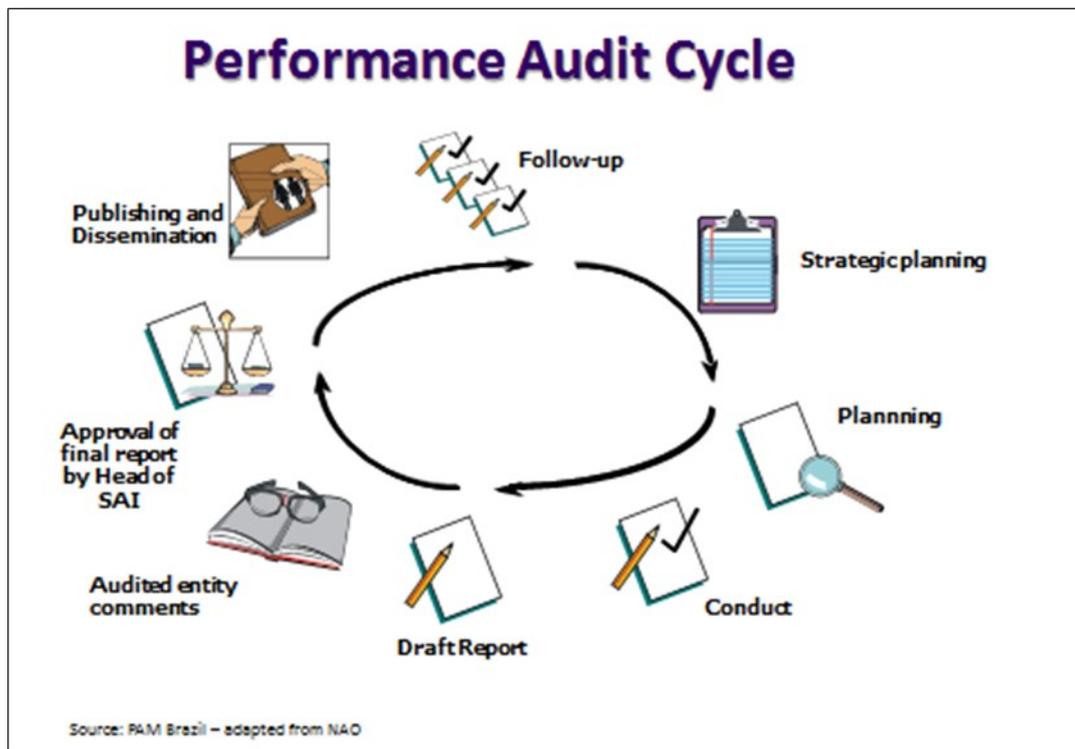


Figure 2.2 Performance audit cycle

The performance audit cycle begins with the strategic planning, from where the audit topic is chosen. After defining the specific audit topic, there is the planning phase, where the audit project is designed. It contains the work objectives, the issues to be investigated, the procedures to be developed and the results expected with the audit. In the conducting phase, there is data collection and data analysis that will support the report, which will communicate the findings and conclusions of the audit. The follow-up phase is intended to monitor the actions taken by the audited entity in response to the recommendations made by SAI, as well as to assess the benefit of its implementation (*PAM Brazil/18*).

### 2.6.1 Strategic planning

The strategic planning is the first step in audit cycle. In this step, the audit topic is selected. The selection process is necessary because the number of entities, programs and schemes to be audited is very vast when compared to SAI's limited resources. (*PAM Brazil/19*).

The audit topics should be significant, auditable, and reflect the SAI's mandate. The audit should lead to important benefits to the public administration, the audit entity and the general public (*ISSAI 3100/2.3*). The strategic planning should be integrated into the SAI's strategic planning.

To decide what to audit, it is necessary to establish criteria in order to guide the investment of



resources and increase the likelihood of selecting audit objects that present opportunities to perform meaningful work. Some selection criteria could be: added value, materiality, relevance, risk, audit impact, previous audit work, auditability, complexity. The chapter 3 of this Handbook has more information about strategic planning.

### 2.6.2 Planning

Audit planning aims to define the specific issues to be studied, the audit scope and objectives, the methodology to be adopted and the estimated resources, costs and time needed for its realization.

The main activities of the planning are:

- preliminary analysis of the audit topic;
- definition of the purpose and scope of the audit;
- audit criteria specification;
- planning matrix;
- development of tools for data collection;
- pilot testing;
- audit project.

More details about how to plan a performance audit are on chapter 4 of this Handbook.

### 2.6.3 Conduct

The conducting phase relates to obtaining sufficient, reliable and relevant evidences to support the findings and conclusions of the audit. The main activities of this step are development of field work, analysis of collected data and elaboration of the findings matrix.

Generally, data collection and data analysis are not dissociated activities. Except in surveys, data are collected, interpreted and analysed simultaneously. Depending on the methodology adopted in the audit project, there may be significant variation in the organization of field work and data analysis strategy.

Chapter 5 of this Handbook has more information about how to conduct a performance audit.

### 2.6.4 Draft Report

With the evidence gathered and analysed during the conduct phase, the audit team should prepare a draft report, which contains preliminary audit conclusions.

The report is the main product of the audit. It is the formal and technical instrument through which the team communicates the audit objectives, the methodology used, findings, conclusions and recommendations (*PAM Brazil, 2010/147*). Auditors should provide audit reports which are



complete, convincing, timely, reader-friendly, balanced, accurate, objective, clear and concise (*ISSAI 300/31, 2013; ISSAI 3000/5.2*).

More details about reporting on a performance audit can be found on the Chapter 6 of this Handbook.

### **2.6.5 Audited entity comments**

Unless prohibited by legislation or regulations, before publishing a performance audit report, the SAI should always give the audited entity the opportunity to comment on the audit findings, conclusions, and recommendations (*ISSAI 3100/34*).

Therefore, the technical unit shall request that the audited entity submit their written comments on the draft report and establish a compatible deadline. The draft report has all the elements of the final report, except the chapter on analysis of the audited entity's comments. The technical unit may refrain from including the proposal of measures in the draft report if its knowledge by the managers represents a risk to the achievement of the audit objectives. (*PAM Brazil/185*).

Where audited entity's responses provide new information, the team should assess this, according to the standards applicable to the evidences, before incorporating them into the report. If the new information and arguments of the audited entity are important to clarify points of the report or are sufficient to change the team understanding, the changes will be made in the main chapters of the report, without mentioning them in the "analysis of the audited entity's comments" chapter. In this case, the analysis shall inform that changes were made in the report because of the comments.

Where disagreements occur they should be analysed in the "analysis of the audited entity's comments" chapter and factual errors corrected. The examination of feedback received should be recorded in working papers so that any changes to the draft audit report, or reasons for not making changes, are documented (*ISSAI 3100/ 34*).

Managers shall be informed about the confidentiality of the preliminary report. The printed version to be forwarded shall contain a diagonal watermark across all of its pages with the term CONFIDENTIAL.

### **2.6.6 Approval of final report by Head of SAI**

The analysis of the audited entity's comments and the changes accepted by the audit team are included in the draft report, transforming it in the final version. The final report is revised by the supervisor and by the head of office and sent to the Head of SAI, for approval.

In Court model SAIs, the report is judged by the members of the Court.

### **2.6.7 Publishing and Dissemination**



Comprehensive reports and wide distribution of every report are keys to the credibility of the audit function. If possible, each performance audit should be published in a separate report. SAIs should decide about the method of distribution in conformity with their respective mandates. The reports should be distributed to the audited entity, the Executive and/or the Legislature, and where relevant, made accessible to the general public directly and through the media and to other interested stakeholders, unless prohibited by legislation or regulations (*ISSAI 300/33; ISSAI 3000/5.4; ISSAI 3100/35*).

Publishing audit reports may cause misunderstandings. The media may misinterpret and exaggerate findings, and as a consequence frustrate the purpose of the audit. It is therefore – based on experience – recommended that one provides the media with adequate and well-balanced information backed by factual evidence, for instance in the form of press releases (*ISSAI 3000/5.4*).

The stakeholders have different interests in the performance audits. So, it is recommended to have different tools to disseminate performance audit work. Besides the report, it's useful to have executive summaries, folders, technical notes, technical articles, press releases. Other good way to communicate the reports is through the SAI website. Therefore, it is important to have it updated and in a way that the information about the reports are easy to find.

Examples:

- a. Press release – usually few paragraphs with the major issues of the audit, in a simple language.
- b. Folder – usually, a text with 1000 to 1500 words, on simple language and with graphs and illustrations. The folder could contain those topics: overview of the audit object, audit objectives, main findings, recommendations and expected benefits. Annexure 1 has an example of a performance audit folder.

### 2.6.8 Follow-up

Following up on SAI recommendations may serve four main purposes (*ISSAI 3000/5.5*):

- 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;
- creating incentives for learning and development – following up activities may contribute to better knowledge and improved practice.

A follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problem and remedied the underlying conditions after sufficient time to allow an audited entity to implement the recommendations (*ISSAI 300/34*).

The most important objective of follow-up is to verify:

- if the manager solved the problems found;
- what was implemented;



- if the actions taken generated benefits and, if possible, quantify those benefits.

Chapter 7 of this Handbook has more information about how to follow-up SAI recommendations.

## 2.7 Approaches to PA

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ISSAIs recognise different approaches to performance auditing. ISSAI 300 states that *“auditors should choose a result, problem or system-oriented approach, or a combination thereof to facilitate a good audit design”*.

The system-oriented approach examines the proper functioning of management systems. It has roots in the goal-means model. According to ISSAI 3000, Appendix 7, *“public services are complex, and the growing complexity of government programs increases the incidence of conflicting goals and unintentional side effects, caused by overlapping or coinciding functions”*. Therefore, it is important to develop models to help performance auditors to evaluate implementation and effectiveness of government interventions. The system-oriented approach is proposed as an option to this kind of evaluation.

This handbook won't have much information on the system oriented approach as ISSAI 3000 only provides for a theoretical framework for this approach. So, we will restrict our discussion and our case study would be based on results-based and problem-oriented approach.

ISSAI 3000/1.9 states that *“performance auditing has various traditions. Two approaches differ quite significantly. The results-oriented approach deals mainly with questions such as: ‘What is the performance or what results have been achieved, and have the requirements or the objectives been met?’ The problem-oriented approach deals primarily with questions such as: ‘Do the stated problems really exist and what causes them?’.....”*

The overall design of an audit determines the kind of study that needs to be carried out. It defines the knowledge, the information and the data needed and how to obtain and analyse it. In principle additional audit criteria may not be necessary in a problem-oriented performance audit, where the audit use an audit problem as the point of departure, verifies the problem and analyses the causes to the problem. The conclusions and the recommendations are primarily based on the analysis and the confirmed causes, even though they are always rooted in the findings and the criteria of what should or could be. In the results-oriented approach on the other hand, assessment of performance is made against pre-defined objectives or audit criteria. The audit would usually focus on different issues in a certain area, but not necessary link factors to each other in a cause-effect relationship.

SAIs that mainly concentrate on problem-oriented approach, may also seek to identify audit criteria for the different factors analysed in the audit, which is typical for the results-oriented approach. The starting point for an audit would normally be an audit problem that needs to be verified in the audit. The objective is then to analyse the causes to this problem, and identify measures for reducing or solving the problem. During the planning phase, however, the auditors also identify audit criteria to be used for assessing the performance related to the different factors covered in the audit (in order to develop findings by comparing conditions with criteria). In this approach the idea is to analyse causes



to the selected problem in a cause-effect relationship, at the same time as each finding can also stand by itself as it also is based on separate audit criteria. (*AFROSAI-E Exposure Draft Performance Audit Handbook, 2012*)

In the results-oriented approach, the auditor studies performance (concerning economy, efficiency, and effectiveness) and relates observations to the given norms (goals, objectives, regulations, etc.) or the audit criteria (more or less precisely defined before the main study begins). If the criteria are difficult to determine, the auditor may need to work with experts in the field to develop credible criteria that, when applied, are objective, relevant, reasonable and attainable. The audit criteria make it possible to provide assessments on the findings. In this approach, shortcomings are likely to be defined as deviations from norms or criteria. Recommendations, if presented, are often aimed at eliminating such deviations. The perspective is in that sense basically normative (*ISSAI 3000/1.8*).

## 2.8 Summary

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The chapter on introduction to performance audit has covered all the basic concepts relating to Performance Auditing. The discussion covered definition, purpose and benefits of performance audit; definitions, examples and application of the 3Es, the differences between performance audit and compliance audit, the performance audit cycle and different approaches to performance audits. The next chapter will discuss Strategic Planning for Performance Audit stating techniques to be used for identifying, evaluating and prioritising performance audit topics.

## References

1. AFROSAI-E Exposure Draft Performance Audit Handbook, 2012
2. Barzelay, Michael – “Central Audit Institutions and Performance Auditing: a comparative analysis of organisational strategies in OECD”, 1997
3. Barzelay, Michael – “The external control and the new public administration: a comparative view”, 2002
4. ISSAI 100
5. ISSAI 300
6. ISSAI 400
7. ISSAI 3000, ISSAI 3100
8. Performance Audit Guideline Bhutan, 2011



9. Performance Audit Manual Brazil, 2010

**Appendix 2.1 – Example of performance audit folder**

**ACTIONS TO FACE DOMESTIC AND FAMILY VIOLENCE AGAINST WOMEN**

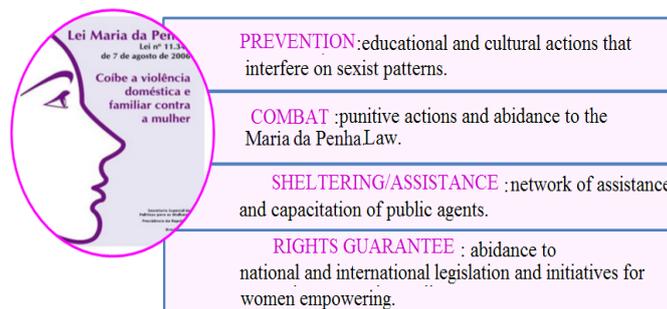
Domestic and family violence against women comprises any gender based action or omission resulting in death, injury, physical, sexual or psychological suffering and damage to morals or property, in the scope of the domestic or family unit or any intimate affectionate relationship (article 5 of Law 11.340/2006). This kind of violence is one of the types of human rights violations.

In 2006, Law 11.340 was enacted (called Maria da Penha Law). It instituted mechanisms to curb and prevent domestic and family violence against women. The Law received this name to honor the saga lived by Maria da Penha, who became paraplegic after consecutive physical aggressions and murder attempts by her ex-husband. The case arrived at the OAS Inter-American Commission on Human Rights and was considered, for the first time, a crime of domestic violence.

The Brazilian law granted crimes committed in the scope of domestic relationships a differentiated treatment, more severe, in response to the high rate of this type of violence in the country. At the time of its elaboration, 70% of cases judged at the Special Criminal Courts were of domestic violence.

The actions to face domestic and family violence are wide and involve initiatives that are coercive, preventive, of victim assistance and that guarantee women rights (Figure 1). Such actions involve many sectors, under the responsibility of the Judiciary branch and several ministries and secretariats in the three governmental spheres and of the Federal District. In the federal scope, the organ in charge of defining the policy and articulating the various public organs is the Secretariat for Women Policies (SPM).

Figure 1 – Structuring pillars for the policy to face violence against women.

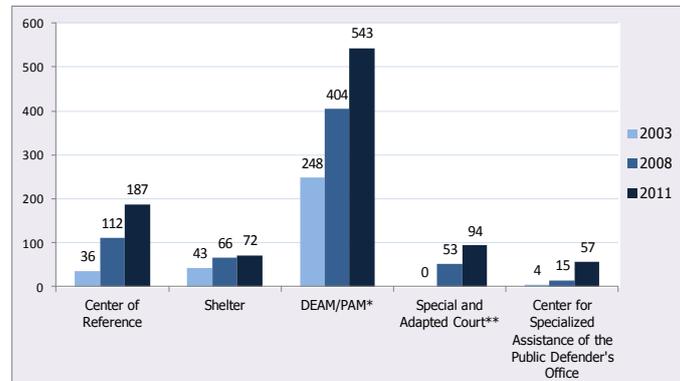


Source: Adapted from the publication *National Policy to Face Violence against Women*. Brasília/Brazil: SPM, 2010.

The SPM issued the basic document that orients the National Policy to Face Violence against Women, which is based, among other dimensions, upon the extension and constitution of the network of specialized services of assistance to women living situations of violence and the qualification of agents who work these equipments and are directly involved in the gender issue. Among the equipments in the network, some stand out: centers of reference; shelters; regular and specialized police stations; prosecutor's and public defender's offices; specialized courts; and the helpline (disk 180).



Graph 1 – Comparison of number of specialized services of assistance to women existing in Brazil, by type, in the years of 2003, 2008 and 2011.



Sources: SPM; National Secretariat of Public Safety; Institute for Economic and Applied Research; II National Plan of Women Policies.

\* PAM – Women service stations in common police stations.

\*\* Adapted Court – criminal courts which, besides other crimes, process domestic and family violence.

## OBJECTIVES OF THE AUDIT

The audit was guided by three investigative questions: a) whether the assistance network is ready to orient and accommodate women who are victims of domestic and family violence; b) which are the difficulties faced by the police and judicial spheres (including a jurisprudential analysis of the application of the Maria da Penha Law by Law operators); and c) what are the opportunities for improving domestic and family violence against women prevention activities.

## SAI MAIN FINDINGS

Regarding the structure and articulation of the assistance network which accommodates and shelters women, it was clear that the existing number of such equipments was far behind SPM's idea. For example, the Reference Centers did not reach 20%.

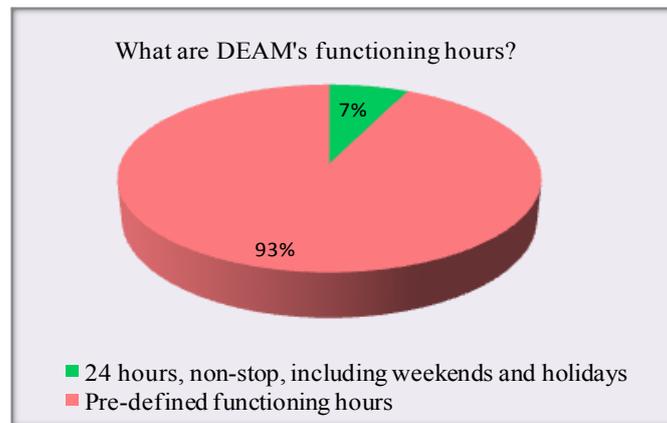
Furthermore, the units installed were concentrated on capitals and metropolitan regions. Great part of them faces problems like the precariousness of its physical space and the lack of human resources.

Specialized literature points out that financial dependence of the woman towards her husband is one of the factors that contribute to accepting violence for long periods of time, which delays a decision to report the aggressions suffered. In the eleven states visited, few actions for professional apprenticeship and qualification for the sheltered woman were identified.

In relation to the Specialized Stations for Women Assurances (DEAM), it was noted that less than 10% of Brazilian municipalities count on this specialized police service. When it exists, physical structure is inadequate and assistance does not take place every day of the week, for 24 hours (which is considered ideal).



Graph 2 – DEAM functioning hours.



Source: Questionnaire sent by the audit team to DEAM police commissioners, in the period from August to October 2011.

Non-stop functioning is essential, because the main part of domestic and family violence occurrences happens on weekends and at night. It was verified that, during this period, there is no assistance available in most specialized police stations (93% of them), which leaves victims helpless when they need it the most.

Both the DEAMs and common police stations face problems related to the lack of personnel, the insufficient qualification of their agents and the failure to understand gender violence. In 18 out of the 25 institutions visited, the lack of personnel was pointed out as one of the main problems faced for a speedy and qualified assistance for women.

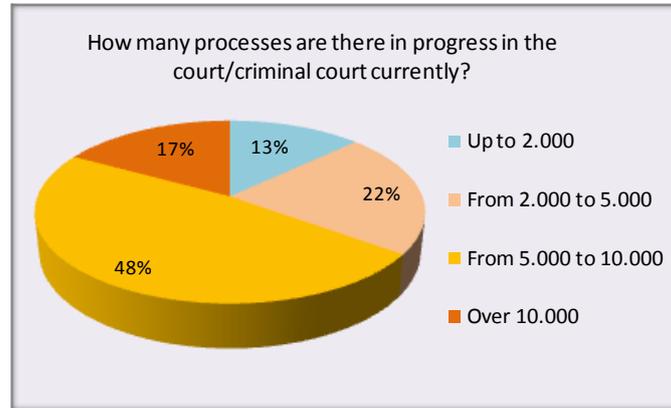
Frequently, due to their emotional condition, besides asking the police agent for help or orientation, these women demand a caring assistance, in which the professional cannot display a simple passive reaction. Without a proper understanding of the Maria da Penha Law, domestic and family violence is still seen by many police officers as a minor aggression. It is even considered that it is a simple couple fight that will soon be resolved. The most critical situation was evidenced in common police stations that still are the first options for many women to report their aggressor and, according to the Women Helpline (Disk 180), where it is observed the largest number of complaints.

The awareness of the need to intensify police agents' qualification regarding the gender issue was shared by police commissioners and representatives of state organisms for women policies who were interviewed. Out of the nine common police stations visited, none had participated training courses for the Maria da Penha Law or gender violence in the past three years. Out of the fifteen DEAMs visited, eight reported that its personnel had not participated in any such course.

Regarding urgent protective measures, which keep women away from their aggressors and protect them from them until trial, both police stations and criminal courts have difficulties in meeting the legal deadline stipulated by law (48 hours). Almost all states had at least one Domestic and Family Violence Court installed, despite the concentration of assistance in the capital and the fact that civil and criminal assistance for many women is still not unified. Most of these courts deal with the buildup of processes, which delays trials and increases the risk of prescription of the crime.



Graph 3 – Amount of processes of violence against women in progress in specialized Courts and Criminal Courts.



Source: Questionnaire and interview sent by the audit team to judges, in the period from August to October 2011.

The low institutionalization of specialized prosecution offices / gender centers in the scope of the Public Prosecution Service was pointed out. It restricts its effective performance in network supervising and in supporting the women.

It was also verified that the procedure aspects of the application of the Maria da Penha Law and the procedural acts are not practiced uniformly and equally, causing, among other effects, conflicting procedures and trials, annulment of procedural acts, filing of processes, delay in judicial assistance due to appeals, i.e. fostering judicial insecurity regarding the provisions of the law here concerned.

**SAI’s RECOMMENDATIONS**

Among the recommendations made to the managers are: a) defining strategies to broaden the network coverage regarding the installation of reference centers, shelters, specialized police stations, courts prosecution offices for domestic and family violence, as well as to improve the qualification of the services provided by them; b) intensifying actions for the qualification of police agents and for the orientation of Law operators regarding gender violence and the application of the Maria da Penha Law; c) developing assistance protocols for the police stations; d) encouraging the approach to issues of gender equality and family violence against women in educational institutions; e) improving the system of collecting, registering and using data of domestic and family violence.

**EXPECTED BENEFITS**

It is expected that the adoption of the measures proposed by the TCU contribute to the improvement of the network of assistance to women who are victims of domestic and family violence, relative to both access to and qualification and humanization of the services provided, granting these women conditions to break the cycle of violence and restart their lives in a dignified and fearless way and promoting the compliance to the Maria da Penha Law rapidly and appropriately and avoiding the propagation and trivialization of gender violence.



## Chapter 3: Strategic Audit Planning for Performance Audit

### 3.1 Introduction

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The previous chapter of the Handbook provided an introduction to performance auditing. This chapter discusses the strategic planning for performance audits. ISSAI 3000, 3.2 states:

*'Strategic planning is the basis for selection of audit topics. Linked to a SAI's annual planning system, it may be a useful tool in setting priorities and selecting audits. It may serve as a mechanism for selecting future audit themes and a basis for detailed planning. Finally it may serve as an instrument for strategic policy decisions on the future direction of the audit. Planning might be carried out in the following steps: determining potential audit areas; establishing the selection criteria to be used; and identifying the main sources of information for potential audits. The strategic planning exercise would normally result in a coherent and cogent audit program for the SAI and serve as a basis for operational and resource allocation.'*

The objectives of strategic audit planning are to:

- provide a firm basis for the SAI management to give strategic direction for future audit coverage;
- identify and select audits with the potential to improve public sector accountability and administration;
- provide a platform for communication with agencies and the legislature on SAI audit strategies;
- produce a work programme that can be achieved with expected/available resources;
- understand entity risks and take them into account in audit selection; and
- provide a basis for SAI accountability.

The performance audit strategic plan should not be confused with SAI's overall strategic planning. The strategic planning for performance audit may be detailed in the overall strategic planning of the SAI (*Performance Audit Guidelines-SAI India/2.1*).

A performance auditor new to the profession will presumably not be heavily involved in this process however all performance auditors should understand the process adopted by their SAI to understand strategic planning and should be watchful for information they may accumulate during the course of their work that may contribute to the process. Performance auditors should make themselves fully aware of their SAI's strategic planning process and their role in that process (*PASAI PA Manual/2.1*).

### 3.2 Strategic planning process

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A well-structured strategic planning process, based on a sound rationale, is necessary to ensure that the resources of the SAI are used in the most efficient and effective manner.



The significance of wider performance audit areas incorporating government’s overall and primary objectives will be established by analysing and understanding government policies, strategies, budgets and statements to identify critical aspects of policy implementation.

A proper consultation process forms the basis of understanding government’s policies and priorities. This can involve appropriate stakeholders in government such as relevant ministers, portfolio committees (national assembly bodies that process legislation and have oversight of the departments mentioned in the title of the committee such as health, education, housing etc.), accounting officers, external experts and others. The consultation process should inform the decision on appropriate strategic and cross cutting/transversal performance audit topics. Desk research of various kinds is also needed (INTOSAI PAS *Guideline on selecting performance audit topics/2.2*).

The strategic planning process will be achieved by:

- Environmental scanning relevant to performance audits
- Constantly reviewing the wider performance audit areas for relevance
- Facilitating a wider consultation process to obtain inputs from relevant stakeholders in government.
- Maintaining planning methodology for risk analysis and reporting.
- Identifying internal and external subject matter experts.

The strategic planning process is outlined in Figure 3.1.

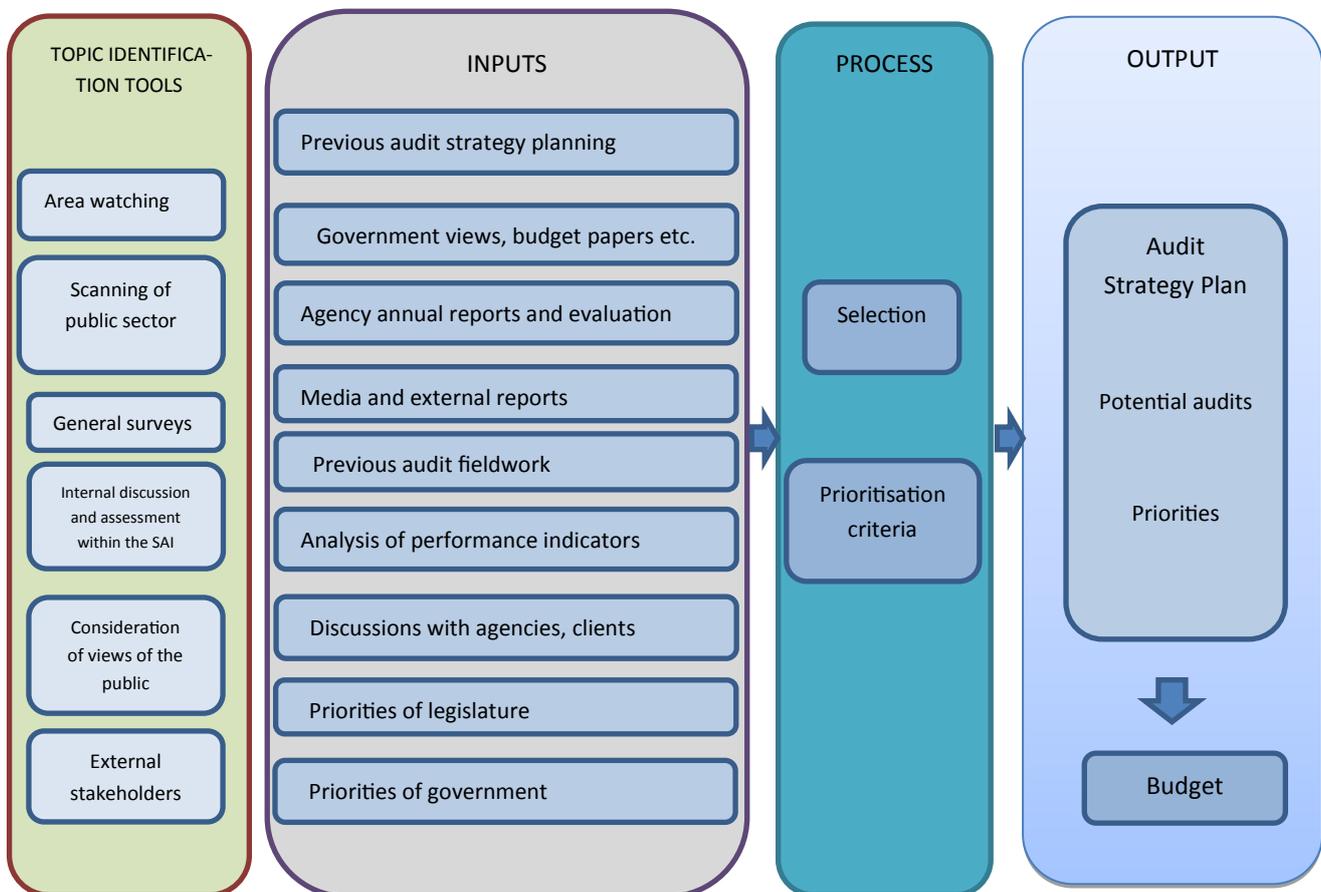


Figure 3.1: The Strategic Planning Process



The key deliverable of the strategic planning process is a document which is prepared for the SAI management to enable it to critically assess the proposed planning strategy for overall consistency within the SAI's corporate objectives.

### 3.3 Identification of possible audit topics

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The first step in the performance audit process is deciding what to audit from the myriad of government activities. Performance auditing should be directed towards areas where an external, independent audit may support the oversight function in promoting accountability, economy, efficiency and effectiveness in the use of public resources. The aim is to select audit topics that are significant, auditable and can be expected to lead to important benefits for public finance and administration, the audited entity or the general public (*INTOSAI PAS Guideline on selecting performance audit topics/1.1*).

Aside from legally mandated audits, performance audit topics should be selected based on the risk or problem assessment and significance (financial, social and/or political significance) of the topic, focusing on the results of applying public policies. The selection process should aim to maximise the impact of the audit while covering audit capacities (*ISSAI 3100/2.3*).

The auditors need to conduct some research to identify risks and problems and to be able to understand the topics and why potential audit entities seem to operate or perform as they do as a part of the selection and planning process (*AFROSAI-E Exposure Draft PA Handbook/5.1*). The ISSAIs also recognises opportunity for Parliament to request audits, it can for example be appropriate to have meetings to establish performance audit topics that are of interest to the legislature (*Appendix to ISSAI 3100/3.3*). Performance audit topics should be chosen without outside pressure. The SAI must maintain its political neutrality. The SAI's independence does not preclude the executive from proposing matters for audit. Nevertheless, to maintain its independence the SAI must be able to decline any such request (*ISSAI 3000/3.2*).

The selection of audit topics is done in the overall planning in the SAI. SAIs use different tools to provide input to the selection of topics. The following paragraphs identify a number of tools:

#### 1. Area watching

Area watching entails monitoring key issues in the public sector to keep abreast of developments. Its purpose is to identify possible audit areas for further scrutiny. It is carried out by reading relevant publications and previous reports relating to performance and compliance audits, listening to the experience of regularity auditors, listening to or reading transcripts of parliamentary debates, attending conferences and seminars, discussions with colleagues, stakeholders and specialists, listening to radio and television broadcasts, and reading newspapers and journals (*AFROSAI-E PA Manual/3.3.2*).

Area watching should be a continuous process that ensures that the SAI is always in possession of updated information about what happens in society and areas that may require further examination. The following provides a good practice from SAI India that may be considered for area watching.



Table 3.1: Best practice SAI India

- Whenever an important project, scheme or programme is announced by government a new portfolio file on it is opened. The portfolio file will contain policy notes, implementation guidelines and other relevant details on the schemes, project or programme.
- Performance audit team will also maintain a file containing newspaper and magazine dipping on the scheme, project or programme.

## 2. Scanning of public sector environment

The public sector environment should be scanned each year and relevant sources of information should be inspected. The (*INTOSAI PAS Guideline on selecting performance audit topics* identifies the following list of information that may be inspected:

- Standing Committee on Public Accounts Committee resolutions
- A speech from the president that marks the opening of the parliamentary year, usually attended by important political and government figures.
- The Millennium Development Goals.
- National budgets and guidelines.
- Other related policy documents.
- Global developments such as the themes identified by INTOSAI.
- Media including news, articles, concerns raised by the public

## 3. General surveys

As part of their normal audit contacts, auditors will have built up considerable accumulated knowledge about the organisations in which they work. In addition further information is required on which to base an audit programme. This can be obtained through periodic on-going examinations of the audit field, perhaps every five years. This is described as general survey work (*Comptroller & Auditor General of Bangladesh PA Manual/2.7*).

General surveys may cover a whole entity, a group of related activities or particular major projects or programmes of expenditure or receipts. The general survey is aimed at providing an understanding of the organisation's objectives, its main activities and the level and nature of resources used in carrying out its functions. Information is assembled and evaluated on the background, objectives, activities, plans, resources, procedures and controls in the entities or areas concerned. The aim is to:

- identify and review those areas absorbing a significant level of resources.
- identify potential risks to achieving good value for money.
- highlight areas for continuing audit attention
- propose areas or subjects for inclusion in the performance audit programme (*Comptroller & Auditor General of Bangladesh PA Manual/2.8*)

Much of the information for general survey work can be obtained through normal day to day work and contact with the public sector organisations. The information gathered and assessments made during general survey work should be recorded in working folders for reference when making



proposals for inclusion in the Strategic Audit Plan (SAP). Appendix 3.1 summarises the information required and the approach to general survey work. This can act as a checklist of the required background information covering the following:

- Background environment and information on the entity
- Significant legislative authority
- Objectives of audited entity
- Organisational arrangements
- Accountability relationships
- Activities carried out
- Nature and level of resources used
- Procedures and control systems in place
- Other relevant information or evidence.

#### **4. Internal discussions and assessments within the SAI**

Internal discussions to debate and assesses the risks associated with possible topics should take place within the SAI. The performance auditor should engage with other performance, financial and compliance auditors within the SAI to identify possible audit topics.

#### **5. Considerations of views of citizens**

The perspective of the citizen that is related to the performance of the audited entity should be taken into account where appropriate (*ISSAI 3100/2.2*). It is important to consider the interests of citizens on performance audits. Citizens are the source of ideas for performance auditing, a source of demand for performance auditing and users of performance audit reports. SAIs should maintain relevant information outlining views of the public on certain operations of government organisations or programmes (*Appendix to ISSAI 3100/3.3*).

#### **6. External stakeholders**

Relationships should be built with external stakeholders and frequent interaction should take place to identify and discuss possible topics. Inputs on topics may be obtained from relevant role players in government, subject experts and the department's internal auditors.

Other important external stakeholders are representatives of the academic community. They have expert knowledge in specific audit areas and may provide a more objective view, less restricted by personal interest. Academics may thus serve as a suitable discussion partners, co-readers and sometimes also consultants at all stages of an audit. Non-government organisations can be a useful source of ideas. They may have conducted their own research through surveys and case studies and may have a range of relevant contacts (*Appendix to ISSAI 3100/3.3*).



### 3.4 Criteria for evaluation of possible audit topics

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#### Selection criteria used by SAI

If the SAI is able to select performance audit topics, the development of a system for determining a balanced portfolio of performance audits will assist with providing for adequate coverage of government functions. Initially, while a small number of performance audits are being completed annually, a relatively simple policy direction for performance audits could be established. This could include concentrating for example on economy, while competencies are built up in efficiency and effectiveness; or choosing some higher level themes such as reducing excessive bureaucratic procedures in order to improve transparency and efficiency and effectiveness in public administration (ISSAI 3100/Appendix 5.3).

#### Alternative selection criteria

Audit topics could also be evaluated against qualitative aspects to determine whether the topics are significant. The following criteria reflected in Table 3.2 are examples of aspects that may be considered when identifying topics. The relative importance of each criterion will depend on the unique circumstances in each country. (*INTOSAI PAS Guideline on selecting performance audit topics/3.2*).



Table 3.2: Selection criteria

	Criteria	Factors
1	Materiality	Is the topic important to government/the public/ the audited entity (national priority) and does it involve a critical area?
2	Public accountability	Will responsibility be taken? Is the topic capable of being explained?
3	Possible impact	Will the topic have a powerful effect on enhancing the economy, efficiency and effectiveness of government undertakings?
4	Improvement	Will the audit lead to improvements in government?
5	Legislative or public interest	Will the topic address a legal concern or be to the advantage of the community?
6	Risks to the SAI	Will the topic present risk (strategic or reputational) to the SAI?
7	Departmental issues	Will subjects of departmental concern be addressed by the topic?
8	Relevance	Does the topic have some bearing on, or importance for real world issues, present day events or the current state of society?
9	Auditability	Can the topic be audited? Is it practical to audit? Does it fall within the legal mandate of the SAI?
10	Timeliness	Is this the right or appropriate time to audit the topic?
11	Previous audit work	Has the topic been audited in the past?
12	Other major work planned or in progress	Is other work being planned or done on the topic?
13	Developments likely to affect assessment	Are there any events or processes of change that would probably affect the assessment (refers to the assessment as described below). [1]
14	Request for performance audits	Have any special requests been made for performance audits to be done? Consideration should be given to the source of the request to determine the importance thereof e.g. interests from parliament versus requests from department.
15	High political sensitivity	Does the topic involve a delicate subject that is of government concern?

Source: INTOSAI PAS Guideline on selecting performance audit topics

[1] Referring to the Assessment under prioritizing audit topics



The following provides an illustration of the application of the alternative selection criteria.

**USING CRITERIA TO SELECT THE AUDIT TOPIC**

The selection criteria can be used with or without rating the alternative audit topics. The following consists of a number of topics identified through application of tools identified earlier in this chapter:

1. Solid waste management
2. Climate change adaptation
3. Sustainable Fisheries
4. Maternity Services in public hospitals

Using professional judgement the auditor can rate the alternative topics using a scale to what extent the alternative meets the criteria, for example 0 (not meeting the criteria), 1 (low), 2 (medium) and 3(high). The table below reflects the ratings:

Criteria	Identified alternative audit topics			
	1	2	3	4
1. Materiality	3	3	3	2
2. Public Accountability	2	2	2	2
3. Possible impact	3	3	3	2
4. Improvement	2	3	3	1
5. Legislative or public interest	3	3	3	2
6. Risks to the SAI	1	1	1	1
7. Departmental Issues	3	3	3	2
8. Relevance	3	3	3	1
9. Auditability	3	3	3	1
10. Timeliness	3	3	3	3
11. Previous audit work	0	0	0	2
12. Other major work planned or in	0	0	0	2
13. Developments likely to affect	1	1	1	2
14. Requests for performance audits	2	2	2	2
15. High political sensitivity	2	3	3	0

From the table, Topics 1, 2 & 3 seems to be topics to be considered for audit. Topic 4 rated low for auditability, improvement and relevance, thus not considered as a topic for performance audit consideration. Also previous audits have been conducted on the topic and other major work have been planned on the topic thus it would not be worthwhile conducting an audit on the topic. In addition, there are also events or processes of



### 3.5 Prioritising audit topics

After identifying various audit topics, the performance auditor needs to select topics for performance auditing. The audit topics can be prioritised using an assessment in the form of a scoring matrix. The following questions reflected in Table 3.3 can be asked and scored to obtain overall score on each topic.

Table 3.3: Scoring matrix

No	Area	Question	Description
1.1	Internal assessment	Are there areas of such high risk nature/great importance that it needs to be audited frequently?	Identify areas where frequent audits are necessary due to the high risk nature/great importance of the topic and determine the potential improvement that the audit could have on the government and, as a result on the general public.
1.2		Has the specific topic, area or entity been recently performance audited?	Determine whether the topic or the entity to be audited has featured in earlier audit reports. The longer the period since the topic/entity was last addressed in an audit, the higher the potential impact.
1.3		Is internal evidence indicating deficiencies at the entity available to the performance auditor?	To substantiate the relevance of the topic determine whether internal evidence, such as findings from previous audit reports and management reports is available to confirm that shortcomings exists at the entity.
2.1	External assessment	Does the topic have an economic and/or social impact and does it affect a large section of society?	Establish whether the topic has: <ul style="list-style-type: none"> <li>• A positive impact on the reputation/status of the SAI;</li> <li>• A special interest at legislatures;</li> <li>• An impact on a large section of the public;</li> <li>• A social impact;</li> <li>• An economic impact; and/or</li> <li>• Stakeholders' interest.</li> </ul>
2.2		Does the topic relate to cross-cutting areas across different spheres of government?	Determine whether the topic shares issues across the different areas and levels of government.
2.3		Does the Parliament or the public have a special interest on this topic?	Verify whether information on the topic will be to the advantage of Parliament or the community.
2.4		Are there known problems on this topic or is performance low?	Where working effectiveness is not satisfactory, determine whether there are recognised problems in the area covered by the topic.
3.1	Specific matters	Was or is major public investment or public expenditure involved?	Establish whether the community has invested substantially in the topic or whether the topic has entailed considerable cost.
3.2		Has the timing of the audit been considered, including tabling the report in the relevant legislature?	Determine whether the topic will be audited and the final report tabled/presented at a relevant time considering the feasibility and the impact of the audit topic.
3.3		Has the availability of the information or auditable data been considered?	Ascertain whether information and data/records will be available for audit.
3.4		Does the topic have stakeholder by-in?	Without threatening the SAI's independence, establish whether there is a support to audit the topic from external stakeholders such as the entity to be audited and the Standing Committee on Public Accounts (Parliament's oversight committee over departmental accounts and performance).

Source: INTOSAI PAS Guideline on selecting performance audit topics



Each topic identified should be assessed and all factors included in the assessment should be measured/ scored in a scoring matrix. The total scores should be indicative of the priority of the performance audit. Appendix 3.2 comprises the scoring matrix to categorise possible performance audit topics. The following provides an illustration of the application of the scoring matrix.

APPLICATION OF THE SCORING MATRIX

From the illustration under the selection criteria Topics 1, 2 & 3 have been selected for audit. Again using the same rating obtained through professional judgement assessment of the topics in order of priority is reflected below.

	Topic 1	Topic 2	Topic 3
<b>Proposed topic</b>	Solid Waste Management	Climate change adaptation	Sustainable Fisheries
<b>Measurement</b>			
<b>1 Internal assessment (10%)</b>			
1.1 Topic previously audited	3	3	2
1.2 Entity previously audited	1	2	1
1.3 Internal evidence that deficiencies exist	2	2	2
Score	6	7	5
Weighting	7%	8%	6%
Outcome	2	1	3
<b>Comments</b>			
1.1	Topic previously audited 5 years	Topic not previously audited	Topic previously audited 2-4 years
1.2	Entity previously audited 1 year	Entity previously audited 2-4 years	Entity previously audited 1 year
1.3	Previously reported by AG in a management letter	Previously reported by AG in a management letter	Previously reported by AG in a management letter
<b>2 External Assessment (50%)</b>			
<b>2.1 Impact:</b>			
- Positive reputation impact for the AG	3	3	3
- Impacts on large section of the society	3	3	2
- Audit may have a social impact	3	3	3
- Audit may have an economic impact	3	3	3
2.2 Cross-cutting at departments or spheres of government	3	3	3
2.3 Parliament or the public have a special interest	1	3	3
2.4 Known problems exist at the auditee or performance is low	1	1	1
Score	17	19	18
Weighting	40%	45%	43%
Outcome	3	1	2
<b>Comments</b>			
2.1	Topic has considerable economic and social impact and affects a large section of the society	Topic has considerable economic and social impact and affects a large section of the society	Topic has considerable economic and social impact
2.2	Topic shares issues across levels of government	Topic shares issues across levels of government	Topic shares issues across levels of government
2.3	No special interest on the topic from Parliament and public	Topic has considerable interest to Parliament and the public	Topic has considerable interest to Parliament and the public
2.4	Yes known problems exist	Yes known problems exist	Yes known problems exist
<b>3 Specific matters (40%)</b>			
3.1 Public spending	3	3	3
3.2 Timing of the audit, and reporting to the relevant legislature	2	3	3
3.3 Availability of information of auditable data	2	3	2
3.4 Stakeholder buy-in	3	3	3
Score	10	12	11
Weighting	33%	40%	37%
Outcome	3	1	2
<b>Comments</b>			
3.1	High spending on the topic	High spending on the topic	High spending on the topic
3.2	Audit is a medium priority	Audit is a high priority	Audit is a high priority
3.3	Data need to be processed	Data in existing format	Data need to be processed
3.4	Buy-in from stakeholders	Buy-in from stakeholders	Buy-in from stakeholders
<b>Overall score</b>	<b>33</b>	<b>38</b>	<b>34</b>
<b>Overall outcome</b>	<b>3</b>	<b>1</b>	<b>2</b>

The above assessment indicates Topic 2 (Climate Change Adaptation) as the first priority, Topic 3 (Sustainable Fisheries) as the second priority and Topic 1 (Solid Waste Management) as the third priority.



### 3.6 Developing the Strategic Audit Plan (SAP)

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Following prioritisation of the audit topics the SAP should then be developed. The basic SAP document will be a list of audit topics in the various government agencies along with expected resource requirements for each audit and the proposed start and finish dates for the audit. The audits included in the SAP should be proposed to be conducted in the next two to five years.

In preparing a SAP for performance audit, the SAI needs to consider the total audit resources available, the breakdown of those resources into functional areas and the skills and experience of the individuals involved.

The number of auditors available to undertake performance audit work is one factor that will limit the number of audits that can be included in the SAP. Preparation of the SAP will require knowledge of the total number of auditors expected to be available to conduct audits over the period.

Another aspect of audit resources that needs to be considered is whether the individual staff members, at their current stage of development are capable of doing and what the development needs in terms of experience are. If some of the available auditors are inexperienced then there must be sufficient audit activity in the program that they are capable of doing.

It would be inappropriate to assign an audit which would involve sensitive dealings with very senior management to newly qualified auditors. Likewise it would not be efficient use of resources to use highly experienced staff to undertake an audit of a simple line management activity.

### 3.7 Approving and publishing the strategic audit plan

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The SAI should have procedures in place that allow the senior management of the SAI to sign off on the overall plan. This is important because it enables the head of SAI to ensure the allocation of resources is appropriate.

Once the SAP is approved it may be worthwhile to provide it to the relevant parliamentary committee or other government body charged with overseeing the work of the SAI. To provide transparency it could also be made available as a public document on the SAI's website or through some other means. The SAP should also be made available to staff to provide some context and understanding of the performance audit work of the SAI.

### 3.8 Summary

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This chapter looked at the strategic planning process for performance auditing, the different tools providing input to selection of audit topics, the criteria in the evaluation of possible performance audit topics, prioritisation of audit topics and preparation of Strategic Audit Plan (SAP).

In the next chapter, we will discuss preparing an audit plan for individual performance audit.



## Appendix 3.1: General Surveys

The purpose of general survey work is to assemble information about an organisation or activity to assist in the preparation of the performance audit component of the SAIs strategic plan. A survey requires information on:

### Background

- Financial information on expenditure and receipts, major resources and significant holdings of assets
- Organisational structure
- Constraints under which the audited organisation operates

### Objectives

- Policy objectives and their relative priority
- Operational objectives
- Activities
- Means by which the organisation aims to achieve its objectives (e.g. through grants, loan schemes, capital building programme etc.)

### Resources

- The nature and characteristics of resources used by the organisation e.g. cash, manpower (staffing numbers and grades), land and buildings, plant and equipment

### Procedures and Control

- Procedures and controls in operation to ensure that objectives are pursued with due regard to VFM (e.g. planning arrangements, financial controls, management information systems etc.)

### Other relevant information

- Evidence of serious waste, inefficiency or ineffectiveness
- Internal or external reviews (e.g. by consultants, internal audit, management services etc)
- Previous Audit reports or other reports
- Areas of particular interest to Parliament or the press

The information collected enables an assessment to be made for each organisation of factors likely to have a material effect on VFM and the ways in which it could be at risk. These may involve:

- the clarity and adequacy of policy and operational objectives
- the adequacy of procedures and controls designed to ensure economy, efficiency and effectiveness in the use of resources
- operations carrying inherently high risk to achieving VFM e.g. new activities or programmes, major or long-term capital projects
- any apparent strengths and weaknesses in management and performance
- the effectiveness of the organisation in achieving its objectives.

Source: Comptroller and Auditor General of Bangladesh Performance Audit Manual Appendix 3



## Appendix 3.2: Scoring matrix to categorise possible performance audit topics

<i>In order to rate the possible topics the following criteria will be used to assess each of the areas:</i>	Topic 1	Topic 2	Topic 3
<b>Proposed topic</b>			
<b>Measurement</b>			
<b>1 Internal assessment</b>			
1.1 Topic previously audited			
1.2 Entity previously audited			
1.3 Internal evidence that deficiencies exist			
Weighting			
Outcome			
<b>Comments</b>			
1.1			
1.2			
1.3			
<b>2 External Assessment</b>			
2.1 Impact:			
- Positive reputation impact for the AG			
- Impacts on large section of the society			
- Audit may have a social impact			
- Audit may have an economic impact			
2.2 Cross-cutting at departments or spheres of government			
2.3 Parliament or the public have a special interest			
2.4 Known problems exist at the auditee or performance is low			
Weighting			
Outcome			
<b>Comments</b>			
2.1			
2.2			
2.3			
2.4			
<b>3 Specific matters</b>			
3.1 Public spending			
3.2 Timing of the audit, and reporting to the relevant			
3.3 Availability of information of auditable data			
3.4 Stakeholder buy-in			
Weighting			
Outcome			
<b>Comments</b>			
3.1			
3.2			
3.3			
3.4			
<b>Overall score</b>			
<b>Scoring criteria used</b>			
<b>1. Internal assessment</b>			
<b>Weighting</b>	<b>10%</b>		
1.1 Topic previously audited	5 years or longer	3	
	2 - 4 years	2	
	1 year	1	
Topics not previously audited will score 3			
1.2 Entity previously audited	5 years or longer	3	
	2 - 4 years	2	
	1 year	1	
Entities not previously audited will score 3			
1.3 Internal evidence that deficiencies exist	Yes	Previously reported by the AG in an audit report	3
	Yes	Previously reported by the AG in a management letter	2
	No		1
<b>2. External assessment</b>			
<b>Weighting</b>	<b>50%</b>		
High		3	
Medium		2	
Low		1	
<b>3. Specific matters</b>			
<b>Weighting</b>	<b>40%</b>		
Public spending	High	3	
	Medium	2	
	Low	1	
Timing of the audit, including reporting to the relevant legislature	High priority	3	
	Medium priority	2	
	Low priority	1	
Availability of auditable data	Yes	In existing format	3
	Possibly	Data need to be processed	2
	No		1
Stakeholder buy-in	Yes	Buy-in from an external source	3
	Yes	Buy-in from the entity	2
	No		1



## References:

1. AFROSAI-E Exposure Draft PA Handbook
2. AFROSAI-E PA Manual
3. Comptroller & Auditor General of Bangladesh PA Manual
4. INTOSAI PAS Guideline on selecting performance audit topic
5. ISSAI 3000
6. ISSAI 3100
7. PASAI PA Manual
8. Performance Audit Guideline- SAI India



## Chapter 4: Plan a Performance Audit

### 4.1 Introduction

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The previous chapter looked at preparing a strategic plan for performance audit. This chapter discusses the planning stage of a performance audit.

ISSAI 3000, 3.3 states that: *'the auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.'*

Each year the SAI can undertake only a limited number of audits, carefully selected and designed to bring maximum benefits to the stakeholders and to the nation at large. Within the programme of audits included in the strategic audit plan, auditors will need to concentrate on those likely to be included in the work programme for the year ahead.

Planning consists of developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The audit plan is a key document for controlling and monitoring audits in a SAI. The auditor should develop and document an audit plan describing the expected scope and conduct of the audit (*ASOSAI PA Manual/3.3*).

Adequate planning of the audit work helps ensure that appropriate attention is devoted to significant areas of the audit, that probable problems are identified and that the work is completed expeditiously. Planning also assists in appropriate assignment of work to team members and in coordination of work performed by other auditors.

The audit planning documents should contain:

- background knowledge and information needed to understand the entity to be audited, to allow an assessment of the problem and risk, possible sources of evidence, auditability, and the materiality or significance of the area considered for audit (*ISSAI 3100/2.4.1*)
- the audit objective, questions or hypotheses, criteria, scope and period to be covered by the audit, and methodology including techniques to be used for gathering evidence and conducting the audit analysis (*ISSAI 3100/2.4.1*).
- an overall activity plan which includes staffing requirements, i.e. sufficient competencies (including the independence of engagement staff), human resources, and possible external expertise required for the audit, an indication of the sound knowledge of the auditors in the subject matter to be audited (*ISSAI 3000/2.2*); and
- the estimated cost of the audit, the key project timeframes and milestones, and the main control points of the audit (*ISSAI 3100/2.4.1*).

The varied nature of performance audits places particular emphasis on the need for good planning. This helps to determine whether the audit is worthwhile and feasible, set clear and reasonable objectives, define realistic and robust audit approach and establish resources needed. If the audit is not well planned there is a risk that the audit work will not be efficient or effective (*Performance Audit Manual of the European Court of Auditors/3.1*)



Planning involves two main steps:

- The pre-study<sup>[2]</sup>- which enables the auditor to consider the significant risks to sound financial management and the potential audit objectives, approaches and methodologies and which is used to determine whether the audit is realistic and likely to be useful.
- The Audit Plan- which defines the audit work to be carried out- the audit scope, objective and methodology, the resources to be employed and the key milestones to be achieved.

## 4.2 Conduct of pre-study

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ISSAI 3000, 3.3 *requires that before starting the main study, the audit objectives, the scope, and the methodology to achieve the objectives are defined this could be done in the form of a pre-study. Where a pre-study is conducted it:*

1. *establishes whether the conditions for a main study exist*
2. *provides background knowledge and information needed to understand the entity, program, or function*
3. *is carried out in a fairly short period.*

The purpose of the pre-study is to gain sufficient knowledge of the subject area for conforming that the audit can be conducted in accordance with the performance auditing policies and to develop an audit plan that will provide a basis for the orderly, efficient and cost effective conduct of the audit ( PA Manual of Office of the Auditor General of Canada/4.15).

The survey is a broad-based appraisal of the operations subject to audit, without carrying out detailed verification. The auditors gather information in order to fine-tune initial decisions about scope, cost, timing and skills and to propose audit objectives, areas for in-depth review, criteria and examination approach. In finalising these decisions, the audit team designs an audit to reduce the risk of making erroneous observations, faulty conclusions and inappropriate recommendations on the report audit ( PA Manual of Office of the Auditor General of Canada/4.16).

Collecting data takes place during both the pre-study and main study of an audit. The primary role of data collection in the pre-study is to gather sufficient information to be able to assess alternative audit problems. A wide variety of procedures and techniques can be used to gather necessary information. These may include:

- Interviews with management;
- Review of authorities, policies, directives, Cabinet documents etc;
- Review of entity's performance report and report on plans;
- Review of entity's internet site;
- Review of management and accountability reports;
- Observation of facilities;
- Walk through of major systems and control procedures;

<sup>[2]</sup> This is referred to in some SAIs as Preliminary Surveys or Preliminary Survey Examination



- Analysis of the relationship between resource utilisation and results;
- Assessment of risks facing the entity;
- Consultation with advisors and outside organisations to identify best practices and opportunities for improvement;
- Previous audits and studies and audits conducted by others;
- Survey of the use of technology; and
- Review of spending trends.

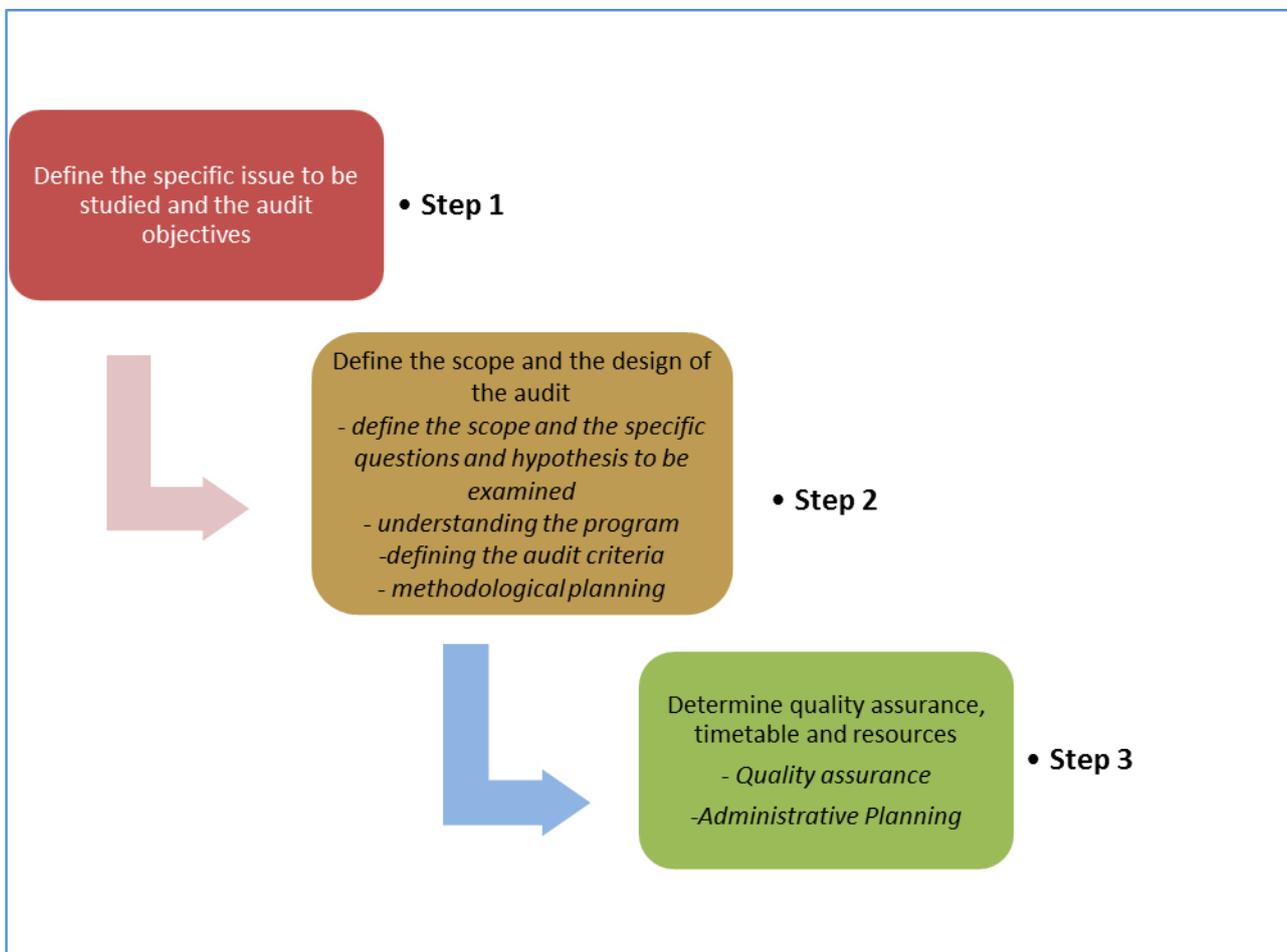
Other external sources that may be consulted:

- Studies by government, professional or interest groups;
- Information held by sister entities;
- Research held by academics or research organisations;
- Similar works undertaken by other government agencies and non-governmental organisations;
- Media coverage.

### 4.3 Preparation of the Audit Plan

ISSAI 3000:3.3 identifies three important steps in drawing up an audit plan. Figure 4.1 provide details of the steps.

Figure 4.1: 3 steps of preparing an audit plan





In practice, these steps cannot always be strictly separated and they do not necessarily take place in the same order.

The following paragraphs discuss each step of the audit plan. As discussed in Chapter 2 there are three different approaches of performance auditing including problem-oriented approach, results-oriented approach and system-oriented approach. The planning steps discussed below covers the problem-oriented and results-oriented approach.

### 4.3.1 Defining the specific issue to be studied and the audit objectives

One initial step is the more precise definition of the topic or the problem to be audited. The motives and the objectives for the study must be elaborated upon. This is a difficult and important step that involves examining the subject matter in depth by studying relevant literature, documents and statistics, conducting interviews with major stakeholders and experts and analysing potential problem indications from various viewpoints. In short this step involves elaborating on the following two questions (*ISSAI 3000/3.3*).

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

#### 4.3.1.1 What is the basic question or the problem to be studied?

The wording of the basic question or problem is an aspect in the examination process that is of great importance; it is a decisive factor for the results of the audit. It can be thought of as a fundamental research question into a government program that the auditor seeks the answer to. In general a SAI must apply a holistic perspective that best favours the public interest and the general mission for its performance auditing (*ISSAI 3000/3.3*).

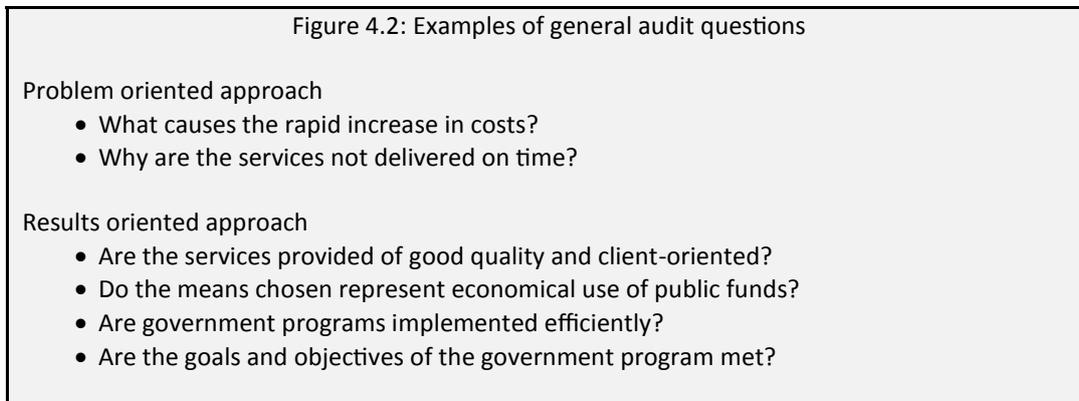
The proper formulation of questions is critical to the success of the audit, since it will have implications for decisions regarding the types of data to be collected, how collection will be carried out, the analysis that will be performed and the conclusions that will be reached (*PAM Brazil 2010/81*). In developing the audit questions, the following aspects should be taken into account (*PAM Brazil 2010/82*):

- Clarity and specificity;
- Use of terms that can be defined and measured;
- Investigative feasibility (possibility to be answered);

Articulation and coherence (the set of questions should be capable of clarifying the audit issued previously identified)



The following provides examples of basic audit questions/problem.



In the problem-oriented approach, emphasis has to be put on how to define the problem properly. Usually the audit begins with problem indicators of some kind e.g. shortcomings in service, complaints, rising costs etc. At the next stage the auditor tries to relate and link the different problem to be audited as precisely as possible. They will also formulate testable hypotheses regarding possible causes of the problem (*ISSAI 3000/Appendix 1*).

#### 4.3.1.2 What are the audit objectives?

*Audit objectives relate to the reasons for conducting the audit. In determining the objectives the audit team must take into the account the roles and responsibilities of the SAI and the expected net impact of the audit as defined in the strategic audit plan (ISSAI 3000/3.3).*

The audit objective should address concerns of accountability and good governance and may focus on the economy, efficiency and/or effectiveness of program management as well as financial control where relevant (*PASAI PA Manual/3.14*). The auditor may consider the following questions in defining audit objectives (*SAI India Practice Guide for Planning Performance Audit/1.5*).

- What is the goal of performance audit?
- Why are we conducting performance audit?
- What do we wish to achieve at the end of the performance audit?
- What is the focus of our performance audit: is it outputs, or outcomes, or impact?

The auditor should seek to frame the objectives in the clearest possible terms and as simply as possible when developing audit objectives. The following provides examples of audit objectives:



Figure 4.3: Examples of audit objectives

- *Protecting fish habitat; Report of the Office of the Auditor General of Canada; 2009*

The audit objective was to determine whether Fisheries and Oceans Canada and Environment Canada can demonstrate that they are adequately administering and enforcing the Fisheries Act and applying the Habitat policy and the Compliance and Enforcement Policy in order to protect fish habitat from the adverse impact of human activity.

- *Clinical Waste Management; Report of the Office of the Auditor General of the Republic of Botswana; 2007*

The objective of the audit was to assess the efficiency and administrative effectiveness and associated accountability arrangements in place in relation to clinical waste management.

- *Managing the impact of Housing Benefit Reform; National Audit Office of United Kingdom; 2012*

The audit examined the steps that the Department of Work and Pensions has taken so far in implementing the reforms to Housing Benefit.

The objective of the audit may also be written as a question. It is also possible to extend the objective into a series of associated questions which may be answered in the audit process. The audit objectives and scope are interrelated and should be considered together (ISSAI 3000/3.3).

### 4.3.2 Define the scope and the design of the audit

The next step is the development of the scope and design of the audit. As in financial auditing the audit approach for performance auditing needs to be structured (ISSAI 3000/3.3)

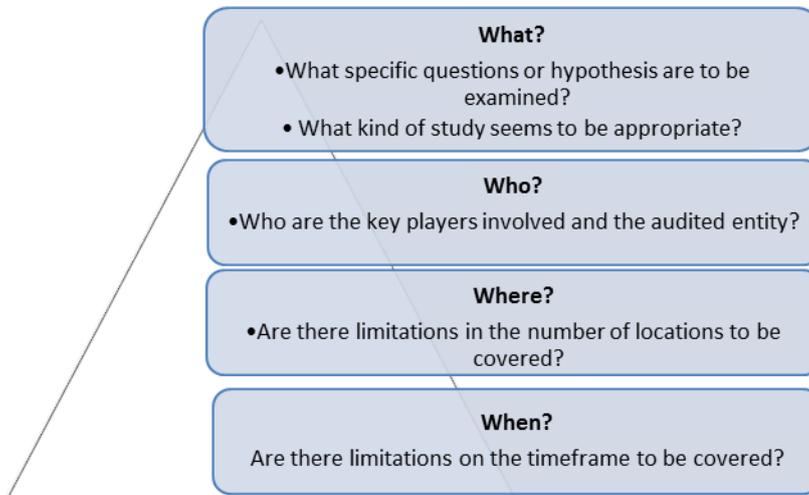
#### 4.3.2.1 Defining the scope and the specific question or hypotheses to be examined

##### 4.3.2.1.1 Defining the scope

The scope defines the boundary of the audit. It addresses such things as specific questions to be asked, the type of study to be conducted and the character of the investigation. The scope of an audit is determined by answering the following questions.



Figure 4.4: Determinants of audit scope



The following provide examples of scope adapted from various performance audit reports:

Figure 4.5: Examples of audit scope

- *Managing the expansion of the Academies Programme; Report of the National Audit Office UK; 2011*

This report evaluates the Department’s implementation of the programme expansion since May 2010 and the adequacy of its funding and oversight framework across the academics sector (including academics established before May 2010). The expansion is still in an early phase, and there is limited trend data on how schools have performed academically since joining the expanded programme. We will examine this aspect of academies’ performance as part of our future value for money programme. The report does not cover capital funding nor assess in depth the impact of the expansion of local authority finances or services.

- *Management of Consumer Complaints; Report of the Office of the Auditor General of Botswana; 2008*

The audit focused on the activities undertaken by the Consumer Protection Office on managing consumer complaints during the financial years 2003-2006. The Office has 10 stations nationwide but 9 were only operating at the time of the audit. This audit covered 6 stations, representing 66.7% of the total operating stations. Limitations to the audit have been the unavailability of some of the documented information due to the fact that some employees had left the Consumer Protection Office therefore resulting in undocumented information not being available. Consumer complaints data for 2003-2004 financial years was also not available.

- *Protecting fish habitat; Report of the Office of the Auditor General of Canada; 2009*

The audit included the administration of fish habitat protection and pollution prevention provisions of the Fisheries Act and the two policies (the Habitat Policy and the Compliance and Enforcement Policy) that set out the government’s intentions relating to these provisions. The audit included the policies, programs and activities of Fisheries and Oceans Canada and certain arrangements with others that support the administration and enforcement of these provisions. The audit did not focus on the environmental assessments required by the Canadian Environment Assessment Act that may be triggered by ministerial authorizations under the provisions of the Fisheries Act.

[3] Adapted from various Performance Audit Reports



Auditability is an important requirement in the operational planning process. It defines whether a topic is suitable for a main study. As objectives and scope vary from one audit to another, the audit team needs to assess whether an audit can be carried out. An issue must be both auditable and worth auditing in order to be included in the audit scope. The auditor might, have to consider, for instance, whether there are relevant approaches, methodologies, and criteria available and whether the information or evidence required is likely to be available and can be obtained efficiently. Furthermore, reliable and objective information should exist and there should be reasonable chances of obtaining this information (*ISSAI 3000/3.3*).

#### 4.3.2.1.2 Specific questions or hypothesis to be examined

##### ***Breaking down the basic question (Result-oriented approach)***

After having formulated the basic audit question, the auditors have to break it down to specific and testable sub-questions to be answered by the study i.e. the more specific questions concerning what is or why is it? (*ISSAI 3000/Appendix 1*).

One technique called “issue analysis’ breaks the basic audit question down into a number of lower levels, more detailed questions to form a pyramid.[4] It is often enough with three levels of questions but sometimes up to five levels are needed. Refer to the following table for a simple example of the use of issue analysis.

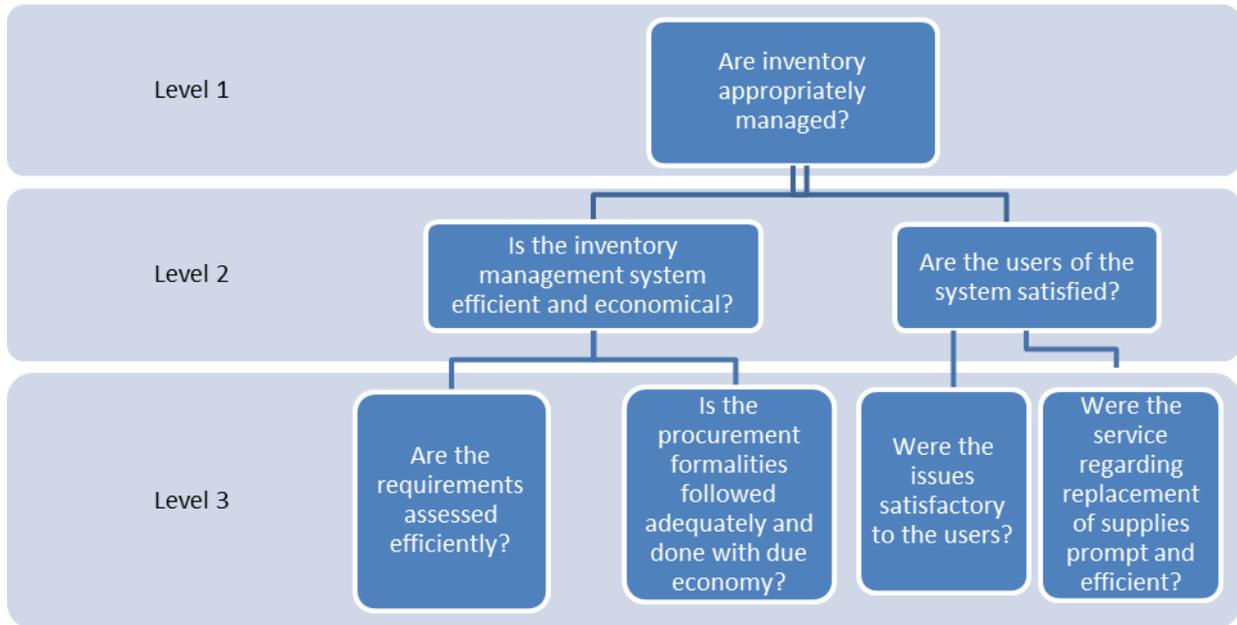
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[4] MINTO B The Minto Pyramid Principle, ED Minto International, Inc, 2003



Figure 4.6: Example of Issue analysis[5]

The objective of the audit is to examine whether inventory were appropriately managed?



The purpose of the technique is to clarify the feasibility of concluding against the main audit question and to assure a logical chain from specific audit procedures to the sub-questions all the way up to the main audit question. This helps to impose a logical disciplined pattern on one’s thinking and to ensure that all aspects of a question or sub-question are considered. (INTOSAI PAS Guideline on designing performance audits: setting the audit questions and criteria/3).

*Breaking down the main problem (Problem-oriented approach)*

Using a technique called the Problem Tree the main problem is divided into sub-problems or causal factors. This can also be achieved using the Ishikawa Analysis which is a tool similar to the Problem Tree. The Ishikawa Analysis (or Fishbone Diagram) is designed from a main problem which is subdivided in its causes and sub causes forming a diagram that looks like a fishbone. The following figure shows the use of a problem tree (INTOSAI PAS Guideline on designing performance audits: setting the audit questions and criteria/3).

[5] Questions for level 2 and 3 were adopted from SAI India: Practice Guide for Planning Performance Audit; p6-8

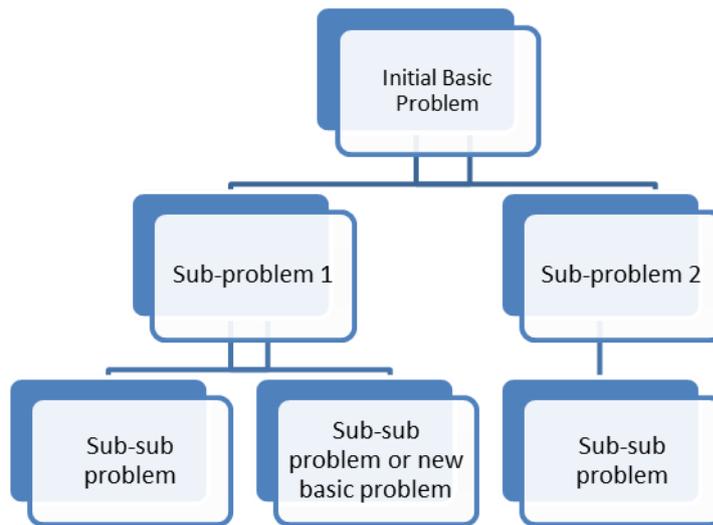


Figure 4.7: Illustration of use of problem tree in developing sub-problems[6]

One way of developing sub-problems or causal factors to be examined is to ask stakeholders and experts regarding possible causes closely linked to the problem. By sorting out the most likely and relevant potential and testable causes or sub-problems, it is possible to develop a proper audit design. For instance causes of long processing times may be found in the regulatory or organisational set up but also in management systems, practices, competences, etc. Stakeholders are likely to put forward various causes and may in addition suggest how to develop testable, valid and well founded hypotheses (*INTOSAI PAS Guideline on designing performance audits: setting the audit questions and criteria/3*).

#### 4.3.2.2 Understanding the program

It is important to develop a sound understanding of the audited program or the audited entity business that is sufficient to achieve the audit objectives, facilitate the identification of significant audit issues and fulfil assigned audit responsibilities. This knowledge includes an understanding of:

- the character 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;
- external constraints affecting program delivery;
- earlier investigations in the field; and
- management processes and resources (*ISSAI 3000/3.3*)

The aim in the design phase is to develop a basic understanding of the audited program. Obtaining the required knowledge is a continuous and cumulative process of gathering and assessing information, and relating the resultant knowledge to audit evidence at all stages of the audit. It is important that auditors weigh the costs of obtaining information and the additional value of the information to the audit (*ISSAI 3000/3.3*)

[6] Adapted from INTOSAI PAS Guideline on Designing performance Audits: setting the audit questions and criteria;p4



Sources of information may include:

- enabling legislation and legislative speeches;
- ministerial statements, government submissions, and decisions;
- recent audit reports, reviews, evaluations, and inquiries;
- scientific studies and research (including that from other countries);
- strategic and corporate plans, mission statements, and annual reports;
- policy files and management committee and board minutes;
- organization charts, internal guidelines, and operating manuals;
- program evaluation and internal audit plans and reports;
- conference reports and minutes;
- viewpoints from experts in the field;
- discussions with audited entity management and key stakeholders;
- management information systems; and
- other relevant information systems as well as official statistics.

Past reviews are often a useful source of information. They can help avoid unnecessary work in examining areas that have been under recent scrutiny and highlight deficiencies that have not yet been remedied.

Discussions with senior program management to gain an overall program perspective may also prove important. Other relevant sources of information are:

- studies by industry and professional or special interest groups;
- inquiries or previous reviews by the legislature
- information held by coordinating agencies or government committees;
- work undertaken by other governments; and
- press coverage.

#### 4.3.2.3 Defining the audit criteria

The audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of activities can be assessed. They reflect a normative control model for the subject matter under review. They represent good practice- a reasonable and informed person's expectation of 'what should be' (*ASOSAI PA Manual/3.19*).

Audit criteria define what the undertaking, services, programme or operation will be judged against e.g. policies, laws, pre-defined targets, professional standards, public opinion etc. (*INTOSAI PAS Guideline on designing performance audits: setting the audit questions and criteria/4*).

It is important to be aware of the character of the audit criteria chosen; they may be normative and specific, or may be more general in nature. The criteria may reflect everything from what should be according to laws, regulations or objectives; and what is expected, according to sound principles and best practice; to what could be (given better conditions). The nature of the audit and the audit questions determines the relevance and the type of suitable criteria. In the problem-oriented approach, the audit criteria have a less significant role, since the starting point is the deviation from



criteria. Instead the emphasis is on methodological requirements on how to confirm the hypotheses (*INTOSAI PAS Guideline on designing performance audits: setting the audit questions and criteria/4*).

When criteria are compared with what actually exists, audit findings are generated. Meeting or exceeding the criteria might indicate 'best practice' but failing to meet criteria would indicate that improvements can be made (*ASOSAI PA Manual/3.20*). Criteria can perform a series of important roles to assist the conduct of a performance audit, including (*ISSAI 3000/Appendix 2*):

- forming a common basis for communication within the audit team and with SAI management concerning the nature of the audit;
- forming a basis for communication with the audited entity's management;
- forming a basis for the data collection phase by providing a basis on which to build procedures for the collection of audit evidence; and
- providing the basis for audit findings and helping to add form and structure to observations.

### **Setting audit criteria**

The audit criteria must be set objectively. The process requires rational consideration and sound judgment. The auditors must for instance (*ISSAI 3000/Appendix 2*):

- have a general understanding of the area to be audited, and be familiar with relevant legal and other documents as well as recent studies and audits in the area;
- have good knowledge of the motives and the legal basis of the government program or activity to be audited and the goals and objectives set by the legislature or the government;
- have a reasonable good understanding of the expectations of the major stakeholders, and be aware of basic expert knowledge; and
- have a general knowledge of practices and experience in other relevant or similar government programs or activities.

For performance audits, the choice of audit criteria is normally relatively open and formulated by the auditor, criteria are often less important in the problem-oriented approach. In the problem-oriented approach it is more important to formulate testable (verifiable) hypotheses on possible causes to the audit problem. Thus, in performance auditing, the general concepts of economy, efficiency, and effectiveness need to be interpreted in relation to the subject matter (*ISSAI 3000/3.3*).

### **Basis and sources of criteria**

The basis of the audit criteria may be considered from different angles:

- depending on the case in point, the most authoritative sources will either be official standards (such as goals laid down in laws and regulation, decisions and policies taken by the legislature or the executive branch), or
- on the basis of the scientific grounds of the standards, greater emphasis will be placed on specialist scientific literature and other sources such as professional standards and best practices.

Audit criteria can be obtained from the following sources:

- laws and regulations governing the operation of the audited entity;
- decisions made by the legislature or the executive;
- references to historical comparisons or comparisons with best practice;
- professional standards, experiences, and values;



- key performance indicators set by the audited entity or the government
- independent expert advice and know-how;
- new or established scientific knowledge and other reliable information,
- criteria used previously in similar audits or by other SAIs;
- organizations (inside or outside the country) carrying out similar
- performance standards or previous inquiries by the legislature; and
- general management and subject-matter literature.

### **Characteristics of suitable audit criteria**

Characteristics of suitable criteria include the following (*ISSAI 3000/Appendix 2*):

- **Reliability:** Reliable criteria result in consistent conclusions when used by another auditor in the same circumstances.
- **Objectivity:** Objective criteria are free from any bias of the auditor or management.
- **Usefulness:** Useful criteria result in findings and conclusions that meet users' information needs.
- **Understandability:** Understandable criteria are clearly stated and are not subject to significantly different interpretations.
- **Comparability:** Comparable criteria are consistent with those used in performance audits of other similar agencies or activities and with those used in previous performance audits of the entity being audited.
- **Completeness:** Completeness refers to the development of all significant criteria appropriate to assessing performance.
- **Acceptability:** Acceptable criteria are those that independent experts in the field, audited entities, legislature, media, and general public are generally agreeable to.

The following provide some examples of audit criteria:

Figure 4.8: Examples of audit criteria [7]

- *Monitoring water resources; Report of the Office of the Auditor General of Canada; 2010*  
Audit issue: Environment Canada has not fulfilled its reporting obligations under the Canada Water Act  
Criteria: Under the Canada Water Act, Environment Canada is required to prepare an annual report to Parliament on the operations of this Act.
- *Clinical Waste Management; Report of the Office of the Auditor General of the Republic of Botswana; 2007*  
Audit issue: Separation of waste  
Criteria: The Botswana Clinical Waste Management Code requires that clinical waste be separated from household waste at source.
- *Access to safe drinking water; Report of the Office of the Auditor General of Fiji; 2011*  
Audit issue: Existence of legal framework  
Criteria: The Pacific Regional Action Plan on Sustainable Water requires that there should be a legal and policy framework to establish entities to be responsible for providing water services, water regulatory functions, water environment protection and proper allocation of water to consumers.
- *Drinking Water supply and sanitation; Report of the Rural Audit Authority of Bhutan; 2011*  
Audit issue: Water quality test for determining safe drinking water  
Criteria: The Rural Water Supply and Sanitation (RWSS) policy requires that all sources for RWSS schemes should be tested and confirmed safe for consumption prior to construction of scheme.

[7] Adopted from various SAI performance audit reports



It is often useful to obtain the input of audited entity management to the development of criteria. Disagreement about criteria can then be identified, discussed, and, perhaps, resolved at an early stage. However, the facts and arguments presented by the audited entity must be weighed against other relevant facts and arguments (*ISSAI 3000/Appendix 2*).

#### 4.3.2.4 Methodological planning (ISSAI 3000/3.3)

Methodological planning involves many different activities. For instance, it is important to distinguish between the audit program and the data-collection techniques. Performance audits can draw upon a large variety of data-gathering techniques that are commonly used in the social sciences, such as surveys, interviews, observations, and studying written documents.

As a general rule, it is advisable to be flexible and pragmatic in the choice of methods. Practical considerations will also have to influence the audit program. Sampling methods and surveys might allow general conclusions to be drawn and case studies provide an opportunity for in-depth studies.

Even though the nature of performance audits requires careful choices and combinations of methodologies for examining variables, it is important to have an open mind during the execution process. For performance audits in particular, the auditor will be concerned about the validity<sup>[8]</sup> and the reliability<sup>[9]</sup> of methods to be used to collect and analyse data.

#### *The audit design matrix*

A design matrix is a tool for determining what to audit and how. It provides a structure for the basic design components. (*INTOSAI PAS Guideline on designing performance audits: setting the audit questions and criteria/4*). It outlines the requirements and procedures necessary to implement the audit objectives and to make assessments against the audit criteria. Its main objectives are to (*ASOSAI PA Manual/3.8*).

- establish a clear relationship between audit objectives, audit methodology and the anticipated fieldwork to be carried out;
- identify and document the procedures to be performed; and
- facilitate supervision and review.

There are various – more or less complicated- versions. In some cases they contain a lot of components; main audit question, sub-questions, what to examine, audit criteria, information needed, how information will be collected, risks involved, complication, comparison or analyses needed, potential conclusions and likely recommendations etc. (*INTOSAI PAS Guideline on designing performance audits: setting the audit questions and criteria/4*).

[8] methods should measure what they are intended to measure

[9] findings should remain consistent if studies are made repeatedly in the same environment



The following is an illustration of the format of the audit design matrix.

Table 4:1: Format of design matrix

Audit question/sub-question- Identify the audit question/sub-question						
Criteria	Required information	Sources of information	Data collection procedures	Data analysis procedures	Limitation	What the analysis will allow us to say
Specify the criteria to address the audit question/ sub-question	Identify the information required to answer the audit question	Identify the sources of each item of information.	Identify the data collection techniques that will be used and describe the respective procedures.	Identify the techniques to be used in the data analysis and describe the respective procedures.	Specify the limitations regarding: <ul style="list-style-type: none"> <li>• The methodological strategy adopted</li> <li>• Access to people and information</li> <li>• The quality of the information</li> <li>• The operating conditions to perform the work</li> </ul>	Clarify precisely which conclusions or results may be achieved

The design matrix is an auditing tool that makes planning more systematic and directed, facilitating communication of decisions on methodology and assisting with conducting fieldwork. The matrix is a flexible instrument and its contents can be updated or modified by the team as the audit work progresses (PAM – Brazil 2010/99).

The following is an example of one question of a design matrix.



**Table 4.2: Example: Design Matrix – National Oncology Policy**

**Audit Problem:** Cancer is the second biggest cause of mortality by disease in Brazil and its incidence is growing. Cancer is a disease that requires quick action, long treatments and adequate monitoring, due to it could recur. This context requires an articulate assistance network, in order to assure the comprehensiveness, equity and universality of oncology attention. Therefore, this audit aims to evaluate if the Oncology Assistance Network gives on time access to diagnosis and treatment, verifying aspects that could be impairing the services offer, and if there are any access barrier to some population groups. The audit also will evaluate the adequacy of therapeutic schemes adopted by the government health system for oncology treatments, based on experts' opinions.

Audit question 1 – Does the oncology assistance network allow persons with cancer to have timing and equitable access to						
Criteria	Required information	Sources of information	Data collection procedures	Data analysis procedures	Limitations	What the analysis will allow us to say
<ul style="list-style-type: none"> <li>• Rule from Ministry of Health nº 1101/2002 (establishes parameters of coverage, resources, equipments and healthcare).</li> <li>• Rule from Ministry of Health nº 741/2005 (establishes technical rules to implementation and accreditation of oncology high complexity services).</li> <li>• International indicators about oncology treatment timing.</li> </ul>	<ul style="list-style-type: none"> <li>• Data about radiotherapy and chemotherapy (a).</li> <li>• Data from Oncology register (b).</li> <li>• Perception of patients on timing and difficulties of access to treatment (c).</li> <li>• Perception of representatives of associations to support cancer patients about difficulties of access to treatment (d).</li> <li>• Perception of managers and health professionals about what have been impairing oncology services (e).</li> <li>• How is the access to exams and oncology treatment at federal, state and municipal levels (f).</li> <li>• Oncology treatment logs by High Complexity Central (g).</li> <li>• Estimates of cancer incidence by region (h).</li> <li>• Registration data of authorized hospitals (i).</li> <li>• Working situation of the oncology services (j).</li> <li>• Data about quantity of oncology procedures (k).</li> <li>• Documents used for new services' accreditation (l).</li> <li>• Technical studies about the required size of the oncology assistance network (m).</li> <li>• Documents used on donation and assignment of equipments (n).</li> <li>• Agreement of the health establishment to information system (o).</li> <li>• How the services provided by the hospitals are followed by the Ministry of Health (p).</li> </ul>	<ul style="list-style-type: none"> <li>• Health information system (a, k).</li> <li>• National Institute of Cancer (b, f, h, m, n, o, i, k).</li> <li>• Oncology Foundation (b).</li> <li>• Sample of patients in treatment (c).</li> <li>• Associations of cancer patients (d).</li> <li>• Hospital managers, doctors, technicians, nurses (e).</li> <li>• Oncologists (e).</li> <li>• High complexity centres, states and municipalities centre (g).</li> <li>• Accredited establishments (i, j).</li> <li>• Ministry of Health (i, p).</li> <li>• Managers of state and municipal health secretariats (f, l, p).</li> </ul>	<ul style="list-style-type: none"> <li>• Download of files from health information system (a, k).</li> <li>• Information request (b, g, h, l, m, n, o, k).</li> <li>• Interview with (c, e, f, j, p):                             <ul style="list-style-type: none"> <li>*sampling of patients in treatment in hospitals visited;</li> <li>*managers and health professionals in hospitals visited;</li> <li>*managers from state and municipal health secretariats.</li> </ul> </li> <li>• Survey with health establishments, associations of cancer patients and oncologists (d, e, g, j).</li> <li>• Research on sites of Ministry of Health and National Institute of Cancer (i, h).</li> </ul>	<ul style="list-style-type: none"> <li>• Quantitative analysis of timing between medical appointment, diagnosis and treatment. Comparative analysis with international standards and among different population groups (literacy, ethnicity, region of the country, type of establishment) (a, b, f, g, o).</li> <li>• Econometric regression to evaluate the treatment timing for different population groups (a, b, o).</li> <li>• Qualitative analysis of perception of patients and patient's associations about treatment timing and equity of access (c, d, e, f).</li> <li>• Qualitative analysis of professional's perception about what have been harming the oncologic services (e).</li> <li>• Triangulation between quantitative data of timing for treatment and perception obtained in case study (a, b, c, d, e, f).</li> <li>• Quantitative analysis of survey about what have been harming the oncologic services (f, e).</li> <li>• Quantitative analysis of studies made by National Institute of Cancer about oncologic treatment by region and oncology network for radiotherapy and chemotherapy services (h, i, k, m).</li> <li>• Analysis of documents that support accreditation of new establishments and assignment of equipments (i, l, n).</li> <li>• Qualitative analysis of the follow-up of oncology services (p).</li> </ul>	<ul style="list-style-type: none"> <li>• Information systems with outdated and inconsistent data (a, b).</li> <li>• Inability to extract random sample for survey.</li> </ul>	<ul style="list-style-type: none"> <li>• Whether diagnosis and treatment have been on time (a, b, c, d, o).</li> <li>• Whether there are access barrier to some population groups (b, c, d, g, o).</li> <li>• What have been limiting diagnosis and treatment on time (materials, equipments, professionals) (c, d, e, j).</li> <li>• In which extent the regulation system helps timing access to oncology network (c, d, f, g, e).</li> <li>• Whether the quantity of radiotherapy and chemotherapy services is enough (h, i, k, m).</li> <li>• Whether the accreditation of new establishments obeys technical criteria (i, l).</li> <li>• Whether the assignment of equipments obeys technical criteria (n).</li> </ul>



### 4.3.3 Determining quality assurance, timetable and resources

The final step is the determination of the quality assurance measures to be taken in the audit, the timetable and the financial budget.

#### 4.3.3.1 Quality assurance

The INTOSAI Auditing Standards state that the SAI should establish systems and procedures for quality assurance. Quality control procedures should be designed to ensure that all audits are conducted in accordance with relevant standards and policies (*ISSAI 3000/3.3*)

The audit manager is responsible for the day-to-day management of the audit, including detailed planning, execution of the audit, supervision of staff, reporting to SAI management and overseeing preparation of the audit report (*ISSAI 3000/3.3*)

Chapter 8 discusses QA for performance auditing in detail.

#### 4.3.3.2 Administrative planning

It is important to determine the timetable and the resources needed for the audit. Relevant factors include the manner in which the audit is organized, the expected costs (for both staff, on the basis of predetermined rates, and equipment), and the expected completion time (*ISSAI 3000/3.3*).

The budget and timetable should be documented. Progress against these targets should be monitored (*ISSAI 3000/3.3*). The estimation of resources and timing of the audit will be a task for the audit manager who should prepare the budget and schedule for the audit. The proposed audit timing and budget should be approved by the relevant senior management which in many cases will be the head of the SAI (*PASAI PA Manual/3.81*).

SAI management should decide which particular auditors will be assigned to an audit and will take into account such things as:

- Capability and experience of individual staff members;
- Special expertise requirements;
- Development needs of staff; and
- Staffing combinations e.g. placing experienced and inexperienced staff together.

If the experience or expertise requirements of the audit cannot be met by available SAI staff, consideration should be given to engaging experts to work with the audit team.

Senior SAI management should be kept informed of and involved in the development of the audit plan. However, it is also necessary for the audit team to seek the head of SAI approval to proceed with the audit.



## 4.4 Summary

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This chapter focused on planning an individual performance auditing. It looked at the conduct of a pre-study and the steps involved in the preparation of an audit plan. In the next chapter, we will discuss about conducting a performance audit.



## Chapter 5: Conduct a performance audit

### 5.1 Introduction

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After planning the audit, design the planning matrix and having in place the audit project, it's time to do the audit fieldwork. This chapter will deal with audit findings and evidence, techniques and tips about data collection and data analysis and the findings matrix.

The objective of conducting a performance audit is to obtain competent, relevant and reasonable evidences to support the findings and conclusions of the audit. The main activities of this audit phase are:

- a. development of field work in order to gather evidences;
- b. analysis of collected data;
- c. preparation of findings matrix.

Generally, data collection and data analysis are not dissociated activities. Except in surveys, data are collected, interpreted and analysed simultaneously. Depending on the methodology adopted in the audit project, there may be significant variation in the organization of field work and data analysis strategy.

### 5.2 Audit finding

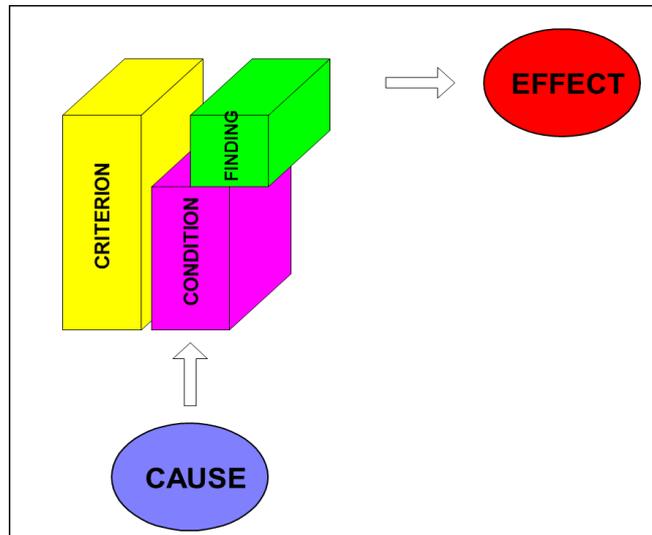
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Audit findings are the evidence gathered by the auditor during the field work that will be used to answer audit questions. Audit finding is the discrepancy between the existing situation and the criterion. The findings contain the following attributes: criterion (what should be), condition (what is), cause (why is there a deviation from norms or criteria) and effect (what are the consequences of the situation found). The audit finding occurs when the criterion is compared to the existing situation.

The figure 5.1 shows the attributes of the audit finding. However, all four elements are not always required in an audit; the criteria, for instance, are not always specifically addressed in the problem-oriented approach (*ISSAI 3000/4.3*). For example, in the following audit questions, predefined criteria aren't required: "What are the main factors that account for the crisis in the air transport system?" "What factors explain the significant increase in spending on payment of sickness leave during the last decade?" (*PAM – SAI Brazil/83*).



Figure 5.1 – Attributes of audit finding



Audit criterion is the performance standard used to measure economy, efficiency and effectiveness of the audit object. Its purpose is to determine whether the audited object reaches, exceeds or falls short of expected performance. It can be defined quantitatively or qualitatively. Meeting or exceeding the criteria may indicate the occurrence of good practice. Not reaching the criterion indicates opportunity for performance improvement. It is important to note that satisfactory performance is not a perfect performance but the expected performance, considering the circumstances with which the audited entity works (*ISSAI 3000/Appendix 2*). The chapter 4 of this handbook contains more information about audit criteria.

Condition is the existing situation, identified and documented during the audit. Cause is the reason for the difference between the condition and the criterion. The cause will be the basis for the recommendations. Sometimes one cannot reliably identify the causes of the existing situation because such identification would require a sophisticated methodology which would not be within the audit scope. Effect is the consequence of the difference between condition and criterion. The effect indicates the seriousness of the situation encountered and determines the intensity of corrective action (*PAM – SAI Brazil/118*). Table 5.1 shows an example of audit finding.



5.1 – Table

Finding	<b>Shortage of psychiatric inpatient beds in most Brazilian states.</b>
Criterion	The number of psychiatric inpatient beds established by the World Health Organization is 0.43 per thousand inhabitants.
Condition	Brazil has an average of 0.37 psychiatric inpatient beds per thousand inhabitants.
Causes	<ul style="list-style-type: none"> <li>• Uneven distribution of beds between the federal states (the south eastern region has 0.53 beds per thousand inhabitants, while in the northern region the rate is 0.04)</li> <li>• Distribution of beds does not meet the population criteria</li> <li>• Lack of municipal and state mental health plans</li> <li>• Incipient social control</li> </ul>
Effects	<p>Deficiency of service in places with low beds rates</p> <ul style="list-style-type: none"> <li>• Migration of people with mental disorders among municipalities or among states, complicating the planning of health care.</li> </ul>

Example of audit finding

### 5.3 Fieldwork

The fieldwork consists on collecting data and information set out in the audit planning. All fieldwork should be planned from the perspective of acquiring evidence intended to support the findings appearing in the final report (*ISSAI 3000/4.2*). The type of data to be collected and sources of such data will depend on methodological strategy and established criteria. Often, this



#### Tips and hints for fieldwork

- Prepare everything that you will need in field during the planning phase.
- Don't forget to:
  - \* schedule visits, interviews and focus groups;
  - \* book tickets and hotels;
  - \* define how will be your transportation in the fieldwork and who will provide it;
  - \* inform contact telephone numbers to supervisor and other team members;
  - \* prepare necessary material (copies of questionnaires; interviews, focus groups and direct observation guides; name, address, phone, e-mail of all the persons will you visit in the field);
- prepare presentation letters.
- When scheduling field activities (interview, focus group etc.), mind the time required to go from one place to another and probable delays in each activity.
- Don't rely only in electronic devices (recorders, computers etc.). Make some key notes.
- Start filling the findings matrix (causes, effects and recommendations) in the field, every time you have an insight for it.
- Fieldwork is time consuming. Don't expect time to deal with tasks that are waiting for you at the office.
- Be sure to collect all the material you need. Some information might be hard to collect after the fieldwork.
- Wear proper clothes. You are representing your office, so, when talking to authorities and managers, don't wear casual clothes (unless you are sure they will wear casual clothes too). On the other hand, if you will talk to beneficiaries (especially people with low level of education), formal clothes might intimidate them and you won't be able to establish rapport and obtain reliable information.

collection is considered a mechanical task and the least interesting part of the audit. However, it is an important activity and consumes lots of time and effort (*PAM – SAI Brazil/129*). Quality in data collection and documentation is vital, since performance audit is open to judgment (*ISSAI 3000/4.2*).

It is important that the auditor gathers the best possible information – facts as well as opinions, arguments and reflections – from different sources and seeks the help of specialists (*ISSAI 3000/4.6*). The auditor should look for the evidences needed to answer audit questions and be careful not to divert the focus of the work or collect a large amount of information that is often unnecessary and irrelevant (*PAM – SAI Brazil/132*).

Data collection is a compromise between the ideal and the reality. An auditing project that is very ambitious regarding data collection, foreseeing a perfectly complete, precise, and exact form of collection, may hamper the audit. The need to be accurate must be weighed against criteria of fairness, economy and relevance for audit's objectives. Consequently, performance auditors should try to be practical in their efforts to collect, interpret and analyse data. The audit report should provide details on the quality of information and how it was collected (*ISSAI 3000/ Appendix 3, 5*). To avoid getting caught up in details and a flood of data, detailed assessments of the need for information must be made both before and during the audit (*ISSAI 3000/4.4*). The textbox below presents some tips and hints for fieldwork.

### 5.3.1 Data collection methods

Some of the methods used for data gathering are the following (*ISSAI 3000/Appendix 1, 5*).



**1. Tips and hints about questionnaires (Brazil – Survey in audit) File**

- Start questionnaire with general questions
- At the end, ask an open question where the respondent may give some general comments
- Avoid too many open-ended questions, it will reduce the quality and attention of the respondents and might reduce the response rate
- Avoid ambiguous and vague questions
- Ask only questions that will be used on analysis
- Don't ask two things in one question. Bad Example: Do you think the water supply in your village is sufficient and water has good quality?
- Questions should follow some of requirements of a good report (clarity, concise, accuracy, objectivity)
- The questionnaire should have (*Brazil, Survey in audits/35*): (i) brief explanatory message about the survey objectives and purpose, importance of the answer, how the information will be used, who should answer the questionnaire, audit team contact (e-mail and phone number) (Example of explanatory message in Annexure 2); (ii) instructions on how send the questionnaire; (iii) questions to be answered; (iv) message of thanks.
- Test the questionnaire with colleagues and experts
- Do a pilot test, with the real conditions of survey

**examination** – is an important source of audit evidence and is used in many performance audits, usually on a sample basis. Some examples are (*PAM Bangladesh/4.3*): annual reports, financial statements, project documents, correspondence, memoranda, reports, directions to staff, internal audit reports.

**2. Secondary analysis and literature search** – review of general research reports, books, papers, studies in the audit object.

**3. Some criteria for selecting the case study location**

- Materiality – states and municipalities that have received more resources
- At least one state (or city) per region in order to obtain a good idea of situation in whole country
- Typical case – location with characteristics similar to many others. This could make it easier to understand the situation in other places
- Good example and bad example – choose two similar locations: one with good performance and other with bad performance. The idea is understand why there are differences on performance in similar locations
- Places where the services are being implemented for some time. It will be easier to see the results
- Places with many complaints about the quality of the service delivered

**Surveys or questionnaires** – survey is a systematic collection of information from a defined population, usually by means of interviews or questionnaires administered to a sample of units in the population. Surveys are used to gather detailed and specific information from a group of people or organizations. Questionnaire is the data collection tool used in surveys (*Brazil – Survey in audits/3*). Questionnaires are used when comprehensive knowledge is needed. Examples of questions are in annexure 1. The textbox below presents some tips and hints about questionnaires.



**Tips and hints about interviews**

*(AFROSAI-E Performance Audit Template Manual; Brazil – Interviews in audit)*

- Prepare an interview guide
- Schedule date, venue, time and duration
- Assign roles to each person before the interview (avoid make interviews alone)
- Be punctual to start and don't delay longer than the established duration
- Study the subject
- Be attentive, observant, objective, respectful, impartial, secure
- Create a rapport with the interviewee – interview is not interrogation
- Don't talk too much – listen and observe carefully
- Be flexible without forgetting the objective of the interview
- Be brave enough to ask any kind of question – be frank and candid
- Avoid asking complex questions and demonstrating ego, possessing excess knowledge or attitudes of superiority
- In the case of evasive answers, use pauses or silence period to indicate waiting for more complete information
- Make key notes

**4. Case study** – is a method of learning about a complex issue, based on a comprehensive understanding of the particular instance. The case study involves an extensive description and analysis of the particular issue within the context of the whole area under review (*PAM India/4.18*). Case studies are used to gather qualitative information. They can be used to supplement questionnaires. The textbox below presents some criteria for selecting the case study location.

**Tips and hints about focus groups** *(Brazil – Focus group in audit)*

- 5.
- Prepare a focus group guide (usually with open questions) and test it
  - A good focus group should:
    - \* have participants carefully selected;
    - \* happen in a comfortable place;
    - \* have leadership of an experienced facilitator;
    - \* last no longer than two hours.
  - A good facilitator should be flexible, objective, respectful, impartial, secure, humorous
  - The facilitator should: favour equal participation of all members; encourage or cool the debate; value diversity of opinions
  - The group must be homogeneous, with similar experiences about the discussion topic
  - Ask permission for recording the session. Recording will be very useful for data analysis
  - Make key notes



**Interviews** - an interview is basically a question and answer session to elicit specific information. A great deal of performance audit work is based on interviews. Conduct an interview isn't a simple task. It requires discipline, preparation and interaction skills. To obtain the broadest possible view of reality, it is important to interview people with different positions, perspectives and insights. The results of the interviews must then be compiled and documented in a way that facilitates analysis and quality assurance. An example of an interview guide is given in annexure 3. The textbox below presents some tips and hints about interviews.

**Tips and hints about direct observation** (*Brazil – Direct observation for audit*)

- Prepare a direct observation guide
- Select only activities or phenomenon representative and relevant for audit objectives
- Like on interviews, it is important to establish rapport with people
- Be aware of the right period and time to do the direct observation
- Emphasize that the objective of direct observation is to know the work process, not to evaluate individual performance
- Try not to upset the normal flow of work or people's behaviour (*PAM – SAI Bangladesh/4.11*)
- People perform differently when they are being observed. So, it could weaken the evidence, unless corroborated (*ISSAI 3000/Appendix 3, 3.9*)
- Everything which is observed should be carefully recorded since it may become key evidence (*PAM – SAI Bangladesh/4.11*)

**6. Seminars and hearings** – Seminars might be used for instance to: acquiring knowledge of a specialist area; discuss problems, observations, and possible measures; air arguments for and against different views and perspectives.

**7. Focus groups, focal groups, reference groups and experts** – Focus group is a technique used to collect qualitative data. The source of data is the discussion and interaction among participants of a group brought together to discuss specific topics and issues. Focal group techniques are used to obtain information on the implementation and impacts of government programs based on the perspectives of the beneficiaries and other stakeholders. It also can be used to help on developing questionnaires and direct observation guides. Reference groups may be composed of people from within or outside the SAI and are usually made up of experts and specialists. An example of a focus group guide is provided in annexure 4. The textbox below presents some tips and hints about focus groups.



**8. Direct observation** – Is a technique for qualitative data collection that uses the senses to understand certain aspects of reality. It's not only about to see and hear, but also to examine facts or phenomena. It helps to identify and obtain evidence about situations over which individuals have no conscience, but that guide their behaviour (*Brazil – Direct observation for audit*). This method is mainly used to gain insight into, and understanding of, the way an operation is run; to obtain the views of staff in the field and discuss and test ideas. The textbox below present some tips and hints about direct observation

## 5.4 Evidence

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Evidence is information collected and used to support audit findings. All audit findings and conclusions must be supported by audit evidence. Evidence should be placed in context and all relevant arguments (pros and cons) and perspectives should be considered before conclusions and recommendations are drawn (*ISSAI 3000/Appendix 3, 1; ISSAI 300 Exposure draft/30*).

Evidence should be competent (valid and reliable), relevant and reasonable (sufficient and appropriate) (*ISSAI 3000/Appendix 3, 1*):



- a. validity – based on accurate, reliable information;
- b. reliability – ensure that the same results will be obtained if the audit is repeated;
- c. relevance – linked, in a clear and logical way, to the criteria and audit objectives;
- d. sufficiency – is a measure of quantity. It should be enough evidence to persuade a reasonable

Evidence type	Data collection method
Physical	<ul style="list-style-type: none"> <li>• Direct observation</li> <li>• Inspection of objects</li> </ul>
Testimonial	<ul style="list-style-type: none"> <li>• Interviews</li> <li>• Questionnaires</li> <li>• Focus groups</li> <li>• Reference groups</li> </ul>
Documentary	<ul style="list-style-type: none"> <li>• File examination</li> <li>• Document examination</li> <li>• Secondary research</li> <li>• Literature search</li> <li>• Using existing statistics</li> <li>• Using existing databases</li> </ul>
Analytical	<ul style="list-style-type: none"> <li>• The analytical evidence is built by the auditor, using different types of data.</li> <li>• The auditor can use any data collection method listed above or a combination of them.</li> </ul>

person that the findings, conclusions and recommendations are warranted and supported. It is important to remember that the quantity of evidences does not replace the lack of other attributes;

- e. appropriateness – is a measure of quality of audit evidence.

Evidence gathered during a performance audit may be predominantly qualitative in nature and require extensive use of professional judgment. Accordingly, the auditor would ordinarily seek corroborating evidence from different sources or of a different nature in making assessments and forming conclusions (*ISSAI 3000/Appendix 3, 1.2*).

Auditors need to be aware of potential problems or weaknesses with evidence. Potential problems include (*ISSAI 3000/Appendix 3, 2; PAM – SAI India/5.11; PAM – SAI Bhutan/5.1.2*):

- evidence based on a single source (reliability, validity, sufficiency);
- testimonial evidence not supported by documentation or observation (reliability);
- evidence not time-sensitive, i.e. too old and does not reflect changes (relevance);
- evidence too expensive to obtain relative to benefits (relevance and sufficiency);
- source of evidence has a vested interest in outcome (reliability);
- samples collected are not representative (relevance, validity, sufficiency);
- evidence related to an isolated occurrence (validity, sufficiency);
- evidence does not establish a cause and effect relationship (reliability, sufficiency);
- conflicting evidence (reliability);



- biased evidence (reliability).

Evidences can be categorized into four types (*ISSAI 3000/Appendix 3, 2*):

- physical – obtained by observing people and events or examining property. Can take the form of photographs, charts, maps, graphs or other pictorial representations. A photograph of an unsafe condition is far more compelling than a written description. When the observation of a physical condition is critical to achieving the audit objectives, it should be corroborated;
- testimonial – statements obtained through questionnaires or interviews. They can be made by different stakeholders, for example: employees of the audited entity, beneficiaries and clients of the program being audited, experts and consultants contacted to provide corroborating evidence in relation to an audit, members of the general public. Corroboration of oral evidence is needed if it is to be used as evidence rather than mere background information;
- documentary – the most common form of audit evidence. May be available in physical or electronic media. May include letters, contracts, accounting records, invoices, memoranda, reports, statistics, management information on performance. The reliability and relevance of documentary evidence needs to be assessed in relation to the objectives of the audit. For example, the existence of a procedures manual is not evidence that the manual is put into practice. As with oral evidence, the position, knowledge and expertise of the author or approver of the document may need to be assessed;
- analytical – includes computations, comparisons, analysis of ratios, trends and patterns, separation of information into components. Analysis is usually numerical, and considers, for example, ratios of output to resources, or the proportion of the budget that is spent. It can also be non-numerical in nature, for example, observing a consistent trend in the nature of complaints made about an entity.

There are some techniques that can help to obtain more robust evidences. One is circularization, which is the confirmation by third parties of facts and information submitted by the audited entity. Another is triangulation, which is the use of different research and data collection methods to study the same subject, aiming at strengthening the findings (*PAM – SAI Brazil/128*).

The different types of evidence are linked to different methods of data collection, as shown in the table 5.2 (adapted from *AFROSAI-E Exposure Draft Performance Audit Handbook*).

Table 5.2: Link between evidence and data collection method



**Figure 5.2: Performance audit of Farm roads (Source: PAG – SAI Bhutan/Appendix I, 2)**

**Audit Objective: To assess the impact of farm roads in improving the living standard of local community**

**(i) Mean**

There are 10 households in the locality who are the beneficiaries of the road. The auditors have decided to use the monetary income as the yardstick to measure the impact. The survey result showed the average annual increase in income of 10 households for first five years after the construction of farm roads:

House hold	A	B	C	D	E	F	G	H	I	J	Total
Income (USD)	1000	2000	3000	4000	5000	2000	1500	2500	2000	1800	24800

Now to derive audit conclusion, we find the average annual increase in the income of 10 households, which is:

$$\mu = \sum X / n = 24,800 / 10 = \text{USD } 2,480 \text{ per household}$$

Thus, we conclude that the average income generation of the locality is USD 2,480 which may be attributed as the probable impact of farm road.

**(ii) Median**

In case of data containing extreme values, the use of mean may not be representative. Centre for such data can be better described by a measure of location called the *Median*. It is the midpoint of the values after they have been arranged in ascending or descending order.

Example:

House hold	A	B	C	D	E	F	G	H	I	J	Total
Income (USD)	1000	2000	3000	4000	5000	2000	1500	2500	2000	30000	53000

$$\mu = \sum X / n = 53,000 / 10$$

Mean=USD 5,300

Conclusion: In this example, one household has an extreme income of USD 30,000 thus, pulling the Mean (USD 5,300) upward causing it to be unrepresentative. In such cases, the median provides a more valid measure of location.

House hold	A	G	B	F	I	H	C	D	E	J	Total
Income (USD)	1000	1500	2000	2000	2000	2500	3000	4000	5000	30000	53000

If the sample has odd number of observation, we can directly take the middle value as the median. In case of our above example, we have even number of observations, so we have to take the two middle values and divide by two. i.e.  $(2000+2500)/2 = 2250$

**Conclusion:** We can conclude that USD 2,250 is a more representative value.

**(iii) Mode**

Mode is the value of observation that appears most frequently. The mode has the advantage of not being affected by the extreme values. However, it also has disadvantage that causes it to be used less frequently than mean and median because there can be cases without mode if no value appears more than once.

In our example above, the mode is USD 2,000 because it appears 3 times.

**3.5.1 Descriptive Statistics to understand data distribution**



Data distribution may often be expressed in the form of a graph that shows all the values of a variable. The statistics that describe data distribution can be powerful tools for audit analysis and reporting. There are three basic dimensions of data distribution that may be important to an auditor: the central tendency (mean, median, mode, quartile level etc.), the spread (variability or dispersion) and the shape of the data (standard deviation, normal distribution etc.). Data distributions may be used: to identify the level, spread, or shape of the data; to decide whether variable performance meets an audit criterion or not; to interpret probability distribution to assess risk; to assess whether sample data are representative of the population (*ISSAI 3000/Appendix 1, 6.1*).

The auditor might examine a data distribution to understand some characteristics of the audited entity, or to compare actual values with expected values. Examining data distributions is often more informative than focusing on a single figure (an average for example). Single figure estimates can easily lose much of the richness of the information available to the auditor.

An example provided in the figure 5.2 explains the usage of descriptive data relating to central tendency.



**Figure 5.3: Example of Regression Analysis (Source: PAG – SAI Bhutan/Appendix I, 3)**

The simplest form of regression analysis is frequently referred to as correlation analysis. It examines the correlation between two variables, 'X' and 'Y' (i.e., the degree to which changes in one are associated with changes in the other).

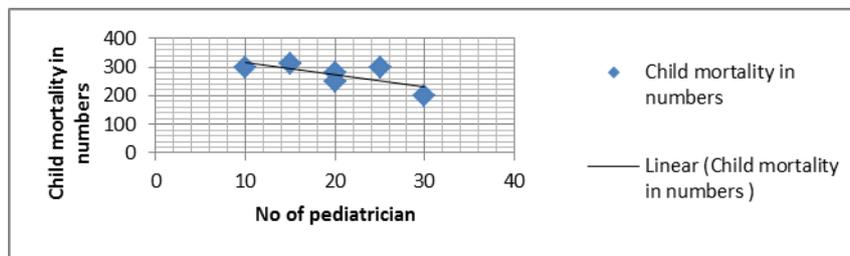
**(i) Scatter Diagram**

It is a graph that plots values of dependent variable 'Y' and independent variable 'X' on the vertical and horizontal axis respectively. Dependent Variable is the variable that is being predicted or estimated and Independent Variable is the variable that provides the basis for estimation.

**Example: Goal of health sector is to reduce the infant mortality rate and the table below represents the data:**

<b>Year</b>	2003	2004	2005	2006	2007	2008
<b>No. of Paediatricians</b>	10	15	20	20	25	30
<b>Child mortality</b>	300	310	280	251	300	200

With the data, a scatter diagram is plotted as given below:



**Conclusion:** It shows that with more paediatricians, the child mortality decreases. There appears to be a negative correlation between them. To measure the strength and direction of this relationship between two variables, number of paediatricians and child mortality, coefficient of correlation is used.

**(ii) Coefficient of correlation (r)**

The designated r is often referred as Pearson's r. It assumes any value from ±1. When r = 0, it indicates there is no relationship, r = -1 indicates perfect inverse/negative correlation and r = +1 indicates perfect direct/positive correlation.

$$r = \frac{\sum (X_i - \bar{X})(Y_i - \bar{Y})}{\sqrt{\sum (X_i - \bar{X})^2} \sqrt{\sum (Y_i - \bar{Y})^2}}$$

In the above example, r = -0.712

According to ISSAI 3000/Appendix 1,6.2, "regression analysis is a technique for assessing the degree to which variables are associated (correlated). Regression analysis may be used:

**Interpretation:** Strong negative correlation and inverse relationship between the number of paediatrician and the child mortality exist.

- to test a relationship that is supposed to hold true;

**(iii) Coefficient of Determination (r<sup>2</sup>)**

- to identify relationships among variables that may be causally related that might explain anomalies;

It is the proportion of the total variation in the dependent variable Y that is explained by the variation in the independent variable X. r<sup>2</sup> is computed by squaring the coefficient of correlation. Example: r<sup>2</sup> = (-0.712)<sup>2</sup> = 0.508

- to identify unusual cases that stand out among expected values; and

- to make predictions about values in the future"

**Interpretation:** 50.8% of the variation in the number of child mortality is explained by the number of paediatrician available. 49.2% is due to other factors. Using the same example above, we can derive the regression equation as:

An example, provided in Illustration 5.3 below, explains the usage of regression analysis.  $a = \text{intercept (estimated value of Y, when X=0)}$   
 $b = \text{slope (how much Y changes for each one unit change in X)}$

Mathematically:  $b = \frac{\{n(\sum XY) - (\sum X)(\sum Y)\}}{\{n(\sum X^2) - (\sum X)^2\}}$ ;  $a = \bar{Y} - b \bar{X}$

$Y = 357.5 - 4.2 X$

$Y = 357.5 - 4.2 (35)$

$Y = 210.5$  (child mortality in numbers)

**Interpretation:** If there are no paediatrician (X=0), the child mortality in numbers would be 357.5.



### 5.5.3 Sampling Techniques

Auditors seldom have the opportunity to examine all units or all data, documents and records. It is therefore, necessary that a representative sample is selected. The sampling techniques to be applied will depend upon the nature of data and audit objectives. The central issues in sample selection are (*SAG – SAI Bhutan/5.1.6*):

- the sample selected is representative of the entire population;
- the sample is unbiased and each element of the population has an equal chance of appearing in the sample;
- the sample size is sufficient to extrapolate the result of audit test to the entire population within the confidence levels.

In performance auditing, sampling techniques are mostly used when essential facts cannot be obtained in other ways and when there are demands for structured comparison and well-founded generalizations. A sample may be statistical or non-statistical, and both require the use of professional judgment. Due to limited resources, the samples are seldom very large, and it is usually necessary to limit the number of questions to be answered. To obtain more in-depth knowledge, the selection methods may be supplemented with other information-gathering techniques, such as case studies. The auditor must make a judgment as to whether sampling is an appropriate way of obtaining some of the audit evidence required. (*ISSAI 3000/Appendix 1, 4.3*)

Among the factors determining the sample size to be considered are (*ISSAI 3000/Appendix 1, 4.3*):

- the number and relative sizes of the items in the population;
- the complexity of the questions to be answered in the sample;
- the relevance and reliability of evidence produced with alternative tests and procedures, and the relative cost and time involved in each.

An example of random statistical sampling using the recommended formula of Yamane (1973) is provided in the text box as figure 5.4. It is commonly used in social studies to ascertain the sample size when population is known and respondents are homogenous.



**Figure 5.4: Example on determining sample size** (Yamane, Taro, 'Statistics: An Introductory Analysis', 1973)

In the performance audit of the Ministry of Education, the auditors wanted to conduct a survey to find out the reasons for low morale amongst the teachers in the Civil Service. There are over 20,000 teachers in the education system. It would be practically impossible and expensive to conduct survey for entire population. In such scenario, it is important to decide on sample size representative of the entire population. One of the most common formula used for random sampling as recommended by Yamane (1973) is:

$$\text{Size of sample} = N / (1 + Ne^2)$$

Where, N = population of sample  
e<sup>2</sup> = probability of error

Therefore, using the above random sampling formula, the auditor determined the sample size as 392 respondents (applying the confidence level at 95%, i.e., 5% probability of error)  
Mathematically,

$$\text{Size of sample} = 20,000 / (1 + 20,000 * 0.05^2) = 392.16 \text{ respondents}$$

**Note:** It is important for auditors to exercise the professional judgement in determining the confidence level as well as the schools and locations to collect the required proportion of respondents/teachers from each school.

#### 5.5.4 Content analysis (Bardin – Content analysis, 1970)

Content analysis is a set of communication analysis techniques that aims to obtain, through systematic and objective procedures of the contents description, indicators that allow the inference of knowledge. It is used to analyse interviews, focus groups and documents.

There are different kinds of content analysis. The most commonly used is the categorical analysis. It works through breaking up the text in units, in categories. One example of using this type of content analysis is to identify categories in open questions of a questionnaire.

The content analysis has three phases: pre-analysis, material exploration and results treatment. In the pre-analysis, data are organized and procedures for analysis are established. In the second phase the codification, breaking-up and enumeration are executed. The third phase is about interpreting the results.

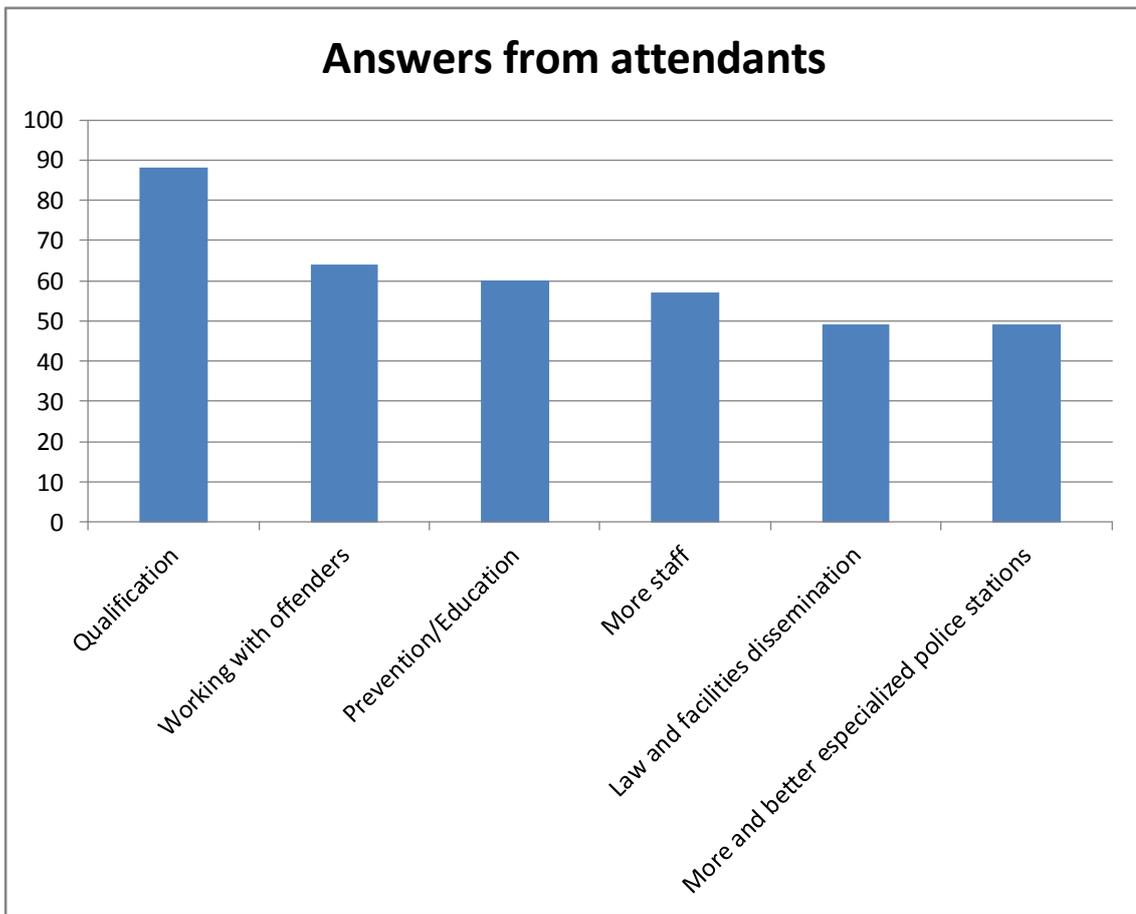


**Figure 5.5: Content analysis used in the performance audit in actions to face domestic and family violence against women (SAI Brazil)**

A questionnaire was answered by 340 people attending women victims of violence (police officers, psychologists, social assistants).

The final question was: in your opinion, what should be done to improve the service to women victims of violence and to decrease this type of violence in our country?

A content analysis was performed in the answers and all the answers were categorized. The six most popular categories are showed below.





## 5.6 Findings matrix

The findings and information obtained during the audit, the conclusions and recommendations are recorded in the findings matrix. The findings matrix is a useful tool to support and guide the preparation of the audit report, because it allows gathering the main elements that constitute the central chapters of the report in a structured way. The matrix enables members of the audit team and other stakeholders to have a homogeneous understanding of the findings and their components. The items of the findings matrix are presented in Table 5.3 (*PAM – SAI Brazil/139*).

Completion of the findings matrix should start during field work, as findings are noted. The clarifications that may be necessary should be collected while still on the field in order to avoid misunderstanding and possible further requests for information, with the consequent waste of effort (*PAM – SAI Brazil/134*).

The annexure 5.5 shows an example of findings matrix. The example is based on a real performance audit, but was adapted for this handbook.

**Table 5.3 – Findings matrix template**

Audit problem: Clearly and objectively express what prompted the audit.

Audit objective (the same stated in the planning matrix). For each audit objective, the items below are repeated.

Finding					Good practices	Recommendations	Expected benefits
Situation found	Criterion	Evidences and analysis	Causes	Effects			
Most relevant findings, identified in the field work.	Pattern used to determine if the expected performance of the audited object is satisfactory, exceeds expectation or is unsatisfactory.	Result of application of the data analysis methods and its use in the production of evidences. That is, the techniques used to handle the information collected during field work and the results achieved should be indicated.	May be related to the operation or design of the audit object or may be out of the control or influence of the manager. Identification of the causes requires robust evidences and analysis. Recommendations should contain the measures required to solve the causes of unsatisfactory performance.	Consequences related to causes and to corresponding findings. It may be a measure of the finding's relevance	Actions identified that undoubtedly lead to good performance. Such actions may subsidize the recommendations.	They should deal with the causes of the diagnosed problems. There should be parsimony in the amount of recommendations and solution of the main problems should be prioritized.	Improvements expected when implementing the recommendations. The benefits may be quantitative and qualitative. Whenever possible, quantify them.



## 5.7 Summary

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This chapter has covered finding (and its attributes), evidence and evidence analysis. It also presented tips and hints for fieldwork, some data collection methods and explanation about how to gather all information obtained during the audit, the conclusions and recommendations in the findings matrix.

By this point of the audit, you should have your evidence analysed and your findings matrix filled. This means that the core of your audit report is ready. Actually, in performance auditing, the audit team starts to write the report at the first day of the audit planning. It is a continuous process.

What you have to do now is enhance the information that you already have in the findings matrix with more data, illustrations, graphics and tables. And also, develop the findings in a way that you have a report with the characteristics presented in the next chapter of this handbook.



**Appendix 5. 1: Examples of survey questions** (adapted from Brazil – Survey in audits)

**Question 1** – Choose the priority criteria used in your village to select beneficiaries to Urban Affordable Housing Scheme (you can choose more than one option):

- Chief of the family is a woman
- Elderly in family
- Disabled people in family
- Family per capita income
- Number of children
- Family living in risk area
- Family living in environmental protection area
- Family living in unhealthy area
- Family time in village
- Other

**Question 2** – Number from 1 to 5, from the most important to the least important, the five factors that had most contributed to flights delays in Ur’s airport in 2012. Consider only the airport situation (for example, don’t consider flights that have already arrived in Ur with delay).

- Unplanned maintenance of airplanes
- Check-in counters
- Departure lounge
- Passport control
- Customs
- Baggage claim area
- Weather conditions
- Operational problems with airline companies
- Other

**Question 3** – Put an X on the corresponding column regarding to the difficulty village faced to implement the solid waste treatment program.

Phase	Very easy 1	2	3	4	Very difficult 5
Meet the requirements to join the program					
Environment license process					
Available site to place landfill					
Project design					
Facilities construction					
Facilities maintenance					
Articulation with health programs					
Exchange of village manager					
Financial sustainability of landfill					
Operational sustainability of landfill					

**Appendix 5. 2: Example of explanatory letter (adapted from Brazil – Survey in audits)**

Dear Head of District Agricultural Department

The General Audit of Utopia is conducting a performance audit to evaluate the activities of the Ministry of Agricultural Development targeted to small farmers regarding to technical assistance in rural activities (Tara). The main audit objective is to verify if Tara services are consistence with government program against extreme poverty and with policy for rural areas. From the result of the audit, recommendations will be presented in order to improve those services.

Considering that District Agricultural Departments (DAD) play an important role on the implementation of Tara activities, the questionnaire was sent to all Heads of DAD, to gather information and opinion about the theme.

We would like to emphasize that the answers given are confidential. The data gathered will be treated together. The lack of answers to some questions does not preclude the fulfilment of others. If any doubt occur, please contact [name of auditor] or [name of auditor] on phone number [123456789] or by e-mail [xxxxx@xxxx].

If you need to recover login or password that will be send to your e-mail to answer the survey, please access [website] and choose the option "request password".

Your help is very important to success of this audit and to improvement of Tara activities. We appreciate your attention.

[Name of the Head of Unit]

Head of the Performance Auditing Unit



**Appendix 5.3: Example of interview guide** (adapted from Brazil – Performance audit in actions to face domestic and family violence against women)

**INTERVIEW GUIDE**

**STATE ENTITY FOR WOMEN POLITICS**

STATE: \_\_\_\_\_ CITY: \_\_\_\_\_

INTERVIEWEE: \_\_\_\_\_

STATE ENTITY: \_\_\_\_\_

DATE: \_\_\_\_\_

1. Please, describe briefly the state activities regarding prevention and facing domestic and family violence against women.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. What's the expansion's prevision for facilities serving women victims of violence and training programs for people who work in those facilities?

\_\_\_\_\_  
\_\_\_\_\_

3. Are there basic statistics about service delivered, for example, number of women victims of violence, number of offenders served, recidivism?

( ) Yes                    ( ) No                    ( ) I don't know

If you said yes, which statistics?

\_\_\_\_\_  
\_\_\_\_\_

4. Are there research or survey about violence against women in this state?

( ) Yes                    ( ) No                    ( ) I don't know

If you said yes, which?

\_\_\_\_\_  
\_\_\_\_\_



5. In which way the federal government supports the state entity?

- Transfer of funds
- Support to educational and cultural projects
- Publication of norms and standards of care
- Encourage the construction of facilities
- Delivery of data and statistical information from the call center
- Monitoring and evaluation activities.
- Other. Which? \_\_\_\_\_

6. What are the main problems for the police to deliver services to women victims of violence?

- Lack of staff
- Lack of capacity to listen respectfully and without prejudice
- Lack of proper reception
- Lack of police officer with skills in gender issues
- Lack of enough facilities
- Lack of standards
- Lack of information about women rights
- Other. Which? \_\_\_\_\_

7. What are the main obstacles to correctly apply the Women's rights law?

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8. What are the essential prevention measures to face violence against women?

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9. What could be done to improve the service for women victim of domestic violence?

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10. What could be done for decrease domestic violence against women?

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**Thank you very much for your help!**



**Appendix 5. 4: Example of focus group guide** *(adapted from Brazil – Focus group in audits)*

**GUIDE FOR FOCUS GROUP WITH BENEFICIARIES OF FAMILY HEALTH PROGRAM**

**1. INTRODUCTION**

This guide will help data collection among beneficiaries of Family Health Program (FHP) and the further data analysis. The FHP is a federal government program that promotes home visits by a health team, in order to treat less severe cases and relieve the hospital emergency services.

**2. OBJECTIVES OF FOCUS GROUP**

To learn about the beneficiaries's experience, opinions and suggestions about the Family Health Program.

**3. GROUP COMPOSITION**

Number of participants: \_\_\_\_\_  
 Gender: (    ) Male (    ) Female

**4. REQUIRED INFORMATION**

- 4.1. Please, present yourself and tell us how you find out about the Program.
- 4.2. Please, try to remember the first time the medical team were at your home. How do you like the treatment?
- 4.3. How many times the medical time have visited you last year?
- 4.4. Have you received the medicine you needed?
- 4.5. Did you need to go to hospital recently (in the last three months, for example)?
- 4.6. What is the biggest benefit this Program brought to your family?
- 4.7. What you don't like about this Program?
- 4.8. Have you noticed any change in your family's health after join the Program?
- 4.9. With your experience, would you recommend the Program to other families?
- 4.10. If you could advise the manager of the Program, what would you say?
- 4.11. Would you like to make any other comments?

**“THANK YOU VERY MUCH FOR YOU HELP”**



**5. OBSERVATIONS** (Body language; how the meeting developed; existence of dominant member with strong opinion etc.)

**6. TEAM RESPONSIBLE FOR THE FOCUS GROUP**

Name:	Phone:	E-mail:	
Name:	Phone:	E-mail:	
Place:	Data: / /	Time	
		Begin:	End:



**Appendix 5.5 –Example of findings matrix (adapted from a performance audit conducting by SAI Brazil)**

Findings matrix – National Oncology Policy

**Audit Problem:** Cancer is the second biggest cause of mortality by disease in Brazil and its incidence is growing. Cancer is a disease that requires quick action, long treatments and adequate monitoring, due to it could recur. This context requires an articulate assistance network, in order to assure the comprehensiveness, equity and universality of oncology attention. Therefore, this audit aims to evaluate if the Oncology Assistance Network gives on time access to diagnosis and treatment, verifying aspects that could be impairing the services offer, and if there are any access barrier to some population groups. The audit also will evaluate the adequacy of therapeutic schemes adopted by the government health system for oncology treatments, based on expert’s opinions.

		Findings			Good practices	Recommendations	Expected benefits
Situation found	Criteria	Evidences and analysis	Causes	Effects			
The oncology assistance network doesn't allow persons with cancer to have timing and equitable access to diagnosis and treatment.	<ul style="list-style-type: none"> <li>•Constitution assures universal access to health services.</li> <li>•Law that recognizes the need for a service network that assures comprehensive assistance to population and access to medical appointments and exams for cancer diagnosis.</li> <li>•For 1000 cancer cases, probably from 500 to 600 will require surgery, 700 will require chemotherapy and 600 will require radiotherapy.</li> <li>•In UK, more than 99% of patients receive treatment within a month after diagnosis. Audit made in 2007 found that 92% of the treatments reached that goal. In Canada, 88% of the patients started radiotherapy before 28 days.</li> </ul>	<ul style="list-style-type: none"> <li>•The oncology assistance network isn't enough to meet demand for diagnosis and treatment. Some states doesn't have radiotherapy services.</li> <li>•Due to deficit of equipment, the production covers only 66% of the needs.</li> <li>•Quantitative analysis showed that chemotherapy and radiotherapy treatments aren't on time. The average waiting time between diagnosis and treatment is 77 days for chemotherapy and 113 days for radiotherapy. Only 16% of the patients managed to start their radiotherapy treatments within 30 days after diagnosis.</li> <li>•Survey with oncologists also showed timing problems for cancer treatment: 88% said that delays for exams are impairing oncology assistance (most mentioned item); few respondents considered adequate the delay for exams; 87% considered long the waiting time for surgery.</li> <li>•Survey with patient's associations also showed timing problems: 91% stated that delay for exams is the biggest access problem to oncology assistance.</li> <li>•Interviews with health state responsible and hospital managers also highlighted that the oncology assistance hasn't been able to fulfill the diagnosis and treatment demand.</li> </ul>	<ul style="list-style-type: none"> <li>•Lack of government investments.</li> <li>•Delay to give new health facilities licenses.</li> <li>•Shortage of oncologists and pathologists.</li> <li>•Shortage of doctors able to diagnose cancer.</li> <li>•Inefficient cancer prevention.</li> </ul>	<ul style="list-style-type: none"> <li>•Decrease of cure chances and survival time of patients treated.</li> <li>•Bad life quality of patients during treatment.</li> <li>•Increase of spending with longer and more expensive treatments due to later diagnosis.</li> </ul>	<ul style="list-style-type: none"> <li>•One foundation follows the cancer records of his state and evaluates the survival time of patients treated.</li> </ul>	Recommend do Ministry of Health to: <ul style="list-style-type: none"> <li>•Develop a plan to solve the deficiencies of oncology assistance network, including: articulation with local managers, purchase of new equipment, definitions of new goals and timetables.</li> <li>•Improve process of health facilities certification.</li> <li>•Improve cancer treatment and diagnosis information system.</li> <li>•Develop a capacity plan for people who work with oncology assistance.</li> <li>•Develop an improvement strategy for cancer prevention and early diagnosis .</li> </ul>	<ul style="list-style-type: none"> <li>•Universal access to oncological treatment, more patients cured and on better life conditions.</li> <li>•On time treatments.</li> <li>•More oncology professional.</li> <li>•Treatments starting on an earlier disease phase.</li> </ul>



**Audit objective 1 – Does the oncology assistance network allow persons with cancer to have timing and equitable access to diagnosis and treatment?**

Findings					Good practices	Recommendations	Expected benefits
Situation found	Criteria	Evidences and analysis	Causes	Effects			
<p>The experts stated that the therapeutic schemes offered by government health system aren't sufficiently and adequately updated.</p>	<ul style="list-style-type: none"> <li>•Constitution assures universal access to health services.</li> <li>•Health rules establish that health assistance must follow equality and completeness principles.</li> <li>•Health rules establish that National Oncology Policy must include technological innovations.</li> <li>•Oncology experts who work every day with cancer patients.</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•82% of oncologists that answered the survey said that there are medical examinations and procedures for cancer diagnosis and treatment that aren't paid by government health system.</li> <li>•65% stated that the outdated therapeutic schemes are impairing oncology assistance.</li> <li>•Most oncologists interviewed during field work stated that there are important procedures not using by government health system.</li> <li>•The result of the survey with health facilities managers showed that the two items that most hamper access to oncology assistance are need for procedures not paid by government health system (64%) and procedures outdated (64%).</li> <li>• According to Cancer Council, there some procedures for children cancer treatment used all around the world, but in Brazil.</li> </ul>	<ul style="list-style-type: none"> <li>•67% of the oncologists considered inadequate the procedures adopted by government health system for cancer treatment.</li> <li>•Lack of updated guidance for the most prevalent cancer cases.</li> </ul>	<ul style="list-style-type: none"> <li>•Decrease of cure opportunities and survival time for patients not treated with updated procedures.</li> <li>•Inequity between patients treated by government health system and private hospitals.</li> </ul>	<ul style="list-style-type: none"> <li>•Not found.</li> </ul>	<p>Recommend to Ministry of Health to establish conditions to the development of studies and researches about cancer therapeutic schemes, with participation of well-known experts.</p>	<ul style="list-style-type: none"> <li>•More equity on cancer treatment and more treatment alternatives for patients cared by government health system.</li> </ul>

**Audit objective 2 – Are the therapeutic schemes adopted by the government health system for oncology treatments updated, according to expert's perceptions?**



## References

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## Chapter 6: Report on a Performance Audit

### 6.1 Introduction

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The last chapter focused on conducting a performance audit engagement. Draft report containing preliminary audit conclusions is prepared at the end of the conducting phase and this is further developed into an audit report, based on feedback received from the audited entity to the preliminary audit conclusions in the draft report. The audit report must contain executive summary, audit scope and methodology, audit findings, conclusions and recommendations. The report must be complete, accurate, objective, convincing, constructive, clear, concise and timely. It should also be reader-friendly, well structured, contain unambiguous language and add value to the stakeholders (ISSAI 3100/2.4.3, 31). The report-writing process should be viewed as a continuous one of formulating, testing and revising ideas about the topic (ISSAI 3000/3.1). This process may start at the beginning of the audit. External and /or internal pre-issuance reviews of the audit report could be conducted to improve the quality of report, before its issue. The contents of the audit report have to be widely disseminated to different stakeholders to increase its impact. Further, working papers should contain supporting documents relating to the various tasks performed during the reporting process. This chapter would cover aspects relating to writing the audit report and its dissemination.

### 6.2 The reporting process

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An overview of the reporting process is illustrated in the figure 6.1 below:

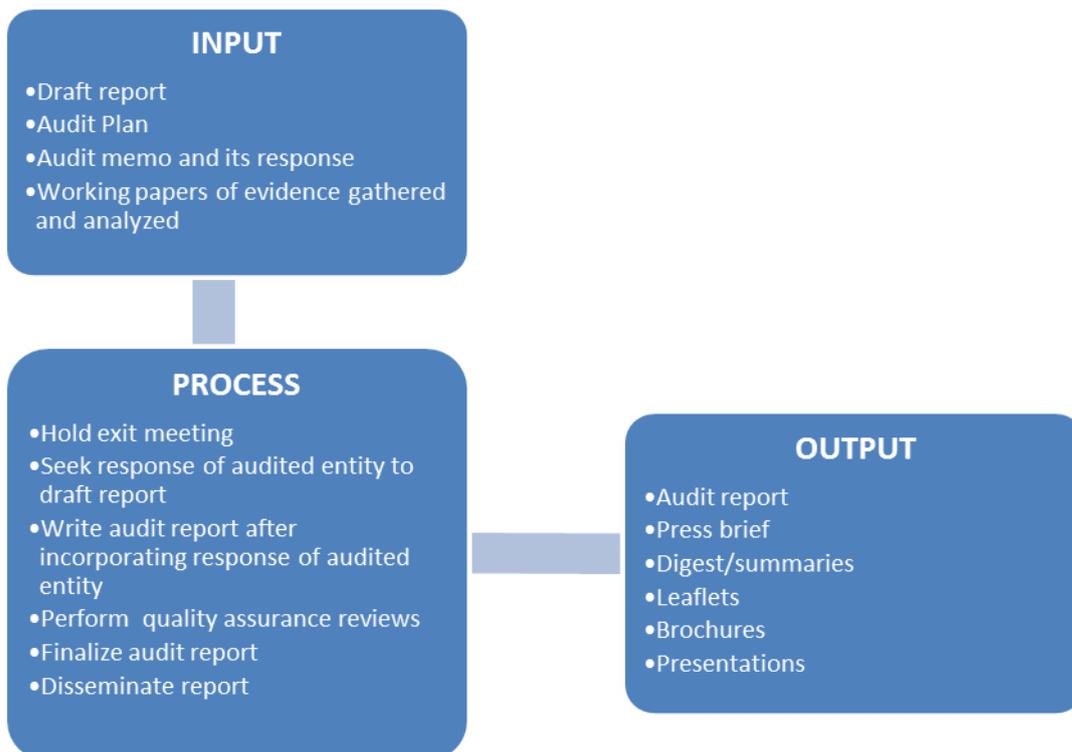


Figure 6.1: Overview of the reporting process



### Input

- It is a good practice to revisit the audit plan while writing the audit report to ensure that all the key issues identified had been covered in the field audit
- Examination of a) audit memos and response to the memos and b) working papers of evidence gathered and analyzed while writing the report will provide an assurance that the audit findings and conclusions are supported by significant and appropriate evidence
- Audit Findings Matrix

### Process

- Communicating with the audited entity to obtain their views on the preliminary audit conclusions is an important task to be performed. This could be achieved by:
  - \* Holding exit meetings to discuss audit findings and conclusions and
  - \* Sharing the draft report with the audited entity and seeking their response
- The response of the audited agency must be thoroughly examined and incorporated and necessary changes made to the draft report, provided the evidence requirements are satisfied
- The written report could be sent to internal teams who are independent of the audit engagement or externally for pre-issuance quality reviews. Such reviews could also provide an independent assurance that the report is balanced. It must however be remembered that external pre-issuance reviews may be expensive and could also compromise the confidentiality of the report, if review engagement is not managed carefully.
- Necessary changes, if needed, are carried out in audit report based on quality assurance review before publishing the report
- Report is disseminated widely to various stakeholders as per the mandate of the SAI

### Output

- The diverse audience for performance audit work suggests that SAIs should address different groups with different products. Performance audit work can lead to a number of separate products in addition to the report, including summaries, leaflets, brochures, press releases and presentations (*Performance Audit Subcommittee's Good Practice Guidance 4 – Making Performance Audit Reports Reader-friendly*)

## 6.3 Form and contents of a report

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The audit report should contain objectives, scope, methodology and sources used, as well as audit findings, conclusions and recommendations (*ISSAI 3000/5.2*). A brief explanation on the contents of a report is as follows:

**Title:** The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others (*ASOSAI Performance Auditing Guidelines/6.26*). *The title could also indicate the audited entities responsible for the activities audited (Exposure Draft AFROSAI Performance Audit Manual/Appendix 4).*



Examples of report titles

Without the name of responsible entity: Protecting Canadian Critical Infrastructure Against Cyber Threats (2012 Fall report of the Auditor General of Canada)

With the name of responsible entity: Inland Revenue Department: Managing child support debt (July, 2010 Office of the Auditor General. New Zealand)

**Signature and date:** The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (*PASAI Performance Audit Manual/5.5*).

**Table of Contents:** This illustrates the structure of the report

**Executive summary:** It summarizes the background, major findings, conclusions and recommendations. It is a short summary designed for those who have little time to read the full report (*Exposure Draft AFROSAI Performance Audit Manual/Appendix 4*).

*Hints & Tips*

- Build an executive summary from summary paragraphs within the main report – this will ensure that the summary is consistent with the report. Often you can summarize the summary paragraphs further in the executive summary (*Exposure Draft AFROSAI Performance Audit Manual/Appendix 4*)
- It is sometimes useful to think of the Executive Summary as being written for the PAC or oversight legislative committees; the report as being written for the audited entities and the appendices as being written for those academics or specialist staff with an interest in the field (*Exposure Draft AFROSAI Performance Audit Manual/7.12*)

**Introduction:** Introduction includes profile or background of the audited entity/subject/project/programme (*Bhutan Performance Auditing Guidelines/6.7*).

**Objectives, scope and methodology:** A description of audit objectives and the scope and the methodology used for addressing audit objectives should be included in the report. Report users need this information to understand the purpose of audit, the nature and extent of the audit work performed and any significant limitations in audit objectives, scope and methodology (*GAO Government Auditing Standards/7.09*).

**Findings:** Audit findings represent the difference between 'what should be' and 'what there is', also explaining the cause and the effect of this difference. It should clearly describe the criteria and relate it to the observations. The report should provide basis to answer the audit questions by presenting appropriate and sufficient audit evidence (*Exposure Draft AFROSAI Performance Audit Manual/Appendix 4*).

Audit should refer to all significant instances of non-compliance and significant instances of abuse that were found during or in connection with the audit. Where such instances are not pertinent to the



audit questions, it is envisaged that they would nevertheless be communicated to the auditee preferably in writing at the appropriate Level (*ISSAI 3100/33*).

Key ISSAI requirements on audit findings

- Facts, audit findings and conclusions are clearly distinguishable in the report (*ISSAI 3100/31*)
- If the effect is included in the report, it must demonstrate the need for corrective action (*ISSAI 3000/4.3*)
- The findings clearly conclude against the audit question, or explain why this was not possible (*ISSAI 3100/30*)

**Conclusions:** Report conclusions are logical inferences about the subject matter based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are more compelling if they lead to the auditors' recommendations and convince the knowledgeable user of the report that action is necessary (*GAO Government Auditing Standards/7.27*).

**Recommendations:** The report should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions (*GAO Government Auditing Standards/7.28*).

Recommendations, where provided, should be presented in a logical, knowledge-based and rational fashion, and be based on competent and relevant audit findings. They should be practicable, add value and address the audit objective and questions. They should be addressed to the entity(ies) having responsibility and competence for their implementation (*ISSAI 3100/32*). In the result-oriented approach, the recommendations are often aimed at eliminating the deviation between the finding and the criteria. In the problem-oriented approach, the cause of a finding forms the basis for the recommendation. (*ISSAI 3000/1.8, 4.3*).

**Appendices:** Appendices can be used to present detailed descriptions and findings and may also be used for comprehensive descriptions of the audited entities, statistical tables, detailed explanations of methods used, etc. This is a way to avoid the report to become too long and make it easier to read it. It is also suitable to place a glossary of terms and a list of abbreviations in a list in the beginning of the report or in an appendix (*Exposure Draft AFROSAI Performance Audit Manual/Appendix 4*).

This section is generally for those people at an operational level who need to implement the recommendations or develop alternatives. The information is not essential to understanding the report but provides further support to the findings (*PASAI Performance Audit Manual/5.31*).



## 6.4 Attributes of a performance audit report

The report should be objective, complete, accurate, convincing, constructive, timely, and as clear and concise as the subject-matter permits (*ISSAI 3100/31*). These attributes of a good performance audit report are briefly described below:

**Objective:** Objective means that the presentation of the report is balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner. The report should be fair and not misleading, and should place the audit results in perspective. This means presenting the audit results impartially and guarding against the tendency to exaggerate or overemphasize deficient performance. Interpretations should be based on insight and understanding of facts and conditions. One-sided presentations should be avoided (*ISSAI 3000/5.2*). Facts must not be suppressed, and the auditor must not exaggerate minor shortcomings. Explanations – especially from the audited entity – must always be sought and critically evaluated (*ISSAI 3000/5.3*). The report may recognize the positive aspects of the audited entity or program if applicable to the audit objectives. Inclusion of positive aspects may lead to improved performance by other government organizations that read the report (*GAO Government Auditing Standards/Appendix 1/7.02/b*).

### Good practices followed in SAIs

Audit report often includes direct or indirect references to third parties (organizations, groups, and individuals that are not included in the scope of an audit), for example, a professional body that sets professional or industrial standards. Third parties are notified and asked to verify the accuracy and completeness of statements concerning them. Communicating with third parties enables the Office to fulfill its duty of care to third parties to ensure that the references are accurate and fair, as well as promoting the objectivity and underlying evidence for the reports.

*(Office of the Auditor General of Canada Performance Audit Manual/8060)*

**Complete:** Being complete means that the report contains all information and arguments needed to satisfy the audit objectives and promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements (*ISSAI 3000/5.2*). It also means the report states evidence and findings without omission of significant relevant information related to the audit objectives. Providing report users with an understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations. Being complete also means clearly stating what was and was not done and explicitly describing data limitations, constraints imposed by restrictions on access to records, or other issues (*GAO Government Auditing Standards/Appendix 1/7.02/c*).

**Accurate:** An accurate report is supported by sufficient, appropriate evidence with key facts, figures, and findings being traceable to the audit evidence. Reports that are fact-based, with a clear statement of sources, methods, and assumptions so that report users can judge how much weight to give the evidence reported, assist in achieving accuracy (*GAO Government Auditing Standards/Appendix 1/7.02/a*). Accuracy requires that the evidence presented should be true and comprehensive and that all findings are correctly portrayed. The need for accuracy is based on the need to assure readers that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the validity of



an entire report and can divert attention from the substance of the report. In addition, inaccurate reports can damage the credibility of the SAI. In other words, a high standard of accuracy requires an effective system of quality assurance (*ISSAI 3000/5.2*).

**Convincing:** Basically a performance audit report is making a case for change. No matter how compelling the findings of the audit, it is best to assume that decision-makers will start from a position of being opposed to change. In order for a report to be persuasive the author of the report must consider the point of view of the audience for the report and what will persuade them to take appropriate action to address the findings.

To be convincing there must be clearly defined and logical links from the audit evidence to the findings, the conclusions and recommendations. If this chain of links is broken at any point, then the reader can dismiss the argument from that point on. If, for example, the findings do not necessarily lead to the conclusions drawn by the auditor, then the reader may reject the conclusions and the recommendations, even if the recommendations actually solve the problems highlighted by the findings (*PASAI Performance Audit Manual/5.16-5.18*).

**Constructive:** constructive means that positive conclusions are presented in the audit report (*ISSAI 3000/5.3*).

**Timely:** An audit report should be drafted as quickly as possible after the completion of the audit field work. The process should commence during the fieldwork and finishing it should be a matter of urgency once the auditor has gathered all the required information. As the audit report is going to result in improvement in processes and structures and those improvements are going to enable the entity to achieve its objectives more efficiently or effectively, the sooner the reports are prepared, the better (*PASAI Performance Audit Manual/5.12&5.13*).

**Clear:** The report should be easy to read and understand (as clear as the subject matter permits). Technical terms and unfamiliar abbreviations must be defined. Logical organization of material, and accuracy in stating facts and in drawing conclusions, are essential to clarity and understanding (*ISSAI 3000/5.2*).

Defining technical terms, abbreviations and acronyms that are used in the report is also useful. Effective use of titles and captions and topic sentences makes the report easier to read and understand. Visual aids (such as pictures, charts, graphs, and maps) may clarify and summarize complex material. (*GAO Government Auditing Standards/Appendix 1/7.02/e*).

*Hints & Tips for clear and user-friendly writing*

- use shorter, rather than longer, sentences
- use simple sentence construction (the simplest being subject - verb-object)
- avoiding passive voice
- avoid non-technical, long, complex, seldom used words (which can sound pompous, overly-formal and on occasions even ridiculous) which do not improve meaning

*(Victorian Auditor General Office Manual for auditing performance/4.1.1)*



**Concise:** Being concise means that the report is not longer than necessary to convey and support the message. Extraneous detail detracts from a report, may even conceal the real message, and may confuse or distract the users. Although room exists for considerable judgment in determining the content of reports, those that are fact-based but concise are likely to achieve results (*GAO Government Auditing Standards/Appendix 1/7.02/f*). It must be stated, however, that advanced studies often require longer reports. One must also have in mind that the performance audit reports are not only written for those who have special knowledge; they are also written for those who need more information to understand the subjects (*ISSAI 3000/5.2*).

## 6.5 Publishing audit reports

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A SAI must not be forced to withhold findings and should, within its legal mandate, be free to decide what to publish and how (*ISSAI 3000/5.3*). According to the Auditing Standards, auditors should prepare written audit reports.

Some SAIs will have dedicated publications areas which handle everything about the publishing of the report. Others will have a less structured process because they produce far fewer reports. It is important that the SAI be aware of what they will have to do to get the report published once it has been finalized (*PASAI Performance Auditing Manual/5.67*). The performance audit reports can be published in several ways, including any of the methods described below:

- Most SAIs with long experience of performance auditing publish individual reports, i.e. each performance audit is published separately
- Other SAIs which are not required to execute such audit projects or are restricted from publishing all of their performance audit findings, may publish their observations and conclusions in summarized form in their annual reports
- Some SAIs may publish their performance and compliance audit reports separately and each performance report may contain their findings on several performance audit engagements.

## 6.6 Distributing audit reports

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Distribution of every report is essential for audit work to have optimal impact. The SAI must decide on how to best serve its own and the public interest in distributing the audit reports, both in general and for each report. The report should, if possible, be distributed to the audited entity, the government, legislative officials, the media and other interested parties. Appropriate officials who may be included in the distribution include those designated by law or regulation to receive such reports, those responsible for acting on the findings and recommendations, those of other levels of government who have provided assistance to the audited entity and legislators (*ISSAI 3000/5.4*).

In order to make the audit reports known by citizens, SAIs usually rely on media to spread knowledge about the reports. Issuing a press release immediately after the report formally has been handed over to the main recipients is a tool to make media interested as well as to influence what they write about the reports. Several SAIs issue a press release. In some cases SAIs may also invite media to a press



conference to present a report. In addition to formally submitting the report to Parliament and the audited entity, and making the report publicly available, the SAI may also arrange presentation meetings with ministries, parliamentarians and members of special parliamentary committees (*Exposure Draft AFROSAI Performance Audit Manual/7.2*).

## 6.7 Communication strategy/policy

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Good communication with the audited entity and experts is important during the entire audit process (*ISSAI 3000/2.2*). It is a good practice for the SAI to develop a communication strategy or policy so as to provide guidance on how to relate to the audited entity and relevant stakeholders during the reporting process. This policy could address communication with the key stakeholders covering the following key issues:

### ***The audited entity***

The communication process between the auditor and the audited entity begins at the planning stage of the audit and continues throughout the audit process (*ISSAI 3000/25*). The SAI must always provide the audited entities with an opportunity to comment on the audit findings; conclusions, and recommendations (*ISSAI 3100/34*). After issuing the draft report, the SAI should ask the entity management to provide, comments on their agreement or disagreement with the validity and completeness of the content of the draft within a specified time frame.

The audit team may meet with entity officials to discuss the entity's comments, to gain a full understanding of the comments, and/or to obtain any additional significant information related to the comments. If conflicts occur, efforts must be made to air contradictory opinions with a view to making the final picture as true and fair as possible (*ISSAI 3000, 4.4*). Such meetings are normally limited in number and should be scheduled within a period that meets the SAI's report production schedule.

### ***Parliament***

Communication with parliament is equally important as it is the Parliament that will use the SAI's reports to improve government management and accountability. If reports are ignored or messages are misunderstood, audit resources could be wasted and the SAI's credibility could be called into question.

Generally SAIs assist Public Accounts Committees (PAC) by debriefing members and providing relevant information regarding reported audit findings. In addition to prior communication, it is vital that representative(s) of the SAIs should attend the PAC hearings where audit reports are discussed (*Exposure Draft AFROSAI Performance Audit Manual/7.2*).

The legislature should be aware of the fact that performance auditing is about identifying opportunities for improvement in economy, efficiency and effectiveness. The SAI should make it clear that naming and blaming individuals is not the purpose of performance auditing (*ISSAI 3100/Appendix, 3.3*).



## ***The media***

As soon as the Report is tabled in Parliament, it becomes public. The Report, news releases are posted in the media. The SAI must ensure that the information provided to the media is timely, accurate, and clear. In providing the information, the SAI should be responsive, helpful, and informative, without compromising its independence or political neutrality, or offending parliamentary privilege. Some points to consider in ensuring proper communication with the media as it relates to the audit report are as follows:

- Responding to media inquiries;
- Developing news releases in conjunction with audit teams;
- Organizing and managing media events such news conferences, and interviews;
- Assisting staff in developing questions and answers and media lines;
- Providing staff with media training;
- Monitoring news and public discussions about the SAI;
- Informing senior management about emerging issues in the media;
- Conducting media analyses to assist in improving message development.

## ***Citizens and other stakeholders (ISSAI 3100/Appendix, 3.3)***

Citizens are a source of ideas for performance auditing, a source of demand for performance auditing, and users of performance audit reports. They may be contacted directly or through non-government organisations that represent them. Depending on the circumstances within the SAI's country, this communication could include a mix of television interviews, articles, leaflets and use of the SAI's website.

Other important stakeholders are representatives of the academic community. They have expert knowledge in specific audit areas, and may provide a more objective view, less restricted by personal interest.

Non-government organisations can be a useful source of ideas. They may have conducted their own research through surveys and case studies, and may have a range of relevant contacts. Civil society can be motivated to put pressure on the legislature to act, particularly if the SAI is providing high profile material that is of interest to them.

## **6.8 Documentation**

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The working papers should contain the following documents, where applicable, relating to the reporting process:

- Minutes of exit meeting
- Response of the audited entity to the draft audit report
- Examination of feedback received should be recorded in working papers so that any changes to the draft audit report, or reasons for not making changes, are documented (*ISSAI 3100/34*)
- Copies of notifications sent for third party references and their response



- Papers relating to the supervisory review of the report
- In case the report is sent for internal/external pre-issuance review, then copy of the reviewer's feedback and the examination of such feedback while finalizing the report
- The draft report will undergo several revisions before it is finalized and approved. Each version of the draft report with a clear identification of the version should be maintained in the working paper, so that there is visible trail from the draft report to the final report
- Master copy of the final report, thoroughly cross-referenced to the working papers, so that if the report is questioned, it is easy for the auditor to quickly find the relevant supporting evidence and analysis (*PASAI Performance Audit Manual/5.65*)
- Copy of the forwarding letter to the audit report written by the Auditor General/other authorized person to the President/Governor/Speaker of the House/other person authorized to receive the audit report for tabling
- Copy of press briefs, press kit, brochures, leaflets on the report
- Copy of the presentation made to the Parliament/Parliament committee(s) on the report
- Copy of the video clipping of the press conference
- Copies of newspaper/magazine clippings on the report

*Good practices followed in SAIs*

- Before finalizing the report, an assurance memo is obtained from the Head of the performance audit team that due process has been followed in conducting the audit, the response of the audited agency has been correctly incorporated and there is appropriate evidence to support audit findings and conclusions. The assurance memo forms part of the working papers

## 6.9 Summary

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This chapter focused on the reporting process, the form and content of report, attributes of performance audit report, publishing and distributing reports, communication strategy/policy with respect to reporting and documentation relating to the reporting process.

In the next chapter, we will briefly discuss the follow-up audit process.



## Chapter 7: Follow-up

### 7.1 Introduction

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The previous chapter on 'Report on a Performance Audit' discussed the reporting process including the form and content of a report, attributes of a performance audit report, documentation and communicating the report. This chapter will therefore, discuss processes to be undertaken in following up implementation of issues laid down in the report.

A primary objective of audit is to improve public sector performance and accountability through the implementation of audit recommendations. The effective and timely implementation of recommendations will be facilitated by a follow-up process. A follow-up is a process through which the auditors monitor if the audit recommendations have been implemented or considered for implementation by the audited entity. To achieve this, the SAI needs to adopt a consistent and systematic approach to the follow-up of audit reports. Follow-up refers to the situation where the auditor examines the corrective actions the audited entity has taken on the basis of the results of previous performance audit.

According to the Exposure draft of *ISSAI 300/-33*, " *the follow-up of performance audit reports increases the added value of the original reports and the SAI has to follow-up*" and report to the legislature on the implementation of recommendations and if the audited entity has adequately addressed the problem. Follow-up is the assessment of whether weaknesses identified in the audit have been corrected by the audited entity (*ISSAI 3000/5.5*). It may include the following elements:

- A timely review of the action taken by the management of the audited body on the recommendations made by the SAI and or the Public Accounts Committee (PAC).
- An evaluation of the adequacy of the action in achieving performance improvement.
- An assessment of any problem that may have arisen in relation to implementation.
- An assessment of the impacts of the examination.
- Consideration of the need or scope for further audit work in the same or a related area.

### 7.2 Purpose of follow-up

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Follow-up procedures identify and document audit impact and the progress made in implementing audit recommendations (*ISSAI 3000/3.1*). Following up on the recommendations the SAI and the PAC have made in reports may serve four main purposes: (*ISSAI 3000/5.5*)

- 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's performance – following up activity provides a basis for assessing and evaluating SAI's performance; and
- Creating incentives for learning and development – following up activities may contribute to better knowledge and improved practice within the SAI.



Some of the objectives for follow-up are to (*Performance Audit Guidelines, RAA - Bhutan*):

- Ascertain whether the recommendations have been implemented and to report on the progress of corrective actions taken by the audited entity;
- Provide valuable information to the legislative committees;
- Achieve improvements in performance of the government programmes;
- Provide feedback for self-assessment of the opinion, conclusion and recommendation of the audit (Such self assessment support quality improvement and contribute to better knowledge);
- Provide an input to the strategic planning of audit; and
- Remind the audited entity to initiate corrective actions and demonstrate improvements.

### 7.3 What to follow-up

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A follow-up is not restricted to the implementation of recommendations but focuses primarily on whether the audited entity has adequately addressed the problem. The PACs recommendations and the debate and decisions that can take place in the Parliament because of an audit should also be followed up. Every audit report should be followed up. An exception can be made if, for example, the audited entity activities have changed completely and this could not be foreseen when the audit report was transmitted. A separate decision must be made in such a case responding to changes undergone.

On the other hand, concerns raised by Parliament following the original audit can provide guidance to the auditor about what issues should be selected for follow-up. The auditor should review reports of any communication of the Public Accounts Committee, and the relevant standing committees of Parliament, and questions raised in the public to determine key concerns and to determine what should be followed-up.

### 7.4 When to follow-up

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The admissible period for follow-up activity by the SAI may depend on the context and nature of audit recommendations provided. Some recommendations may require longer period of implementation while some may require a short span of time. Generally, recommendations provided for improvement of system may take longer period of time, to the extent of even taking five years or more.

The timing of follow-up therefore, constitutes a key management decision to be taken by each individual SAI in accordance with its policies or mandate. For example, many SAIs in the AFROSAI-E region operate with a time period of 6 to 12 months after tabling of the audit report in Parliament, or after it has been issued to management. The audited entity needs to be allowed sufficient time to implement corrective actions, but at the same time, it is important to make sure that they rather soon start to work on the implementation.



### Good practices followed in SAIs

After the audit report is approved by the Head of the SAI, the audit team leader send an Action Plan template to the audited entity to be filled and sent back to SAI. This Action Plan can guide the actions of the audited entity to implement the recommendations and can also help the audit team to schedule the follow-up activities.

The template may be similar to the desk review template showed in figure 7.1. and should contain the following columns: recommendation, action to be taken, responsible, deadline, expected benefits.

*(See Appendix 7.1 for an example of an Action Plan)*

## 7.5 How to follow-up

When conducting follow-up of audit reports, the auditor should adopt an unbiased and independent approach. The focus should be to determine whether actions taken on findings and recommendations remedy the underlying conditions, after sufficient time to allow an audited entity to implement the recommendations. If the conclusion of the follow-up activities is that the audited entity has taken sufficient corrective measures and that the situation on the audited area is satisfactory, the case can be closed, and this can be reported to Parliament. However, if it is evident that the audited entity has not taken appropriate measures to correct the findings, or if the measures have not had sufficient effect, a follow-up audit should be undertaken. This will be a new performance audit, which will eventually result in a new performance audit report to Parliament.

The SAI may prepare operational plan for follow-up process in relation to the audits conducted in the past. The follow-up process should be supported by data on major recommendations made in the past, recommendations stated to have been implemented but not tested through follow-up audit and recommendations not implemented by the audited entity. What method to use for the follow-up depend on the importance of the identified problems and expected actions, the availability of resources, the external interest for information on the action taken and the priorities made by the SAI in the strategic and annual planning of performance auditing.

### 7.5.1 In-house/Desk review

Initially, it is necessary to collect information on what measures the audited entity has implemented to address the problem, and the status of the situation on the area; whether the action has had the desired effect. The auditors then need to make an assessment on whether the action the audited entity has taken on the audit report is sufficient, and whether the situation on the area is satisfactory. There are different ways to do so, for example:

- A formal request by the Auditor General to the audited entity, to inform the SAI in writing what actions have been taken to address the problems presented in the audit report;
- Arrange a meeting with the audited entity after a certain time has elapsed to find out what actions have been taken to improve its performance and to check which recommendations have been implemented. The audited entity must present documentation on the corrective measures and their effects;
- Additional information can also be obtained from the financial and compliance audits of the entity, and these can also be used more actively to check whether corrective measures are being



- taken; and
- Carry out limited field visits to collect and analyse data on whether identified problems have been appropriately addressed or not.

Some SAIs may have the capacity to maintain a database of outstanding audit comments and recommendations. The database tracks whether or not a finding has been corrected, what was done to correct the issue, whether corrective actions should be tested, and the date corrective action was taken. Following is one of such examples.

The template below is used in the follow-up process in which the auditors assess the extent and the status of implementation of audit recommendations provided in the previous audit report. It is an effective way to confirm the status of action on each recommendation from the audited entity.

Figure 7.1: Desk Review Template

Audit Report: Date of Issue: Name of Agency(s):					
Sl. No.	Recommendations	Action Taken (as per the detailed action plan/report submitted)	Status/progress	Reasons for non-completion of action on any recommendations	Impact (if any)
1					
2					
3					
* Adopted from the Performance Audit Guidelines, Royal Audit Authority of Bhutan, October 2011					

### 7.5.2 Follow-up audit

In some cases an in-house or desk review without carrying out a follow-up audit may be sufficient. Sometimes the follow-up processes may reveal significant issues for further review by the legislature or the audit recommendations may likely lead to significant benefits. It would therefore be appropriate to carry out a follow-up audit, resulting in a new performance audit report.

Planning is important for the follow-up audit, and takes a similar form as a main study work plan with the purpose of follow-up, what has happened after the audit, and if the recommendation has been implemented or not and the reasons for that. Therefore, there is need to define and plan the relevant aspects of the audit that will be followed up. The team that does the follow-up should indicate the recommendation, projected impacts and other relevant issues that will be examined. The extent of the proposed follow-up should be described.



The scope of the follow-up audit should be determined based on an assessment of the following:

- Whether the original conclusions are still relevant.
- Corrective actions taken by the audited entity.
- Work by parties other than the audited entity that could influence the impact.
- Relevant external factors and other issues.

The course of the follow up audit will thereafter follow the normal procedures for a performance audit.

## 7.6 Reporting on follow-up

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Results from the follow-up of audit recommendations should be reported. Deficiencies and improvements identified in the follow-up of audits should be reported to the audited entity as well as appropriate authorities/forums. The results may be reported individually, or as a consolidated report. Consolidated follow-up reports may include an analysis of common trends and themes across a number of reporting areas. Positive action in responding to the audit recommendations should also be reported, as this is a credit to both the audited entity and the SAI.

Reporting on follow-up audits should be done in line with the general reporting principles of the SAI. Whether or not it is suitable to table the follow-up audit report in parliament will depend on how the SAI assesses the significance of the findings, conclusions and impacts of the corrective actions taken.

## 7.7 Summary

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This chapter dealt with the processes for carrying out follow-up of performance audit reports in an SAI. The processes included purpose of a follow-up, issues to follow-up, timings and different ways of carrying out a follow-up. The next chapter will then look into the quality issues in performance audit.

### References:

1. Performance Audit Guidelines, Royal Audit Authority of Bhutan, October 2011.
2. AFROSAI-E Performance Audit Template Manual, 2010.
3. Performance Audit Manual, Bangladesh
4. AFROSAI-E Exposure Draft Performance Audit Handbook, 2012.
5. ISSAI 3000
6. ISSAI 3100



7. Exposure Draft to ISSAI 300

**Appendix 7.1:** Example of Action Plan

The table below shows a simple example of an action plan. It contains only two recommendations. The action plan should contain all the recommendations of the audit report.

**Title of performance audit:** Performance Audit on National Oncology Policy

**Name of audited entity:** Ministry of Health

**Date:** 24/04/2013

Recommendation	Action to be taken	Responsible	Deadline	Expected benefits (quantified if possible)
Recommend to Ministry of Health to develop a capacity plan for people who work with oncology assistance.	Development of a capacity plan for: <ul style="list-style-type: none"> <li>• Oncologists;</li> <li>• Pathologists;</li> <li>• Radiologists;</li> <li>• Nurses;</li> <li>• Nursing assistants.</li> </ul> The capacity plan should include: <ul style="list-style-type: none"> <li>• Revision of technical procedures already used;</li> <li>• Information about new oncology procedures;</li> <li>• Humane treatment.</li> </ul>	<ul style="list-style-type: none"> <li>• Oncology Department</li> <li>• Training centre of Ministry of Health</li> </ul>	November/2013  The courses should start in February/2014.	<ul style="list-style-type: none"> <li>• 20 oncologists, 15 patologists, 10 radiologists, 50 nurses and 200 nursing assistants trained until the end of 2014.</li> <li>• Improvement of oncology professionals' skills.</li> </ul>
Recommend to Ministry of Health to develop an improvement strategy for cancer prevention and early diagnosis	Development of a strategy for cancer prevention and early diagnosis including: <ul style="list-style-type: none"> <li>• Leaflets for hospitals informing about cancer prevention procedures;</li> <li>• TV campaign informing population how to prevent cancer and the importance of regular medical appointments;</li> <li>• Lectures to oncologists presenting new procedures for early diagnosis.</li> </ul>	<ul style="list-style-type: none"> <li>• Oncology Department</li> <li>• Communications Department</li> </ul>	July/2013	<ul style="list-style-type: none"> <li>• Increase of early diagnosis.</li> <li>• Treatments starting on an earlier disease phase.</li> <li>• Decrease expenses with oncology treatments.</li> <li>• Decrease deaths due to cancer.</li> </ul>

**Yellow** – Filled by SAI

**Green** – Filled by audited entity



## Chapter 8: Quality Assurance

### 8.1 Introduction

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Quality is defined as the totality of the features and characteristics of a product or service that bears on its ability to satisfy stated or implied needs. In public audit, quality management involves a system composed of an organisation, the Supreme Audit Institution (SAI) – its people (the auditors), and the audit process – all working together to produce the outputs that fulfil the requirements of its stakeholders and the general public. For the SAI to be able to do this effectively, it needs to define what these requirements are and how it will be able to satisfy them (*IDI-ASOSAI Handbook on Quality Assurance in Performance Auditing/1.1*).

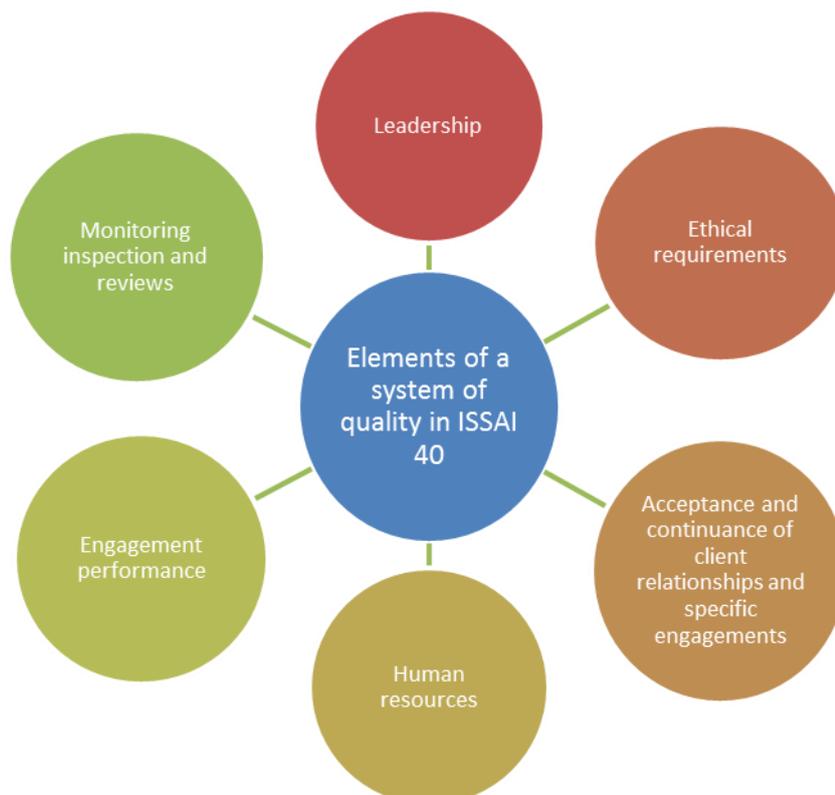
INTOSAI auditing standards require that SAIs should establish systems to confirm that integral quality assurance processes have operated satisfactorily; ensure the quality of audit report; and to ensure quality improvements and avoid repetition of weaknesses (*ISSAI 3000/Appendix 4*).

### 8.2 Quality framework

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*ISSAI 40 Quality Control* outlines six elements of a system of quality. Figure 8.1 below outline these 6 elements.

Figure 8.1: 6 elements of a system of quality





The following table briefly discuss the 6 elements.

Table 8.1: Description of the 6 elements

Element	Description
<b>Leadership</b>	Important to the quality system is that top management of the SAI develops and communicate a vision on quality of performance audit work and describes how it ensures that the organisation operates according to that vision.
<b>Ethical requirements</b>	Fundamental principles of professional ethics are integrity, independence, objectivity and impartiality, professional secrecy and competence. The quality framework should cover how the organisation ensures that employees comply with those ethical requirements.
<b>Acceptance and continuance of client relationships and specific engagements</b>	SAI should only carry out audits where it is competent to perform the work, has the capabilities, can comply with relevant ethical requirements and has considered how to treat risks to quality that might arise.
<b>Human resources</b>	Of the most importance is sufficient resources and ability to engage staff with the right competence and profile, including having an audit manager (team leader) experienced in coaching performance audit teams. To be effective recruitment and training call for a clear understanding of the desired knowledge and skills needed. For performance auditing one has to be familiar with methods in social science; more specifically methods with regard to effectiveness and efficiency. If human resources and/or financial availability are not enough the quality of the audit process might be compromised.
<b>Engagement performance</b>	An SAI should establish policies and procedures to safeguard that its performance audits are carried out in accordance with standards and good practices.
<b>Monitoring inspection and reviews</b>	This requires that SAIs have arrangements in place to check whether procedures and policies are working effectively. Several SAIs have arranged that audit products in different stages of the audit require a signature of certain officials before the next stage of the audit can begin. Some SAIs has case managers allocated to each audit. At the organisational level several SAIs have a separate unit checking the quality systems, procedures and reports.

### 8.3 Quality Assurance and Quality Control

**Quality Assurance** is the process of comparing what is required of a product and what is actually being provided to the users of that product. Thus, Quality Assurance provides independent assurance to the Head of SAI that the established quality control systems and practices in the organisation are working effectively and that appropriate reports are being issued.



The main **objectives** of Quality Assurance are to ensure that:

- SAI and its personnel have adhered to professional standards and applicable legal and statutory requirements;
- All necessary quality controls are in place;
- Quality controls are being properly implemented; and
- Potential ways of strengthening or otherwise improving quality controls are identified.

The benefits that can be derived from an effective quality assurance function include the following:

- Ensure a high standard of audit work by improving audit performance and results;
- Ensure that the audit is conducted in the most efficient and cost effective way; which can lead to savings in audit time and cost;
- Improve the capability of the SAI;
- Maintain a high degree of integrity, accountability and competence;
- Enhance the credibility and reputation of the SAI;
- Improve training and identification of additional training needs;
- Motivate the personnel of the SAI;
- Facilitate self-assessment of audit work performed;
- Provide a management tool for measuring the performance of the SAI; and
- Avoid possible litigation by ensuring the SAI work is of high standard and quality.

Quality control within a SAI consists of the policies and the procedures that have been put in place to assure that its audit work is of a consistently high quality. SAI should establish and maintain its system of quality control to provide it with reasonable assurance that the SAI and its personnel comply with professional standards and applicable legal and regulatory requirements; and the audit reports issued are appropriate in the circumstances.

Although at times QA and QC are used interchangeably, there is a clear difference in scope and meaning of the two terms. As stated above, **Quality Control** involves the policies and procedures through which SAI **ensures** that all phases of an audit process (planning, execution, reporting and follow-up) are carried out in compliance with its auditing standards, rules, procedures and international best practices. On the other hand, **Quality Assurance** is a process through which SAI **assesses** and monitors its system of quality control with the intention to provide reasonable assurance that its controls are working effectively and that individual audits are carried out in compliance with SAI standards, rules, practices and procedures.

### 8.3.1 Quality assurance review program

A Quality Assurance Review (QAR) program is a series of external and internal reviews of activities undertaken by the SAI- it assesses the overall quality of the work performed and covers various issues and perspectives. The results of the program should be reported to the SAI management at least annually (*ISSAI 3000/Appendix 4*).

A quality assurance review may examine the adherence to policy and procedures and identify areas where there is an opportunity for improvements in these policies and procedures or it may assess the quality of work performed to meet specified objectives or specific stakeholder's perspectives. Quality assurance reviews will generally address both adherences to specified processes and the quality of the



work performed. The report on the quality assurance review program should summarise the results of all reviews including the tasks selected, the findings and any recommendations (*ISSAI 3000/Appendix 4*).

The QAR process generally involves the standard four phases of planning, conducting, reporting and follow-up.

Table 8.2: Four phases of the QAR process

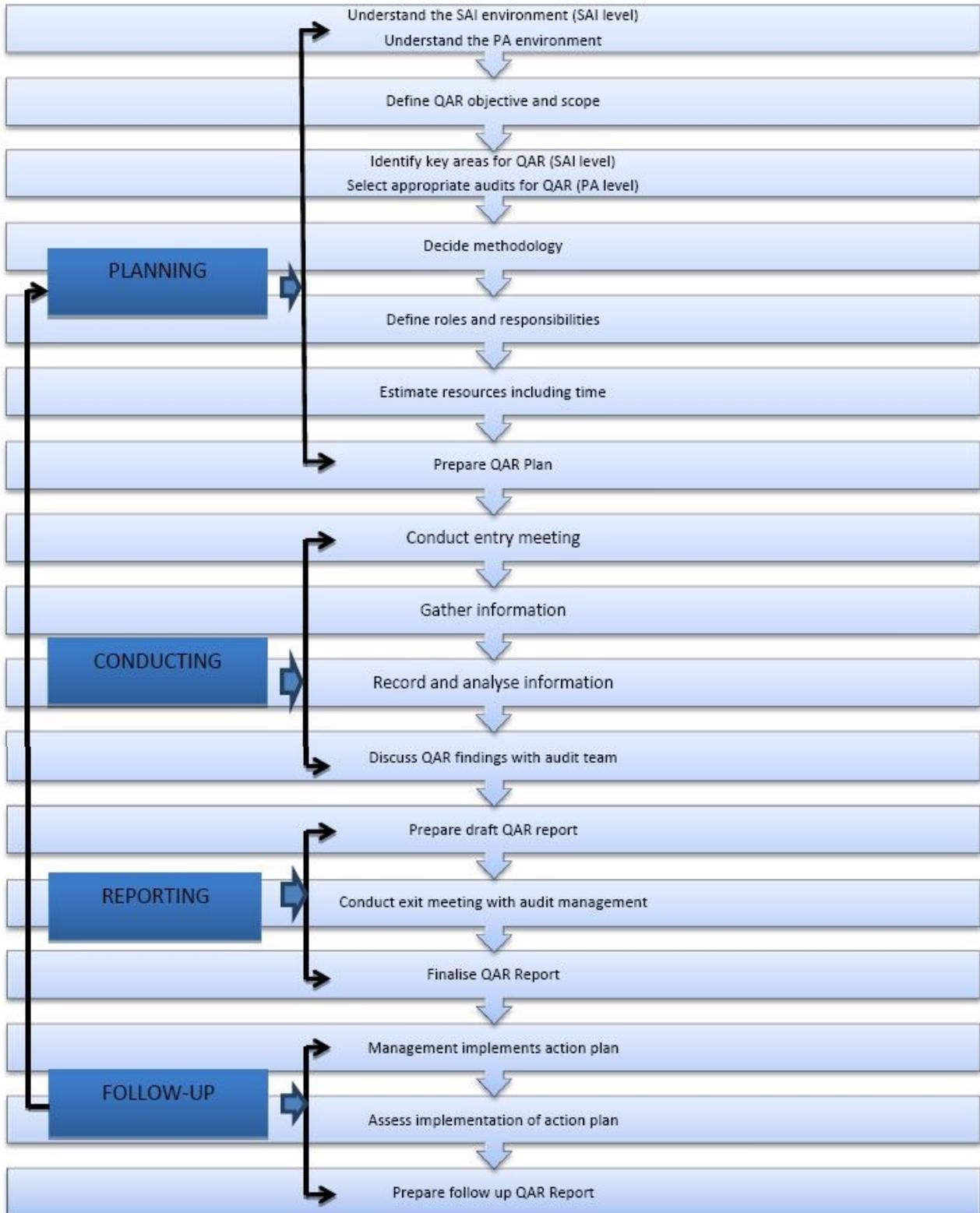
Phase	QAR activities
<b>Planning Phase</b>	This is where the review team plans the review before it takes place. At the SAI level QAR, the reviewer gathers information to understand the environment upon which the SAI operates. On the other hand, at the performance audit (PA) level, the review is intended to understand the PA environment. This initial step provides the reviewer inputs to be able to define the QAR objective and scope, identify the key areas for QAR at the SAI level or select appropriate audits for QAR at the PA level, decide methodology and define roles and responsibilities of the QAR team. The other inputs include the terms of reference, budgets and background information. The output of this phase will be a plan for conducting the review. This can be a long-term plan in the case of an SAI level review, and an annual plan in the case of a performance audit level review. The expected deliverable from this phase is a QAR plan. Once the plan has been approved, it becomes the input to the second phase.
<b>Conducting phase</b>	In the second phase, the review team conducts the review using the QAR plan to guide the gathering of evidence. A suggested first step in this phase is to conduct an entry meeting with the SAI top management concerned (for SAI level QARs) and the audit team that completed the audit (PA level QAR), to explain the objectives and scope of the QAR to be done. The outputs of this phase are the draft <i>findings</i> and <i>recommendations</i> . This should be discussed with the senior management in the case of the SAI level review, and with the audit teams and management for the individual audit level reviews to obtain feedback.
<b>Reporting phase</b>	The third phase is where the review team uses the outputs (preliminary findings and recommendations) of the conducting phase as inputs to prepare a draft QAR report. The findings and observations are discussed with audit management in an exit meeting. After soliciting their comments, the QAR report is finalised.
<b>Follow-up</b>	The final phase is where the review team uses the action plan prepared by the audit line functions as inputs, and assesses the extent of implementation of the QAR recommendations and reasons for non-implementation, if any. Appropriate follow-up actions are necessary to ensure that the agreed action plan is implemented or adequate steps are being taken to implement it. The output of this stage is a follow-up QAR report.

Source: IDI-ASOSAI Handbook on Quality Assurance in Performance Auditing



Figure 8. 2 below shows the sequence of phases and steps in a standard QAR process.

Figure 8.2: Quality Assurance Review process



Source: IDI-ASOSAI Handbook on Quality Assurance in Performance Auditing



## 8.4 Quality Assurance and quality development

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It is important that all quality assurance/control activities have a high degree of legitimacy among the auditors and that the procedures and systems are not too sophisticated. Besides quality assurance and control activities, perhaps the most effective way to promote quality in audit work is to recruit competent staff and to create working conditions that (ISSAI 3000/Appendix 4):

- stimulate quality development;
- promote openness, delegation and mutual trust within the organization; and
- encourage the auditor's own sense of responsibility.

In an information-based and professional activity such as performance auditing, it is generally more important to support the audit teams in their efforts to achieve a good level of quality in their work, than to supervise them in the traditional sense of the term (ISSAI 3000/Appendix 4).

## 8.5 Quality in performance auditing

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Performance auditing is a knowledge-based activity, and due to its special features – and its close links to politics – high quality work is perhaps the most important single factor for recognition. To ensure high quality work, the SAI should pay particular attention to creating an environment for performance auditing that ensures incentives for good quality and quality improvements. A properly functioning system for quality assurance is one of the important elements in this context (ISSAI 3000/2.4).

### 8.5.1 Overarching Quality Controls in Performance Auditing

Performance audits are often complex undertakings, requiring a wide range of skills, expertise, and experience. To achieve quality in performance auditing, an SAI needs to consider following the best practice performance auditing process discussed earlier in this chapter. A good practice process itself constitutes a control mechanism for ensuring the quality of the performance auditing process and the resultant performance audit report.

In addition to adopting a good performance audit process, the INTOSAI Auditing Standards recommend a number of overarching controls that affect quality at all stages and steps of the audit process. These overarching quality controls are discussed below.

- **Audit Quality Management framework** – SAIs should have in place a comprehensive audit quality management framework. This suggests that the framework includes the various elements of a good framework as suggested in ISSAI 40.
- **Supervision** – The work of audit staff at each level and audit stage should be properly supervised during the audit. Supervision of the performance audit team by senior members of the audit staff involves directing, supporting, guiding and coaching their work to ensure the audit objectives have been met. It ensures compliance with approved policies, procedures, methodology and guidance.



- **Monitoring** – Monitoring is the review of progress against the task allocated to team members considering timeline and budget. SAIs should develop appropriate performance indicators for their performance audit programmes (such as audit cost, duration, milestones and results) and monitor the operations of audits against these benchmarks. The audit manager should prepare regular reports to SAI management.
- **Competency** – Performance audit is clearly a complex work. It should be carried out by a team that possesses the necessary competence required for the purpose of the audit. All team members should understand the audit questions, and the terms of reference of work assigned to them. In the case of complex and technical issues, SAIs should also consider using suitably qualified experts. While engaging experts, the audit team should ensure that the expert is independent of the activity/programme and fully informed about the specific conditions and ethical requirements.
- **Methodology and manuals** – The development and introduction of manuals, policies, procedures and other supporting tools will play an important role in consolidating and institutionalizing performance auditing in the SAI over the longer term. Thus, SAIs must have manuals, policies, procedures and performance audit methodology, and preferably aligned with international standards and good practices.
- **Review** – *ISSAI 3100/2.5* suggests that in order to provide reasonable assurance, external quality and peer reviews needs to be conducted for performance audits. Some SAI's Performance Audit Guidelines provide that planning of the selected performance audit tasks can be reviewed by SAI management and ongoing work can be reviewed by the supervisors or task manager. All types of review provide feedback to the responsible persons for the audit. Review mechanisms should be established in SAIs and need to be focused on the adherence to the manual, policies, procedures and methodology.
- **Proper documentation** – Competent, relevant and sufficient audit evidence to support every finding and conclusion should be collected and properly documented. Standardised working paper templates needs to be developed and signed by relevant auditors.
- **Client evaluation** – SAI should establish effective working relationships with clients to ensure sufficient impact of its reports. Clients are the main users of the audit reports, and the effectiveness of performance audit reports depends upon their effective evaluation of the SAI's product. By providing feedback to the SAI, client feedback can serve as a useful quality control mechanism.

### 8.5.2 Quality at the engagement level

Many steps and measures are possible to make sure that individual audits are of high quality. Paragraph 3 of the *INTOSAI Performance Audit Subcommittee (PAS) Guideline on Safeguarding quality in the performance audit process* contains the following important steps in the pre-study and the main study that may help to improve the quality of the performance audit work.



### 8.5.2.1 Pre-Study and Work Plan

- *A comprehensive research is needed*

Proper research is a key issue at the planning stage. It's often fruitful to achieve both historical and global knowledge. The idea is to look for "red lights" or indication of problems and to explore and learn and to examine whether, when and how to conduct an audit. This is obtained by seeking and examining information from varying sources: from audited entity, evaluators, scientists and other experts. Internet is also a useful source. The auditor may have to check a broad spectrum of effectiveness and efficiency issues and examine them from various perspectives in order to define the objectives.

- *Various perspectives and approaches have to be examined*

Various perspectives and approaches have to be examined, to see whether for instance the issue is of efficiency or effectiveness kind, and whether a result or a problem oriented approach ought to be applied. By talking to stakeholders and experts, by reflecting and brainstorming, applying various models and techniques, the audit team should find ways to define the audit objective and the scope.

- *Scientists and experts have to be consulted and perhaps engaged*

As performance auditors are no experts in the specific audit area it is important to have assistance from independent persons with proper knowledge in the audit area. It might often be scientists or other experts. Also earlier employed managers by the institutions concerned may provide valuable insights. Experts may be engaged as reference persons and support the audit team.

- *Safeguard that work plan proposals are critically examined*

After discussion of the written draft – with team members, colleagues, selected second partners and the audit manager – the draft need to be adjusted in accordance with provided comments. Some criteria or check list might be of help in this process before the proposed work plan is sent to the decision maker (often the Auditor General) for a final discussion and approval.

- *Some vital check-up issues before the final approval of the Work Plan*

Context and motive: Are there indications of material efficiency or effectiveness problems? Is relevant information examined, are experts consulted, and experiences of stakeholders considered? Is it an auditable topic and in accordance with mandate, policy and priorities?

Design: Is the problem defined and put in context? Are objectives, audit questions, scope and methods adequate and in accordance with the standards; will the design provide objective and reliable answers to the audit questions and a proper analysis of the problem? Will the audit report and its potential recommendations add value?

Competence and planning: Is the Audit Office able to conduct the audit; Is sufficient competence at



hand and are reliable data and resources accessible? Are quality assurance issues considered? Is the activity plan realistic in terms of time, budget and other resources?

#### 8.5.2.2 Main study

- *Provide audited entities with a proper introduction*

A good communication with the audited entities throughout the audit process is of great importance for the quality and impact of the audit. It starts with an introduction where purpose, methods and process of the audit and required information are presented and discussed.

- *Involve the audited entities and find arguments from various stakeholders*

It is important to keep contact persons and management from the audited entities well informed. It helps getting things right. Meet various stakeholders and experts and try to understand their perspectives, knowledge, experience and arguments. Follow up on hints and to get statements and arguments reasonable verified.

- *A well-functioning supervision and well informed management*

A continuous communication with the internal management is of vital importance for a proper completion of a qualified report. A schedule for regular meetings should be included in the decision of a work plan and activity plan, not just for checking of budget and time table but also for various issues concerning performance and completion of the audit. An early raised discussion of assumable conclusions and possible recommendations is decisive for agreements on properly conducted analysis before top management decides on the audit report.

- *Check-up issues for supervisor and the management during the audit process*
  - Does the team follow the activity plan and the adopted methodology in a timely manner?
  - Has the team put into practice the correct tools, and are the problems with the data collection?
  - Are all relevant perspectives/viewpoints addressed, and are the analyses sufficiently done?
  - Do significant disagreements require management engagement?
  - Have indications for required change of the audit design appeared?

- *Carry out focus group meetings*

An important part of the analysis is to check findings and preliminary conclusions with representatives from audited entity and other stakeholders. This is gained by focus group meetings before any decisions are taken. Focus groups will provide the team with confirmation on collected data or requirement of additional data. Focus groups are also a suitable way for the management to get proper information about the quality of the audit performance.

- *Use experienced colleagues and second partners within the office*

Just as for preparation of work plans a proper use of experiences within the PA function is of vital



importance for improvement of drafted reports. This might very well be conducted with given issues for assessment, like methodological issues, reader based issues or logical issues.

- *Get external examination by scientists and experts*

A critical examination by external experts will provide the team with assessment of whether the drafted report is reliable and convincing. This kind of examination might also provide the team with objections and critical arguments that have to be met with as well as assessment of added value of the audit. This examination should be done before the clearance process with the audited entity.

- *Conduct a proper clearance process*

Of vital importance for a reliable report – and for impact of the audit – is that there is no arguing from the audited entity against collected and compiled findings in the report. This has to be checked by the audit team in a proper clearance process with the audited entity. If there are frequent or extended changes of the report draft, the clearance process might have to be conducted more than once. The audit team should then analyse and discuss the comments from the audited entity with the PA manager and conduct adjustments of the draft in accordance with these discussions.

- *Submit a properly processed report draft to top management*

After processing of the drafted report – internally and externally – the audit team submits the draft to top management at the audit office for final examination and decision.

- *Write a solid and reader based report*

The audit report is the product on which the audit function will be judged by external actors. A reliable and balanced report that adds value to the audited entity and other stakeholders is vital. The purpose, scope and approach should be clear. Findings should be based on evidence and put in context. All relevant aspects and arguments need to be addressed. The report should be well-founded, complete, accurate, objective, convincing and as clear and concise as possible. The report should be reader friendly, i.e. available for the interested but uninformed reader.

- *Consider an exit conference and then go through the report again*

A proper discussion with the audited entity before publishing the report provides an opportunity to discuss and clarify various issues. This may prevent misunderstanding and unnecessary conflicts. It may also facilitate the impact of the audit.

- *Check up issues for the management before publishing the report*

- Is the report understandable and the main messages objective and convincing?
- Are findings reliable, put in context and supported by solid and fair evidence?
- Does the executive summary reflect the tone and the findings?
- Do the conclusions flow logically from the analyses and the findings?
- Are disagreements with audited entities or experts or inconsistencies regarding facts analyzed?
- Are the recommendations evidence based, clear and adding value?



### 8.5.3 Quality assurance tools for performance auditing

Quality assurance in performance audits is accomplished with the support of certain techniques and a routine procedure that makes its implementation easier (*Brazilian Court of Audit PA Manual/232*). The main quality assurance tools are:

- a. Quality checklists
- b. Schedule
- c. Planning matrix/audit program
- d. Findings matrix
- e. Experts panels

The checklist verifies activities that were performed and compliance with quality standards applicable to activities, working papers and audit products. Checklists can be used concurrently with or after the audit. When applied concurrently it facilitates supervision, as it allows the verification of implementation of key measures by the audit team in the several stages that comprise the audit work and the timely correction of the deficiencies. It also helps identify opportunities for improvement when conducting future work and avoid repeating deficiencies (*Brazilian Court of Audit PA Manual/233*).

The schedule allows the audit team to plan and organise their activities. It also facilitates the allocation of team members according to the procedures provided and the time available. (*Brazilian Court of Audit PA Manual/234*).

The planning matrix/audit program records the goals as well as the questions that will be investigated and what are the possible conclusions. Thus it is a basis for discussing the work conception of the audit project. The tool systematizes and details the procedures provided for implementing the work, therefore it helps identify failures and lapses in planning activities (*Brazilian Court of Audit PA Manual/235*).

It also shows if the required information is sufficient to answer proposed questions and allows verifying if such information can be supplied by the identified sources and if they are coherent with the methodological strategy and with the collecting and analytical data methods (*Brazilian Court of Audit PA Manual/235*).

The findings matrix contributes to quality assurance reviews since it helps to systematize and analyse the audit results. The findings matrix is important in order to correctly prepare the audit report because it provides in a structured way the findings and its evidence, causes and effects, elements that are part of the main chapters of the report. For example, it is possible to ascertain whether the findings are supported by reliable and sufficient evidences; if the proposed measures are adequate and focused on the causes of the problems to be corrected and if the audit questions were answered (*Brazilian Court of Audit PA Manual/236*).

The expert panel is an important practice which enable audit quality assurance through the review of the planning and findings matrices. Both the planning and findings matrices must be validated in expert panels.



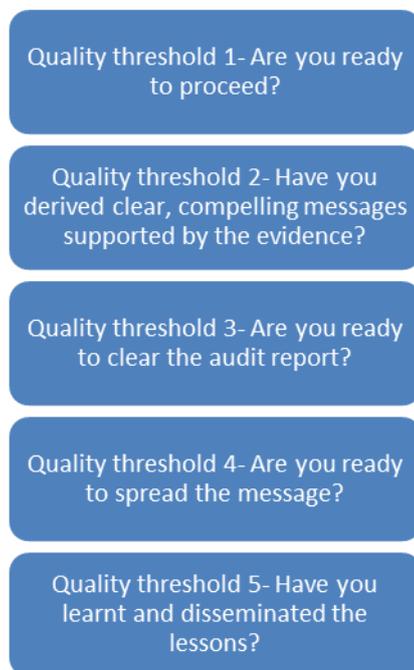
The expert panel aims to evaluate the audit logic and the rigor of the methodology use. It also allows the team to be advised about flaws in the design and development of the procedures. (*Brazilian Court of Audit PA Manual/237*).

### 8.5.4 The five “Quality threshold” for performance auditing

*NAO Value for Money Handbook- A guide for building quality into VFM examinations* identify five quality thresholds for performance audit that may assist SAI in ensuring quality in the conduct of audits.

The five “Quality threshold” identifies five main questions which are reflected in the diagram below:

Figure 8.3: The five ‘quality threshold’





The five main questions are broken down further into several sub-questions which are outlined in the table 8.3 below:

Table 8.3: Quality threshold sub-questions

Quality threshold	Main question	Sub-questions
1	Are you ready to proceed?	<ul style="list-style-type: none"> <li>• Should you address the topic now?</li> <li>• What sort of output does the subject merit?</li> <li>• Will the impact of the study justify the cost?</li> <li>• Do you have a coherent and relevant set of issues?</li> <li>• Do you have a robust and practical methodology?</li> <li>• Do you have the skills?</li> <li>• Are you clear about the resource costs?</li> <li>• Are you clear about the timetable for delivery?</li> <li>• Does the client department support the study?</li> <li>• Can you manage the risks?</li> <li>• How might the message from the study be communicated?</li> <li>• In the light of the above should you proceed?</li> <li>• Do you have the file structure to manage the evidence and the key documents?</li> </ul>
2	Have you derived clear, compelling messages supported by evidence?	<ul style="list-style-type: none"> <li>• Is there sufficient, relevant and reliable evidence to address each issue?</li> <li>• Have you fully analysed and interpreted the evidence?</li> <li>• Have you identified the key messages and are they supported by the evidence?</li> <li>• Do the findings triangulate with those wider stakeholders and experts?</li> <li>• Are the emerging message agreed with the client? If not, do you have a clear strategy to deal with areas of disagreement?</li> <li>• Is there an agreed structure of draft report?</li> </ul>
3	Are you ready to clear the draft report?	<ul style="list-style-type: none"> <li>• Is there a clear and concise draft report that conveys the main message?</li> <li>• Does the Executive Summary reflect the tone and findings of the main report?</li> <li>• Are the recommendations evidence based and clear and will add value?</li> <li>• Will the report make sense to the general reader?</li> <li>• Does the draft report meet the SAI standard for length and style?</li> <li>• Does the draft report make effective use of graphics and appendices?</li> <li>• Have you produced supporting material?</li> </ul>
4	Are you ready to spread the message?	<ul style="list-style-type: none"> <li>• Is the draft report cleared for factual accuracy with the audited body?</li> <li>• Have you given third parties the chance to comment on the report?</li> <li>• Has the draft report maintained its clarity, coherence, structure and brevity during the clearance process?</li> <li>• Have you presented the draft report in a professional and attractive way?</li> <li>• Have you properly organised the physical production of the report?</li> <li>• Is an up to date communication in place?</li> <li>• Are actions in hand to disseminate and follow up on findings?</li> </ul>
5	Have you learnt and disseminated the lessons?	<ul style="list-style-type: none"> <li>• Have you completed all aspects of internal and external quality assurance?</li> <li>• Have you identified lessons to be learnt and disseminated them appropriately?</li> <li>• Have you identified impacts and set up mechanisms to monitor the delivery of potential impacts?</li> <li>• Have you identified the key documents related to the study and delivered them as corporate records?</li> </ul>



In addressing the questions the SAI ensures that the report it produces is of high quality.

## 8.6 Main roles of the actors involved in quality assurance

### 8.6.1 Supervisor

The role of the supervisor is essential to ensure the achievement of the audit goals and to maintain the quality of the work, regardless of the auditor's individual competence. It is noteworthy that in performance auditing, it is generally more important to support the audit teams in their efforts to achieve a good level of quality in their work than to supervise them in the traditional sense of the term (ISSAI 3000/Appendix 4).

It is the supervisor's role to guide and review the audit technically. Guidance is a proactive activity and encompasses discussing with the team the merits of the work conception, of the audit project, of the conclusions as well as making available resources to carry out the audit (*Brazilian Court of Audit PA Manual/228*).

ISSAI 300 paragraph 2.3 requires that the work supervision must seek to ensure that:

- The audit goals are achieved;
- The skills needed to implement the audit are known by the team or incorporated upon request or by hiring services;
- Team members have a clear and consistent understanding of the audit project;
- The audit findings and conclusions are based on reliable information and valid, consistent, relevant and sufficient evidences;
- The audit is performed according to standards;
- The audit project is completed;
- The resources needed to implement the audit are available such as technical services, equipment and means of transportation.

### 8.6.2 Team leader (Audit Manager)

The team leader (audit manager) plays a critical role in ensuring quality in the planning, conduct and reporting of performance audit. The following provide details of the roles:

- *Promotion of discussions with the audit team*

It is the team leader's (manager) responsibility to promote discussions with the audit team to define the work scope, the methodological strategies and the procedures and techniques to be used. The selection of goals, problems and the audit questions largely determines a big part of the quality of the work (*ISSAI 3000/2.1*).

- *Hold regular meetings with team*

The team leader must also hold regular meetings with the team to discuss problems encountered



during the development of the activities and the necessary adjustments in the working papers produced; to report to the supervisor the work progress and discuss the treatment to be given to any problems and difficulties to review all documentation obtained during the audit, including the contributions of the audit team members to the report and prepare the final version of the report. In addition the team leader must ensure that:

- The audit goals are defined considering the data available about the performance of the audited entity;
  - Appropriate criteria are defined to evaluate audit questions to be investigated;
  - The team members have investigated, documented and understood the key aspects of the audit entity;
  - The audit objectives are clear for the audit team members and the audited entity;
  - A good working environment is maintained among the members of the audit team and between the staffs and the audited entity;
  - The use of several techniques follow the audit requirements contained in the corresponding technical documents;
  - The deadlines are met and if necessary propose to the supervisor amendment to the schedule.
  - The team members take responsibility for performing tasks consistent with their knowledge and skills; and
  - The audit project contains all the information needed for the work proposal assessment. (*Brazilian Court of Audit PA Manual/231*).
- *Planning and budgeting and the use of consultants*

The audit manager should take into account factors such as quality, resources and timing in the planning of an audit. The budget consists of allocations for salaries, travel, consultants and any other direct costs. (*ISSAI 3000/Appendix 4*)

- *Monitoring and executing the audit*

The manager should ensure that the audits are completed within budget and on time, extending the budget if justified. The manager must be aware of the risks to timely audit completion and ensure audit work is relevant to the objectives and scope of the audit. The development of the data-gathering process and the analytical work has to be monitored. The manager should ensure that the audit teams are able to maintain good and proper relations with the audited entities and other stakeholders. (*ISSAI 3000/Appendix 4*)

- *Progress reporting and audit reporting*

The audit manager should inform the SAI management on the progress of the audit with recommendations for corrective action if needed. The manager must ensure that the audit reports meet the reporting standards. (*ISSAI 3000/Appendix 4*)



## 8.7 Communicating SAIs quality assurance policies and procedures

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The SAI's general quality assurance policies and procedures should be communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented.

Quality control requires a clear understanding of where responsibility lies for particular decisions. It is the responsibility of everyone involved in the audit to fully identify and understand his or her responsibilities.

## 8.8 Summary

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The credibility and effectiveness of Supreme Audit Institutions (SAIs) is highly influenced by the extent an SAI can establish and maintain a high level of quality in the audit products. INTOSAI has therefore issued ISSAI 40 'Quality Control for SAIs' and PAS Guideline on safeguarding quality in performance audit process as quality guidance for SAIs.

The way performance audits are carried out and the quality of the reports can affect the image of SAIs. In view of this it is important for SAIs to establish quality assurance systems and procedures to ensure that all audits are developed in accordance with the standards and guidelines and all activities are developed with high quality standards.

Quality when carrying out performance audit is ensured by adherence to specific principles, procedures and methodologies, aiming at achieving increasing levels of objectivity, reliability, consistency and utility in the elaboration of reports and other documents produced ( Brazilian Court of Audit PA Manual/222).



## Chapter 9: Managing Audit Risk

### 9.1 Introduction

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The organization of performance audit should satisfy the general requirements of good project management (ISSAI 3000/2.2). Akin to the risks faced in executing a project, audit risks exist in successfully conducting a performance audit engagement. However, there is no separate mention of managing audit risk in ISSAI 3000 and ISSAI 3100. As the Exposure Draft of ISSAI 300, deals with performance audit risks, a separate chapter on this issue has been included. The audit risks and the specific ISSAI requirements and good practices to mitigate these risks will be discussed in this chapter.

### 9.2 Performance audit risks

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The important performance audit risks are (Exposure Draft of ISSAI 300/20):

- Incorrect or incomplete conclusions
- Providing unbalanced information and unable to put audit findings in perspective
- Not adding value to the users
- Access to and quality information
- Ability to conduct sufficient analysis
- Failing to collect or address the most relevant arguments
- Fraud risk and abuse of resources and irregular practices
- Handling of substantial complexity and political sensitivity

### 9.3 ISSAI requirements and good practices to mitigate audit risks

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It is necessary to remember that controls and practices to deal with the audit risk must be embedded in the whole process and methodology of performance audit. If the ISSAI requirements on Performance audit are scrupulously followed these risks would be largely mitigated. Nevertheless, the audit planning documents should contain possible or known risks in the coming audit work and how these risks will be handled.

The audit risks, not necessarily in the order of their importance and how these risks can be tackled are described below:

#### 1. Incorrect or incomplete conclusions:

Similar to the audit risk that incorrect audit opinion would be provided in financial audit, there is an audit risk that the audit conclusions that may be arrived at are incorrect or inaccurate.



However, unlike a financial audit in which a single audit opinion is provided for the entire audit, in case of a performance audit an overall audit conclusion is rarely provided and audit conclusions are arrived at against specific audit issues/problems. So, the audit risk could be that the audit conclusion(s) against specific audit issues/problems are incorrect. The following ISSAI requirements if met can help in mitigating the risks:

- a. Performance auditors possess adequate professional proficiency to perform their tasks (ISSAI 3000/2.2). Professional competence requires auditors to i) apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality, ii) not undertake work they are not competent to perform and iii) follow applicable auditing, accounting, and financial management standards, policies, procedures and practices.
- b. The audit team collectively possesses adequate knowledge of the subject matter and audit techniques (ISSAI 3100/19).
- c. When the auditee disagrees with the audit criteria, then the facts and arguments presented by the auditee (s) is weighed against other relevant facts and arguments (ISSAI 3000/Appendix 2). This would ensure that the audit conclusion arrived at later is not challenged as incorrect on the grounds that the audit criteria, against which audit conclusions are drawn, is unacceptable.
- d. Audit evidence should be sufficient, valid, reliable and relevant in order to support the auditor's judgment and conclusion regarding the audit questions (ISSAI 3100/20, 21). Quality audit evidence when gathered greatly helps in arriving at correct audit conclusions.
- e. Unless prohibited by legislation or regulations, before publishing a performance audit report, the SAI always gives the auditee(s) the opportunity to examine its content and comment on the audit findings; conclusions, and recommendations and where disagreements occur they are analysed and factual errors corrected (ISSAI 3100/34, ISSAI 3000/4.5, 5.3). Providing the audited entity an opportunity to examine audit conclusions and objectively examining their responses to the audit conclusions will significantly mitigate the risks of arriving at incorrect or incomplete conclusions.
- f. Performance audits should be subject to a system of quality control, incorporating processes for supervision and monitoring of quality, quality assurance, and external quality and peer reviews, in order to provide reasonable assurance that the audit has been conducted in accordance with professional standards and regulatory and legal requirements, and that the reports are appropriate (ISSAI 3100/38). Supervision of audit work in the field on a daily basis ensures that the basic work that emerges from an audit engagement, which is later processed as an audit report, contains logical and well reasoned audit findings and conclusions. Carrying out quality assurance process independently after the conclusion of audit and writing of report but before printing of audit report will greatly reduce the chances of incorrect conclusions.

#### **Good practices followed in SAIs**

- Preliminary audit conclusions are discussed at the exit meeting with the audited entity
- Audited entity is given reasonable time to provide their response on audit findings, conclusions and recommendations contained in the draft audit report
- Pre-issuance review of important performance audit engagements is carried out by an independent team, not involved with the audit, before printing the report
- External review of audit report is carried out before printing the report



## 2. Providing unbalanced information and unable to put audit findings in perspective:

There is a risk that the audit report is unbalanced. This could happen when:

- good practices and achievements of the audited entity are ignored and the report focuses only on shortcomings
- shortfall is highlighted without explaining the challenges or constraints under which the entity operates
- entity's performance is assessed without reference to standards of acceptable performance

These risks could be mitigated by following these ISSAI requirements:

- a. When analyzing data, information is put in perspective by comparing the results to audit criteria or to what is generally expected (ISSAI 3000/Appendix 1, Para 6). Arriving at audit findings by comparing 'what should be' (criteria) with 'what is' (condition) would provide details of benchmark against which performance is assessed and lend a proper perspective.
- b. It is important that the auditors seek information from different sources, since organizations, individuals in an organization, experts, and interested parties have different perspectives and arguments to put forward (ISSAI 3000/4.2). Auditors must be able to see things from different perspectives and maintain an open and objective attitude to various views and arguments. If they are not receptive, the auditors may miss the best arguments. Auditors should apply professional scepticism, but also be receptive and willing to innovate in their exercise of professional judgement (*Exposure Draft ISSAI 300/ 23*).
- c. The communication process between the auditor and auditee begins at the planning stage of the audit and continues throughout the audit process, by a constructive process of interaction, as different findings, arguments and perspectives are assessed (ISSAI 3100/25). Establishing a communication process at the early stages of audit and holding discussions with the auditee in an atmosphere of mutual trust and understanding can enable the auditors to reach a balanced view on audit issues.
- d. Regular meetings and discussions with the auditee are a valuable part of the audit. If conflicts occur, efforts should be made to air contradictory opinions with a view to making the final picture as true and fair as possible (ISSAI 3000/4.4).
- e. The SAI always must give the auditee(s) an opportunity to examine and comment on the audit findings; conclusions, and recommendations and where disagreements occur they must be analysed and factual errors corrected (ISSAI 3100/34, ISSAI 3000/4.5, 5.3). Providing the audited entity an opportunity to examine audit findings and conclusions and objectively examining their responses will significantly mitigate the risks of providing unbalanced information.
- f. Performance audits should be subject to a system of quality assurance and external quality and peer reviews, in order to provide reasonable assurance that the reports are appropriate (ISSAI 3100/38). Carrying out quality assurance review independently before printing of audit report will greatly reduce the chances of unbalanced reporting.

## 3. Not adding value to the users:



Adding value is about providing new knowledge and perspectives (ISSAI 3000/3.2). Further, according to Exposure Draft of ISSAI 300, Para 5, Performance audits provide new information or knowledge by:

- new analytical insights (broader or deeper analysis or new perspectives)
- making information accessible to various stakeholders
- improving the quality of findings or conclusions by having done additional research
- providing recommendations based on an analysis of audit findings

Thus, if the performance audit report does not provide/provides minimally any of the above four benefits, then there is risk of not adding value to the users. Meeting the following ISSAI requirements practices can help in mitigating this risk:

- a. Audit topics selected are significant (not only financial significance, but also social and/or political significance) and lead to important benefits for public finance and administration, the audited entity, or the general public. The selection process for audit topics should aim to maximise the expected impact from the audit. (ISSAI 3100/11). Thus, a systematic strategic planning process will largely ensure that the topic chosen for performance audit will add value.
- b. In determining objectives, the audit team takes into account the expected net impact of the audit. A possible tool in determining this contribution is to outline the expected conclusions (ISSAI 3000/3.3). Thus, in addition to ensuring that topics chosen for audit will add value, it is necessary that the audit issues/problems taken up for audit are such that they can enhance audit impact.
- c. The planning phase always involves certain research efforts, with the aim of building knowledge (ISSAI 3100/16). Examine different kinds of documents from the audited entity as well as past audits and evaluations carried out by the SAI, or others may update and enlarge the auditor's working knowledge of a particular subject and enable deeper analysis or newer insights.
- d. Recommendations, where provided, are logical, practical, knowledge-based and are based on competent and relevant audit findings (ISSAI 3000/4.5, 5.2, 5.3 and ISSAI 3100/32). Writing audit recommendations that flow from the audit findings and which are practical and accepted by the audited entity/government adds value.
- e. The reports are distributed to the auditee, the Executive and/or the Legislature, and where relevant, made accessible to the general public directly and through the media and to other interested stakeholders, unless prohibited by legislation or regulations (ISSAI 3100, Para 35 and ISSAI 3000/5.4). Wide dissemination of the audit report adds value by making information

**Good practices followed in SAIs**

- Inputs of Audit Advisory Board, which has representatives from different fields, are obtained to select performance audit topics
- Pre-study is conducted to establish whether conditions for a main study exist. One criteria to select the audit topic is the possibility of audit adding value.
- Techniques like SWOT analysis, risk mapping and stakeholder's analysis are used to identify problem areas for detailed audit scrutiny so as to optimize impact of audit

accessible to various stakeholders.



#### 4. Access to and quality of information:

It is probable that audit team either does not have access to desired information or there are doubts about the quality of data. As the audit findings and conclusions hinge greatly on the quality of data, it is essential to assess the risk of not having access to quality data. This risk could be tackled by adhering to the following ISSAI requirements:

- a. Audit planning documents should contain the possible sources of evidence and the techniques to be used for gathering evidence (ISSAI 3100/12). Identifying the source of evidence and techniques to gather them in the planning phase will mitigate the risks of not being able to access data.
- b. While defining the scope of audit and designing the audit, the audit team considers whether the information or evidence required is likely to be available and can be obtained efficiently. Furthermore, reliable and objective information should exist and there should be reasonable chances of obtaining this information (ISSAI 3000/3.3. Defining the scope and design of audit). If an assessment of access to information and quality of information is carried out at the time of defining audit scope and design, it is highly unlikely that such a problem would be encountered at the time of conducting audit.
- c. A performance audit conducted in accordance with applicable auditing standards examines the quality of the information provided (ISSAI 3000/2.3). Quality of information particularly stored in electronic must be assessed for quality. What is 'reasonable' depends on the situation, i.e. on the kind of evidence at hand and the conclusions that can be drawn from it.
- d. The nature, location, and availability of files are established at the outset of a performance audit so that they can be examined cost effectively (ISSAI 3000/Appendix 1, 5.1). This is a more specific requirement about access to files being defined at the planning phase.
- e. The SAI uses its powers of access to information tactfully and with due regard to the ongoing operational responsibilities (ISSAI 3000/Appendix 4). The SAI should use its powers of access to information diplomatically and must not appear overpowering or intimidating. The SAI should endeavour to give the audited entities reasonable notice of its intention to commence an audit and should discuss the general scope of the study with relevant officers.
- f. Audit teams assess the system's internal control if they are to rely upon the documents that are the output of management control systems (ISSAI 3000/Appendix 3, 2.3). Documents that are the output of management control systems (e.g. the accounting system) will need to be



assessed in light of the internal controls that operate within that system. If the internal controls of the system from where documents are generated are weak, then the audit team cannot fully rely on such documents.

g. Performance auditors should be resourceful, flexible and systematic in their search for sufficient

#### Good practices followed in SAIs

- Audit objectives, information needed and access to information systems are discussed with the audited entity during entry meeting
- Information Technology Cell checks quality of data and discusses data quality issues with the audited entity before its use in performance audit

evidence. They must seek data from different sources and stakeholders (ISSAI 3100/22). Auditors should always try to be practical in their efforts to collect, interpret and analyze data. While primary or own source data is usually the most reliable, secondary data which is collected and/or analyzed by others (e.g. performance evaluation reports, internal audit reports, etc.) can be an important source of information in performance audits.

h. Quality of data can be strengthened by corroboration. For instance, when the observation of a physical condition is critical to achieving the audit objectives, it is corroborated (ISSAI 3000/ Appendix 3, 2.1 and 3.9). Oral evidence must be corroborated if it is used as evidence rather than as mere background information (ISSAI 3000/ Appendix 3, 2.2).

i. The audit report includes information about the source and quality of data and limitations concerning access to information (ISSAI 3100/22 and 28). Issues of not having access to information and quality of information can also appear as findings in the audit reports.

## 5. Ability to conduct sufficient analysis:

A vexing issue that is encountered during performance audit is the inability to conduct sufficient analysis for lack of expertise, audit criteria or access to information. Good practices to tackle issues of access of information have already been discussed earlier. If due care is exercised at the planning stage, risks due to lack of expertise and audit criteria would not normally arise at a later stage. The important ISSAI requirements which can help in meeting this risk are:

- a. Performance audit topics selected are auditable (ISSAI 3100/11). Auditability is a key criterion to be considered while choosing topics for performance audit as part of strategic audit process.
- b. Auditability is an important requirement in the operational planning process. It defines whether a topic is suitable for a main study. As objectives and scope vary from one audit to another, the audit team needs to assess whether an audit can be carried out (ISSAI 3000/3.3 Defining the scope). ISSAI clearly requires the issue of auditability to be re-examined at the operational planning phase in addition to its examination at the strategic planning process. The auditor



- might have to consider, for instance, whether there are relevant approaches, methodologies, and criteria available and whether the information or evidence required is likely to be available and can be obtained efficiently.
- c. The audit planning documents contain an overall activity plan which includes staffing requirements, i.e. sufficient competencies, human resources, and possible external expertise required for the audit, an indication of the sound knowledge of the auditors in the subject matter to be audited (ISSAI 3100/12). An expert, a person or firm possessing special skills, knowledge, and experience in a particular field other than auditing, is often used in performance auditing (ISSAI 3000/2.3). An objective assessment at the planning stage of the competency of the staff to carry out audit and the need for engaging an external expert and engaging experts, if required, will greatly reduce the risk of not possessing the skills to perform detailed analysis.
  - d. The audit team collectively possess adequate knowledge of the subject matter and audit techniques (ISSAI 3100/19). Audit teams will have to be constituted in such a manner that the team collectively possesses the expertise to carry out detailed analysis of audit issues.
  - e. When criteria are vague, conflicting or non-existent, auditors might have to reconstruct audit criteria (ISSAI 3000/3.3 Defining the audit criteria). This could be achieved by applying a 'theoretical' approach, by allowing experts in the field to answer questions such as: 'what ought to be the ideal results under perfect conditions according to rational thinking or best-known comparable practice?' Alternatively, to define and obtain support for well-founded and realistic criteria, it may prove helpful to apply an 'empirical' approach, involving discussions with stakeholders and decision makers.

6. Failing to collect or address the most relevant arguments:

A risk exists of not covering all the key issues identified at the planning stage or of not being able to counter important arguments against audit findings and conclusions. This risk can be addressed by adopting the ISSAI requirements given below:

**Good practices followed in SAIs**

- Study Design Matrix with additional columns on condition found in audit is filled up during audit, to verify whether information is gathered against all issues identified in the design matrix
- On completion of audit, the findings are presented by the team during an internal meeting attended by line managers, experienced performance auditors and experts wherein it is checked whether all audit issues/ arguments have been covered

- a. Performance audits are performed with due care and appropriate supervision (ISSAI 3100, 19). Supervision of audit work in the field on a daily basis ensures that the basic work that emerges from an audit engagement will be complete in respect of coverage of key audit issues.
- b. To avoid getting caught up in details and a flood of data, detailed assessments of the need for information is made during the audit (ISSAI 3000/4.4, ISSAI 3000/Appendix 3, 2.3, 3). Assessment of need for data must be embedded in the process of gathering data to eliminate extraneous detail and irrelevant approaches, and to prevent the risk of losing focus from core audit issues and arguments.
- c. When analyzing data the audit objectives and the audit question is reviewed first (ISSAI 3000/Appendix 1, 6). Revisiting the audit question and objectives/problems while analyzing data helps in checking for collection of information on all audit issues and arguments.
- d. Meetings may be held to confirm facts with the audited entity and to promote development of



audit findings. All the main arguments that can be envisioned should be covered at such meetings, so that no entirely new and possibly decisive arguments or facts may be introduced at the final stage of the audit (ISSAI 3000/4.5). When data is analyzed and audit conclusions are drawn, all main arguments must be clearly listed out, so that they can be discussed with the audited entity and are not lost track of.

7. Fraud risk and abuse of resources and irregular practices:

**Good practices followed in SAIs**

- Clear policy guidelines have been issued on communication of serious irregularities found in the course of audit to investigative authorities
- During the pre-study, if there is an indication of fraud or illegal acts, the audit team could recommend that the topic need not be selected, because the auditability could be impaired. A compliance audit is recommended instead in such cases.

While planning the audit, auditors must assess the risks of fraud occurring if it is significant within the context of the audit objectives and also communicate frauds/irregularities promptly. This could be achieved by:

- a. Obtain an understanding of relevant internal control systems and examine whether there are signs of irregularities that hampers performance (Exposure Draft ISSAI 300/29). A good understanding of the internal control systems will help the auditors to identify major weakness in the system that could lead to irregularities.
- b. In performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse (ISSAI 3000/3.3). The audit team should determine the extent to which such acts would affect the audit results and ask for the assistance of specialists in complicated cases.
- c. Auditors must verify whether the entities concerned have taken appropriate actions to address recommendations from previous audits or examinations of relevance for the objectives (Exposure Draft ISSAI 300/29). If serious systems weaknesses have been pointed out in earlier audit reports and if corrective action has not been taken to address these weaknesses, auditors will have to be vigilant to risks of fraud or systems abuse.
- d. Any financial irregularities are reported to the authorities concerned in the course of audit work, where appropriate (ISSAI 3100/26). It is probable that during the field audit, the team may come across audit findings that are significant and on which urgent action is warranted as otherwise it could lead to tampering of evidence or cause further financial loss to the entity. In such instances, findings are to be communicated immediately to the authority charged with



governance, which could be the head of the office audited or the Ministry/Department having control over the audited entity.

#### 8. Handling of substantial complexity and political sensitivity:

There is a risk of the SAI not correctly handling highly complex and politically sensitive topics in its performance audit report. This could seriously undermine the credibility of the SAI. The ISSAI requirements that can help in mitigating this risk are:

- a. The SAI must maintain both actual and perceived political neutrality (ISSAI 30/20). This would safeguard the SAI from allegations that the performance audit report is politically motivated, particularly when the report is on a politically sensitive issue. It is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way.
- b. The moment auditors start asking whether the public commitment itself is feasible at all they will also have to be cautious not to go beyond their mandate by crossing the borderline into political territory (ISSAI 3000/1.4). While performance audit can question the inputs provided or the process followed in formulating policies, it is desirable to refrain from questioning the policy itself due to political sensitivities.
- c. Wide consultation with different stakeholders during the entire audit process, engaging experts to handle complex issues, providing opportunity to the audited agency and the government to respond to audit findings and conclusions and having external review of audit report before publication are other good practices (as discussed earlier) that can ensure that SAI correctly handles complex and politically sensitive issues.

## 9.4 Summary

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There are several audit risks in conducting performance audit, ranging from arriving at incorrect or incomplete conclusions, providing unbalanced information and not being able to add value to the users. Controls to deal with the audit risk must be embedded in the whole process and methodology of performance audit. The audit planning documents should present possible or known risks in the coming audit work and how these risks will be handled.

In this chapter, we had briefly described the various audit risks in performance audit, the ISSAI requirements which can mitigate these risks and the good practices followed in SAIs to address the risks.



### About the IDI 3i Programme

ISSAI Implementation Initiative Programme (3i Programme) is a global programme launched by IDI to support the implementation of ISSAIs. While programme activities in the five English speaking INTOSAI regions began in 2012, activities will be initiated in other regions in Arabic, French and Spanish in 2013.

### Partners

The ISSAI Implementation Programme is as a partnership programme between the INTOSAI Professional Standards Committee, its sub committees on Financial, Performance and Compliance Audit, INTOSAI Capacity Building Committee and relevant English speaking regions. The programme aimed at creating capacity for implementation of level 4 ISSAIs in financial audit (including compliance audit) and performance audit in the five English speaking regions of AFROSAI-E, ASOSAI, CAROSAI, EUROSAI and PASAI.