

PACIFIC ASSOCIATION OF SUPREME AUDIT INSTITUTIONS



*“Pacific Auditors Working
Together”*

REGIONAL PERFORMANCE AUDIT MANUAL

2020

FOREWORD

The suite of PASAI Regional Audit Manuals for Financial Audits, Performance Audits and Compliance Audits, is part of the PASAI Strategic Priority 3 (SP3) which is aimed at achieving high quality audits by providing a resource to encourage SAIs to develop their own customised audit manuals to ensure compliance with International Standards of Auditing (whether that be ISSAIs, ISA or GAGAS). The suite consists of:

- PASAI Regional Audit Manual
- Case Study (includes templates)

In the Pacific, most developing SAIs find it difficult to keep their audit manuals aligned with auditing standards, particularly given the rapid pace of change in recent years and the lack of resources and expertise. The objective of these manuals is to provide guidance to help SAIs develop an approach to customise their audit manuals, which will result in a more sustainable outcome.

PASAI is planning to provide support to SAIs through a workshop and SAI level support in customising this regional manual for their unique environments to maximise its effectiveness. Ongoing support will also be available and provided to ensure SAI manual is consistent with SAI's audit methodology and used in conducting the related audits. To be useful and relevant, the manual incorporate templates, checklists, examples, and case study that serve as useful aids.

PASAI is encouraged by the commitment of SAIs to raise standards. That the PASAI Governing Board has clearly heard from SAIs across the region the utmost dedication to raising SAI standards because of the SAIs commitment to providing high quality audit so that governance and accountability systems in their countries can be improved and the lives of citizens positively impacted

We take this opportunity to express our appreciation to the reviewers and experts working in SAIs within the Pacific region and Internationally (IDI) for their contributions and comments in the development of these manuals. They are acknowledged specifically within each Audit Manual.

John Ryan
Secretary-General of PASAI
Controller and Auditor-General of New Zealand

Acknowledgements

Martin Grimwood was PASAI's consultant engaged to develop the Audit manuals. He has worked extensively throughout the region being a former Auditor-General of Tuvalu and Deputy Auditor-General of Solomon Islands. He has also been Adviser and Mentor to the Office of the Auditor-General of Vanuatu and has just (December 2019) concluded a similar role in Solomon Islands.



Martin holds a joint honours degree in Accounting and Law from the University of Southampton and was awarded his Masters degree by the University of Bath for his pioneering research into the use of Qualitative Methods in Performance Auditing. He holds professional accounting qualifications with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Association of Certified Accountants (CACA); he is also a qualified Company Secretary (ICSA).

He was a founder member of the original South Pacific Association of Supreme Audit Institutions (SPASAI) which was part of the Commonwealth Training Initiative (CTI) which arose from the 1986 Commonwealth Auditors-General conference in Ottawa under the chairmanship of Ken Dye. He was also involved developing the three-volume audit manual which was also part of the CTI.

In addition to his work in the Pacific Region, Martin has worked with Supreme Audit Institutions (SAI) in many countries including establishing the SAI in Bosnia-Herzegovina and Afghanistan.

The following are also to be acknowledge for reviewing the draft manual and providing feedback to PASAI's Consultant:

- Mrs. Sarah Markley, PASAI Deputy Secretary-General, SAI New Zealand
- Mr. Gordon Carey, Performance Audit Advisor, SAI Tuvalu
- Ms. Maria Lucia, IDI Performance Audit Advisor

Also, to thank the Communication Unit of SAI New Zealand for making the manuals more user friendly through the formatting of the manuals to brand them as PASAIs.

Finally, PASAI Acknowledges the support of development partners in making it possible for the development of these Regional Audit Manuals



Copyright statement

This manual is the copyright of PASAI, a regional organisation of the International Organisation of Supreme Audit Institutions (INTOSAI).

Disclaimer statements

This manual has been developed by PASAI as a resource for SAIs in the Pacific region to help customise their own audit manuals.

The use of the manual is the responsibility of each individual SAI, having regard to its mandate, capacity and country circumstances. PASAI disclaims any responsibility or liability, where direct or indirect as a consequence of the use or application of this manual.

Version updates

It is important that records are kept of any major updates to the PASAI Regional Performance Audit manual:

Version	Details of updates made	Revised version issued	Signed off through GB approval (GB paper reference, dates, details)

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ACRONYMS

AFROSAI-E	African Organisation of Supreme Audit Institutions – English Speaking
ASOSAI	Asian Organisation of Supreme Audit Institutions
ASSL	Audit Service of Sierra Leone
CBP	Corporate Business Plan
CIPFA	Chartered Institute of Public Finance and Accountancy
CNMI	Commonwealth of the Northern Marianas Islands
CTI	Commonwealth Training Initiative
COSO	Committee of Sponsoring Organizations
ECA	European Court of Auditors
FSM	Federated States of Micronesia
GAO	Government Accountability Office
GAGAS	Generally Accepted Government Auditing Standards
GBA	Gender Based Analysis
GFS	Government Financial Statistics
GRB	Gender Responsive Budgeting
ICSA	Institute of Chartered Secretaries and Administrators
IDI	INTOSAI Development Initiative
IFAC	International Federation of Accountants
IFPP	INTOSAI Framework of Professional Pronouncements
INTOSAI	International Organisation of Supreme Audit Institutions
INTOSAI – P	INTOSAI - Principles
INTOSAI GUID	INTOSAI - Guidelines
ISA	International Standard on Auditing
ISSAI	International Standards for Supreme Audit Institutions
LG	Local Government
MDA	Ministries, Departments and Agencies
MDG	Millennium Development Goals
NAO	National Audit Office
NSW	New South Wales
NZ	New Zealand
OAG	Office of the Auditor-General
PA	Performance Audit
PAM	Performance Audit Manual
PASAI	Pacific Association of Supreme Audit Institutions
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public Financial Management
QA	Quality Assurance
QAO	Queensland Audit Office

QARC	Quality Assurance Review Committee
QC	Quality Control
QLD	Queensland
RVD	Risk Verification Diagram
SAI	Supreme Audit Institution
SAI PMF	SAI Performance Measurement Framework
SDG	Sustainable Development Goals
SWOT	Strengths, Weaknesses, Opportunities, Threats (Analysis)
TA	Technical Assistance
TER	Tolerable Error Rate
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VIC	Victoria
WP	Working Papers
WPF	Working Papers Files

PART ONE: INTRODUCTION

Chapter 1: Introduction

1.1 The New Series of PASAI Manuals

Previous Pacific Association of Supreme Audit Institutions (PASAI) manual and guidelines were produced by committees drawn from member countries including reliance on other regional audit manuals.

This process provided valuable capacity development for those involved in the development process. During the process a valuable partnership with AFROSAI-E was developed which continued during the drafting of this new manual.

PASAI faces ongoing challenges to facilitate Supreme Audit Institute (SAI) engagement with materials provided as resources to the region. The second half of the current PASAI strategy was identified as the right time to refresh the initial manual work and to seek to use approaches that may, more successfully, ensure the wealth of guidance contained in the manuals is used to best effect

Furthermore, PASAI's aim to become a Learning and Knowledge institution has led to the decision to enhance and develop the regional manuals for all streams of audit - Financial Audit, Compliance Audit and Performance Audit.

Accordingly, an audit expert was selected, after an open tender process, to develop these PASAI audit manuals and to work with the PASAI Secretariat to ensure this manual reflects what is relevant for our PASAI region and its members. Details of the consultant and those involved in reviewing and providing input into these manuals are included in the **Acknowledgments Section**.

In support of the manual there is also a separate volume containing case study materials.

As we make clear below, the target is for every SAI to customise this manual for their own unique environment in order to maximise the effectiveness of the content.

These manuals are designed for use by developing countries. However, the manuals should be of use to developed countries to complement their own systems and processes. It is PASAI's expectation that developed SAI would draw on the customised versions of this material when working to support their twinning partners.

The manuals do not describe the various judicial systems as these are very country-specific; however, PASAI may develop such manuals in future. This is due to only two of our member SAIs under such system and they already have an established guidelines. However, the manuals sit outside and complement a local understanding of specific jurisdictional frameworks which can be recognised through the customisation of the manual materials.

1.2 PASAI Region

The PASAI region covers the island states of Oceania together with New Zealand, Australia and some Australian states (see map).



Table 1 below provides more details of PASAI membership together with a further link to each member.

Table 1: PASAI Membership

	Member	PASAI Link	SAI Website
1	American Samoa	www.pasai.org/american-samoa	www.americansamoa.gov/territorial-audit-office
2	Australia - NAO	www.pasai.org/australia	www.anao.gov.au
3	Australia - NSW	www.pasai.org/new-south-wales	www.audit.nsw.gov.au/
4	Australia - QLD	www.pasai.org/queensland	www.qao.qld.gov.au
5	Australia - VIC	www.pasai.org/victoria	www.audit.vic.gov.au
6	Cook Islands	www.pasai.org/cook-islands	www.auditoffice.gov.ck
7	Federated States of Micronesia (FSM) – National Office	www.pasai.org/federated-states-of-micronesia-national-office	www.fsmopa.fm/

8	FSM - Chuuk	www.pasai.org/federated-states-of-micronesia-chuuk	No website
9	FSM - Kosrae	www.pasai.org/kosrae	No website
10	FSM - Pohnpei	www.pasai.org/pohnpei	www.opapni.fm
11	FSM - Yap	www.pasai.org/yap	www.audityap.org
12	French Polynesia	www.pasai.org/french-polynesia	www.ccomptes.fr/polynesie-francaise
13	Guam	www.pasai.org/guam	www.opaguam.org
14	Kiribati	www.pasai.org/kiribati	kao.gov.ki
15	Marshall Islands	www.pasai.org/marshall-islands	www.rmioag.com/
16	Nauru	www.pasai.org/nauru	No website
17	New Caledonia	www.pasai.org/new-caledonia	See footnote ¹
18	New Zealand	www.pasai.org/new-zealand	www.oag.govt.nz
19	Commonwealth of the Northern Marianas Islands	www.pasai.org/northern-mariana-islands	www.opacnmi.com
20	Palau	www.pasai.org/palau	www.palauopa.org
21	Papua New Guinea	www.pasai.org/papua-new-guinea	www.ago.gov.pg
22	Republic of Fiji	www.pasai.org/fiji-islands	www.oag.gov.fj
23	Samoa	www.pasai.org/samoa	www.audit.gov.ws
24	Solomon Islands	www.pasai.org/solomon-islands	www.oag.gov.sb
25	Tonga	www.pasai.org/tonga	www.audit.gov.to
26	Tuvalu	www.pasai.org/tuvalu	www.tuvaluaudit.tv
27	Vanuatu	www.pasai.org/vanuatu	www.nao.gov.vu

SAI in the PASAI region operate under three distinct models:

- Legislative-Parliamentary (Commonwealth System):** under this system the work of the SAI is linked closely with that of parliamentary accountability with reports presented to the Speaker for tabling before the House. It is usual to have a (Public Accounts) Committee of parliament to review the reports and to issue their own report to the House. Such SAI are called “Office of the Auditor-General” or “National Audit Office” and are usually headed by a single person (often the Auditor-General) and are primarily staffed by accountants and auditors. They focus primarily of financial and performance audits.

The countries using this system comprise: Australia (and states); Cook Islands, Fiji, Kiribati, Nauru, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu;

- **Legislative-Congressional Model (United States System):** the SAI's work is closely related to the legislative obligations of government with reports presented to the Speaker, Governor and relevant agencies. Typically, the SAI is called "the Office of the Public Auditor" and is headed by the "Public Auditor" who is appointed by the Governor with the legislature's support. The SAI focuses mainly on performance and forensic audit work with the financial audits contracted out to the private sector. Staff tend to have investigative and generalist background rather than being professional accountants. The SAI report either to the legislature or over public oversight body.

The countries using this system comprise: American Samoa, Commonwealth of the Northern Marianas Islands, Federated States of Micronesia and each of its states (Chuuk, Kosrae, Pohnpei and Yap), Guam, Marshall Islands and Palau.

- **Judicial Model (French System):** The SAI is an integral part of the judicial system, operating independently from the executive and legislative branches. The SAI is usually known as the Court of Accounts (or Audit) and its members are judges, typically appointed for an unlimited time. The work focuses on financial and performance audits with specific attention being paid to the legality of the transactions. Staff have legal or generalist backgrounds. There is not usually any parliamentary committee to which the court reports. The court itself holds officials to account and can impose penalties on audited officials.

The countries using this system: French Polynesia and New Caledonia.

The different models give rise to different accounting and auditing standards used in the different jurisdictions.

However, whilst there are different **Auditing Standards** all PASAI members are also members of the International Organisation of Supreme Audit Institutions (INTOSAI) – either as full members (the majority); as an affiliate (Guam) or through the "colonial power": France (French Polynesia and New Caledonia) and the United States (American Samoa and Commonwealth of the Northern Marianas Islands). This means that they are encouraged to comply with the International Standards of Supreme Audit Institutions (ISSAI), if they do not have an authoritative body that sets the auditing standards for the government.

Those countries following the **Legislative-Congressional Model** also have to be compliant with the Generally Accepted Government Auditing Standards (GAGAS) (the "Yellow Book"). These standards are not significantly different from the IPSAS.

Given that all PASAI members are encouraged to follow ISSAI they will be the prime reference in this manual. However, where indicated, the appropriate countries will need to customise the manual by adding the reference to GAGAS or other applicable local standards.

1.3 Customisation

Whilst in the past every manual and guideline produced by PASAI was intended to be customised by individual Supreme Audit Institutions (SAI), we are aware that detailed customisation did not occur. Therefore PASAI has with this redevelopment of our regional manuals specifically provided for assistance to be given to SAIs so that, together with a regional workshop to assist SAIs to customise manuals, we will provide guidance in this manual on how customisation should be done to maximise the effectiveness of this material.

It is clear that, given the different models of auditing followed by PASAI members, customisation is essential. The idea of a "one size fits all" manual is outdated and we want

to ensure that the investment in these new manuals maximises their usefulness to our members.

The three new manuals (Financial, Compliance and Performance Auditing) and their associated templates seek to solve this problem in three main ways:

- **Manuals and Templates:** the manuals make it very clear where sections should be subject to customisation;
- **Training:** we will be providing training to our SAIs as to the content of each manual; and
- **Pilot Audits:** PASAI will coordinate and evaluate individual customised manuals and refine them as necessary by encouraging SAIs to conduct pilot audits to 'test' the manuals before finalising it.

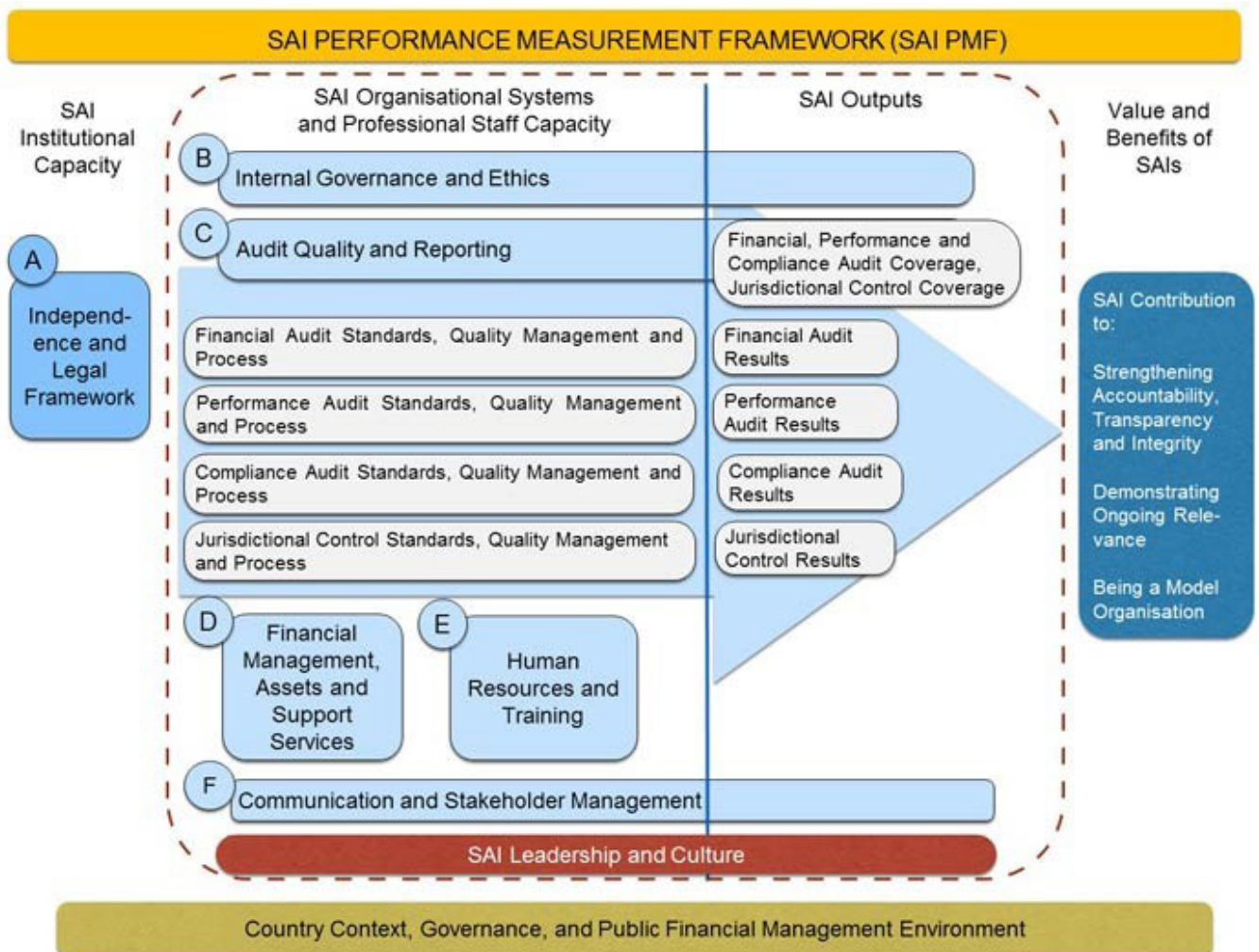
1.4 SAI Overall Approach to Capacity Building

In December 2016, INTOSAI endorsed the Supreme Audit Institutions Performance Measurement Framework² (SAI PMF) as an approved tool for use by its members.

The SAI PMF provides SAI with a framework for voluntary assessments of their performance against the International Standards for Supreme Audit Institutions (ISSAIs) and other established international good practices for external public auditing.

SAI PMF is a multi-purpose, universal framework, and can be applied in all types of SAI, regardless of governance structure, mandate, national context and development level and, thus, has been used by PASAI across its members. The SAI PMF programme kickstarted in 2015 and through a multi-phased approach over the years, PASAI has coordinated the completion of SAI PMF assessments of almost all Pacific SAIs.

Figure 1: SAI Performance Measurement Framework



The table below indicates the numbers of Domains, Performance Indicators, Dimensions and Tests.

Table 2: Analysis of Domains, Performance Indicators, Dimensions and Criteria

Area	Number of Items
Domain	6
Performance Indicators	25 ³
Dimensions	804
Tests	560

Domain “C” covers Audit Quality and Reporting. The table below indicates the key performance indicators and dimensions for Performance Audits.

Table 3: Extract from SAI PMF Domain “C”

Performance Indicator	Dimension
SAI-12: Performance Audit Standards and Quality Management	(i) Performance Audit Standards and Policies (ii) Performance Audit Team Management and Skills (iii) Quality Control in Performance Audit
SAI-13: Performance Audit Process	(i) Planning Performance Audits (ii) Implementing Performance Audits (iii) Reporting on Performance Audits
SAI-14: Performance Audit Results	(i) Timely Submission of Performance Audit Results (ii) Timely Publication of Performance Audit Results (iii) SAI Follow-up on Implementation of Performance Audit Observations and Recommendations

This manual is intended to ensure that any SAI following it in its entirety will score very highly when answering the associated SAI PMF test questions.

1.5 Finalisation of Audit Manuals

For each SAI the final draft manuals which arise from the Capacity Building training sessions, will be subject to rigorous testing before being finally adopted.

“Pilot audits” will use the draft manuals as the basis for undertaking actual audit work. The methodology laid down in the manuals will be tested for its practicality and any problems identified. The draft manuals will then be updated and finalised on the basis of such feedback.

We **recommend** at least three pilot audits be used in each SAI to test each manual.

PASAI will co-ordinate the process of ensuring technical support is provided to each member to enable the pilot audits to be undertaken. This will be in the form of a blended approach which can be either a regional workshop, SAI level support or engaging a TA.

1.6 Keeping Audit Manuals Relevant

PASAI will provide each SAI with regular bulletins setting out developments which affect the effectiveness of the manual. This will be done by both e-mails and social media.

This will include not only the results of our own research but also relevant material produced by the International Organisation of Supreme Audit Institutions (INTOSAI); other regional SAI bodies; the INTOSAI Development Initiative (IDI); International Federation of Accountants (IFAC); national SAI; and any other relevant sources

These bulletins will indicate areas where the individual members manuals need reviewing and, where appropriate, will provide new text which can be used for the updating process.

Any significant changes to the PASAI Audit manual will be submitted to the PASAI Governing Board (meet bi-annually) for approval and then included in a revised version of the manual. This will be recorded as per the table on page 4.

1.7 Structure of this Manual

The manual comprises three main parts:

- [Part One](#): The Process of Performance Auditing: this part looks at:
 - Background;
 - Standards;
 - Planning the Audit;
 - Overall Arrangements and Strategic Intelligence;
 - Conducting the Audit;
 - Reporting the Audit;
 - Following Up on Audits;
 - Qualitative Methods; and
- [Part Two](#): Performance Audit Quality
 - Audit Risk;
 - Audit Documentation; and
 - Quality Control and Assurance.
- [Part Three](#): The Next Steps: covers action needed vis a vis the manual.

1.8 Source Material

This manual build on the previous manual developed by PASAI.

A key source material was the ISSAI Implementation Handbook⁴ - Performance Audit prepared by the INTOSAI Development Initiative (IDI). As it says

“This handbook has been written in order to facilitate implementing performance auditing ISSAIs in SAIs.

The handbook is not intended to be a performance audit manual. Each SAI should set out to describe its own performance audit methodology taking into account its mandate, resources, stakeholder’s expectations, regulatory environment etc.

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

Use was also made of Performance Audit Manuals produced by AFROSAI-E,⁵ the European Court of Auditors⁶ and those of other, mainly, Commonwealth countries.

All references are to the current version of documentation. As PASAI is not going to be the only body updating its manuals, reference may need updating due to the effluxion of time.

4 <https://www.idi.no/en/idi-library/global-public-goods/issai-implementation-initiative/issai-implementation-handbooks>

5 <https://afrosai-e.org.za/wp-content/uploads/2019/07/AFROSAI-E-Performance-Audit-Handbook-2016.pdf>

6 https://www.eca.europa.eu/Lists/ECADocuments/PERF_AUDIT_MANUAL/PERF_AUDIT_MANUAL_EN.PDF

The examples used to illustrate various aspects of Performance Audit have been carefully selected to provide the maximum benefit to users of this manual. Whilst the majority are not from the Pacific Region, they are from jurisdictions which have been developing their own Performance Auditing capacity in recent years and are, thus, highly relevant sources.

During the customisation process, SAI can replace or augment these examples with Pacific-based sources as these become available.

PART ONE: PERFORMANCE AUDIT PROCESS

Chapter 2: Overview of Performance Auditing

2.1 What is a Performance Audit?

As an Audit Office develops, it spends more time on Performance Auditing and less on Financial Auditing.

As stated in the Auditing Standards, performance auditing is not overly subject to specific requirements and expectations. While financial auditing tends to apply relatively fixed standards, performance auditing is more flexible in its choice of subjects, audit objects, methods, and opinions. Performance auditing is not a regular audit with formalised opinions, and it does not have its roots in private auditing.

It is an independent examination made on a non-recurring basis. It is by nature wide-ranging and open to judgments and interpretations. It must have at its disposal a wide selection of investigative and evaluative methods and operate from a quite different knowledge base to that of traditional auditing. It is not a checklist-based form of auditing.

The special feature of performance auditing is due to the variety and complexity of questions relating to its work. Within its legal mandate, performance auditing must be free to examine all government activities from different perspectives.

The INTOSAI auditing standards define performance audit:

“Performance auditing carried out by SAI is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.”⁷

INTOSAI standards state that performance audit aims to contribute to improved economy, efficiency and effectiveness in the public sector.⁸

The **principles of economy, efficiency and effectiveness** can be defined as follows:

1. The principle of **economy** means minimising the costs of resources. The resources used have to be available in due time, of appropriate quantity and quality, and at the best price;
2. The principle of **efficiency** means getting the most from the available resources. That is to say, it is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing; and
3. The principle of **effectiveness** concerns meeting the objectives set and achieving the intended results.⁹

These are the so-called “Three Es”; today there is a fourth “E” – Equity (see below).

Audit in the public sector also has its **three fundamental principles**:¹⁰

- Auditor is independent;
- The audit scope and the auditor’s work cover not only the Audit of Financial Statements, but also Value for Money (Performance Audit); and
- Auditors should report aspects of their work to the public and other key stakeholders and audited entities.

7 GUID #3910, 7.

8 ISSAI #3000, 18.

9 GUID #3910, 8.

10 ISSAI #300

However, the following **general principles** need to be in place:

- **A Defined Audit Mandate for Performance Auditing:** the mandate of performance auditing should be expressly defined in legislation and Performance Auditing Standards;
- **Freedom to Select Audit Areas within the Performance Audit Mandate:** a Supreme Auditing Institution (SAI) must be free to determine the areas covered by its performance audits; and
- **Reasonable Assurance:** An audit competently carried out should allow the auditor to give reasonable assurance that information and data that influence findings and recommendations do not contain material errors.

[Annex 1](#) provides a summary of the Characteristics of Performance Auditing; [Annex 2](#) provides guidance to the General Principles of Performance Auditing.

2.2 The Benefits of Performance Audit (PA)

There is a view among some practitioners that only developed countries where corruption levels are generally low should conduct PA and that it would be a mistake to allocate resources to conduct PA in countries where there are widespread irregularities and misuse of public resources. However, this is a 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 prioritising 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 programme:** 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.

As one of the PA objectives is to identify potential improvements in public administration (and so help to reduce government expenditures or increase quality), the credibility and the results obtained due to this type of audit can encourage the government/parliament to put more resources into the SAI. It is for this reason that Performance Audit Reports should indicate the extent of waste and/or options for savings. These will frequently be far higher

than the cost of running the SAI. One PA in the Balkans highlighted saving which would fund the whole running costs of the SAI for five years!

2.3 The Mandate for Performance Auditing

In many countries, the constitution or legislation gives the SAI the right to undertake some form of performance audit. In some countries, the SAI has an obligation in certain circumstances to carry out some performance audit or to reach an opinion upon the reliability of performance indicators published by audited entities in their annual reports or similar. Even in countries where the constitution or legislation do not require the SAI to carry out audits of economy, efficiency and effectiveness, present practice shows a tendency to include this sort of work as part of financial and regularity audits ('comprehensive/integrated audit'). These audits often require the auditor to assess systems resulting in professional judgements relating to the efficiency and effectiveness of organisational structures and procedures, and to the economy with which actions were undertaken.

The global objectives of performance audit vary in different countries. They may be defined in the SAIs' basic legislation or be a matter for internal decision within the SAI. In general, most SAI set to achieve one or more of the following global objectives:

- to provide the legislature or discharge authority with independent assurance as to the economic, efficient and/or effective implementation of policy;
- to provide the legislature or discharge authority with independent assurance as to the reliability of indicators of or statements about performance that are published by the audited entity;
- to identify areas where performance is poor and thus to help the audited entity, or government more generally, to improve their economy, efficiency and/or effectiveness; and
- to identify examples of "best practice" and draw these to the attention of government and/or audited entities.

Performance audits **should not question the merits of policy objectives** but rather involve examination of actions taken to design, implement and evaluate the results of these policies, and may imply an examination of the adequacy of information leading to policy decisions (review of the planning phase of the policy cycle).

Furthermore, the SAI will see the aims of the policy as a starting point and will therefore examine the aims of formulating such policy and whether these aims are being achieved.

In this respect, the examination of the formulation of the aims of the audited policy is the first step. On examining this policy, the SAI should check whether the policy aims are **SMART**:

- **S**pecific;
- **M**easurable;
- **A**greed on;
- **R**easonable; and
- **T**imed.

In addition, the SAI should examine policy information on the output or outcomes. Performance audit will have the aim to push the audited entity to determine its economy, efficiency, effectiveness and equitability by itself so as to have the command of the necessary information for carrying out its policy and to steer it if needed.

2.4 Basic Concepts of Performance Auditing

2.4.1 Introduction

Performance audit (or “value-for-money audit”, “audit of sound financial management”, “management audit”, ...) is concerned with the examination of economy, efficiency, effectiveness and equity (“the four Es”). Performance Audit considers whether “**public money was well spent**”.

An individual performance audit may have as its objective to examine one or more of these four aspects.

A performance audit may thus include an examination of the systems put in place to secure aspects of the “four E’s” and/or a substantive examination of the audited entity’s performance in these respects. A performance audit may also involve an examination of the governance of the audited body, activity, programme or operation. In this latter sense, the audit will usually focus on questions relating to how the executive carries out its functions of strategic and other planning, implementation, control, evaluation and follow-up.

Performance Audit may also involve examining directly the performance achieved.

This type of audit often leads to auditor to analyse the results economy, efficiency, effectiveness and equity by applying their professional reasoning.

The measurement of performance results according to the proposed objectives through the “Four Es” is a necessity for managers at all levels.

Generally, performance audit’s try to answer two basic questions:

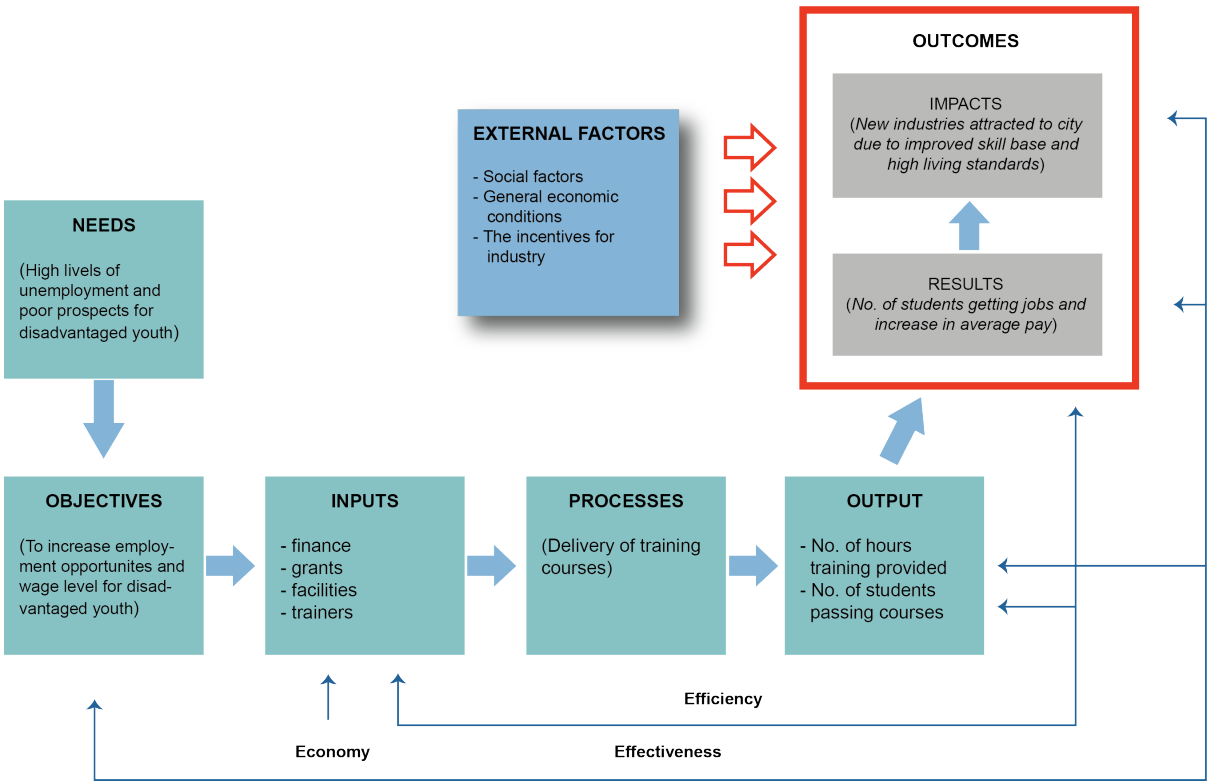
- ***are things done in the right way?***
- ***are the right things being done?***

The first question is primarily aimed at the service provider. It concerns whether policy decisions are implemented properly. The auditor wants to know whether the executive has implemented the established strategy or is acting in line with good practice.

The scope for auditor analysis becomes considerably greater by posing the second question, i.e. whether “***the right things are being done***” or in other words, the appropriate measures are taken.

The so-called inputs/outputs model is another means of illustrating the interactions between the “Four Es”, as shown in Figure 2.

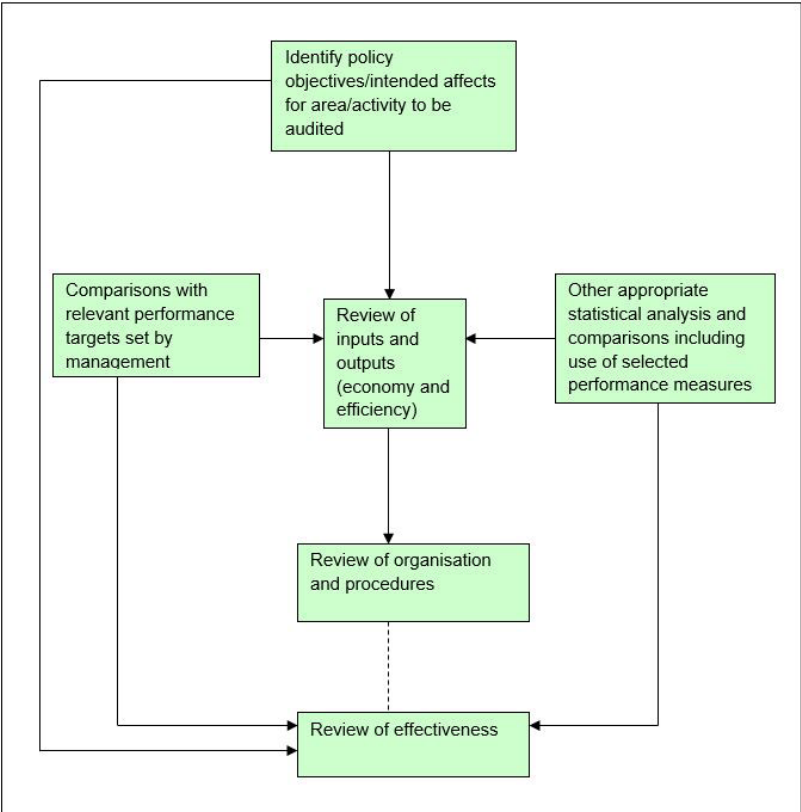
Figure 2: Input/Output Logic Model



Outputs are seen as the results of inputs and actions taken to achieve specific goals. Theoretically, it should be possible for performance audit to scrutinise all components and relations in the shown model, except for the component “Political Goals”.

See also the practical approach to Performance Audit in Figure 3.

Figure 3: Practical Approach to Performance Audit



2.4.2 Economy

Economy can be understood as minimising the costs of resources or the use of public assets employed for an activity (the inputs), having regard to the appropriate quality.

Economy refers to the standard of “good housekeeping” in spending public money. What should be called “good housekeeping” or “wasteful” is a matter of judgement that requires an external criterion (e.g. golden taps are excessive, for steel taps are as functional; however, there would be agreement on the functionality of a queen’s crown being made of gold!)

Consideration of economy often leads the auditor to examine such things as the drawing up of specifications for the supply of goods and services and other aspects of procurement, such as tendering and contracts.

In carrying out performance audit, a central question is whether resources have been allocated, administrated and used economically.

The question refers to the means chosen, i.e. whether those represent the most economical use of allocated resources. The difference between “good administration” and “extravagance” is a matter of auditor reasoning, which supposes an external assessment.

Economy refers to the “good administration” of public money.

2.4.3 Efficiency

Efficiency is the relationship between the outputs, in terms of goods, services and other results, and the resources (inputs) used to produce them. As such, efficiency is closely related to the concept of “productivity”.

Efficiency will, like economy, also need a reference point to be fully appreciated, e.g. the comparison with input and output ratios of similar organisations (“benchmarking”, “best practice”; standards, etc.).

Cost-effectiveness is concerned with the efficiency of an audited entity, activity, programme or operation in achieving given intervention outcomes in relation to its costs. Cost-effectiveness analyses are studies of the relationship between project costs and outcomes, expressed as costs per unit of outcome achieved. Cost effectiveness is just one element in the overall examination of efficiency, which might also include an analysis of such things as the time at which outputs were delivered against the optimal timing to maximise impact.

An efficient activity maximises the results obtained with the same quantity of resources or minimises the resources of an established result.

In case of the efficiency audit the main subject is the analysis of the resources used.

Thus, the main problem is the optimal use of the resources or, in other words, if the results of the activity carried out, that complies with our expectations from a qualitative and quantitative point of view, could be obtained with lower resources.

2.4.4 Effectiveness

Effectiveness is concerned with measuring the extent to which the objectives have been achieved and the relationship between the intended impact and the actual impact of an activity.

The auditor might seek to assess or measure effectiveness by comparing outcomes (or “impact”) with the goals set down in the policy objectives (this approach is often described as “goal achievement”). However, it is usually more appropriate when auditing effectiveness to

also seek to determine the extent to which the instruments used have contributed towards the achievement of the policy objectives.

This is the audit of effectiveness in its “true” meaning and requires evidence that the outcomes observed are actually the results of the action taken by the audited entity in respect of the policy goals being audited and not the results of some other external factors.

For example, if the policy objective is to reduce unemployment, is an observed reduction in the number of unemployed people the result of the actions of the audited entity, or did it result from a generally improved economic climate over which the audited entity had no influence? Here, the design of the audit must include questions of attribution: it faces the problem of effectively excluding external, intermediary variables.

Even if the auditor can calculate or measure effectiveness by comparing the results (impact) with the purposes established through the objectives, in effectiveness audit there is recommended to try to calculate the contribution of the action carried out in achieving the objectives. This can constitute the “real” sense of the effectiveness and thus it is necessary to obtain evidence proving that the “outputs” (results) noted are really the result of the measures taken by the audited entity in order to accomplish the objectives of its policy rather than the result of other factors.

In performing the effectiveness audit of a governmental activity, entity or programme, the auditor, through its analysis, try to find answers to the following questions:

- are the objectives of managerial policy being achieved with the means used, i.e. are the predicted results being obtained?
- are the means used and the results obtained compatible with the objectives of the managerial policy?
- does the predicted impact represent direct results of the managerial policy rather than one due to other circumstances?

Economy and efficiency are generally concerned with processes and management decisions internal to the audited entity (although this may involve making comparisons with similar external entities or processes). However, effectiveness audit can be understood:

- in a **restricted sense**, whereby only the management and operations internal to the audited entity are examined. In these circumstances, an audit of effectiveness will normally focus on the outputs of the entity and will thus examine the “internal impacts” (i.e. those identifiable within the audited entity); and
- in a **broader sense**, whereby the examination extends beyond the boundaries of the audited entity. In this case, an audit of effectiveness may seek to measure not only the outputs, but also the outcomes or impact achieved by the audited entity. To achieve this, the auditor must take account of the impact that external variables (i.e. factors outside of the control of the entity’s management) have upon the outputs of the audited entity.

Auditors might like to consider using qualitative methods to assist in determining effectiveness (see **Chapter #5.7** below).

2.4.5 Equity¹¹

In addition to the 3Es that are commonly used, Equity is also increasingly being considered in Performance Auditing as the “fourth E”. So, in many audits, the performance auditor will also be expected to address concerns relating to equity while assessing the effectiveness of a programme/activity. This section discusses how an audit of equity can be planned,

¹¹ The IDI is not in favour of using a 4th “E” but prefer to call it “inclusiveness” under effectiveness. SAI can decide which method provides a better fit with their activities.

executed and reported on and uses the issue of “gender equity” as the example to relate the concepts with practical audit processes.

In 2015, member states of the United Nations approved a new set of 17 post-Millennium Development Goals (MDG) targets, called the Sustainable Development Goals (SDG) that are to be achieved by 2030.

Figure 4: Millennium Development Goals



The 17 goals and 169 targets of the SDG were developed with an expectation to end poverty; combat inequalities within and among countries; build peaceful, just and inclusive societies; protect human rights and gender equality; empower women and girls; and protect the planet and its resources. For the achievement of these expectations ensuring social inclusiveness, equal opportunity and equity by governments becomes essential. Similarly, public sector auditors also need capabilities to address these issues.

Figure 5: Sustainable Development Goals

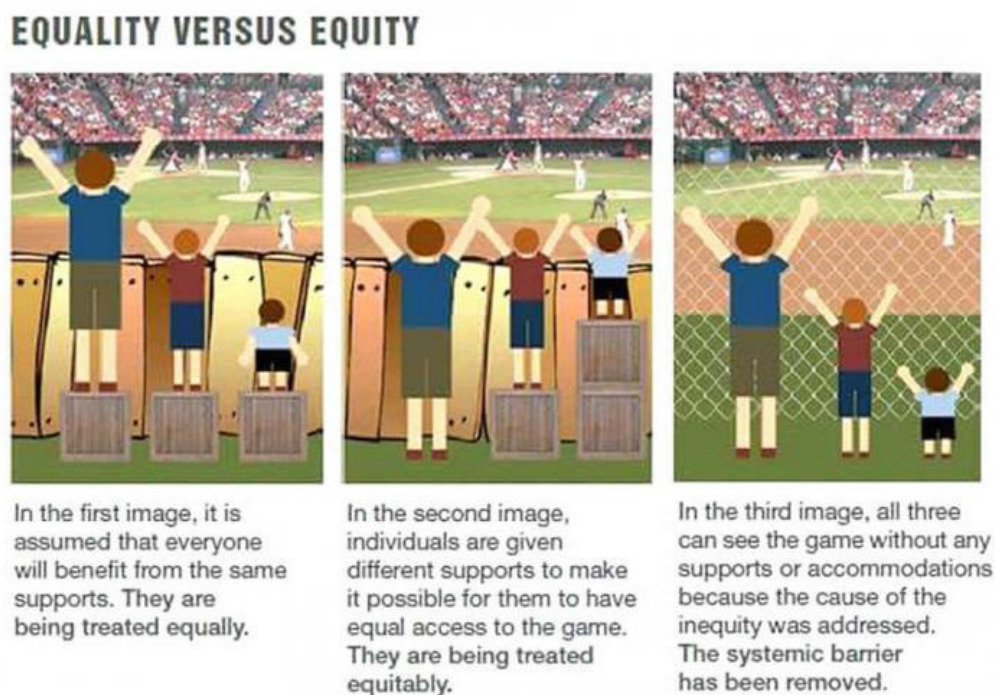


Social Inclusiveness

Social inclusiveness has its roots in universal human rights, inequality and redistribution of resources. At the global level, it calls for taking less developed societies into consideration; at regional level, it implies considering more vulnerable countries and ensuring equitable sharing of transboundary resources; and at the national level; it implies taking account of marginalised sectors, places, and communities.

The terms equity and equality are sometimes used interchangeably, which can lead to confusion because while these concepts are related, there are also important distinctions between them. **Equity**, as we have seen, involves trying to understand and give people *what they need* to enjoy full, healthy lives. **Equality**, in contrast, aims to ensure that everyone gets the same things in order to enjoy full, healthy lives. Like equity, equality aims to promote fairness and justice, but it can only work if everyone starts from the same place and needs *the same things*. Understanding the differences between equity and equality helps us to recognise and respond to differences in situation that are unfair, avoidable and changeable.

Figure 6: Equality Versus Equity



Public policies of protection and social development play a key role in building equity. Therefore, 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. Examples of government programs that consider equity:

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

Gender Mainstreaming

The nature of disparity between women and girls and boys and men around the world has resulted in mainstreaming gender issues into government policies, plans, organisations and programmes. It is an approach or strategy to ensure that:

- all governmental efforts consider and address the experiences, needs and priorities of men and women at all stages;
- socio economic development outcome benefit women and men equally; and
- gender disparities are not continued or made worse.

Therefore, it is important to address equity issues as a core development objective and as a means to increase economic growth and development of the country. Governments around the world use a number of analytical tools and planning frameworks social equity field, such as focused budgeting, programme design, etc. that auditors should become familiar with. These can be important sources of information for developing knowledge of business, assessing risks, and determining sources of criteria.

[Annex 3](#) presents a planning framework on gender equality and an example on auditing gender equity.

2.4.6 Conclusion

Whilst a particular performance audit will not necessarily seek to reach conclusions about all four aspects (i.e. economy, efficiency, effectiveness and equity), there may be limited benefit in examining in isolation aspects of economy or efficiency of activities without also considering - at least briefly - their effectiveness. Conversely, in an audit of effectiveness, the auditor may also wish to consider aspects of economy and efficiency: the outcomes of an audited entity, activity, programme or operation may have had the desired impact, but were the resources employed to achieve this used economically and efficiently?

For the examination of effectiveness, it is generally necessary to assess the outcome or impact of an activity. Thus, whilst a systems-based approach may be useful (e.g. to assess how the audited entity measures and monitors its impact), the auditor will usually also need to obtain sufficient substantive evidence of the outcome and impact of the activity, programme or body.

A specific aspect of both efficiency and effectiveness audits is formed by the study of the **unintentional effects**, especially if these effects were negative. There is a problem of demarcation here, because these effects may spread into areas beyond the competence and powers of the SAI. A way of limiting the choice might be to look at those unintentional effects that are being combatted in other programmes, e.g. environmental side effects of an economic stimulation programme.

Chapter 3: Performance Audit Standards

3.1 Introduction

There are three blocks of ISSAI specifically applicable to Performance Auditing:

- **ISSAI #300:** Principles of Performance Auditing;
- **ISSAI #3000 to 3899:** Performance Audit Standards; and
- **ISSAI GUID #3900 to 3999:** Supplementary Performance Auditing Guidance

3.2 ISSAI #300: Principles of Performance Auditing¹²

3.2.1 Introduction (Paragraph #1 *et seq.*)

ISSAI #300 constitutes the basis for performance auditing standards in accordance with INTOSAI standards.

3.2.2 Purpose and Authority of the Fundamental Principles of Performance Auditing (Paragraph #4 *et seq.*)

ISSAI #300 provides the fundamental principles for performance auditing.

The standard seeks to establish a common understanding of the nature of performance auditing, including the principles to be applied to achieve a high standard of audit.

Standards for performance auditing should reflect the need for flexibility in the design of individual engagements, for auditors to be receptive and creative in their work and for professional judgement at all stages of the audit process.

3.2.3 Framework for Performance Auditing

The Definition of Performance Auditing (Paragraphs #9 and #10)

As carried out by SAI, performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.

Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by:

- providing new analytical insights (broader or deeper analysis or new perspectives);
- making existing information more accessible to various stakeholders; and
- providing an independent and authoritative view or conclusion based.

Economy, Efficiency and Effectiveness (Paragraph #11)

The principles of economy, efficiency and effectiveness can be defined as follows:

- The principle of **economy** means minimising the costs of resources. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price;

¹² https://www.intosai.org/fileadmin/downloads/documents/open_access/ISSAI_100_ISSAI_400/issai_300/issai_300_en.pdf

- The principle of **efficiency** means getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing; and
- The principle of **effectiveness** concerns meeting the objectives set and achieving the intended results.

Performance audits often include an analysis of the conditions that are necessary to ensure that the principles of economy, efficiency and effectiveness can be upheld. These conditions may include good management practices and procedures to ensure the correct and timely delivery of services. Where appropriate, the impact of the regulatory or institutional impact of the regulatory or institutional framework on the performance of the audited entity should also be taken into account.

Objectives of Performance Auditing (Paragraphs #12)

The main objective of performance auditing is constructively to promote economical, effective and efficient governance. It also contributes to accountability and transparency.

Performance auditing promotes **accountability** by assisting those with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature but examines whether any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved. Performance auditing focuses on areas in which it can add value for citizens and which have the greatest potential for improvement. It provides constructive incentives for the responsible parties to take appropriate action.

Performance auditing promotes **transparency** by affording parliament, taxpayers and other sources of finance, those targeted by government policies and the media an insight into the management and outcomes of different government activities. It thereby contributes in a direct way to providing useful information to the citizen, while also serving as a basis for learning and improvements. In performance auditing, SAs are free to decide, within their mandate, what, when and how to audit, and should not be restrained from publishing their findings.

3.2.4 Elements of Performance Auditing

Introduction (Paragraphs #15)

The elements of a public-sector audit (auditor, responsible party, intended users, subject matter and criteria), as defined in ISSAI 100, may assume distinct characteristics in performance auditing. Auditors should explicitly identify the elements of each audit and understand their implications so that they can conduct the audit accordingly.

Three Parties in Performance Auditing (Paragraphs #16 to #18)

Auditors frequently have considerable discretion in the selection of subject matter and identification of criteria, which in turn influences who the relevant responsible parties and intended users are. While auditors can give recommendations, they need to take care that they do not assume the responsibilities of the responsible parties. Auditors in performance audits typically work in a team offering different and complementary skills.

The role of responsible party may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter. Some parties may be responsible for actions that have caused problems. Others may be able to initiate changes to address

the recommendations resulting from a performance audit. Others still may be responsible for providing the auditor with information or evidence.

The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users. A responsible party may also be an intended user, but it will rarely be the only one.

Subject Matter for Performance Auditing (Paragraphs #19 and #20)

The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences). Examples might be service delivery by the responsible parties or the effects of government policy and regulations on administration, stakeholders, businesses, citizens and society. The subject matter is determined by the objective and formulated in the audit questions.

Confidence and Assurance (Paragraphs #21 to #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.

3.2.5 Principles of Performance Auditing

Audit Objectives (Paragraph #25)

Auditors should set a clearly defined audit objective that relates to the principles of economy, efficiency and effectiveness.

The audit objective determines the approach and design of the engagement. It could simply be to describe the situation. However, normative audit objectives (are things as they ought to be?) and analytical audit objectives (why are things not as they ought to be?) are more likely to add value.

In all cases, the auditors need to consider what the audit pertains to, which organisations and bodies are involved and for whom the ultimate recommendations are likely to be relevant. Well-defined audit objectives relate to a single entity or an identifiable group of government undertakings, systems, operations, programmes, activities or organisations.

Audit Approach (Paragraph #26)

Auditors should choose a result-, problem- or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.

The overall audit approach is a central element of any audit. It determines the nature of the examination to be made. It also defines the necessary knowledge, information and data and the audit procedures needed to obtain and analyse them.

Performance auditing generally follows one of three approaches:

- **A System-oriented approach:** which examines the proper functioning of management systems, e.g. financial management systems;
- **A Result-oriented approach:** which assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended;
- **A Problem-oriented approach:** which examines, verifies and analyses the causes of particular problems or deviations from criteria.

All three approaches can be pursued from a top-down or bottom-up perspective. Top-down audits concentrate mainly on the requirements, intentions, objectives and expectations of the legislature and central government. A bottom-up perspective focuses on problems of significance to people and the community.

Criteria (Paragraph #27)

Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.

Criteria are the benchmarks used to evaluate the subject matter. Performance audit criteria are reasonable and audit-specific standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed.

The criteria provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives. They also form an important element in discussions within the audit team and with SAI management and in communication with the audited entities.

The criteria can be qualitative or quantitative and should define what the audited entity will be assessed against. The criteria may be general or specific, focusing on what **should be** according to laws, regulations or objectives; what **is expected**, according to sound principles, scientific knowledge and best practice; or what **could be** (given better conditions).

Diverse sources can be used to identify criteria, including performance measurement frameworks. It should be transparent which sources were used, and the criteria should be relevant and understandable for users as well as complete, reliable and objective in the context of the subject matter and audit objectives.

Audit Risk (Paragraph #28)

Auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information, or failing to add value for users.

Many topics in performance auditing are complex and politically sensitive. While simply avoiding such topics may reduce the risk of inaccuracy or incompleteness, it could also limit the possibility of adding value.

*Communication (Paragraph #29)***Auditors should maintain effective communication throughout the audit process.**

Communication takes place at all audit stages; before the audit starts, during initial planning, during the audit proper, and at the reporting phase. Any significant difficulties encountered during the audit, as well as instances of material non-compliance, should be communicated to the appropriate level of management or those charged with governance. The auditor should also inform the responsible party of the audit criteria.

*Skills (Paragraph #30)***Collectively, the audit team should have the necessary professional competence to perform the audit. This would include sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills.**

In performance auditing, specific skills may be required, such as knowledge of evaluation techniques and social science methods, and personal abilities such as communication and writing skills, analytical capacity, creativity and receptiveness. Auditors should have a sound knowledge of government organisations, programmes and functions. This will ensure that the right areas are selected for audit and that auditors can effectively undertake reviews of government programmes and activities.

In specialised areas, external experts can be used to complement the knowledge of the audit team. Auditors should evaluate whether and in what areas external expertise is required and make the necessary arrangements.

*Professional Judgement and Professional Scepticism (Paragraph #31)***Auditors should plan and conduct the audit with professional scepticism and exercise professional judgement throughout the audit process.**

The terms “professional scepticism” and “professional judgement” are relevant when formulating requirements regarding the auditor’s decisions about the appropriate course of action. They express the attitude of the auditor, which must include a questioning mind.

The auditor must apply professional judgement at all stages of the audit process. The concept refers to the application of relevant training, knowledge and experience, within the context provided by auditing standards, so that informed decisions can be made about the courses of action that are appropriate given the circumstances of the audit.

The concept of professional scepticism is fundamental to all audits. The auditor should plan and conduct the audit with an attitude of professional scepticism, recognising that certain circumstances may cause the subject matter to diverge from the criteria. An attitude of professional scepticism means the auditor making a critical assessment, with a questioning mind, of the sufficiency and appropriateness of evidence obtained throughout the audit.

*Quality Control (Paragraph #32)***Auditors should take responsibility for the overall quality of the audit.**

The auditor is responsible for the performance of the audit and should implement quality control procedures throughout the audit process. Such procedures should be aimed at ensuring that the audit complies with the applicable standards and that the audit report, conclusion or opinion is appropriate given the circumstances.

ISSAI #140 - Quality Control for SAI offers general guidance on the system of quality control established at the organisational level to cover all audits.

Materiality (Paragraph #33)

Auditors should consider materiality throughout the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much added value as possible.

Determining materiality is a matter of professional judgement and depends on the auditor's interpretation of the users' needs. A matter can be judged material if knowledge of it would be likely to influence the decisions of the intended users. This judgement may relate to an individual item or to a group of items taken together. Materiality is often considered in terms of value, but it also has other quantitative as well as qualitative aspects. The inherent characteristics of an item or group of items may render a matter material by its very nature. A matter may also be material because of the context in which it occurs.

In performance audit, materiality by monetary value may, but need not, be a primary concern.

In defining materiality, the auditor should consider also what is socially or politically significant and bear in mind that this varies over time and depends on the perspective of the relevant users and responsible parties. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation, that perspective may vary from one audit to another. Assessing it requires careful judgement on the part of the auditor

Materiality concerns all aspects of performance audits, such as the selection of topics, definition of criteria, evaluation of evidence and documentation and management of the risks of producing inappropriate or low-impact audit findings or reports.

Documentation (Paragraph #34)

Auditors should prepare sufficient audit documentation. Auditors should document the audit in accordance with the particular circumstances thereof. Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.

Documentation should be prepared at the appropriate time and should provide a clear understanding of the criteria used, the scope of the audit, the judgments made, the evidence obtained and the conclusions reached. Documentation should be sufficiently detailed to enable an experienced auditor, with no prior knowledge of the audit, to understand the following: the relationship between the subject matter, the criteria, the audit scope, the risk assessment, the audit strategy and audit plan and the nature, timing, extent and results of the procedures performed; the evidence obtained in support of the auditor's conclusion or opinion; the reasoning behind all significant matters that required the exercise of professional judgement; and the related conclusions. The auditor should prepare relevant audit documentation before the audit report is issued, and the documentation should be retained for an appropriate period of time.

3.2.6 Principles Related to the Audit Process

Performance auditing comprises the following main steps:

Figure 7: Performance Auditing Steps



- **Planning:** selection of topics, pre-study and audit design;
- **Conducting:** collecting and analysing data and information;
- **Reporting:** presenting the outcome of the audit: answers to the audit questions, findings, conclusions and recommendations to users; and
- **Follow-up:** determining whether action taken in response to findings and recommendations has resolved the underlying problems and/or weaknesses.

These steps may be iterative. For instance, new insights from the process stage may necessitate changes to the audit plan, and important elements of reporting (e.g. the drawing of conclusions) may be sketched out or even completed during the process stage.

Planning: Selection of Topics (Paragraph #36)

Auditors should select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify risks and problems.

Determining which audits will be pursued is usually part of the SAI's strategic planning process.

If appropriate, auditors should contribute to this process in their respective fields of expertise.

They may share knowledge from previous audits, and information from the strategic planning process may be relevant for the auditor's subsequent work.

In this process, auditors should consider that audit topics should be sufficiently significant as well as auditable and in keeping with the SAI's mandate. The topic selection process should aim to maximise the expected impact of the audit while taking account of audit capacities (e.g. human resources and professional skills).

Formal techniques to prepare the strategic planning process, such as risk analysis or problem assessments, can help structure the process but need to be complemented by professional judgement to avoid one-sided assessments.

Planning: Designing the Audit (Paragraph #37)

Auditors should plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in

accordance with the principles of good project management.

In planning an audit, it is important to consider:

- the background knowledge and information required for an understanding of the audited entities, so as to allow an assessment of the problem and risk, possible sources of evidence, auditability and the significance of the area considered for audit;
- the audit objectives, questions, criteria, subject matter and methodology (including techniques to be used for gathering evidence and conducting the audit analysis); and
- the necessary activities, staffing and skills requirements (including the independence of the audit team, human resources and possible external expertise), the estimated cost of the audit, the key project timeframes and milestones and the main points for control.

To ensure the audit is properly planned, therefore, the auditors need to acquire sufficient knowledge of the subject matter. Performance auditing generally requires that audit-specific, substantive and methodological knowledge be acquired before the audit is launched (“**pre-study**”).

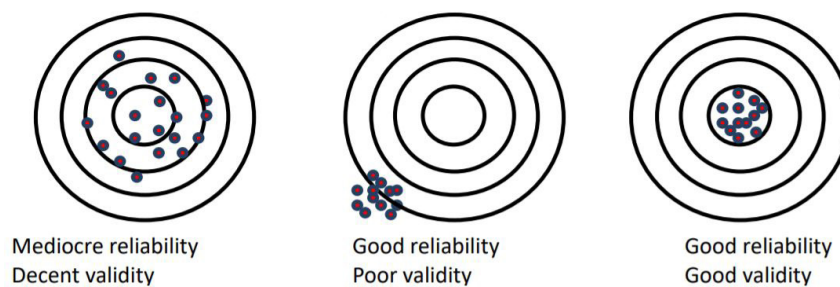
3.2.7 Conducting the Audit

Evidence, Finding and Conclusions (Paragraph #38)

Auditors should gather sufficient appropriate audit evidence to cover the audit scope.

The auditor should gather sufficient and appropriate audit evidence to provide the basis for the conclusion or opinion. **Sufficiency** is a measure of the quantity of evidence, while **appropriateness** relates to the quality of evidence – its relevance, validity and reliability. The quantity of evidence required depends on the audit risk (the greater the risk, the more evidence is likely to be required) and on the quality of such evidence (the higher the quality, the less may be required). Accordingly, the sufficiency and appropriateness of evidence are interrelated.

Figure 8: Validity and Reliability



Source: The Research Methods Knowledge base, Trochim, 2002.

However, merely obtaining more evidence does not compensate for its poor quality. The reliability of evidence is influenced by its source and nature and is dependent on the specific circumstances in which it was obtained. The auditor should consider both the relevance and the reliability of the information to be used as audit evidence and must respect the confidentiality of all audit evidence and information received.

Performance auditing involves a series of analytical processes that evolve gradually through mutual interaction, allowing the questions and methods employed to develop in depth and sophistication. This may involve combining and comparing data from different sources, drawing preliminary conclusions and compiling findings in order to build hypotheses that can be tested, if necessary, against additional data. The whole process is closely linked to that

of drafting the audit report, which can be seen as an essential part of the analytical process that culminates in answers to the audit questions. It is important for auditors to be goal-oriented and for them to work systematically and with due care and objectivity.

3.2.8 Reporting

Content of the Report (Paragraph #39)

Auditors should strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced.

To be comprehensive, a report should include all the information needed to address the audit objective and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions. To be convincing, it should be logically structured and present a clear relationship between the audit objective, criteria, findings, conclusions and recommendations. All relevant arguments should be addressed.

In a performance audit, the auditors' report their findings on the economy and efficiency with which resources are acquired and used and the effectiveness with which objectives are met.

Reports may vary considerably in scope and nature, for example assessing whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements.

The report should include information about the audit objective, audit questions and answers to those questions, the subject matter, criteria, methodology, sources of data, any limitations to the data used, and audit findings. It should clearly answer the audit questions or explain why this was not possible. Alternatively, the auditors should consider reformulating the audit questions to fit the evidence obtained and thus arrive at a position where the questions can be answered. The audit findings should be put into perspective, and congruence should be ensured between the audit objective, audit questions, findings and conclusions. The report should explain why and how problems noted in the findings hamper performance in order to encourage the audited entity or report user to initiate corrective action. It should, where appropriate, include recommendations for improvements to performance.

The report should be as clear and concise as the subject matter permits and phrased in unambiguous language. As a whole it should be constructive, contribute to better knowledge and highlight any necessary improvements.

Recommendations (Paragraph #40)

If relevant and allowed by the SAI's mandate, auditors should seek to provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit.

Recommendations should be well-founded and add value. They should address the causes of problems and/or weaknesses. However, they should be phrased in such a way that avoids truisms or simply inverting the audit conclusions, and they should not encroach on the management's responsibilities.

It should be clear who and what is addressed by each recommendation, who is responsible for taking any initiative and what the recommendations mean – i.e. how they will contribute to better performance.

Recommendations should be practical and be addressed to the entities which have responsibility and competence for implementing them.

Recommendations should be clear and presented in a logical and reasoned fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report, they should convince the reader that they are likely to significantly improve the conduct of government operations and programmes, e.g. by lowering costs and simplifying administration, enhancing the quality and volume of services, or improving effectiveness, impact or the benefits to society.

Distribution of the Report (Paragraph #41)

Auditors should seek to make their reports widely accessible, in accordance with the mandate of the SAI.

Auditors should bear in mind that distributing audit reports widely can promote the credibility of the audit function. Reports should therefore be distributed to the audited entities, the executive and/or the legislature and, where relevant, be made accessible to the general public directly and through the media and to other interested stakeholders.

3.2.9 Follow-up

Auditors should follow up previous audit findings and recommendations wherever appropriate. Follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective action.

Follow-up refers to the auditors' examination of corrective action taken by the audited entity, or another responsible party, on the basis of the results of a performance audit. It is an independent activity that increases the value of the audit process by strengthening the impact of the audit and laying the basis for improvements to future audit work. It also encourages the audited entities and other users of reports to take the latter seriously and provides the auditors with useful lessons and performance indicators. Follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time.

When conducting follow-up of an audit report, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow-up and adopt an unbiased and independent approach.

Follow-up results may be reported individually or as a consolidated report, which may in turn include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas. Follow-up can contribute to a better understanding of the value added by performance auditing over a given time period or subject area.

3.3 ISSAI #3000: Performance Auditing Standards¹³

3.3.1 Introduction

This standard follows the format of ISSAI #300 above. It provides "requirements" for each topic followed by "explanations". This section of the manual records the "requirements" (standards). If auditors require further explanation they should refer to the standard; the paragraphs concerned follow immediately the paragraph numbers cited herein.

3.2.2 General Requirements for Performance Auditing

Independence and Ethics (Paragraphs #21 and #23)

The auditor shall comply with the SAI's procedures for independence and ethics, which in turn shall comply with the related ISSAIs on independence and ethics.

The auditor shall take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users.

Intended Users and Responsible Parties (Paragraph #25)

The auditor shall explicitly identify the intended users and the responsible parties of the audit and throughout the audit consider the implication of these roles in order to conduct the audit accordingly.

Subject Matter (Paragraph #29)

The auditor shall identify the subject matter of a performance audit.

Confidence and Assurance in Performance Auditing (Paragraph #32)

The auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way.

Audit Objective(s) (Paragraphs #35 to #37)

The auditor shall set a clearly defined audit objective(s) that relates to the principles of economy, efficiency and/or effectiveness.

The auditor shall articulate the audit objective(s) in sufficient detail in order to be clear about the questions that will be answered and to allow logical development of the audit design.

If the audit objective(s) is formulated as audit questions and broken down into sub-questions, then the auditor shall ensure that they are thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit question.

Audit Approach (Paragraph 40)

The auditor shall choose a result-, problem or system-oriented audit approach, or a combination thereof.

Audit Criteria (Paragraph #45 and #49)

The auditor shall establish suitable audit criteria, which correspond to the audit objective(s) and audit questions and are related to the principles of economy, efficiency and/or effectiveness.

The auditor shall, as part of planning and/or conducting the audit, discuss the audit criteria with the audited entity.

Audit Risk (Paragraph #52)

The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value.

Communication (Paragraph #55, #59 and #61)

The auditor shall plan for and maintain effective and proper communication of key aspects of

the audit with the audited entity and relevant stakeholders throughout the audit process.

The auditor shall take care to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI.

The SAI shall clearly communicate the standards that were followed to conduct the performance audit.

Skills (Paragraph #63)

The SAI shall ensure that, the audit team collectively has the necessary professional competence to perform the audit.

Supervision (Paragraph #66)

The SAI shall ensure that the work of the audit staff at each level and audit phase is properly supervised during the audit process.

Professional Judgement and Scepticism (Paragraphs #68, #73, #75 and #77)

The auditor shall exercise professional judgment and scepticism and consider issues from different perspectives, maintaining an open and objective attitude to various views and arguments.

The auditor shall assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process.

The auditor shall maintain a high standard of professional behaviour.

The auditor shall be willing to innovate throughout the audit process.

Quality Control (Paragraph #79)

The SAI shall establish and maintain a system to safeguard quality, which the auditor shall comply with to ensure that all requirements are met, and place emphasis on appropriate, balanced, and fair audit reports that add value and answer the audit questions.

Materiality (Paragraph #83)

The auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter with the goal of delivering as much added value as possible.

Documentation (Paragraph #86)

The auditor shall document the audit in a sufficiently complete and detailed manner.

3.2.3 Requirement Related to the Performance Auditing Process

Planning the Audit: Selection of Topics (Paragraphs #89 and #91)

The auditor shall select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify audit risks and problems.

The auditor shall select audit topics that are significant and auditable, and consistent with the SAI's mandate.

The auditor shall conduct the process of selecting audit topics with the aim of maximising the expected impact of the audit while taking account of audit capacities.

Planning the Audit: Designing the Audit (Paragraphs #96, #98, #101 and #104)

The auditor shall plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management.

The auditor shall acquire substantive and methodological knowledge during the planning phase.

During planning, the auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence that respond to the audit objective(s) and question(s).

The auditor shall submit the audit plan to the audit supervisor and SAI's senior management for approval.

Conducting the Audit (Paragraphs #106 and #112)

The auditor shall obtain sufficient and appropriate audit evidence in order to establish audit findings, reach conclusions in response to the audit objective(s) and audit questions and issue recommendations when relevant and allowed by the SAI's mandate.

The auditor shall analyse the collected information and ensure that the audit findings are put in perspective and respond to the audit objective(s) and audit questions; reformulating the audit objective(s) and audit questions as needed.

Reporting (#116, #124, #126, #128, #130 and #133)

The auditor shall provide audit reports, which are a) comprehensive, b) convincing, c) timely, d) reader friendly, and e) balanced.

The auditor shall identify the audit criteria and their sources in the audit report.

The auditor shall ensure that the audit findings clearly conclude against the audit objective(s) and/or questions or explain why this was not possible.

The auditor shall provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit, whenever relevant and allowed by the SAI's mandate.

The auditor shall give the audited entity the opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report.

The auditor shall record the examination of the audited entity's comments in working papers, including the reasons for making changes to the audit report or for rejecting comments received.

The SAI shall make its audit reports widely accessible taking into consideration regulations on confidential information.

Follow Up (Paragraph #136 and #139)

The auditor shall follow up, as appropriate, on previous audit findings and recommendations and the SAI shall report to the legislature, if possible, on the conclusions and impacts of all relevant corrective actions.

The auditor shall focus the follow-up on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period.

3.4 GUID #3910: Guidelines on Central Concepts for Performance Auditing¹⁴

3.4.1 Overview

This was formerly ISSAI #3100.

This guideline has two sections.

The **first one** defines performance auditing and elaborates on the meaning of economy, efficiency, and effectiveness.

The **second section deals** with central concepts. Some of these concepts are audit-oriented, such as intended users and responsible parties, subject matter, confidence and assurance, audit objective(s), audit approach, audit criteria, audit risk, quality control, and materiality. Some concepts are focused on the auditor, such as the concept of independence and ethics, skills, supervision, professional judgment and scepticism. Other concepts are related to key tasks, such as communication and documentation.

3.4.2 Definitions (Paragraphs #7 to #9)

Performance auditing is an independent and objective examination of government undertakings, systems, programmes or organisations, with regard to one or more of the three aspects of economy, efficiency and effectiveness, aiming to lead to improvements.

The performance audit task is a separately identifiable piece of audit work, typically resulting in the issuing of a statement, or report. It should have clearly identifiable objectives and pertain to a single or clearly identifiable group of activities, systems, programmes or bodies known as the “audited entity”.

Performance auditing promotes accountability by assisting those with governance and oversight responsibilities to improve performance. It does so by examining whether decisions by the legislature or the executive are economically, efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. Performance auditing promotes transparency by affording the legislature, the executive, taxpayers and other sources of finance, and those targeted by government policies and the media, an insight into the management and outcomes of different government activities.

3.4.3 Central Concepts (Paragraph #10 *et seq.*)

Table 4 indicates where additional guidance can be obtained for the topics outlined in ISSAI #3000. Where necessary, additional notes appear in Table 4.

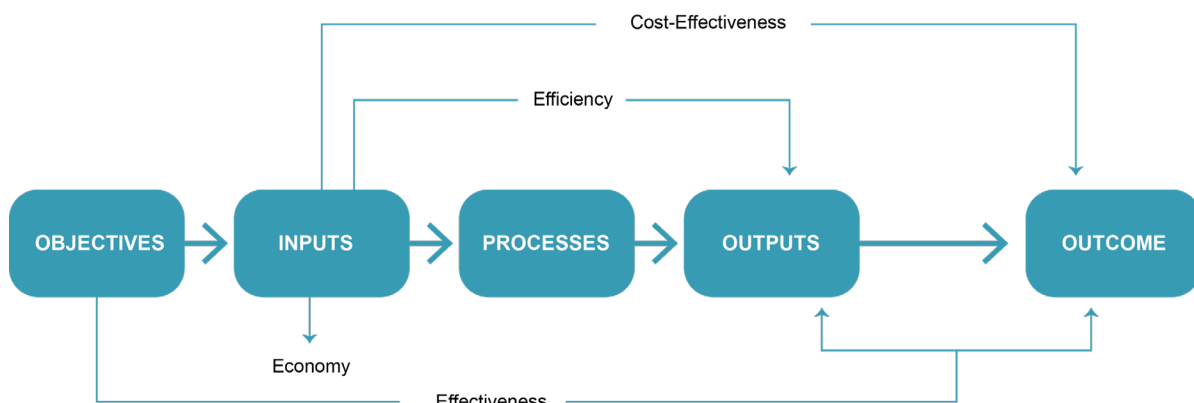
Table 4: Central Concepts of Performance Auditing

Topic	ISSAI #3000 Reference	GUID #3910 Reference
Independence and Ethics	#21 and #23	#10 to #19
Intended Users and Responsible Parties	#25	#20 to #23
Subject Matter	#29	#24 to #26
Confidence and Assurance in Performance Auditing	#32	#27 to #34
Audit Objectives	#35	#35 to #49
Audit Approach	#40	#50 to #54
Audit Criteria	#45 and #49	#55 to #60
Audit Risk	#52	#61 to #62
Communications	#55 and #61	#63 to #73
Skills	#63	#74 to #81
Supervision	#66	#82 to #84
Professional Judgement and Scepticism	#68, #73, #75 and #77	#85 to #99
Quality Control	#79	#100 to #108
Materiality	#83	#109 to #113
Documentation	#86	#114 to #118

Audit Objectives

Figure 9 provides a diagrammatic view of the audit objective.

Figure 9: Audit Objectives



Quality (Paragraph #42)

In the definition of the three *E*'s the quality of output is an important factor. If the costs of products or services decline while at the same time their quality has decreased, one can question whether economy, efficiency or effectiveness are being achieved. It is therefore important to assess if and how quality is affected when striving for economy, efficiency and/or effectiveness. Sometimes criteria for quality are clearly defined for specific products or services and can be used for these assessments. One of other possible ways of assessing the quality of products or services is by measuring customer satisfaction.

Theory of Change (Paragraph #44)

Describes how and why an initiative or programme is expected to work. It is more than a schematic description of expected input, output and results linked with arrows (see Figure 9). It describes the assumptions behind the arrows on how the input will lead to the desired

output and how this output will lead to the desired outcome. In other words, how change will occur. Identifying the theory behind a programme or a policy can be done by analysing key documents in which the policy is described or by interviewing those responsible for the policy or programme. It can help the auditor (and sometimes also those responsible) to obtain a clear description and better understanding of the assumptions on the causal relationship between the output and the intended outcome (objectives) of a policy or programme.

Equity and Performance Auditing (Paragraph #49)

Some SAIs distinguish equity as a “**Fourth E**”. This describes the principle that everyone should be able to exercise their civil rights (e.g. Freedom of expression, access to information, freedom to associate, freedom to vote, gender equality), and their political and social rights (e.g. Health, education, housing, and security). Public policies of protection and social development play a key role in building equity. Equity issues can also be treated as an additional topic in performance audits or as an effectiveness issue where it is an explicit policy goal or programme objective. The examination of equity may involve, for example, equality of access to services, distributional impacts, and impact on regional disparities.

Skills: Use of External Experts (Paragraph #81)

Experts are often used in performance auditing to complement the skills set of the audit team and to improve the quality of the audit. An expert, if needed, is a person or firm possessing special skills, knowledge, and experience in a particular field other than auditing. Before using experts, the auditor needs to ensure that the expert has the necessary competence required for the purposes of the audit, and that he/she is informed about the conditions and ethics required. The expert must be well informed about rules of confidentiality. Any external experts engaged with the audit also need to be independent from situations and relationships that could impair the external experts’ objectivity. Although the performance auditor may use the work of an expert as evidence, the auditor retains full responsibility for the conclusions in the audit report.

3.5 GUID #3920: Guidelines for the Performance Auditing Process¹⁵

3.5.1 Introduction (Paragraphs #1 to #6)

This was formerly ISSAI #3200.

GUID #3920 is intended to help the auditor interpret the requirements set out in ISSAI #3000 and provide advice to the auditor on how to fulfil these requirements and how to apply professional judgment.

The guideline is structured according to the different phases in the performance audit process.

The first section relates to **planning the audit** – how to select audit topics and design the audit.

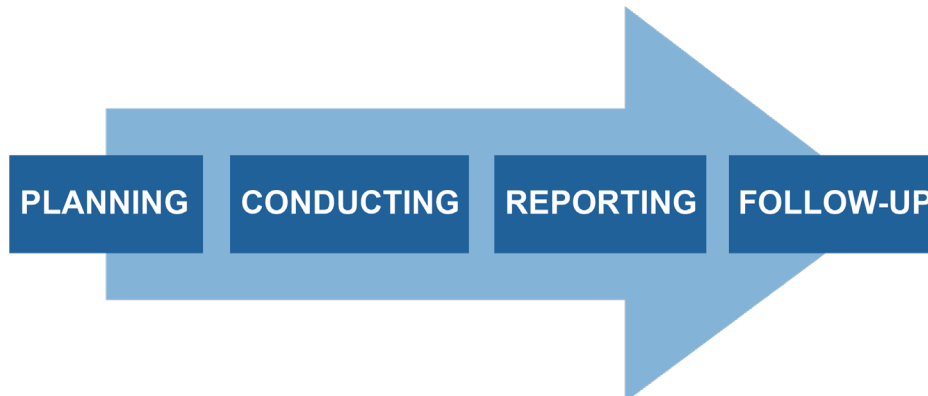
The second section relates to **conducting the audit** in order to obtain sufficient and appropriate evidence to support the auditor’s findings and conclusions.

The third section relates to **reporting the audit** – the format of the report, the report contents and its distribution.

The fourth section relates to **follow-up** of previous findings and recommendations in performance audit reports, to identify and document the impact of the audit and the progress made in addressing the problems.

Each of these sections are examined in more detail in their individual chapters below.

Figure 10: The Performance Audit Process



3.5.2 Planning an Audit (Paragraphs #7 to #67)

See [Chapter 5](#) for the detailed planning process.

The auditor should plan the audit in a manner which ensures that it is of high quality and is carried out in an economic, efficient and effective way and in a timely manner.

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;
- 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);
- 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; and
- the estimated cost of the audit, the key project timeframes and milestones, and the main control points of the audit.

Performance audits should have suitable audit criteria that focus the audit and provide a basis for developing audit findings. The audit criteria, which can be of a qualitative or quantitative nature, should be reliable, objective, useful, and complete. It should be possible to identify the source of the audit criteria used.

The audit scope should clearly define the extent, timing and nature of the audit to be carried out. When laws, regulations, and other compliance requirements pertaining to the audit entity have the potential to significantly impact on the audit questions, then the audit should be designed to address these issues in order to conclude on the audit questions.

In determining the extent and scope of the audit, auditors often need to assess the reliability of internal controls that assist in conducting the business of the audited entity.

The extent of that assessment depends on the objectives of the audit. Moreover, they should be alert to situations or transactions that could be indicative of illegal acts or abuse and should determine the extent to which such acts affect the audit findings.

When designing audit procedures, the auditor should determine the means for gathering sufficient appropriate audit evidence to conclude against the objectives, answer the audit questions, or confirm the hypotheses. Since auditors seldom have the opportunity to consider all information about the audited entity, data collection methods and sampling techniques should be carefully chosen. The planning phase should always involve certain research efforts, with the aim of building knowledge, testing various audit designs; and checking whether data needed is available. This makes it easier to choose the most appropriate audit method.

Performance audits can draw upon a large variety of data-gathering and analysis techniques, such as surveys, interviews, focus groups, observations, documentary analysis, transaction testing, as well as the analysis of economic, financial and performance data. Audit methods should be chosen which best allow the gathering of audit data in an efficient and effective manner. While the aim of auditors should be to adopt best practices, practical reasons such as availability of data may restrict the choice of methods. Therefore, as a general rule, it is advisable to be flexible and pragmatic in the choice of methods. For this reason, performance audit procedures should not be standardised in all their terms, as being too prescriptive may hamper the flexibility, professional judgement, and high levels of analytical skills required, in a performance audit.

Auditees should be notified of the key aspects of the audit, including the audit objective, questions, criteria, and scope, before the start of the data collection phase or after the completion of the audit planning.

3.5.3 Conducting the Performance Audit (Paragraph #68 to #105)

See [Chapter 5](#) for the detailed conducting process.

Audit examination work takes place on the basis of audit planning already undertaken, and the planning documents thereby developed. Audits should be performed with due care, with an objective state of mind, and with appropriate supervision. The audit team should collectively possess adequate knowledge of the subject matter and audit techniques.

The auditor should obtain sufficient and appropriate audit evidence to satisfy the audit objective and questions, to be able to draw conclusions and, if appropriate, to issue recommendations. The nature of the audit evidence required in performance audit is determined by the subject matter, the audit objective, and the audit questions. Under normal circumstances, performance audits require significant judgement and interpretation in concluding against the audit questions, due to the fact that audit evidence is more persuasive (“points towards the conclusion that...”) than conclusive (“right/wrong”) in nature.

Evidence may be categorised as physical, documentary, testimonial, or analytical.

The types of evidence to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance, and reasonableness. Audit evidence should be competent, relevant and reasonable in order to support the auditor’s judgment and conclusion regarding the audit questions. All audit findings and conclusions must be supported by audit evidence.

Performance auditors should be resourceful, flexible and systematic in their search for sufficient evidence. They must also be receptive to alternative views and arguments and seek data from different sources and stakeholders. Auditors should always try to be practical in their efforts to collect, interpret and analyse data. While primary or own source data is usually the most reliable, secondary data which is collected and/or analysed by others (e.g. performance evaluation reports, internal audit reports, etc.), can be an important source

of information in performance audits. It is important, that the reader of the audit report is informed about the source and quality of the data, particularly when it contains estimations.

The analysis of data involves combining and comparing data from different sources.

It is important that the auditor works systematically and carefully in interpreting the data and arguments collected. The audit team should document all matters which in its professional judgement are important in providing evidence to support the audit findings and the conclusions to be expressed in the audit report.

The auditor needs to produce audit documentation to fully record the preparation, conduct, contents and findings of the audit in a meaningful way. They should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was performed in support of the audit findings, conclusions, and recommendations. In general, the organisation of the audit should also satisfy the requirements of good project management.

The development of good and proper external relations is a key factor in achieving effective and efficient performance audit results. Auditors should seek to maintain good professional relationships with all stakeholders involved, promote a free and frank flow of information in so far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding of the respective role and responsibilities of each stakeholder. 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. Where important audit findings are made during an audit these should be communicated to those charged with corporate governance in a timely manner.

Auditors should not communicate to third parties, either in writing or orally, any information they obtain in the course of audit work, except where doing so is necessary to discharge the statutory or otherwise prescribed responsibilities of the SAI in question.

Any such communication of information should be governed by the statutory or other rules of procedure in force for the respective SAI. Auditors, however, may exchange information regarding management deficiencies with internal auditors, should this information not be of a data security or other confidential nature, for the purposes of ensuring that any identified shortcomings are addressed. Auditors should also report any financial irregularities to the authorities concerned, where appropriate.

3.5.4 Reporting the Audit (Paragraph #106 to #144)

See [Chapter 6](#) for the detailed reporting process.

In a performance audit, the auditor reports on the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are met.

Such reports may vary considerably in scope and nature, for example covering whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements.

For all audit assignments any limitations to the audit, such as restrictive regulations, or limitations concerning access to information or reporting requirements, should be disclosed to users of the audit report. The report should also disclose the standards that were followed and audit criteria applied in carrying out the performance audit.

The auditor is not normally expected to provide an overall opinion on the achievement of

economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements.

Where the nature of the audit allows this to be done in relation to specific areas of an entity's activities, the auditor is expected to provide a report which describes the circumstances and context to arrive at a specific conclusion rather than a standardised statement.

The audit report should include information about the audit objective, audit questions, audit scope; audit criteria, methodology, sources of data, any limitations to the data used, and audit findings. The findings should clearly conclude against the audit questions or explain why this was not possible. The audit findings should be put into perspective and congruence should be ensured between the audit objective, audit questions, findings and conclusions. The report should, where appropriate, include recommendations.

The report should be timely, complete, accurate, objective, convincing, constructive, and as clear and concise as the subject-matter permits. It should also be reader friendly, well structured, and contain unambiguous language. Overall, it should contribute to better knowledge and highlight improvements needed. The audit findings and conclusions should be based on evidence and should be clearly distinguishable in the report. All relevant viewpoints should be considered in the report and the report should be balanced and fair.

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.

Auditors 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.

Unless prohibited by legislation or regulations, before publishing a performance audit report, the SAI should always give the auditee(s) the opportunity to comment on the audit findings; conclusions, and recommendations. Where disagreements occur, they should be analysed 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.

Distributing audit reports widely can support the credibility of the audit function. SAI should decide about the method of distribution in conformity with their respective mandates. The reports should be 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.

3.5.5 Follow-up (Paragraphs #145 to #155)

See [Chapter 7](#) below for the detailed follow up process.

Follow-up of the audit report should be part of the audit process as it is an important tool used to strengthen the impact of the audit and improve future audit work. The priority of follow-up tasks should be assessed as part of the overall audit strategy of the SAI.

Sufficient time should be allowed for the audited entity to implement appropriate action.

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. The results of the follow-up should be reported appropriately in order to provide feedback to the legislature, together if possible, with the conclusions and impacts of the corrective actions taken where relevant.

Chapter 4: Performance Audit Planning

4.1 Strategic Audit Planning

As with Financial and Compliance Audits, Performance Audits need to be planned. However, the methodology for both the Strategic and Annual Planning process is different.

Whilst the Five-Year Strategic Audit Plan – and subsequent Annual Plan – for Financial and Compliance Audit will detail both the organisations and systems to be audited, for Performance Audits there will tend just to be a block of time which will be allocated to individual Performance Audits. As SAI mature, the amount of time allocated to Performance Auditing generally increases.

This section, together with section 5.4 below, provide guidance for the process of selecting performance audit topics. Whereas, our plans will show we will be undertaking a compliance audit of a specific system in three years' time, this will never be the case with performance audits. We should have a "short-list" of potential subjects but those which we select for auditing will be as the result of current factors and not based on a long-term plan.

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.

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; and
- Identifying internal and external subject matter experts.

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.

Some of the main points will be contented in this plan are:

- Formulating the initial ideas – these can be numerous;
- The summary analysis of every idea;
- The rest of ideas are analysed in detail in order to formulate general questions that the potential studies must ask. In this stage it is useful to discuss ideas with the leadership of the SAI and with the audited entity
- The ideas that are not rejected must be developed (one page) taking into account the researches mentioned in the previous step;
- Survey the compliance with the audit policy of the SAI;
- For the proposed studies there are formulated the key questions that the study must answer to, the probable approach and a cost indication. Certain proposals could be rejected for not complying with the audit priorities of the SAI and they can be maintained in "reserve"; and

- Formulating clear proposals and alternatives that will be submitted to the leadership of the SAI.

The data and information gathered for strategic planning for performance audits and risk profile of the entity or programme should be updated periodically.

4.2 Overview of Individual Audit Planning

Planning involves two main steps: **Pre-study** and **Audit Plan**.

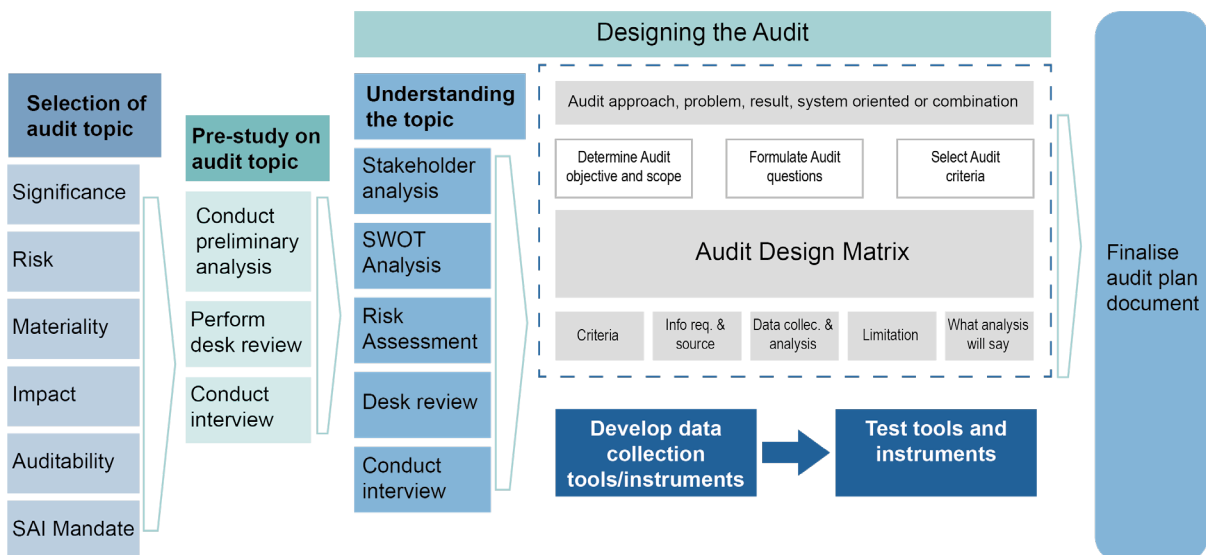
The extent of detail of the preliminary study may be determined by the audit team complying of the importance of the topic, the deadline for implementation of the audit task, and approval by the Head of the SAI.

According to the principles related to the audit process, Performance Auditing comprises the following main steps:¹⁶

- **Planning:** selection of topics, pre-study and audit design;
- **Conducting:** collecting and analysing data and information;
- **Reporting:** presenting the outcome of the audit: answers to the audit questions, findings, conclusions and recommendations to users;
- **Follow-up:** determining whether action taken in response to findings and recommendations has resolved the underlying problems and/or weaknesses.

Each of these steps will be examined in detail in its own chapter below. Figure 11 provides an overview to the planning process.

Figure 11: Performance Audit Planning Process



4.3 Types of Performance Audit

The National Audit Office (UK) divides its Performance Audit investigations into four broad categories:

- **Selective Investigations:** of signs of possible serious waste, extravagance, inefficiency, ineffectiveness or weaknesses in control. These are largely confined to examining whether criticism is justified, examining causes and considering action taken or needed to introduce improvements. For example, finding out why a weapon system over-ran its costs or timetable or failed to meet the requirements for which it

was designed and developed; and how far the lessons learnt are being applied to future projects;

- **Major Broad-based Investigations:** of a whole audited body or of important activities, projects or programmes. These are designed to lead reports giving assurance in major areas where arrangements are found to be satisfactory and no criticism is justified, as well as drawing attention to material weaknesses in control or achievement and their consequences. For example, investigating the implementation and results of the various schemes which form the Government's programme for reducing or alleviating unemployment;
- **Major Reviews of Standard Managerial Operations:** which tend to follow common patterns or procedures or established good practice. Areas for "good house-keeping" examinations include stores procurement, maintenance of buildings and equipment, operation of transport fleets, etc.; and
- **Smaller Scale Investigations:** these are not normally expected to lead to a report to Parliament but are directed towards producing useful improvements in value-for-money, strengthening systems and fostering cost-consciousness. They are often undertaken as project work for professional trainees.

Their general aim is to secure a "mixed diet" of investigations and reports, covering each of the first three categories above. Some examinations pursue matters within a single department while "across the board" studies follow up a particular subject or function. For example, investment appraisal or control of building maintenance across a number of different departments.

The extent to which the above types are followed will depend very much on the size and experience of the audit office and the type of organisation being examined.

It is recommended that expertise is developed on smaller scale investigations and "good housekeeping" studies, which can still provide a useful return, before tackling any major exercise.

The accompanying volume of Case Studies includes two reports on examples of "good housekeeping" and one more detailed study.

4.4 How to Identify Topics to Audit

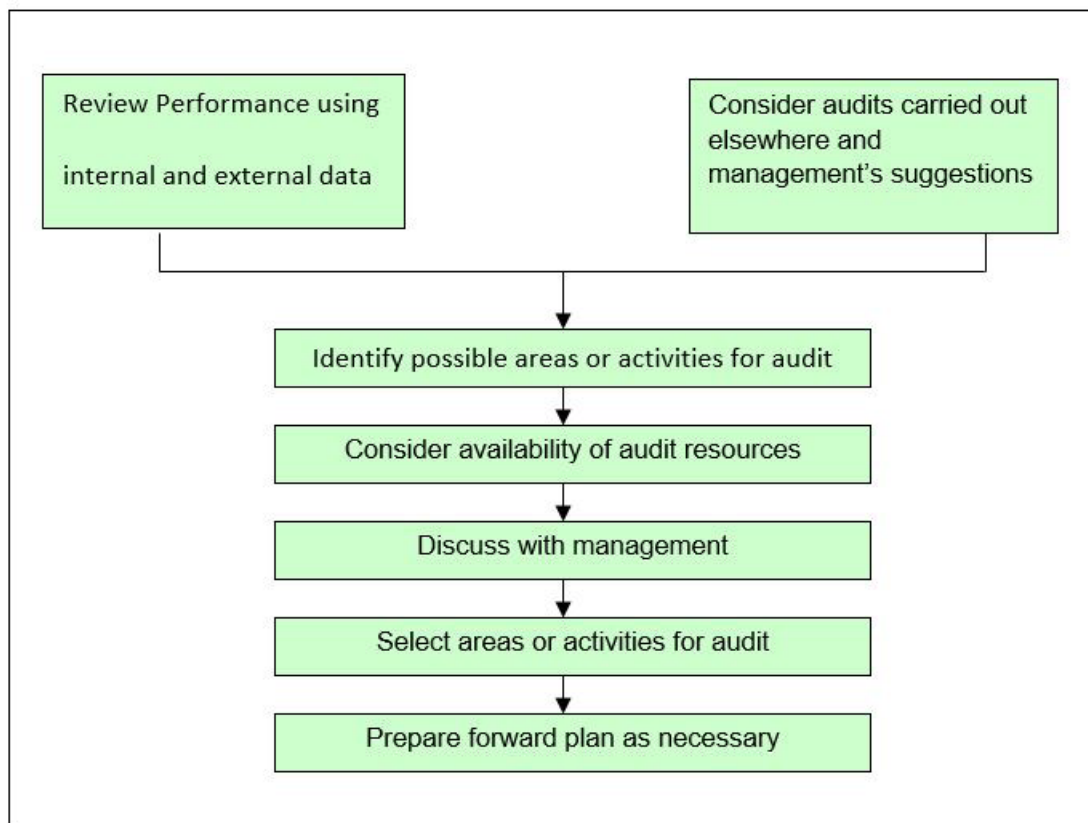
The choice of audit subjects will be based on the SAI's programming policies. The criteria for establishing priorities for audit tasks normally centre around the added value of the audit in terms of the central mission of the SAI. The added value is normally greater:

- when the special powers of the SAI are fully employed;
- when the policy field, organisation, activity, programme or function in question has not been subject to independent audit examination or evaluation in the recent past; or when it fits into the systematic coverage of the field/organisation in question in the long-term work programme of the SAI;
- when there are significant risks involved of poor financial management, performance or value for money;
- when the subject is of potential or current Parliamentary or public interest; and
- when any conclusions arising from the audit can be influential in the framing of new or revised legislation or internal management procedures in the same policy area or can be applied in other related or similar areas of government activity.

The following are examples of factors that may point towards high risk:

- the financial or budgetary amounts involved are substantial, or there have been significant changes in the amounts involved (e.g. sudden growth or contraction of a programme);
- areas traditionally prone to risk (procurement contracts, high technology projects, environmental projects);
- new or urgent activities; and/or
- complex management structures, confusion about responsibilities and lines of accountability.

Figure 12: Main Steps in the Selection Process



4.5 Pre-Audit Study

After the choice of the audit subject has been made, the auditor can proceed to plan the performance audit. As was noted above, the fact that the auditor is faced by a more complex situation when conducting a performance audit than when undertaking a financial audit means that more attention must be given to its initial preparation and it may be necessary to undertake a “preliminary study” (or “pre-study”) before the definitive audit plan is drawn up.

The purpose of a preliminary study is to extend the assessment made at the general survey and strategic planning stages. It identifies the main issues to be pursued in the full investigation; the nature and extent of the audit evidence required; the timing of the different stages; and the audit resources and other skills needed.

Likely results are assessed and potential difficulties anticipated as far as possible. A preliminary study also provides the basis for establishing liaison arrangements with the audited body.

The broad aim of a preliminary study is to **conclude whether a full investigation should proceed** and, if so, to recommend precise objectives and tasks for the investigation.

Although some of the relevant information will have been collected by general survey and marking, more detailed information is required for the preliminary study. This includes:

- interpreting and clarifying the broad objectives for a full investigation;
- identifying all relevant and material performance audit factors that could influence the audited body's performance;
- considering what detailed information is, or will be, available; and
- carrying out sufficient test examinations to form a judgment about the feasibility of achieving approved investigation objectives.

In the light of this work the following judgments and assessments are made:

- whether any other review carried out or in prospect makes it inappropriate to proceed with a full investigation;
- whether all the agreed objectives for investigations are appropriate and can be met, or whether they require redefinition in consultation with the directorate and with senior management;
- which aspects of the subject must be examined if the broad aims for a full investigation are to be achieved;
- whether such examination would be practicable and likely to provide hard audit evidence;
- the precise objectives, scope and audit tasks for a full investigation;
- staff resources, by grades, which a full investigation is likely to require;
- any specialist help from within or from outside consultants which may be necessary or desirable; and
- the duration and optimum timing of a full investigation.

A preliminary study results in a **Report on the Preliminary Study**¹⁷ which contains reasoned recommendation to senior management whether or not to proceed to a full investigation. If the recommendation is to proceed the preliminary study report will set out:

- a statement of the objectives for a full investigation;
- a task outline for each main block or area of the audit investigation. (The outline defines the scope and objectives for each task and indicates the audit approach, main source of information, etc. It includes individual plans of action which set out, as far as can be foreseen, the steps the examiner should take and the points at which progress reports should be produced);
- staffing proposals, including the need for internal or external specialist assistance;
- proposals for the organisation and management of the investigation, including the allocation of tasks to individuals; and
- a timetable, including the timing of progress reports by individual examiners, progress meetings of the project team and supervision and review by the directorate.

A decision is then made whether to proceed to a full investigation and, if so, what should be the objectives, nature and timing of the further examination. There may be a gap before the full investigation begins - for example, because of the prior demands of financial audit or other work - but the audited body is kept informed about the results of the preliminary study and arrangements for the full investigation and likely timing.

Pre-study on the audit topic: Adequacy and effectiveness of the institutional framework for preventing corruption in education sector of Country-X.

Based on the preliminary analysis and desk review performed, the auditor now has a basic idea about the issue.

The auditor performed the following procedures in the pre-study:

a. Consultation with sectoral advisors and outside organisations that deal with education e.g. United Nations Children’s Fund (UNICEF), United Nations Development Programme (UNDP) and related United Nations agencies, donor organisations, civil society organisations to have a clear understanding on the education sector and related corruption issues that is prevalent in the country. Auditor also analysed the media reports on the education sector corruption, which is prevalent in the country in recent times.

b. Under the Goal 16 of the SDGs ‘Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels’ target 16.5 emphasises to ‘substantially reduce corruption and bribery in all their forms’. Auditor reviewed the government initiatives to achieve the SDG 16.5 target and the role of the anti-corruption agencies in preventing corruption in the education sector.

c. Identification of best practices in the education sector with respect to corruption prevention. The UNDP Global Anti-Corruption Initiative (GAIN) tool determines the measures to prevent corruption in different sectors of a country. This tool gives a framework of understanding the major issues in education sector and how to deal with that.

d. Review of management and accountability reports on education sector prepared by the respective agencies. This gave the audit team a better understanding on functional and financial details of these agencies, which reveals areas of primary concern.

At the end of the **pre-study audit team concluded that the audit topic is auditable** and the necessary data are available for the audit for making effective recommendations. The next step is designing the audit.

4.6 How to Plan an Individual Performance Audit

4.6.1 Introduction

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 will develop and document an audit plan describing the expected scope and conduct of the audit (*ASOSAI PA Manual/3.3*).

To accomplish a high-quality audit within a limited timeframe the auditor needs to consider the performance audit as a project in the sense that it involves planning, organizing, securing, managing, leading, and controlling resources to achieve specific goals. Managing the performance audit as a project requires the development of project management methodologies and strategies (ISSAI #3000/96).

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 (PAM) of the European Court of Auditors (ECA)/3.1).

The first step in designing the audit is **understanding the audit topic**. It is a research that will enable the audit team to identify the most important and critical issues regarding the audit topic and, from that, audit team will determine the audit objective, audit scope, audit questions and audit criteria.

The next activity is to **determine the methodological strategy** to conduct the audit: what is the information/data required and its sources, the data collection and data analysis methods, the limitations foreseen in conducting the audit and the expected findings. All this information is compiled in matrix format, which is called an **Audit Design Matrix**. With the audit design matrix completed, the audit team will **develop the tools and/or instruments for Data Collection** (e.g. survey questionnaire, interview questions). Team also tests the tools for particular data collection and make revisions based on the test result.

The activity after designing the audit is to **finalise the Audit Plan document**, including the administrative aspects, like: resources needed, costs, timeline.

4.6.2 Understanding the Audit Topic

This knowledge includes an understanding of:

- characteristics of the topic being audited (role and function, activities and processes in general, resources, development trends etc.);
- performance goals of the entity;
- organisational structure and accountability relationships;
- internal and external environment and the relevant stakeholders; and
- external constraints affecting outputs and outcomes delivery of the entity.

4.6.3 Data Gathering

In understanding the audit topic, a variety of data-gathering techniques can be used, for example:

- **Stakeholder Analysis:** [Annex 6](#) presents a simplified example of a stakeholder analysis);
- **Strengths Weaknesses Opportunities Threats (SWOT) Analysis and Risk Verification Diagram (RVD):** [Annex 7](#) presents an example of a SWOT analysis and a RVD;
- **Relationship Analysis:** between resource utilisation and results;
- **Assessment of Risks:** facing the entity;
- **Internal Control:** assessment;
- **Interviews:** with management and key stakeholders;
- **Survey:** with key stakeholders;
- **Consultation:** with advisors and outside organisations to identify best practices and opportunities for improvement;
- **Review of:**
 - authorities, policies, directives, Cabinet documents etc.;
 - entity's plans, performance and accountability reports; and

- spending trends.
- **Observation and Walk-Through:** of facilities, major systems and control procedures.

4.6.4 Sources of Information

The **sources of the information** may include:

- legislation, legislative speeches, ministerial statements, government decisions;
- strategic and corporate plans, mission statements, annual reports;
- organisation charts, internal guidelines, operating manuals;
- management information systems;
- discussions with audited entity management and staff, key stakeholders;
- viewpoints from experts in the field;
- previous audit reports, internal audit reports;
- reviews, evaluations and studies conducted;
- media coverage; and
- websites.

Data collection may be on a one-time basis or through ongoing measurement (time series design, longitudinal analysis). Information may be gathered on the basis of physical evidence, documents (including written statements), oral testimonies (interviews) or by other means depending on the objectives of the audit. Often, it will be necessary to collect both qualitative and quantitative data. The types of data to be obtained should be explainable and justifiable in terms of their sufficiency, validity, reliability, relevance and reasonableness.

4.6.5 Determine the Audit Objective and Audit Scope

The auditor needs to narrow down the audit topic or problem to be audited and establish the **Audit Objective**. It also relates to the reason for conducting the audit. The wording of the objective (or basic question or problem) is of great importance in the examination process. The wording is also important for determining the precise results of the audit. This is an 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.

The audit objective should be designed to maximise the benefits and impacts from the audit. In setting the audit objective the audit team should take into account the mandate of the SAI and be careful not to exceed it, as well as the reasons for the audit as defined in the Strategic Audit Plan.

The audit objective(s) can be thought of as the overall audit question concerning the subject matter (for instance a government programme or activity) to which the auditor seeks an answer. The audit objective therefore needs to be framed in a way that allows a clear and unambiguous conclusion. The audit objective(s) can be expressed in the form of one overall audit question which is then broken down into more detailed/specific sub-questions (GUID #3920/25).

The audit objective(s) must give sufficient information to the audited entity and other stakeholders about the focus of the audit. While developing audit objective the auditor has to frame it in as clearest and simplest terms as possible.

The auditor can consider the following questions in defining performance audit objective:

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

Some examples of audit objectives are:

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.

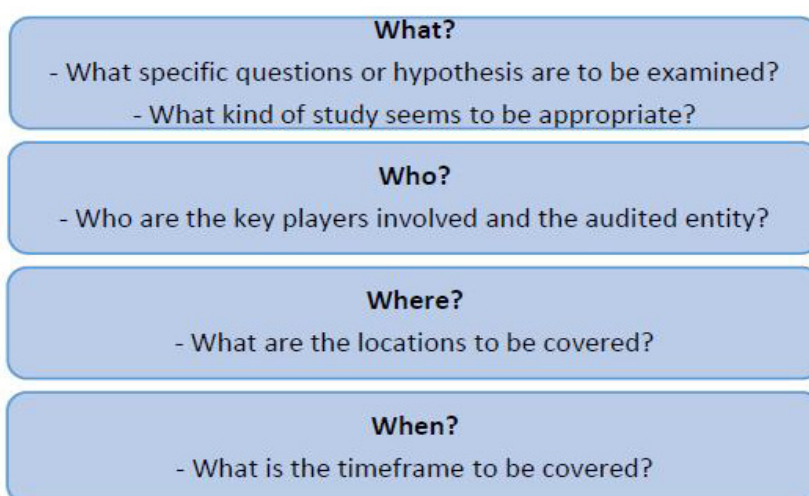
Clinical Waste Management; Report of the Office of the Auditor General of the Republic of Botswana; 2007

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



4.6.6 Formulating Audit Questions

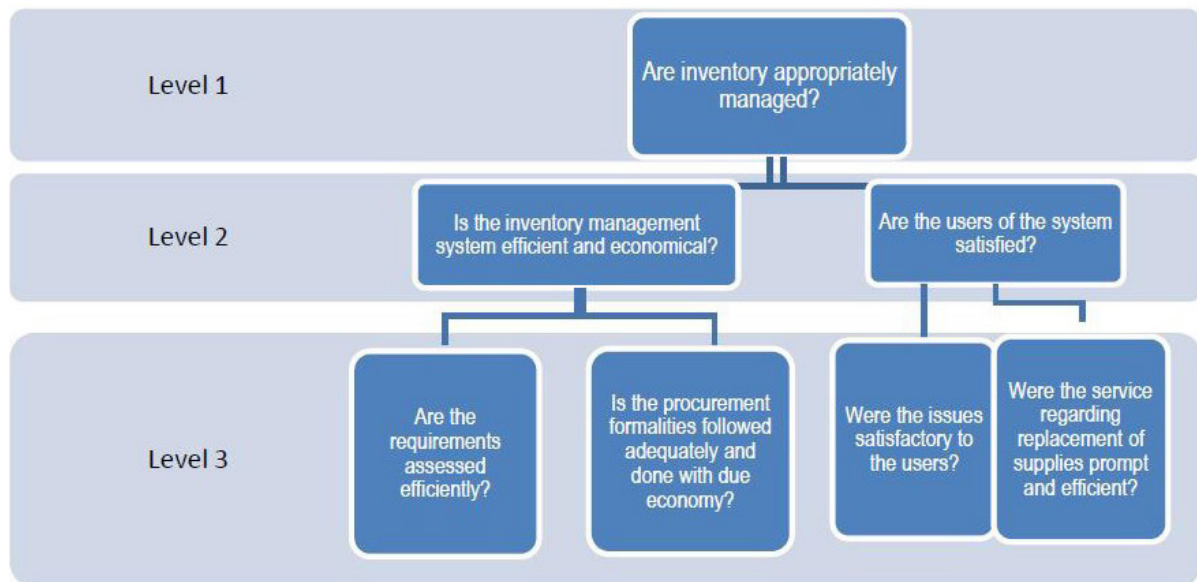
After defining the audit objective, the auditor breaks it down into more detailed/specific questions and sub-questions (if necessary). The proper formulation of questions is critical to the success of the audit, since it will have implications for decisions regarding the types

of data to be collected, how data collection will be carried out, the analysis that will be performed and the conclusions that will be reached.

Audit questions may be analytical, normative or descriptive. Even if it is advisable to formulate audit questions in a normative or analytical way, adding descriptive questions can sometimes be useful in an audit, especially when preparing an audit in an area where information on economy, efficiency or effectiveness is lacking. The formulation of audit questions is an iterative process in which the auditor repeatedly specifies and refines the questions, taking account of known and new information on the subject as well as the feasibility of obtaining answers. (GUID #3920/33-34).

There are some techniques to break the audit objective down into a number of more detailed questions to form a pyramid. This technique is called “**Issue Analysis**” and is used mainly in the result-oriented approach. It is often enough with three levels of questions but sometimes up to five levels are needed. Figure 12 shows a simple example of the use of issue analysis.

Figure 13: Example of Issue Analysis



4.6.7 Select Audit Criteria

The audit criteria represent the standards against which the audit evidence is judged. They are intended to help the auditor to answer questions such as “On what grounds is it possible to assess actual performance?” “What is required or expected?” (GUID #3910/55).

The audit criteria must be set objectively. The process requires rational consideration and sound judgment. In performance audits, criteria are not always readily available to the auditor they are typically based on knowledge of best practice on how activities are carried out to be most economical and efficient (ISSAI #3000/46). The choice of audit criteria is normally relatively open and formulated by the auditor. When formulating the audit criteria, the auditor needs to 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 areas of:
 - good knowledge of the motives and the legal basis of the government programme or activity to be audited and the goals and objectives set by the legislature or the government;

- a reasonable good understanding of the expectations of the major stakeholders, and be aware of basic expert knowledge; and
- a general knowledge of practices and experience in other relevant or similar government programs or activities.

Audit criteria in performance audit 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 SAI;
- organisations (inside or outside the country) carrying out similar activity;
- performance standards or previous inquiries by the legislature; and
- general management and subject-matter literature.

The auditor shall, as part of planning and/or conducting the audit, discuss the audit criteria with the audited entity (ISSAI #3000/49). Discussing the audit criteria with the audited entity serves to ensure there is a shared and common understanding of what criteria will be used as benchmarks when evaluating the subject matter (ISSAI #3000/51). It is therefore important to clearly define the criteria that the audited entity will be assessed against (GUID #3910/60).

In defining audit criteria, the auditor needs to consider that the criteria are relevant, understandable, complete, reliable, and objective. These attributes can be described as follows (GUID #3910/56):

- **Relevant:** contribute to conclusions that assist decision-making by intended users and to conclusions that answer on the audit questions;
- **Understandable:** clearly stated, contribute to clear conclusions and are comprehensible to the intended users. Not subject to wide variations in interpretation;
- **Complete:** sufficient for the audit purpose and do not omit relevant factors. Meaningful and make it possible to provide the intended users with a practical overview for their information and decision-making needs;
- **Reliable:** result in reasonably consistent conclusions when used by another auditor in the same circumstances; and
- **Objective:** free from any bias on the part of the auditor or the audited entity.

The following provide some examples of audit criteria, adapted from various SAIs audit reports:

EXAMPLES OF AUDIT CRITERIA

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.

4.6.8 Audit Design Matrix

The audit design matrix is a tool for determining what to audit and how. It provides a structure for the basic design components and makes planning more systematic and directed, facilitating communication of decisions on methodology and assisting with conducting fieldwork. It outlines the requirements and procedures necessary to implement the audit objective and to make assessments against the audit criteria. The matrix is a flexible instrument and its contents can be updated or modified by the team as the audit work progresses. Its main objectives are to:

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

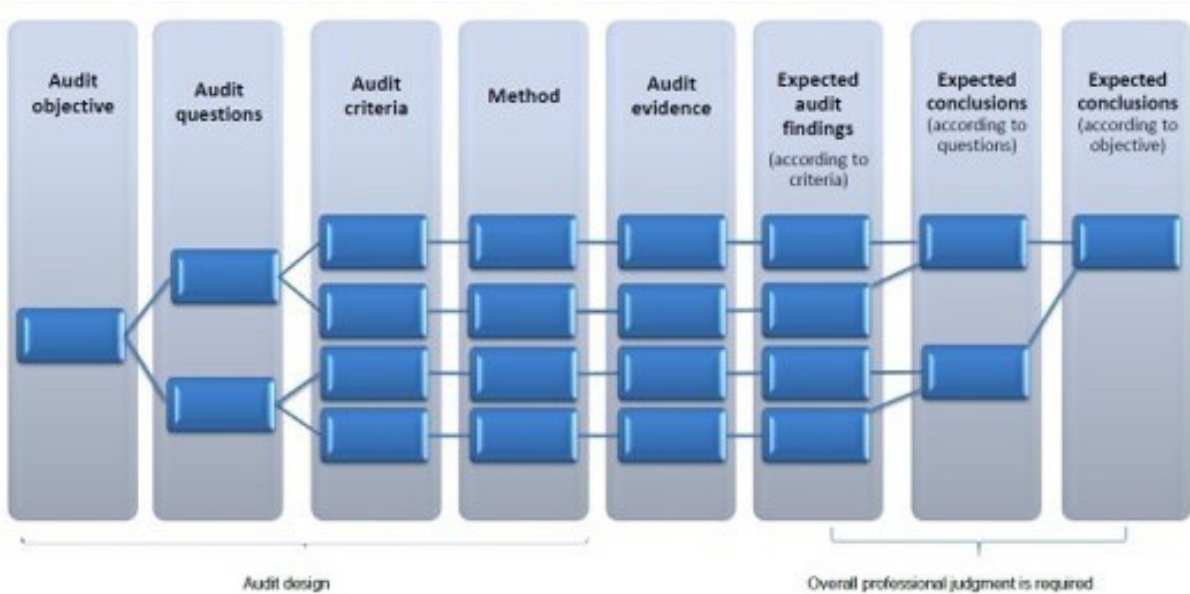
Table 5: Audit Design Matrix

Audit Topic: State the audit topic

Audit Objective: State why the audit has been conducted

Audit question/sub-question – What do you want to know?						
Criteria	Required information	Sources of information	Data collection procedures	Data analysis procedures	Limitation	What the analysis will allow us to say
What is expected?	What information do you need to answer the audit question?	Where is the information?	How do you plan to obtain the information?	What do you want to do with the information?	What are the limitations regarding to: <ul style="list-style-type: none"> • methodological strategy adopted • access to people and information • quality of the information • operating conditions to perform the work 	What can you conclude from the information gathered? What do you expect to find?

Figure 14: Audit Design Matrix



4.6.9 Finalise Audit Plan

The last activity of the audit planning is the finalisation of the audit plan. The audit plan document contains:

- background knowledge and information needed to understand the entity to be audited;
- the audit objective and questions, audit 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;
- an overall activity plan which includes staffing requirements, resources and possible external expertise required for the audit; and
- the estimated cost of the audit, the key project timeframes and milestones, and the main control points of the audit.

4.6.10 Other Items to Consider

In addition to the above, consideration should be given to:

- **Determination of the Audit Evidence (see table below):** The relevance, reliability and sufficiency of any data available within the audited entities (e.g. performance indicators) should be evaluated. The possibility of collecting the required evidence (data availability) should also be tested;
- **An Evaluation of the Professional Knowledge and Skills:** required by the audit team to carry out the audit. In cases where the auditors concerned do not possess the required skills, consideration should be given to obtaining them from outside, either from other staff of the SAI or by using external consultants. Where the required skills and knowledge will not be available to the audit team, it is necessary to consider whether it will be possible to undertake the audit foreseen;
- **Resources:** a budget for the resources needed to carry out the examination; a timetable; and possible conclusions and impact of the examination; and
- **Usefulness and Feasibility:** The proposed outcome of the performance audit should also be judged in terms of “usefulness and feasibility”. Taken together with the resource budget for the audit, consideration of these factors should allow the auditor to reach a global assessment of the potential added value to be created by the audit.

Table 6: Link Between Audit Evidence and Gathering Methodologies

Audit Evidence	Method of Data Collection
Testimonial Evidence	Interviews Surveys, questionnaires Focus groups Reference groups
Documentary Evidence	Document review File reviews Using existing statistics Using existing databases
Physical Evidence	Observation of people Inspection of objects or processes Experiments, e.g. level of computer data security
Analytical Evidence	For instance: Quantitative data collection methods. DEA analysis, regression analysis. Computations, comparisons, separation of information into components, and rational arguments

4.6.11 Monitoring

Regular monitoring usually requires fortnightly meetings:

- to confirm that the agreed audit objectives are still relevant and to consider whether new ones should be added;
- to ensure that the audit approach adopted is proving effective;
- to ensure that the audit tests and enquiries being carried out, and the nature and extent of evidence being obtained, are of a sufficiently high standard to support firm and sustainable conclusions; and
- to ensure that any departures from the timetable are justified and that the consequences of any delay considered promptly.

On larger and more complex investigations the audited body may be asked to appoint a liaison officer for the investigation, to encourage and assist effective consultation and discussion of difficulties and findings.

As soon as the broad shape of the results has become clear, divisions prepare an advance outline of the report for submission to senior management. The outline indicates the proposed structure and content of the report and summarises the main issues to be covered and conclusions to be drawn. This outline is normally submitted towards the end of the field work stage of the investigation.

When the outline has been approved by senior management it will, subject to any further discussion with the audited body, form the basis for detailed drafting of the final report.

Facts and figures emerging from the examination are as far as possible discussed and cleared progressively with the audited body as fieldwork proceeds. Provisional findings and conclusions are also discussed. This reviewed and documented material forms the audit base from which the final published report will be developed.

4.6.12 Working Papers

Working papers for planning phase could include:

- Pre-study report summary;
- SWOT analysis;
- Stakeholders analysis;
- Risk assessment matrix;
- Audit design matrix;
- Interview guides and results;
- Desk review documentation;
- Data collection tools (e.g. questionnaire); and
- Quality control checklist.

The results of fieldwork and analysis (the audit evidence), along with the audit planning documentation, need to be documented, filed and cross-referenced so as to permit audit managers to review the work done and validate the conclusions reached.

4.7 Confidence and Assurance

4.7.1 Introduction

All three main types of audit are assurance engagements. However, for most SAI, using of the concept of assurance in performance audit is abstract. Considering that, this section aims at clarifying the concept of assurance and its applicability in performance audit.

4.7.2 Assurance Engagements

Assurance is about providing confidence to the intended users. For doing so, the auditor has to obtain sufficient and appropriate evidence in order to express a trustable conclusion about the outcome of the evaluation of a subject matter against the criteria. Considering that, the concept of assurance is related to accountability, the very purpose of any type of audit engagement. In other words, whenever an accountability relationship⁵ exists, there will be the need for confidence on the information used as a basis for taking decisions.

Since performance audit is about providing confidence, as it aims to conclude, for instance, on how a programme is being managed, so the stakeholders can be confident about its effectiveness, equity, efficiency and/or economy and take this information into account, we can conclude that **a performance audit shall be understood as an assurance engagement.**

In this sense, ISSAI #300/21 states that:

“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.”

4.7.3 Assurance

Providing assurance involves reducing the audit risk to an acceptably low level and communicating it in a transparent way (ISSAI #100/31, 40).

The concept of audit assurance is inseparable from the concept of audit risk. Audit risk is defined as the risk that the audit report may be inappropriate or the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users (ISSAI #100/40; ISSAI #300/28). Audits provide information based on sufficient and appropriate evidence, and auditors should perform procedures to reduce or manage the risk of reaching inappropriate conclusions (ISSAI #100/31).

Many SAI have developed both formal and less formal ways of assessing audit risk in performance audit. Audit risk and the level of assurance are affected by the quality of the overall audit design, which comprises the definition of audit scope and the appropriateness of the evidence-gathering procedures. The definition of the scope and audit questions shall be guided by an audit risk assessment (ECA, 2013).

The performance auditor should have **sufficient understanding of the subject matter to actively manage the audit risk and design the audit strategy with the aim to deliver the appropriate level of assurance.** To do so, the auditor has to consider the conditions of the subject matter and the level of confidence needed by the intended users. The auditor shall use professional judgement and exercise professional scepticism in evaluating those conditions, as government programmes and entities are unique. The implication of this is

that auditors must research and learn carefully about the specific programme or entity being audited and document their understanding of the subject matter in a way that provides confidence that they have properly understood it.

4.7.4 How to Communicate Assurance

Assurance shall be communicated to intended users in a transparent way (ISSAI #100/31, ISSAI #300/22; ISSAI #3000/32). According to the ISSAI, the communication of the level of assurance can be done in two ways, depending on the circumstances of each engagement and the needs of intended users:

- through opinions and conclusions which explicitly convey the level of assurance. This is applicable to all attestation engagements and to certain direct reporting engagements; and
- in other forms, where the auditor provides the users with the necessary degree of confidence by explicitly explaining how findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the combinations of findings and criteria result in a certain overall conclusion or recommendation (ISSAI 100/32). This is applicable only to direct reporting engagements.

4.7.5 Types of Engagement

In attestation engagements, the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion (ISSAI #100/29). On the other side, in direct reporting engagements, it is the auditor who measures or evaluates the subject matter against the criteria. The outcome is presented in the audit report in the form of findings, conclusions, recommendations or an opinion. The audit report may also provide new information, analyses or insights (ISSAI #100/29).

Performance audits are normally direct reporting engagements (ISSAI #100/30), so assurance is usually communicated the descriptive way presented in the item. In Performance Audit, the very consistency of the elements of the audit and the clarity in the description of the findings and conclusions would be in charge of giving full transparency to the level of assurance provided.

The transparent disclosure of audit methods, evidences and results allows intended users to assess whether the tests, procedures and the resulting evidence were sufficient and appropriate to support the findings and conclusions presented in the audit report.

ISSAI #300/22 adds that the performance auditor can convey the degree of economy, efficiency and/or effectiveness achieved in the performance audit report in different ways:

- 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 audit criteria used, the findings reached and the specific conclusions.

4.7.6 Levels of Assurance

Assurance can be either reasonable or limited. When providing reasonable assurance, the audit conclusion is expressed positively, conveying that, in the auditor's opinion, the subject

matter is or is not compliant with the applicable criteria, in all material respects (ISSAI #100/33). Reasonable assurance is high, but not absolute. Given the inherent limitations of an audit, most of the audit evidence obtained by the auditor will be rather persuasive than conclusive (ISSAI #300/38).

When providing limited assurance, the audit conclusion states that, based on the procedures performed, nothing has come to the auditor's attention to cause him/her to believe that the subject matter is not in compliance with the applicable criteria (ISSAI #100/33).

Some SAI only conduct performance audit as a reasonable assurance engagement, while other SAI work with the two levels of assurance and others do not explicitly categorise the level of assurance. Some SAI consider the level of assurance in performance audits to be more of a continuum, due to the fact that the more extensive the procedures performed and the more robust the evidence obtained, the more assurance the audits will provide.

For financial audit, ISSAI #200 states that, to be considered an audit, the engagement shall provide reasonable assurance and do not cover limited assurance engagements. For compliance audit, the ISSAI #4000 states that audits can be either reasonable or limited, both in attestation engagements and in direct reporting compliance audit (ISSAI #4000/30 and 31). The Performance Audit ISSAI does not mention whether performance audit must provide reasonable assurance or if a performance audit can be either reasonable or limited. The explicit statement of the level of assurance in reasonable or limited is not always necessary. In performance audit, the use of those terms does not normally add value for users.

In performance audit, the audit report plays an important role in the communication of assurance, since it communicates the elements of the audit, the findings and conclusions, the audit methodology and its limitations. The auditor has to ensure that the audit report does not mislead intended users as to the level of assurance provided. To meet this requirement, the performance audit report can include a statement to communicate assurance to intended users such as the one presented below:

"We conducted this performance audit from Month and Year to Month and Year in accordance with generally accepted public-sector auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives."

There are several ways in which this statement provides assurance to the reader of the report:

- it clearly identifies the audit as a "performance audit" and it affirmatively assures the reader that the audit was conducted in compliance with all of the standards for performance audits;
- for those users who might not know what the assurance standard is, it summarises the standard in the second sentence. Basically, by stating that by following the standards, the auditor is able to obtain sufficient and appropriate evidence, which provides a reasonable basis for developing findings and conclusions for the audit objectives; and
- the last sentence in the statement affirmatively assures the reader that by conforming to those standards the auditor believes she/he has obtained evidence that provides a reasonable basis for her/his findings and conclusions based on the audit objectives.

4.7.7 The Implications of Providing Assurance

It is important to note that providing assurance implies on taking a very good care during the stages of defining the audit scope and of collecting audit evidences. It is important to properly define the audit scope and its limitations, so users can understand to what extent the final conclusions are applicable and to what extent they are not. It is important to make it clear that the audit does not aim at concluding against something that will not be properly covered by sufficient evidence-gathering procedures.

The evidentiary burden in performance audit is high: a single error in an audit report could undermine the credibility of the audit office. Providing assurance entails conducting as many evidence-gathering procedures as necessary to obtain enough appropriate evidence in order to properly conclude against audit objectives.

Besides, another way to strength the evidence-gathering procedures is to send the draft report to the audited entity for comments, as mentioned in ISSAI #300/29. When doing this, it is a good practice to request the auditee to: validate the facts or provide additional evidence that could clarify or contradict the facts; to assert in writing that they have provided the auditor with all relevant evidence that were in their possession and also that they are unaware of any other evidence or information that could have impacted the findings and conclusions of the audit report.

Chapter 5: Conducting a Performance Audit

5.1 Introduction

After developing the audit design matrix and finalising the audit plan, the next step is to conduct the audit. The main activities of this phase are:

- the **fieldwork** to collect data; and
- **analysis** of the collected data that results in evidence.

In practice, data collection and data analysis are not disassociated activities. Except for the surveys, generally data are collected, interpreted and analysed simultaneously.

This examination phase deals with **audit findings** and **evidence, techniques** and information about **data collection** and **data analysis, evaluate the sufficiency and appropriateness of audit evidence**, and the **findings matrix**.

Before completing the examination phase, the audit team must ensure that there is sufficient reliable and relevant evidence to conclude.¹⁸

It is important to monitor audit risk and the planned mitigation strategies throughout the audit and adjust to changing circumstances when necessary. Good planning will enable the auditor to manage audit risk when conducting the audit, as the auditor will have planned for different eventualities and scenarios. For example, if the planned data collection procedures do not allow the team to collect sufficient evidence, the auditor needs to develop an alternative plan for adjusting these procedures or, if necessary, adjust the audit questions to be answered. Also, the auditor always needs to consider whether the audit risks have changed in a way that can lead to inappropriate conclusions, unbalanced information or not adding value. Proper quality control procedures and supervision are important in this regard (GUID #3290/99).

5.2 Field Work

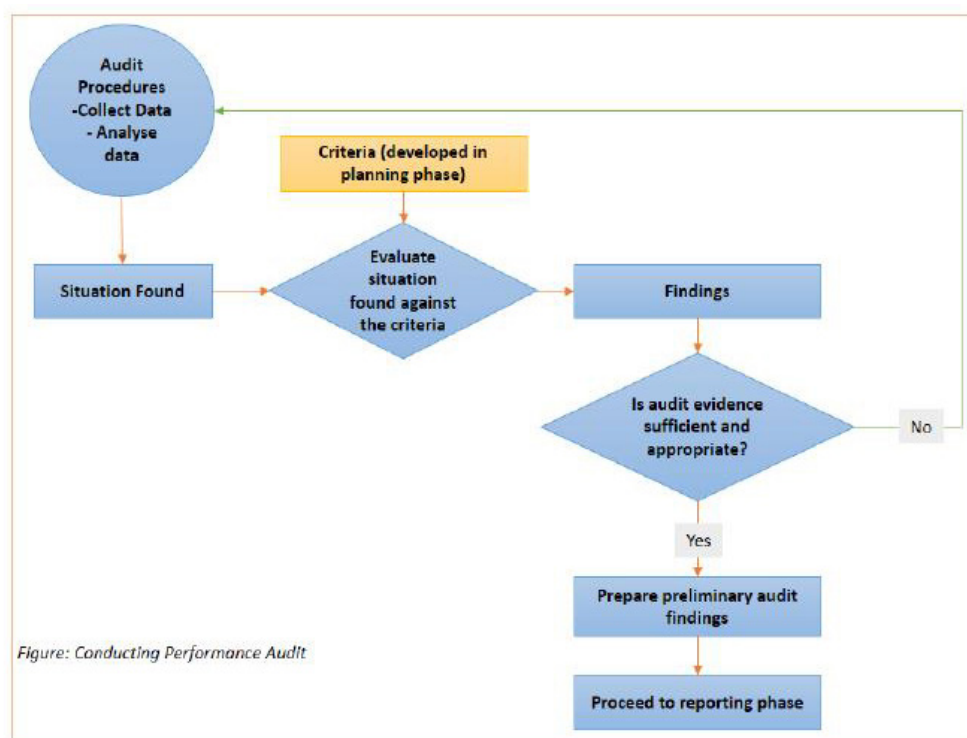
The fieldwork consists of collecting data and information set out in the audit planning. All fieldwork should be planned from the perspective of acquiring evidence intended to support the findings appearing in the final report. The type of data to be collected and sources of such data will depend on methodological strategy (e.g. for survey and for questionnaire the questions would be different and data sources would also be different) and established criteria. It is important that the auditor gathers the best possible information from different sources and seeks the help of experts. Often, this 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).

The auditor should look for the evidence 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, 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 will provide details on the quality of information and how it was collected. To avoid getting caught up in details and a flood of data, detailed assessments of the need for information have to be made both before and during the audit.

Figure 15 below outlines the audit fieldwork process.

Figure 15: Audit Fieldwork Process



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;
- prepare necessary material (presentation letters, 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);

Mind the time required to go from one place to another. Don't schedule many interview or focus group on the same day.

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, so don't expect 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. Meeting with authorities and managers usually require formal clothes. On the other hand, it is easier to establish rapport with beneficiaries (especially people with low level of education) if you are wearing casual clothes.

5.3 Gathering Evidence

5.3.1 Introduction

Audit evidence is the 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.

Audit evidence should be both sufficient (quantity) and appropriate (quality). Sufficiency is a measure of the quantity of audit evidence used to support the audit findings and conclusions. In assessing the sufficiency of evidence, the auditor should determine whether enough evidence has been obtained to persuade a knowledgeable person that the audit findings are reasonable. Appropriateness refers to the quality of audit evidence. It means that the evidence should be relevant, valid and reliable (ISSAI #3000/107-108).

In performance audits, evidence is rarely conclusive (yes/no or right/wrong). More typically, audit evidence is persuasive ('points towards the conclusion that...'). When working in areas where evidence is persuasive rather than conclusive, it can be useful to have discussions in the planning phase or at the beginning of the conducting phase with the experts in the field about the nature of the evidence to be obtained and the way in which it will be analysed and interpreted by the auditor. This approach reduces the risk of misunderstanding the evidence and may speed up the audit process. It is also important that the auditor seek information from different sources, since organisations, individuals in an organisation, experts, and interested parties have different perspectives and arguments to put forward (GUID #3920/71).

5.3.2 Problems and Weaknesses of Evidence

Auditors need to be aware of the following potential problems or weaknesses with evidence (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**); and
- biased evidence (**reliability**).

5.3.3 Categories of Evidence

Evidence can be categorised into four types:

- **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.

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

Table 7: Link Between Evidence and Data Collection Methods

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

5.3.4 Summary of Data Collection Methods¹⁹

During a performance audit, the audit team can use many different methods for gathering evidence. Some of the methods are as follows:

- **File 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;

- **Document Review:** covers the review of documents gathered from the audited entity, general research reports, relevant publications (e.g. academic articles) and available studies conducted on the audit topic;
- **Surveys:** is a systematic collection of information from a defined population, usually done by means of interviews or questionnaires. Surveys are used to gather detailed and specific information from a group of people or organisations. Questionnaire is the data collection tool used in surveys (*Brazil – Survey in Audits/3*). Questionnaires are used when comprehensive knowledge is needed;
- **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;
- **Interviews:** 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 communication skills. To obtain the broadest possible view of the audit topic, it is important to interview people with different positions, perspectives and insights. The results of the interviews are then compiled and documented in a way that facilitates analysis and quality assurance;
- **Seminars and Hearings:** seminars might be used for acquiring knowledge on a specialised area; discussing problems, observations, and possible measures; gathering arguments for and against different views and perspectives. The purpose of hearings is mostly to invite or call for interested parties and experts to give their views on a particular area to be audited;
- **Focus Group and Reference Group:** 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. Focus groups are used to obtain information on the implementation and impacts of government programmes based on the perspectives of the beneficiaries and other stakeholders. Reference groups act as a frame of reference to evaluate the achievement or performance of other groups; and
- **Direct Observation:** is a technique for qualitative data collection that uses the human senses to understand certain aspects of reality. It is not only about seeing and hearing, but also about examining facts or phenomena. It helps to identify and obtain evidence and to gather information about how a programme actually operates, particularly the processes (*Brazil – Direct observation for audit*).

5.4 Evaluating Evidence

Most audits involve some type of analysis in order to understand or explain what has been observed. A wide range of models and methods can be used. In fact, analysing quantitative and qualitative data is an important step in all performance audits. When analysing information collected, it is recommended that the auditor focus on the audit question and objective. Almost all audits include different forms of document analysis. Depending on the number of documents and criteria that are analysed, the analysis can vary in detail (GUID #3920/86).

The final stage in the data analysis involves combining the results from different types of sources. There is no general method for doing this, but it is of central importance that the auditor works systematically and carefully in interpreting the data and arguments collected.

A wide variety of analysis techniques can be used in performance auditing.

Some **quantitative analysis techniques** are:

- descriptive statistics;
- regression analysis;
- frequency tabulation;
- multivariate statistical analysis; and
- data envelopment analysis.

Some **qualitative analysis techniques** are:

- content analysis;
- alternative interpretations; and
- negative case.

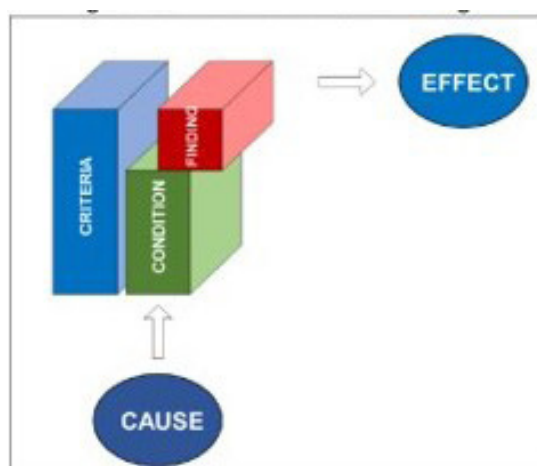
See [Chapter 5.7](#) for more information on qualitative analysis.

Among these descriptive statistics, regressions analysis and content analysis are more commonly used techniques.

5.5 Audit Findings

Audit findings are information gathered by the auditor during the fieldwork that will be used to answer audit questions. Audit finding is the discrepancy between the existing situation and the criteria. The findings contain the following attributes: criteria (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. Figure 16 shows the attributes of audit findings.

Figure 16: The Attributes of Audit Findings



In many cases, the effect of a finding may be quantifiable, e.g. expensive inputs or processes, unproductive facilities, time delays, etc. However, qualitative effects, as evidenced in a lack of control, poor decisions or a lack of concern for service, will also be significant and need to be considered. Active dialogue should be maintained with the auditee and potential audit findings discussed as they arise. Constructive discussion of initial findings with the auditee helps to establish the quantity and quality of evidence.

Audit findings should set out in a clear and logical framework to allow for an easy understanding of audit criteria applied, facts established by the evidence, and the analysis by the auditor of the nature, significance, and causes of the situation found. The impact in

terms of economy, efficiency and/or effectiveness must also be considered, as this provides the basis to demonstrate the need for corrective action.

The findings and information obtained during the audit, the conclusions and recommendations should be recorded in the Findings Matrix. 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 8 (PAM – SAI Brazil/139).

Figure 17: Summary of Audit Conclusion Making Process

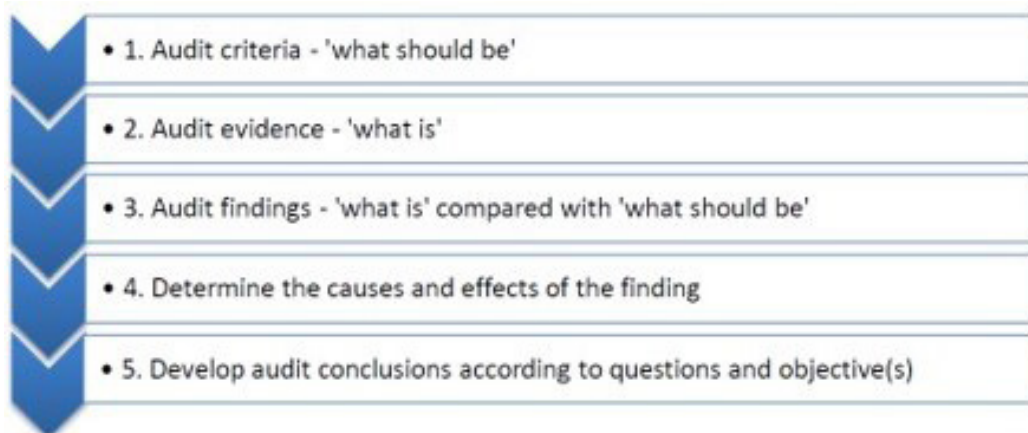


Table 8: Audit Findings Matrix

Audit objective: Clearly and objectively express what prompted the audit.							
Audit question (the same stated in the audit design matrix): For each audit question (or sub-question), the items mentioned below in the table should be repeated.							
Finding					Good practices	Recommendations	Expected benefits
Situation found	Criteria	Evidences and analysis	Causes	Effects			
Most relevant occurrences 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 producing evidences. The techniques used to handle the information collected during fieldwork and the results achieved should be indicated.	Reasons for the situation found. May be related to operation or design of the audit object. May be out of the control of the manager. Recommendations should be related to the causes.	Consequences related to causes and to corresponding findings. It may be a measure of the finding relevance.	Actions identified that lead to good performance. May support the recommendations.	Proposals to address the main problems identified. Should related with the causes. Should be few.	Improvements expected when implementing the recommendations. May be quantitative and qualitative. Whenever possible, quantify.

5.6 Sampling

5.6.1 Overview

Auditors seldom have the opportunity to examine all units or all data, documents and records. The central issue about the sample is that the sample selected has to be representative of the entire population, unbiased and sufficient to extrapolate the result to the entire population within the confidence levels (SAI Bhutan/5.1.6).

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 generalisations. 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 has to make a judgment as to whether sampling is an appropriate way of obtaining some of the audit evidence required.

Among the factors determining the sample size to be considered:

- the number and relative sizes of the items in the population;
- the complexity of the questions to be answered in the sample; and
- 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 textbox below. It is commonly used in social studies to ascertain the sample size when population is known and respondents are homogenous.

Example on Determining Sample Size

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

e² = 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.

5.6.2 Data Collection Methods

During a performance audit, the audit team can use many different methods for gathering evidence. Some of the methods are as follows:

- **File 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.

- **Document Review:** covers the review of documents gathered from the audited entity, general research reports, relevant publications (e.g. academic articles) and available studies conducted on the audit topic.
- **Post and Web Questionnaires:** Using physical post or the web, a questionnaire is sent for interview persons to answer. The questionnaire usually contains pre-formulated questions with fixed response options that the respondent has to fill in. Constructing good questions requires both knowledge of the field and insight into what is possible to answer by means of a questionnaire. This is why it is sometimes necessary to have recourse to experts.

Advantages and Disadvantages of Post and Web Questionnaires

Advantages: of questionnaires are that we are provided with our own up-to-date empirical data that has not been produced before and that the questionnaire responses often facilitate opportunities to draw general conclusions. Other advantages are that the respondent feels more anonymous than during an interview, that he has time to consider the response and that there is no interviewer influence.

Disadvantages: of questionnaires are that it can be time-consuming to design the questions, carry out correct sampling and to analyse the responses received. Furthermore, questions and often also response options are determined in advance and that they can lead to “shallow” responses. In addition, there is normally no scope for posing follow-up questions.

Source: Swedish National Audit Office Performance Audit Handbook

- **Surveys:** is a systematic collection of information from a defined population, usually done by means of interviews or questionnaires. Surveys are used to gather detailed and specific information from a group of people or organisations. Questionnaire is the data collection tool used in surveys (*Brazil – Survey in audits/3*). Questionnaires are used when comprehensive knowledge is needed.

Tips and Hints about Questionnaires

- Start the 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;
 - Avoid ambiguous and vague questions;
 - Ask only questions that will be used on analysis;
 - Don't ask two issues in one question;
 - Write clear, concise, accurate and objective questions;
 - Test the questionnaire with colleagues and experts; and
 - Do a pilot test, with the real survey environment.
- **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.

Advice on How to Select the Location for the Case Study

Materiality: states and municipalities that have received more resources;

- **Typical Case:** location with characteristics similar to many others;
 - **Good Example and Bad Example:** choose two similar locations: one with good performance and other with bad performance;
 - **Locations:** where the services are being implemented for some time; and
 - **Locations:** with many complaints about the quality of the service delivered.
- **Interviews²⁰:** is basically a question and answer session to elicit specific information. A great deal of performance audit work is based on interviews. Conducting an interview is not a simple task. It requires discipline, preparation and communication skills. To obtain the broadest possible view of the audit topic, it is important to interview people with different positions, perspectives and insights. The results of the interviews are then compiled and documented in a way that facilitates analysis and quality assurance.

Tips and Hints about Interviews

- Study the subject;
- 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 continue longer than the agreed duration;
- Be attentive, observant, objective, respectful, impartial and secure;
- Create a rapport with the interviewee – interview is not a cross-examination;
- Don't talk too much – listen and observe carefully;
- Be flexible, but have in mind 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; and
- Make notes on the key issues.

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

- **Seminars and Hearings:** Seminars might be used for acquiring knowledge on a specialised area; discussing problems, observations, and possible measures; gathering arguments for and against different views and perspectives. The purpose of hearings is mostly to invite or call for interested parties and experts to give their views on a particular area to be audited.
- **Focus Group and Reference Group:** 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. Focus groups are used to obtain information on the implementation and impacts

of government programmes based on the perspectives of the beneficiaries and other stakeholders. Reference groups act as a frame of reference to evaluate the achievement or performance of other groups.

Tips and Hints about Focus Groups

- Prepare a focus group guide (usually with open questions) and test it;
- Select the participants carefully. The group must be homogeneous, with similar experiences about the discussion topic;
- Mind the time. The focus group should last no longer than two hours;
- Be flexible, objective, respectful, impartial, secure, humorous;
- Favour equal participation, moderate the debate, value diversity of opinions;
- Ask permission for recording the session. Recording will be useful for data analysis; and
- Make notes on key issues.

Source: (Brazil – Focus Group in Audit)

- **Direct Observation:** Is a technique for qualitative data collection that uses the human 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 and to gather information about how a program actually operates, particularly the processes (*Brazil – Direct Observation for Audit*).

Tips and Hints about Direct Observation

- Prepare a direct observation guide;
- Establish rapport with people;
- Choose the right period and time to conduct the direct observation;
- Select only activities or phenomenon representative and relevant for audit objectives;
- Emphasise that the objective of direct observation is to know the work process, not to evaluate individual performance;
- Try not to disturb the normal flow of work or people's behaviour; and
- People perform differently when being observed. So, it could weaken the evidence, unless corroborated.

Source: (Brazil – Direct Observation for Audit)

5.7 Qualitative Methodology

5.7.1 Introduction

The purpose of this section is to indicate the possibility of using “naturalistic” or “qualitative” approaches to, especially, effectiveness auditing to reduce the various problems associated with trying to audit non-quantitative data and trying to assess whether goals have been met in areas where goals are difficult or impossible to define.

By “naturalistic” or “qualitative” is meant an inductive, descriptive approach which seeks to present reality as it is. It is derived from factual, empirical observation. This contrasts with the “scientific” or “quantitative” approach which is deductive, normative and which

anticipates what reality should be like. It is derived logically from assumptions and propositions existing outside the area being examined and is the normal approach to all types of audit.

The results of research,²¹ based on Performance Audit studies performed on English local authorities by their external auditors, indicate that there seems to exist a relationship between the audit and the efficacy of the “scientific” approach. Thus, the more basic the audit the more a “scientific” approach can be used and is appropriate.

The research revealed that very little “effectiveness” auditing was in fact being undertaken, presumably because of the difficulties in so doing. It was contended that as one moves toward the “effectiveness” end of the audit continuum it is necessary to adopt a more “naturalistic” approach to be able to successfully complete the audit.

Various “naturalistic” approaches were related to the audits and the following appear to have some merit in different situations, the validity of the approach obviously varying with the subject matter of the audit.

5.7.2 Professional Review

These are models in which experts examine the matter in hand and make judgments based on their subjective perceptions about the standards which are appropriate. There are three categories:

- **Art Criticism:** this is a “connoisseur” approach in which the expert would critically appraise the subject in the traditional way in which literary or artistic connoisseurs or critics work. Such an expert is unlikely to exist within an audit team but could be seconded or contracted for the period of the audit. Such an approach could be tried for the effectiveness of Government publications, museums and art galleries and horticultural displays;
- **Accreditation:** this relies on prior expertise and knowledge of selected experts to examine the subject and determine whether, subjectively, minimal standards are met. This could be applied by audit officers to internal audit, quality of budgetary data, etc.; and
- **Adversary:** in this approach two teams have to gather evidence about the subject: one to prove its effectiveness, the other not. Presentations are then made to a “jury” for a decision. This is the basic approach of public enquiries. It is an expensive exercise and would probably only be justified for major audits where other approaches are not feasible.

5.7.3 Transaction

This model concentrates on the subject processes themselves and aims at deducing the perceptions which underlie them. Various informal methods of investigation can be used in it, although case study is increasingly used as the major methodology. It treats each subject as unique and places prime emphasis on perception and knowing, using transactional processes to achieve this.

5.7.4 Decision Making

This model is based on what decisions are to be made and whether sufficient information was/can be made available to improve the quality of the decision making. This model has a strong management slant and so may be more acceptable in the areas where auditors usually work than other approaches.

5.7.5 Content Analysis

Content analysis is a set of communication analysis techniques that aims to obtain, through systematic and objective procedures of the content’s description, indicators that allow the inference of knowledge. It is used to analyse interviews, focus groups and documents (Bardin – Content Analysis, 1970).

There are different kinds of content analysis. The most commonly used is the categorical analysis. It is done by breaking up the content in different categories. The content analysis can be done on open questions (without pre-defined answers), which gives different views from the respondents, while analysing the answers of a questionnaire.

The content analysis has three phases:

- **Pre-analysis:** data are organised and procedures for analysis are established;
- **Material Exploration:** the codification, breaking up and enumeration are executed; and
- **Results Treatment:** is about interpreting the results.

An example of content analysis used in a performance audit is presented below.

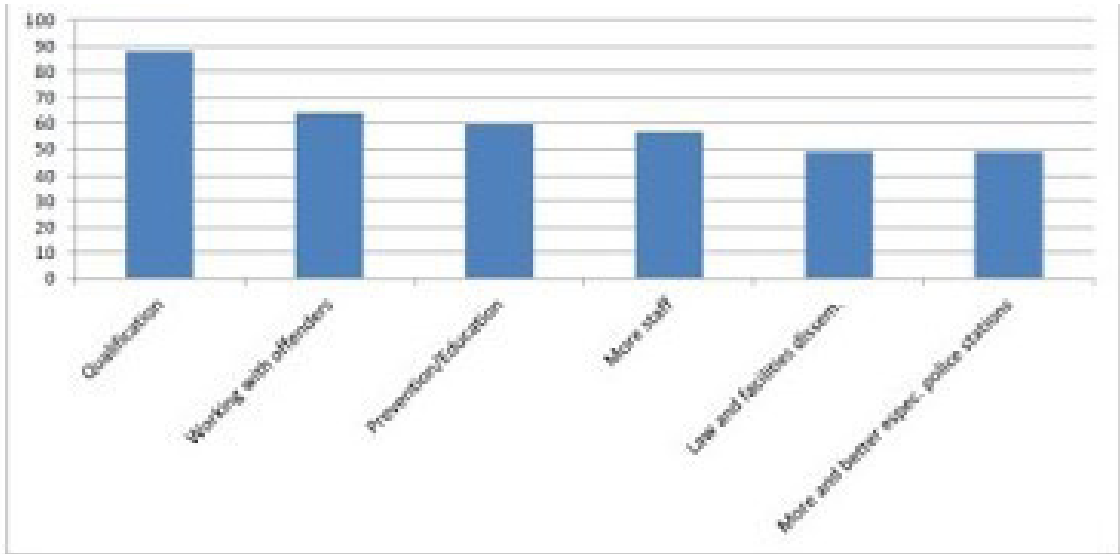
Content analysis used in the performance audit in actions to face domestic and family violence against women (SAI Brazil)

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 categorised. The six most popular categories are showed in Figure 18.

Figure 18: Answers from Attendants



5.7.6 Conclusion

The use of these, and other, “naturalistic” approaches has been confined largely to the evaluation of education programmes in the USA. There seems no valid reason why the “naturalistic” approach cannot be tried in respect of “effectiveness” auditing to try to improve the results in that area.

“Economy”, “efficiency”. “equity” and more “basic” audits use largely “scientific” methods but “effectiveness” reviews may use largely “naturalistic” approaches, but the matching is not exact. This is expressed diagrammatically in the Figure 19.

Figure 19: The Matching of Efficiency/Effectiveness Audits with Scientific/ Naturalistic Paradigms

		Audit Approaches	
		<i>Scientific</i>	<i>Naturalistic</i>
Audit Types	<i>Efficiency</i>	[Large area]	[Small area]
	<i>Effectiveness</i>	[Small area]	[Large area]

5.8 Conclusion

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.

Chapter 6: Reporting on a Performance Audit

6.1 Introduction

It is important that:

*“the auditors should prepare written audit reports. Given the amount of reporting required during an audit, the reporting process may be facilitated by the use of a continuous report-writing process”.*²²

The audit report is the end-product of the entire audit process. A properly conceived (at planning) and implemented audit (at conducting) provides the basis for a good report. The report-writing process has to be considered as a continuous one of formulating, testing and revising ideas about the topic. This process may well start at the beginning of the audit.

The purpose of audit report is to communicate the results of the audit to the legislative authority, the auditee and to the wider audience. The key to a good report is effective communication, with the report clearly and objectively setting out the main findings and conclusions on the audit questions, allowing the reader to understand what was done, why and how, and providing practical recommendations.

The GUID #3910 requires:

“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. The report-writing process should be viewed as a continuous one of formulating, testing and revising ideas about the topic. This process may start at the beginning of the audit.”

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.

As required ISSAI, the audit report should be reliable and contain objectives, scope, methodology and sources used, as well as audit findings, conclusions and recommendations.²³

The reports on Performance Audits are the main way to offer to Parliament independent information, solutions and assurances concerning the economy, efficiency, effectiveness and equity of public funds use by the audited entities, (even if it refers to past events), because by key messages can give a vision of the future.

6.2 Text of Performance Audit Reports

Whilst the standard will determine the structure and contents of the Performance Audit Reports, the actual text will follow the “house style” of the individual SAI. This should be documented somewhere in the SAI rules and regulations – possibly in the Communications Manual. Whilst this is a decision of the Head of the SAI, there are a number of basic rules which should be followed in any audit report. These include:

- **Who is my Reader?:** the words used should reflect the expected used of the report. For example, you should not use technical audit language if the report is aimed at, say, the Public Accounts Committee;
- **Check to Original Sources:** do not check the final report to the previous draft but go back to the original source material;

²² INTOSAI, Implementation Guidelines for Performance Auditing
²³ ISSAI #3000, 5.2

- **Cross-Check Figures:** in a different way to that in which they were originally prepared. Nothing undermines the credibility of an audit report so much as figures which do not add up;
- **Circle of Information:** always look for a method that does not leave loose, unverified ends;
- **File all Working Papers:** state the sources of all figures used. Cross out, so that it can still be read, any section of working papers not used and write on it “not used”. State in the working papers details of all calculations (e.g. loan period, rate of interest, number of units, unit costs, etc). Describe the basis of arguments and calculations;
- **Comparative Checks:** Ensure that the results make sense by means of comparative checks, either internally within the problem or external to it;
- **Figures:** Never overwrite or rub out figures to alter them. Always cross out so that the crossed-out figure can still be read and re-write the new figure above it;
- **Margin:** always leave a margin on the filing side of the sheet so that it can be read on the file;
- **Paragraphs:** break up the reports section into a number of fairly short paragraphs (6 to 10 lines) with, ideally, one main point per paragraph;
- **Sentences:** should be variable in length but never too long;
- **Tense:** make use of the **active tense** (Our staff checked the invoices....; We recommend) rather than the **passive tense** (The invoices we audited by our staff; It is recommended). The active tense is generally shorter and easier to understand.

6.3 Reporting an Individual Performance Audit

6.3.1 Introduction

A graphical representation of the reporting phase is illustrated in Figure 20.

Figure 20: The Reporting Process



6.3.2 Input

- While writing the audit report, the auditor should **revisit the audit plan** and the design matrix to **ensure that all the key issues** identified at planning stage had been **covered** in the fieldwork;

- The audit memoranda and response to the memoranda and working papers on evidence gathered are a **source of information for the audit report**;
- **Analysing working papers** while writing the report will lead to a better report and the risks for error will be reduced; and
- The **Findings Matrix** is the basis for the audit report.

6.3.3 Process

- The **communication with the audited entity to obtain comments** on the preliminary audit conclusions can be done by holding exit meetings to discuss audit findings and conclusions and sharing the draft report with the audited entity, seeking for their response;
- The **response of the audited agency is examined and incorporated** and necessary changes are made to the draft report, provided the evidence requirements are satisfied;
- The written report is sent to SAI review teams who are independent of the audit engagement or external for **pre-issuance quality reviews**. Such reviews provide an independent assurance that the report is balanced; and
- **Necessary changes**, if needed, are carried out to finalise the audit report.

6.3.4 Output

- The main output of this stage is the **Final Audit Report**;
- The report is **disseminated widely** to various stakeholders as per the mandate of the SAI;
- The diverse audience for performance audit work suggests that SAI **address different groups with different products**; and
- Performance Audit work can lead to a *number of separate products in addition to the report*, including summaries, leaflets, brochures, press releases and presentations.

6.4 Attributes of a Good Performance Audit Report

The main attributes of a good report are:

- **Comprehensive:** an audit report needs to include all the information and arguments needed to address the audit objective and audit questions. At the same time, the report should be sufficiently detailed to provide an understanding of the subject matter and the audit findings and conclusions (ISSAI #3000/117). The report includes the audit objective, the scope and the methodology used to address the objective

The report also includes the criteria used provides the background information about the audit topic and the limitations to conduct the audit. Most importantly, the report should be backed by sufficient and appropriate evidence to support the findings and conclusions in relation to the audit objective (GUID #3920/110-114).

- **Convincing:** to be convincing, an audit report needs to be logically structured and present a clear relationship between the audit objective and/or audit questions, audit criteria, audit findings, conclusions and recommendations. It also needs to present the audit findings persuasively, address all relevant arguments to the discussion, and be accurate. Accuracy requires that the audit evidence presented and all the audit findings and conclusions are fact-based and correctly portrayed (ISSAI #3000/118). 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. Inaccurate reports can damage the credibility of the SAI.

Auditors should strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced. (ISSAI #300/39; ISSAI #3000/116)

- **Timely:** an audit report needs to be issued on time in order to make the information available for use by management, government, the legislature and other interested parties (ISSAI #3000/119). The audit report is intended to result in improvement in processes and structures in the entity. These improvements are expected to enable the entity to achieve its objectives more efficiently or effectively. The sooner the reports are prepared, the better for all parties to achieve the desired results.
- **Reader-friendly:** the auditor should use simple, clear and unambiguous language in the audit report to the extent permitted by the subject matter. The report should be concise with adequate illustrations. It will ensure that the audit report volume is not larger than it is required to be, which will ensure clarity and helps to better convey the message of the report (ISSAI #3000/120). A key success factor for reader-friendly reporting is to know the audience, understand its needs and make the report accordingly (GUID #3920/121).
- **Balanced:** being balanced means that the audit report needs to be impartial in content and tone. All audit evidence needs to be presented in an unbiased manner. The auditor needs to be aware of the risk of exaggeration and overemphasis of deficient performance by the entity (ISSAI #3000/121).

6.5 Visual Aids

6.5.1 Introduction

Judicious use of visual aids such as graphs, charts, and maps as well as relevant and informative photographs make the report much easier to understand for people who respond better to a visual presentation.

This point has been endorsed in this manual which is much more highly illustrated than its predecessor.

With visual aids it is important to ensure that they are unambiguous and immediately draw attention to the point the auditor is trying to make. Sometimes in a bid to be efficient, an auditor will prepare a visual aid which addresses several points. This may obscure the point for some people and for others may mean that they have to analyse the visual aid closely.

What is true for sentences is true for visual aids, there should only be one idea represented. Many of the reports of the US Government Accountability Office (GAO) make excellent use of visual aids and auditors looking for examples on how to use visual aids in an audit report should examine recent reports on the GAO's website (www.gao.gov).

6.5.2 General Points about Using Graphs

Tables include the raw data gathered during the audit. Some auditors are not interested in a graphical presentation of data and may be inclined to put any graphs in appendices. However, auditors are not writing the report for themselves, and there will be readers for whom the graphs provide a better understanding of the audit.

Put any graphs in the body of the report, because putting them in an appendix requires the reader to go searching for them and this may mean they won't be read at all. However, the raw data should be included in tables included in appendices.

Consider how the graph will look in the final document. If the report may be reproduced, it

will probably be printed in black and white. In this case, print the report and see how the graphs look in black and white. Graphs may become difficult to interpret if there is little difference between shades of grey.

6.5.3 Thinking about Special Charts

Sometimes special charts can help clarify or even reduce the amount of text needed to explain something. For example, often a process or flowchart can help the report reader to understand a process or procedure. A well-constructed flow chart can also highlight unnecessary, overlapping, or repetitive steps. Likewise, readers can visualise an organisation very quickly when the report includes an organisation chart.

Readers can often understand organisational issues when they can see reporting relationships.

6.5.4 Including Maps

In some cases, having an understanding of where something is happening may be important to understanding the report findings. If the auditor suspects that readers may not be familiar with the area under discussion, and if that is important to the report message, then appropriate maps should be included in the report text.

6.5.5 Photographs

Photographs are very good for ensuring that all readers get a clear understanding of a particular situation when explaining it in sufficient detail to provide this understanding would take hundreds of words. Photographs are also good for 'before and after' presentations. Auditors should take care to ensure that the picture really shows what they want it to show.

For example, **Photograph 1** demonstrates the use of composting to reduce waste. Although this can be easily described, the photograph creates more impact for the reader.

Photograph 1: Composting to Reduce Waste



Source: Office of the Auditor-General of Tuvalu

Sometimes it is possible to make a significant impact by providing a photograph to illustrate a problem as well. **Photograph 2** illustrates the unauthorised use of a government motor vehicle on the weekend.

Photograph 2: Unauthorised Motor Vehicle Use



Source: Office of the Auditor-General of the Solomon Islands

[Annex 8](#) provides more detailed guidance on including visual aids in the audit report.

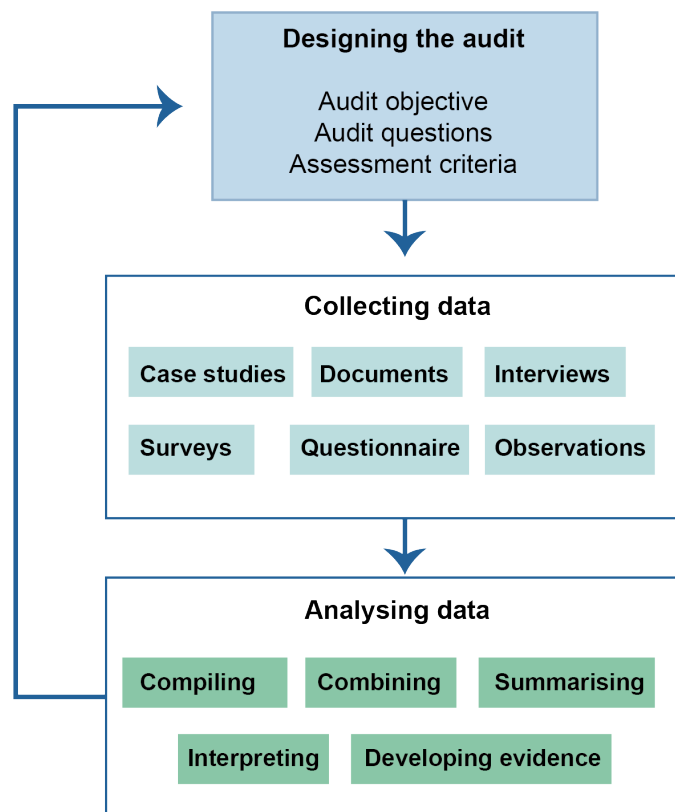
6.6 Form and Contents of a Report

Due to the possibility of auditing diversified topics in performance audit, the content of the audit report will vary. Typically, the content of a performance audit report will follow ISSAI #3000/117 and include:

- **Title and Subject Matter:** The performance audit report should have a suitable title. The title could also indicate the audited entities responsible for the activities audited.
- **Table of Contents:** This illustrates the structure of the report with details of sections.
- **Executive Summary:** The executive summary should reflect accurately and comprehensively what is in the report and guide the reader to the significance of the audit questions and the answers thereto. It summarises the background, major findings, conclusions and recommendations. It is a short summary designed for those who have little time to read the full report.
- **Introduction:** The introduction to the report sets out the context of the audit, helping the reader to understand both the audit and the observations. It comprises a description of the audit area or subject. The introduction should not be overly long and detailed. Typically, it contains a statement but not audit observations. If further detail is considered as useful for the reader, it will be provided in an annexe, and indications can be given of how the reader could obtain further information (e.g. references).
- **Audit Objective(s), Audit Questions:** A description of the audit objective(s) and the audit questions should be included in the report, in a logical and interrelated way. 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.

- **Audit Scope and Approach, Audit Time Period Covered:** The audit scope and approach is key to the reader understanding what to expect from the report, and thereby what use can be made of the results and conclusions and the degree of reliance to be placed thereon. Different readers have different needs and expectations from the audit. The approach refers to the problem, result or system-oriented approach or a combination there of. Time period is related to the scope that defines which period is covered under the audit.
- **Audit Methodology of Data Gathering and Data Analysis Applied:** A description of the audit methodology used for addressing audit objective(s) should be included in the report. The methodology can be described briefly, however, readers from the audit and academic community usually welcome more detail, in particular concerning the scope and methodology employed. Therefore, in concise form audit methodology and approach, sources of data, and any limitation to the data used, data gathering and analysis methods use should be mentioned. Detailed information can then be included in appendices, if necessary.

Figure 21: the Role of Data Analysis in Performance Auditing



Source: AFROSAI-E PAM

- **Audit Criteria and its Sources:** It is essential to have suitable audit criteria for assuring the quality of a performance audit. Clarifying and developing the audit criteria might be part of the value added by the performance audit (ISSAI #3000/46). Therefore, it is important to state in the audit report, what are the audit criteria, how they were developed and what the sources were. Audit criteria are not always readily available in performance auditing. In such cases, the audit team needs to develop the criteria and agree with the audited entity. If the audited entity does not agree with the criteria, the auditor has the final responsibility to set it. The audit criteria are typically based on knowledge of best practice on how activities are carried out to be most economical and efficient (or what conditions are the most favourable for good performance and effectiveness).

- **Audit Findings/Observations:** Audit findings represent the difference between ‘what should be’ and ‘what is’, also explaining the cause and the effect of this difference. It should clearly be related to the criteria and to the information gathered during fieldwork. The auditor shall ensure that the audit findings clearly conclude against the audit objective(s) and/or questions or explain why this was not possible (ISSAI #3000/124). The findings could be organised according to the audit questions. Each audit question could be a chapter of the audit report, with its respective findings under it.
- **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.

Formulating conclusions may require a significant measure of the auditor’s professional judgment and interpretation in order to answer the audit questions. This would also depend upon the sensitivity and materiality of the audit issue under consideration. It is necessary to consider the context and all relevant arguments, pros and cons, and different perspectives before conclusions can be drawn. The need for precision is to be weighed against what is reasonable, economical and relevant to the purpose (ISSAI #3000/115).

- **Recommendations:** The auditor shall provide constructive recommendations that are likely to contribute to addressing the weaknesses or problems identified by the audit, whenever relevant and allowed by the SAI’s mandate (ISSAI #3000/126). Recommendations need to avoid truisms, address the causes of problems, and not encroach on the management’s responsibilities (ISSAI #3000/127). The report should recommend actions to correct deficiencies and other findings identified during the audit. It should help to improve programmes and operations when the potential for improvement in programmes, operations, and performance is substantiated by the reported findings and conclusions.
- **Appendices:** Appendices can be used to present detailed descriptions and findings and also may 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 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. Appendices are 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.

6.7 Publishing and Distributing Reports

Distributing audit reports widely enhance the visibility and credibility of the SAI’s audit function (ISSAI #3000/134). Therefore, SAI will decide on the mode of distribution of reports on the basis of their respective mandates. Each performance audit will normally be published in a separate report, either in print or online, or both. The reports will be distributed to the legislature and the responsible parties. Unless prohibited by legislation or regulations, SAIs should make reports accessible to the public and to other interested stakeholders directly and through the media. If the SAI reports are available for public discussion and criticism it allows the SAI to act upon and improve its audit work (GUID #3920/137).

6.8 Follow Up to the Audit Report

According to the Key principles of Performance Audit:

“Follow-up of the audit report should be part of the audit process as it is an important tool used to strengthen the impact of the audit and improve future audit work. The priority of follow-up tasks should be assessed as part of the overall audit strategy of the SAI.”

INTOSAI Implementation guidelines on performance auditing states that a follow-up process will facilitate the effective implementation of report recommendations and provide feedback on the SAI, the legislature and the government on performance audit effectiveness.

See [Chapter 7](#).

6.9 Performance Audit Report (PAR) Examples

The separate volume of Case Studies includes three reports. Two are fairly simple, “good-house-keeping” type reports (printing and vehicles) which follow the structure of the organisation concerned rather than the ISSAI structure. They are included as they provide valuable guidance as to the type of thing we would expect to see in such reports.

The Audit Service of Sierra Leone (ASSL) has produced a number of PAR in recent years. Given the relative stage in the development of its performance audit skills, we consider these useful examples.

They include:

- Environmental Compliance;
- Management of Fertiliser;
- Management of Government Buses;
- Management of Government Residential Quarters;
- Management of Healthcare Waste; and
- Management of School Facilities.

They, and others, can be found on the ASSL website - www.auditservice.gov.sl.

The major case study provides an **outline template** which follows the ISSAI and provides guidance as to what is required in each section.

6.10 Communications Strategy

6.10.1 Introduction

There are several reasons why planning communication with the audited entities and stakeholders is of particular importance in the entire performance audit. For example, as performance audits are not normally conducted on a regular basis on the same audited entities, channels of communication may not already exist. Often there are no predefined criteria and thus an intensive exchange of views with the audited entity is necessary. Besides, the need for balanced reports requires an active effort to obtain insight into the points of view of the various stakeholders (ISSAI #300/29).

It is a good practice for the SAI to develop a Communication Strategy or policy 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 areas.

6.10.2 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. Auditors should notify audited entities of the key aspects of the audit, including the audit objective, audit questions, subject matter, audit criteria and the time period to be audited (ISSAI #3000/57). Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report (ISSAI #300/29). 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.

6.10.3 Parliament/Legislative Body

Communication with parliament/legislative 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 attend the PAC hearings where audit reports are discussed. The legislature should appreciate 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.

6.10.4 The Media

As soon as the audit report is tabled in Parliament, it becomes public. The report and news releases are posted in the media. It is important that the SAI ensures 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. Following is important to ensure proper communication with the media with relations to the audit report:

- 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; and
- Conducting media analyses to assist in improving message development.

6.10.5 Citizens and Other Stakeholders

Citizens are, at the same time, a source of ideas for performance auditing, a source of demand for performance auditing, and the users of performance audit reports. They may be informed directly or through non-government organisations that represent them. Depending on the circumstances within the 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 and professional organisations. They have expert knowledge in specific audit areas, and may provide an objective view, less restricted by personal interest. Non-government organisations can also 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 and relevant material that is of interest to them and to the society.

Chapter 7: Following Up Performance Audits

7.1 Introduction

Performance auditing guidelines recommend that auditors should follow-up instances of non-compliance when appropriate.

The auditee should have a reasonable opportunity to provide comments on any factual errors it identifies in the final audit report.

If these factual errors are accepted, the audit report will be rectified before the report or the findings in the audit report is made publicly available.

The SAI should consider the information in the final audit report and any submissions from the organisation and respond in a proportionate manner to any problem areas identified through the audit process.

It should be noted that the follow-up process may not be applicable in all instances and in all SAI. The mandate of the SAI along with the nature of the audit will determine if follow-up is applicable.

In order to promote transparency, the SAI should publish a summary of outcomes of each Audit on its website at the conclusion of the audit follow-up process.

7.2 Why Follow-up

The SAI has a role in monitoring actions taken by the responsible party in response to matters raised in an audit report. The need to follow-up previously reported instances of non-compliance would vary with the nature of the subject matter, the problem identified and the particular circumstances of the audit. The follow-up process facilitates the effective implementation of corrective actions and provides useful feedback to the audited entity, the users of the report and the auditors in planning future audits.

Follow-up serves many purposes for the three parties. These include:

- **For the responsible party:** Demonstrates the audited entity's effectiveness in addressing the issues;
- **For the intended user:** Provides an update on what has been achieved by the responsible party and the existing gaps, if any; and
- **For the auditor:** To assess the effectiveness of its work.

7.3 What to Follow-up

Follow up focuses on whether the audited entity has adequately addressed the matters raised, in a specific audit report.

Here are some examples of what to follow-up:

- Recommendations in the audit report; and
- Issues raised by intended users', example, Parliament, Public Accounts Committee or the Public.

It is important to note that the auditor may expand the scope to include other relevant aspects outside of its recommendations. The key here is to determine whether the entity complied with all the necessary directives.

7.4 When to Follow-up

The decision as to when to follow up would be based on a number of factors. If the audit was a one-off attestation engagement, then follow-up may not be necessary. However, if auditors come out with significant deviation having implications for the citizens, even the audit engagement is one off, its results should be followed up.

If the engagement is a direct engagement and is conducted at specific periods then follow-up may be necessary.

The auditor should allow the responsible party sufficient time to implement the recommendations yet still ensure that the follow-up is relevant to the intended users. As a result, the auditor would exercise professional judgment in this regard.

7.5 How to Follow-up

SAI may have established policies and procedures for conducting follow-up. The auditor may prepare an audit plan identifying the resources to be used, the recommendations and audit findings to be examined and timeframe in which to complete.

Some audit procedures that were used during the initial audit engagement may be applicable during the follow-up. The auditor should access to determine adequacy of these procedures.

Other follow-up processes may include internal reviews and evaluations prepared by the audited entity or others.

Regardless of the form, the auditor should obtain sufficient and appropriate audit evidence to support the findings and conclusions.

The follow-up report could follow the same reporting lines as the audit engagement including submission to relevant intended users.

The auditor can make use of a form to record the work undertaken (see **Template #3**).

7.6 Decisions of the SAI

The SAI may decide, based on the results of the follow-up, to continue monitoring the implementation measures of the audited entity or it may take the decision to undertake an entirely new audit engagement. In audits carried out on a regular basis, the follow-up procedures may form part of the subsequent year's risk assessment.

PART TWO: PERFORMANCE AUDIT QUALITY

Chapter 8: Managing Audit Risk

8.1 Introduction

As with the previous chapter, the IDI ISSAI Implementation Handbooks provide excellent material for this chapter and have been relied upon extensively. The organisation of performance audit should satisfy the general requirements of good project management. Akin to the risks faced in executing a project, audit risks exist in successfully conducting a performance audit engagement. The audit risks and the specific ISSAI requirements and good practices to mitigate these risks will be discussed in this chapter.

8.2 Performance Audit Risks

The important performance audit risks are (ISSAI #300/28):

- incorrect or incomplete conclusions;
- providing unbalanced information and unable to put audit findings in perspective;
- not adding value to the users;
- lacking access to and quality information;
- inability to conduct sufficient analysis;
- failing to collect or address the most relevant arguments;
- fraud risk and abuse of resources and irregular practices; and
- handling of substantial complexity and political sensitivity.

8.3 ISSAI Requirements and Good Practices to Mitigate Audit Risks

8.3.1 Introduction

It is necessary to remember that controls and practices to deal with the audit risk have to 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.

8.3.2 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. In case of a performance audit, sometimes an overall audit conclusion is not 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 actions can help in mitigating the risks:

- Performance auditors possess adequate professional proficiency to perform their tasks. 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;

- The audit team collectively possesses adequate knowledge of the subject matter and audit techniques;
- 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. 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;
- Audit evidence should be sufficient, valid, reliable and relevant in order to support the auditor's judgment and conclusion regarding the audit questions. Quality audit evidence when gathered greatly helps in arriving at correct audit conclusions;
- 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. 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; and
- 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. 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.

8.3.3 Providing Unbalanced Information and Unable to put Audit Findings into 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; and
- entity's performance is assessed without reference to standards of acceptable performance.

These risks could be mitigated by following these:

- When analysing data, information is put in perspective by comparing the results to audit criteria or to what is generally expected. Arriving at audit findings by comparing 'what is expected' (criteria) with 'what could be' (condition) would provide details of benchmark against which performance is assessed and lend a proper perspective;
- It is important that the auditors seek information from different sources, since organisations, individuals in an organisation, experts, and interested parties have different perspectives and arguments to put forward. It is expected that auditors are 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;

- 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. 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;
- 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;
- 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. 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; and
- Performance audits should be subject to quality control, in order to provide reasonable assurance that the reports are appropriate and balanced.

8.3.4 Not Adding Value to the Users

Adding value is about providing new knowledge and perspectives. Further, 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; and
- 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 practices can help in mitigating this risk:

- 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. Thus, a systematic strategic planning process will largely ensure that the topic chosen for performance audit will add value;
- 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. 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;
- The planning phase always involves certain research efforts, with the aim of building knowledge. 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;

- Recommendations, where provided, are logical, practical, knowledge-based and are based on competent and relevant audit findings. Writing audit recommendations that flow from the audit findings and which are practical and accepted by the audited entity/government adds value; and
- 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. Wide dissemination of the audit report adds value by making information accessible to various stakeholders.

8.3.5 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:

- Audit planning documents should contain the possible sources of evidence and the techniques to be used for gathering evidence. 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;
- 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. 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;
- A performance audit conducted in accordance with applicable auditing standards examines the quality of the information provided. 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;
- The nature, location, and availability of files are established at the outset of a performance audit so that they can be examined cost effectively. This is a more specific requirement about access to files being defined at the planning phase;
- The SAI uses its powers of access to information tactfully and with due regard to the ongoing operational responsibilities. 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;
- Audit teams assess the system's internal control if they are to rely upon the documents that are the output of management control systems. 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;
- Performance auditors should be resourceful, flexible and systematic in their search for sufficient evidence. They must seek data from different sources and stakeholders. Auditors should always try to be practical in their efforts to collect, interpret and analyse data. While primary or own source data is usually the most reliable, secondary data which is collected and/or analysed by others (e.g. performance

evaluation reports, internal audit reports, etc.) can be an important source of information in performance audits;

- 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. Oral evidence has to be corroborated if it is used as evidence rather than as background information; and
- The audit report includes information about the source and quality of data and limitations concerning access to information. Issues of not having access to information and quality of information can also appear as findings in the audit reports.

8.3.6 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. This can help in meeting this risk:

- Performance audit topics selected are auditable. Auditability is a key criterion to be considered while choosing topics for performance audit as part of strategic audit process;
- 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 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;
- 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. 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. 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;
- The audit team collectively possess adequate knowledge of the subject matter and audit techniques. 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; and
- When criteria are vague, conflicting or non-existent, auditors might have to reconstruct 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.

8.3.7 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 actions given below:

- Performance audits are performed with due care and appropriate supervision. 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;
- To avoid getting caught up in details and a flood of data, detailed assessments of the need for information is made during the audit. Assessment of need for data has to 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;
- When analysing data, the audit objectives and the audit question is reviewed first. Revisiting the audit question and objectives/problems while analysing data helps in checking for collection of information on all audit issues and arguments; and
- 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. When data is analysed and audit conclusions are drawn, all main arguments have to be clearly listed out, so that they can be discussed with the audited entity and are not lost track of.

8.3.8 Fraud Risk and Abuse of Resources and Irregular Practices

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 (see [8.4](#)). This could be achieved by:

- Obtain an understanding of relevant internal control systems and examine whether there are signs of irregularities that hampers performance. A good understanding of the internal control systems will help the auditors to identify major weakness in the system that could lead to irregularities;
- In performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse. 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;
- Auditors have to verify whether the entities concerned have taken appropriate actions to address recommendations from previous audits or examinations of relevance for the objectives. 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; and
- Any financial irregularities are reported to the authorities concerned in the course of audit work, where appropriate. 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.

8.3.9 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.

These can help in mitigating this risk:

- The SAI must maintain both actual and perceived political neutrality. 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;
- 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. Performance auditing examines whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, depending on the SAI's mandate, but examines whether any shortcomings of the laws and regulations or their implementation have prevented the specified audit objectives from being achieved (ISSAI #3000/31); and
- 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).

8.4 Fraud²⁴

8.4.1 Overview

The international standards require auditors to perform procedures to identify and respond to the risks of fraud relevant to the audit objectives. If the risk of fraud is significant, it is important during the audit for the auditor to obtain a good understanding of the relevant internal control systems and examine whether there are any signs of irregularities that could hamper performance.

ISA #240/11 defines fraud as:

“an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage”.

Corruption is defined by World Bank as:

“the abuse of public office for private gain”.

The textbox below presents ten principles that in general reduce the risk for fraud and corruption in the relation between government and citizens or the private sector.

PRINCIPLES REDUCING THE RISK FOR FRAUD AND CORRUPTION IN GOVERNMENT OPERATIONS

1. Mechanisms are put in place **to prevent risks to integrity** in public operations, including mechanisms to ensure that public officials meet high professional standards of knowledge, skills and integrity.
2. There are **clear procedures** to follow and **clear criteria** to be used in decisions on benefits or obligations for, or delivering of services to, clients.
3. There is a **clear chain of responsibility** and effective supervision and control.
4. As far as possible, there are **no manual handling of cases without registration** and follow-up through IT systems and there are *no payments of cash* to officers providing services.
5. There is **no unnecessary complexity** in the administrative systems.
6. There is **adequate co-operation between government entities and clients and stakeholders**, to maintain high standards of integrity.
7. There are specific **mechanisms to monitor decisions on obligations or benefits for, or delivering of services** to, clients as well as to **detect misconduct** and apply sanctions accordingly.
8. **Complaints** from clients are **handled in a fair and timely manner**, with the possibility of an independent second opinion.
9. There is adequate **transparency** regarding the procedures, criteria and performance of public services.
10. Clients, civil society organisations, media and the wider public are **empowered to know their rights and obligations as well as what services to expect** and are encouraged to scrutinise public services.

Many of the above principles are related to what is required of public organisations to operate economically, efficiently and effectively also in other respects than avoiding fraud and corruption. It is also important to have systems addressing significant violations of regulations and suspicions of fraudulent activities once they occur.

It is the management of government entities that have the main responsibility for assessing the risk for fraud and take appropriate measures for preventing it and addressing it when it occurs. Five principles for managing risks for fraud are presented in the box below.

FIVE PRINCIPLES UNDERPINNING A SOUND FRAUD RISK STRATEGY FOR GOVERNMENT ENTITIES

Government should:

1. Have a well-developed understanding of the fraud risk inherent in its programs
2. Manage fraud risk through clear roles and responsibilities
3. Have appropriate preventative and deterrence measures in place and regularly monitor their performance
4. Have appropriate detective, investigative and disciplinary procedures in place and regularly monitor their performance
5. Have appropriate reporting procedures in place to communicate the results of its fraud risk management activities to its stakeholders

Source: Guidelines for managing the risk of fraud in government, Office of the Auditor-General of British Columbia, August 2010

8.4.2 Considering Fraud with Performance Auditing

Fraud may be committed by individuals but can also be more broadly prevalent in government systems and entities. In general, the performance of individuals is significantly affected if they are taking bribes or are involved in using deception to obtain unjust or illegal advantages. The significance of risks for performance problems due to fraud are affected by the type of government operations as well as by the general prevalence and perception of fraud and corruption in society.

The methodology of performance auditing is appropriate for analysing the functioning of administrative and management systems in order to better prevent fraud and corruption. However, performance auditing is in general not well designed to identify and/or investigate individual cases of fraud and corruption. When suspicion arise on individual cases of fraud and corruption, performance auditors should report those suspicions to management, for consideration on whether to make further investigations and/or to report the suspicions further to the appropriate authorities.

Each audit has to be governed by the audit objective, which may make the risk for fraud and corruption more or less relevant in the audit. To meet the requirement in ISSAI #3000/73, the following questions could be considered in planning performance audits.

- Is there a perception in the country of more general problems with fraud and corruption in the public sector?
- Are there inherent risks for fraud and corruption that may significantly affect the performance in the concerned government activities and systems?
- If the risk for fraud and corruption in government general and/or in the specific operations are considered to be significant, auditors are advised to perform limited procedures (interview management and possibly staff, and review documents) in the audited entities to collect information on the risks and the mitigation actions taken by management.

If the risk for fraud and corruption is considered significant, and management has not taken appropriate action, the auditors should consider what appropriate action to take. These actions may include to:

- address (explicitly or implicitly) the risk relevant to the audit objective if such risk could affect government performance;
- inform management of the audited entities that, preliminary, weaknesses in handling the risk for fraud and corruption have been identified, but will not be addressed in the current audit as they are not relevant to the audit objective;
- inform financial and/or compliance auditors in the SAI about the preliminary observations made;
- inform those charged with governance of the concerned audit entities about the preliminary observations made; and
- inform the appropriate enforcement or oversight authorities, such as the police or an anti-corruption commission about the preliminary observations made.

There are many opportunities to consider the risks for fraud and corruption in performance auditing, for example:

- To select audit topics that addresses systems where fraud and corruption is known or perceived to be significant;
- To define audit questions targeting factors or systems likely to explain poor performance as well as enabling fraud and corruption;

- If relevant to the audit objective, to collect data directly providing evidence for that fraud and corruption are likely to be a cause to poor performance;
- To consider in the analysis if fraud and corruption may be underlying reasons for observed performance problems, even if no direct evidence has been obtained;
- In developing recommendations, to consider how the performance can be improved at the same time as the recommended measures are designed to have a preventive effect on fraud and corruption; and
- To separately report observations or suspicions of fraud and corruption to the relevant authorities or regularity auditors as appropriate, regardless of whether the information will be used in developing the performance audit report or not.

8.5 Conclusion

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 have to 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.

Chapter 9: Performance Audit Documentation

9.1 Introduction

It is important to establish a system for documenting the actions taken and the communications made as well as the audit evidence and analysis conducted in the audit. The SAI should ensure timely documentation (such as audit work papers) of all work performed. All documentation should be the property of the SAI and retained for the period specified in laws, regulation, professional standard and guidelines (ISSAI #140/6).

This will make it possible for the auditor to have easy access to the information. The filed information will facilitate the preparation of the report and provide confirmation of the auditor's findings. It will also enable supervisors to review the work done as part of the SAIs quality control procedures, as well as assist the SAI to ensure whether the predefined quality threshold of audit was achieved by the audit team and the audit management. Therefore, INTOSAI states that documentation is a critical process in the audit not only for the auditor but also for the SAI.

Adequate documentation is important to provide a clear understanding of the audit work carried out, to enable an experienced auditor with no prior knowledge of the audit to understand the nature, timing, scope and results of the audit performed and the audit evidence obtained to support the findings, conclusions and recommendations, and the reasoning behind all significant matters that required the exercise of professional judgment (ISSAI #3000/87).

Depending on the purpose and context of the audit, examples of the types of records that are generally expected to be documented for most performance audits, include details of the audit plan and methodology, results of field work and analysis, communications and feedback with the audited entity, and supervisory reviews and other quality control safeguard (GUID #3910/114). These documents are then maintained in two types of audit files – the permanent audit file and the current audit file.

- **Permanent Audit File:** holds more information that can be used in future audits, such as organisation charts, letters of engagement etc.; and
- **Current Audit File:** holds detail information regarding the audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached in a particular audit.

Key summary documentation of the data and methods used may be mentioned in the audit report, but the data on which this is based (e.g. written data obtained from auditee or interview notes) has to be kept in an audit's working papers (Performance Audit Manual/4.40, SAI Finland).

9.2 Purpose of Audit Documentation

9.2.1 General Purpose of Audit Documentation

It is important for the auditor to prepare the audit documentation in a timely manner, keep it up to date throughout the course of the audit and complete the documentation, to the extent possible, before the audit report is issued (ISSAI #3000/88). The nature and extent of audit documentation for a particular audit are largely a matter of professional judgment, based on the unique circumstances of each audit. However, an auditor will typically be expected to document the audit objective(s), scope, and methodology, the work performed and evidence

obtained to support significant judgments and conclusions (GUID #3920/101). Therefore, from the audit line management's perspective the purposes of the audit documentation are to:

- Increase the efficiency and effectiveness of the audit;
- Serve as evidence of the auditor's compliance with auditing standards;
- Assist in planning, conducting and reporting the audit;
- Confirm and support the auditor's opinions and reports;
- serve as a source of information for preparing reports or answering any enquiries from the audited agency or from any other party;
- facilitate effective management of individual audits and the total audit task;
- assist in the supervision and review of the audit work;
- record evidence resulting from audit work performed to support the audit opinion; and
- help the auditor's professional development.

On the other hand, audit documents should also be adequately planned and supervised to ensure that a professionally acceptable level of auditing has been conducted. From the purposes of the quality assurance reviewer the purposes of a good documentation are that:

- there must be an adequate and defensible basis for the conclusions and recommendations;
- it enables auditors to explain audit findings better to the legislature;
- it provides an effective link between successive audits;
- any changes to the draft audit report, or reasons for not making changes, are documented; and
- it provides a basis for quality assurance reviews.

9.2.2 Specific Purpose of Audit Documentation in Performance Auditing

As in all audits, performance auditors should keep an adequate documentary record of the preparation, procedures and findings of each audit. However, the purpose and context of documentation are somewhat specific in performance auditing (ISSAI #300/34):

- Performance auditor will have acquired specialised knowledge about the audit topic that is not easily reproduced in the SAI. Since the audit methodology and criteria may have been developed specifically for a single engagement, the auditor carries a special responsibility to make his reasoning transparent;
- In performance auditing, as well as containing findings and recommendations, the report describes the framework, perspective and analytical structure that were adopted, and the process that was followed to arrive at the conclusions. To some extent, the report performs functions that in other types of audits are provided by general standards or audit documentation;
- Documentation should not only confirm the accuracy of facts, but also ensure that the report presents a balanced, fair and complete examination of the audited question or subject matter. Thus, for example, it might be necessary for the documentation to include reference to arguments not accepted in the report, or to describe how different viewpoints were dealt within the report;

- The purpose of the audit report in performance auditing is frequently to persuade reasonable users by providing new insights rather than a formal statement of assurance. Just as the audit objectives determine the nature of the necessary evidence, they also determine the nature of documentation; and
- Maintaining adequate documentation is not only part of safeguarding quality but also of the SAI's and individual auditors' professional development, as it can shape good practice for similar audits in the future.

In addition to this, in determining the nature and extent of the documentation for a particular audit area or procedure step, the auditor generally would need more audit documentation when (GUID 3910/116):

- the risk is high (the risk associated with conducting the audit or when the finding is significant, sensitive or contentious);
- more judgment is needed in performing the work or evaluating the results; and
- the evidence is more significant (i.e., the evidence is critical to conclude on the objectives of the audit).

9.3 Characteristics of Good Working Papers

Some of the characteristics that the working papers should have are set out in the table below.

Table 9: Characteristics of Good Working Papers

Completeness and Accuracy	Working papers should provide proper support for findings, conclusions and recommendations, and demonstrate the nature and scope of the examination performed.
Clarity and Conciseness	Without supplementary oral explanations, anyone using the working papers should be able to understand their purpose, the nature and scope of the work done, and the conclusions reached.
Ease of Preparation	This may be achieved by using auditee-produced schedules, pre-printed standard audit stationery and automatically generated standard working paper formats using databases or word processors.
Legibility and Neatness	These are necessary for their use in report preparation and their value as audit evidence.
Relevance	The information contained in working papers should be restricted to matters which are materially important, pertinent, and useful with reference to the objectives established for the assignment.
Organisation	Working papers should be organised and exhibit a consistent structure. This is facilitated by a logical and easy-to-follow index.
Ease of Review	Reviewers are presented with a less onerous task if working papers exhibit the characteristics discussed in the points above. When preparing working papers, their end users should be kept in mind. These include forming the basis for audit findings and recommendations and facilitating prompt answers to questions posed by the legislature.

9.4 Structure of Working Papers

A good working paper structure will facilitate the production of a set of working papers which 'standalone', i.e. if taken from the working paper file, it could stand on its own. Also, it should fully support the audit report, generate consistency and enhance efficiency of review. The form and content of working papers can be expected to be affected by such matters as:

- nature, complexity and geographical dispersion of the entity's business or activity under review;
- the nature and condition of the agency's records; and
- the degree of need for direction, supervision and review of audit staff on each particular audit team.

The structure of the working papers evolves as the audit progresses. The final details of the structure will be determined by the key issues emerging from the audit. Moreover, the questions and the data and methods that are used in an audit have a large effect on how detailed working papers should be and what working papers have to be stored after an audit.

Working papers should be neat and accurate. A good practice is that each audit working paper has the following information:

- The name of the entity;
- The period covered by the audit;
- The subject matter;
- The file reference;
- The initials (signature) of the member of staff who prepared the working paper, and the date on which it was prepared;
- In the case of audit papers prepared by client staff, the date the working papers were received, and the initials of the audit team member who carried out the audit work;
- The initials of the member of staff who reviewed the working papers and the date on which the review was carried out; and
- Source of information.

9.5 Organisation of Working Papers

It is advisable that the documentation records include a system that cross-references the audit report to the working papers (GUID #3910/117). All supporting documentation should be cross-referenced to related working papers, where necessary, and also to the audit plan and report. It is also important to index and cross-reference the information held on magnetic media relating to the audit.

The filing and indexing of working papers promote an efficient cross-referencing system, which can help:

- easy access to all information concerning the audit;
- to avoid the continual restatement of information throughout the file; and
- to facilitate supervisory review.

The audit file documentation is an indexing system, which helps to arrange working papers (client prepared papers as well as work done by the auditors) in a systematic and chronological order for easy and ready references.

A particular working paper may document work completed under several objectives or be used as evidence for more than one statement in audit the plan, findings and recommendations or office draft. Even when the working paper has multiple uses, it should be identified by a single, unique index code.

It is a good idea to index all pages in the working papers, as well as every piece of other evidence. The indexing system needs to be in line with the table of contents and allow convenient accessing of audit evidence.

Where there is a link between two pages of the working papers, say between the audit plan and an audit test or between a finding and the audit report, it is important to have a reference on both documents to the other document. This would allow a reader to go from an item included in the report directly to the finding that supports it, or from the finding directly to the report to ensure that the finding has been reported.

9.6 Audit File and Working Paper Contents

Each audit is supposed to have a current audit file. The purpose of the current audit file is to provide a chronological summary of the audit and to show key milestones. Therefore, current audit files will contain working papers for at least three sections: planning, conducting and reporting. The contents of the file will vary depending upon the type of audit. Keeping this aim in mind, the current audit file could include:

- internal correspondence relating to the management of the audit;
- external correspondence between groups associated with the audit;
- key meeting details and outcomes;
- major audit developments;
- a copy of the proposed report and subsequent correspondence;
- a final copy of the audit report;
- a copy of the final master index outlining the content of the working papers.

More specifically, the working papers will contain the following documents, where applicable, relating to the reporting process:

- minutes of meetings;
- response of the audited entity to the draft audit report;
- copies of notifications sent for third party references and their response;
- papers relating to the supervisory review of the report;
- versions of the draft report with a clear identification of the version;
- master copy of the final report, thoroughly cross-referenced to the working papers;
- copy of the forwarding letter to the audit report written by the Auditor General/other authorised person to the President/Governor/Speaker of the House/other person authorised to receive the audit report for tabling;
- copy of press briefs, press kit, brochures, leaflets on the report; and
- copy of the presentation made to the Parliament/Parliament committee(s) on the report.

To ensure that the working papers do stand alone, all items in the current audit/registry file should be found in the appropriate sections of the working papers. It is also important to reference the master index of the working papers with the related registry files and information held on disk. Therefore, the registry files, working papers and disks will produce

the full set of documentation supporting the audit report. On the other hand, data mentioned in the audit report, sources of which are available to the general public do not need to be included in the working papers.

9.7 Confidentiality and Retention of Audit Documentation

A SAI may be required to retain audit documentations for shorter or longer periods and also grant access to the documents as appropriate or required by law. Therefore, a SAI needs to balance confidentiality with the need for transparency and accountability. This balance requires professional judgment.

9.7.1 Retention of Audit Documentation

The auditor needs to retain the working papers for a period sufficient to meet the needs of the legal, regulatory, administrative and professional requirements of record retention and to conduct audit follow-up activities (GUID #3910/118).

Working papers represent the accumulation of physical, documentary, testimonial and analytical evidence gathered or developed during the course of the audit. Therefore, special handling will be required to ensure safe custody of the various forms of evidence other than “paper”. Audit managers should explore the use of databases, search facilities in word processing packages, or other software packages, as these can assist in information storage and retrieval (ASOSAI Performance Audit Guidelines).

The SAI is required to establish policies and procedures for the retention of audit documentations. These policies and procedures would normally cover issues like documents covered in their scope, forms in which the documents would be kept/archived, period for which the documents would be retained and how these documents can be accessed when needed.

9.7.2 Confidentiality of Audit Documentation

The auditor needs to adopt appropriate procedures to maintain the confidentiality and safe custody of the working papers. (GUID #3910/118). If, in the context of a performance audit, the auditor collects personal data or information, he/she must ensure that it is adequately safeguarded. The nature and sensitivity of the information are factors in determining what security is adequate.

During the course of an audit, the supervisor, the team leader and team members are responsible for the safe custody of working papers. To safeguard their data, the SAI should back up computer data regularly and arrange for secure storage of the electronic material.

The balance between confidentiality and transparency requires professional judgment to ensure that documentation of a confidential nature is clearly identified and treated as such, while at the same time granting access as appropriate. It is therefore important to be familiar with the SAIs’ policies and procedures addressing confidentiality. Such procedures might include types of audit documentation to be considered confidential, types of audit documentation to be made available to the public, clearly defined lines of responsibility for authorizing disclosure of audit documentation and routines for making such information available if required. Furthermore, public sector auditors may have additional statutory responsibilities related to confidentiality. These responsibilities may be based on the mandate of SAIs or legislation related to official secrets or privacy.

9.8 Conclusion

Audit documentation reflects the degree of the auditor's proficiency, experience and knowledge. A good quality working paper should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently ascertain from them what work was performed to support the conclusions. Moreover, it would also provide evidence to support that the audit was carried out in accordance with relevant SAI and ISSAI applicable to performance audits.

Chapter 10: Quality Control and Assurance over Performance Audits

10.1 Introduction

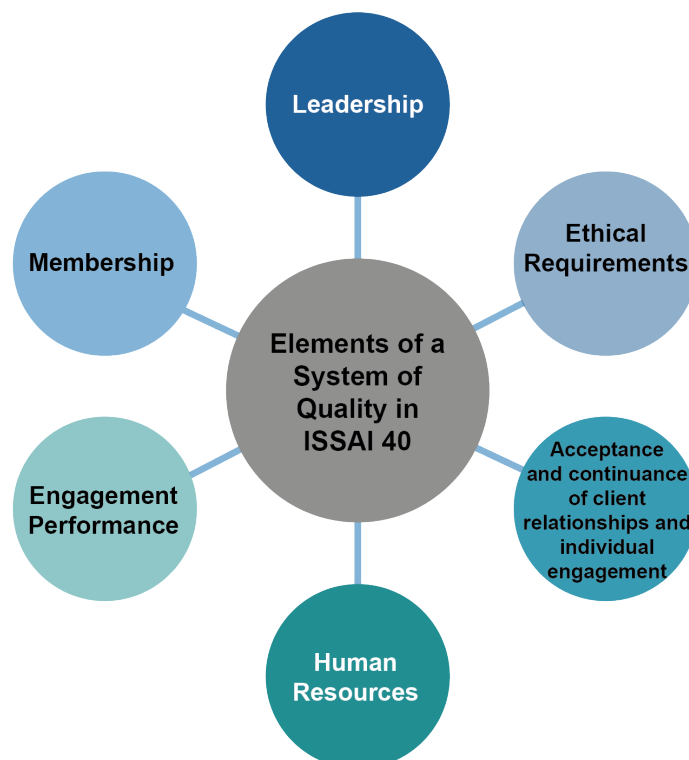
Conducting high quality audit is often a major challenge for the SAIs. SAIs appreciate that quality audit work increases its credibility and reputation, and ultimately its ability to fulfil the mandate (ISSAI #140/1). Therefore, INTOSAI requires that the SAI shall establish and maintain a system to safeguard quality, which the auditor complies with to ensure that all requirements are met, and place emphasis on appropriate, balanced, and fair reports that add value and answer the audit questions. For effective implementation of quality regime SAI needs to define the quality requirements and the process on how to comply with them.

Although the terms **Quality Control** and **Quality Assurance** are sometimes used interchangeably, they are distinct in their function, objective, scope and impact.

Quality Control helps SAI to ensure that all phases of an audit process (planning, conducting, reporting and follow-up) are carried out in compliance with its auditing standards, rules, procedures and international best practices. **Quality control procedures** cover matters such as direction, review and supervision of the audit process. It is therefore important for the SAI to first clearly define the characteristics of what constitutes a high-quality audit report.

The **quality control process** should be an integral part of the conduct of each performance audit to minimise the risks of error and ensure consistency. Quality control functions can be carried out by both the audit line managers and an experienced independent reviewer, not related to the audit process. In this way, quality is built into the performance of the work of each SAI and the production of the SAI's reports, rather than being additional process once a report is produced (ISSAI #140/1) (formerly ISSAI #40 per diagram).

Figure 22: Six Elements of a Quality Control System



Quality Assurance is a process through which SAI assesses and monitors its system of quality control with the intention to ensure that controls are working effectively and that individual audits are being carried out in compliance with SAI methodology, auditing standards, rules, practices and procedures.

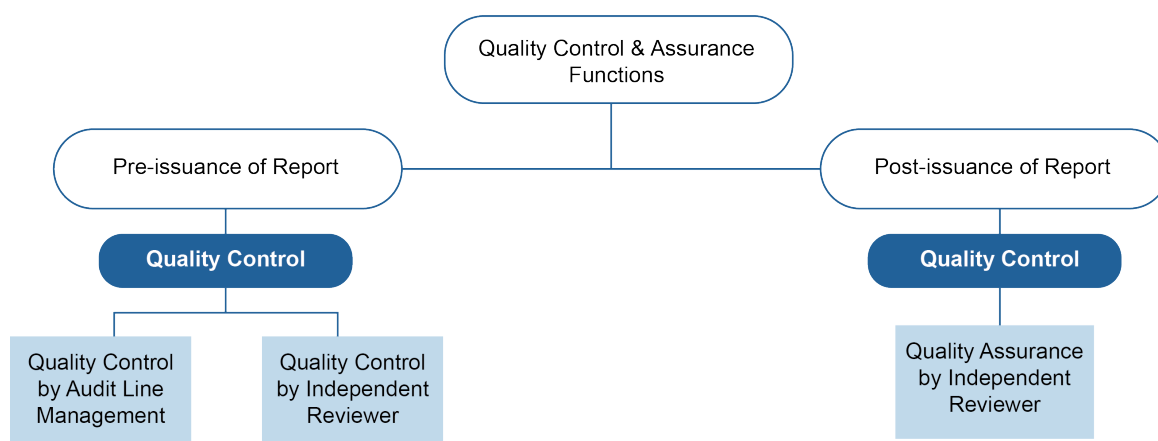
Quality Assurance is a post-issuance function and allows audits to be independently assessed, after their completion, on a consistent basis against specific criteria. It provides independent assurance to the Head of SAI that the established quality control systems and practices in the organisation are 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. It also ensures that all necessary quality controls are in place and being properly implemented. It identifies potential ways of strengthening or improving quality controls.

Senior management is responsible for a good functioning system of quality control within the SAI. It should establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing all of its work. Such policies and procedures should be set by the Head of the SAI who retain overall responsibility for the system of quality control.

ISSAI #140²⁵ provides essential guidance on this matter. It also provides a gap analysis tool to assess if the SAI meets all the relevant demands.²⁶ The SAI should periodically apply this tool to assess if it (still) meets the standard and what steps should be taken if not. More guidance on the application of quality control in the audits can be found in ISSAI #2220.

Figure 23: Quality Control and Assurance Functions



In the Pacific there is scarce resources and staff numbers to establish a separate quality unit to conduct this. However, there are options that SAI can undertake to ensure a quality assurance mechanism is in place. The important matter is to ensure the key principles have been considered and adapted accordingly.

Refer to PASAI’s Quality Assurance Manual for more details or guidance. However, please be aware that this manual will also be updated in the near future. Accordingly, it is recommended that you take no substantive work based on this manual but only use it for interim solutions.

10.2 Key Principles of Quality Control and Assurance

In compliance with INTOSAI-P #10, the SAI should meet the following key principles for quality control and assurance:

- **Leadership responsibilities for quality within the organisation:**

Key principle: The SAI should establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing all of its work. Such policies and procedures should be set;

- **Relevant ethical requirements:**

Key principle: The SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI, comply with relevant ethical requirements;

- **Acceptance and continuance of client relationship and specific engagements:**

Key principle: The SAI should establish policies and procedures designed to provide the SAI with reasonable assurance that it will only carry out audits and other work where the SAI:

- is competent to perform the work and has the capabilities; including time and resources, to do so;
- can comply with relevant ethical requirements; and
- has considered the integrity of the organisation being audited and has considered how to treat the risk to quality that arises.

- **Human Resources:**

Key principle: The SAI should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient resources (personnel and, where relevant, any parties contracted to carry out work for the SAI) with the competence, capabilities and commitment to ethical principles necessary to: - carry out its work in accordance with relevant standards and applicable legal and regulatory requirements; and enable the SAI to issue reports that are appropriate in the circumstances.

- **Engagement Performance:**

Key principle: The SAI should establish policies and procedures designed to provide it with reasonable assurance that its audits and other work are carried out in accordance with relevant standards and applicable legal and regulatory requirements, and that the SAI issues reports that are appropriate in the circumstances. Such policies and procedures should include: - matters relevant to promoting consistency in the quality of the work performed; supervision responsibilities; and review responsibilities.

- **Monitoring:**

Key principle: The SAI should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and are operating effectively. The monitoring process should: - include an ongoing consideration and evaluation of the SAI's system of quality control, including a review of a sample of completed work across the range of work carried out by the SAI; require responsibility for the

monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility; require that those carrying out the review are independent (i.e. they have not taken part in the work or any quality control review of the work).

10.3 Assigning Responsibility for Quality Control (QC)

The Head of the SAI will retain **overall responsibility** for the system of quality control regardless of the system in place to ensure Quality Control. In the PASAI region, most SAI are not large enough to be able to have a dedicated team working full time on Quality Control. Accordingly, it is **recommended** that the day to day responsibility rests with a senior officer (often the Deputy Head) who should be assisted by an *ad hoc* Quality Assurance Review Committee (QARC).

The **operational responsibility** should be assigned within the team that will plan and conduct the audit on a certain entity (Financial Audit), subject matter (Compliance Audit) or programme (Performance Audit). The most logical person would be the Team Leader or Audit Manager. Before the start of the audit assignment, a quality control procedure should be in place and it must be clear who will be performing it and how.

He/she should see to it that quality control procedures are implemented at the engagement level in order to provide reasonable assurance that the audit complies with professional standards and the applicable legal and regulatory requirements, and that the auditor's report is appropriate in the circumstances.

Under such a system, the senior officer responsible for QC should design the quality control process, to maintain it and to periodically evaluate it. He/she should also scrutinise the audit files to assess the compliance to the quality control procedures and the quality of the work performed including the quality of the conclusions.

This should be done **before** presenting the report to the auditee or after. A quality review before presenting the results to the auditee is an extra safeguard that the audit has been performed according to professional standards, that the report reflects the factual situation and that the conclusions are valid.

In terms of being a learning organisation the review could be done afterwards. The senior officer responsible for QC should give feed back to the respective audit team and also use the results for evaluation purposes.

10.4 The Importance of Quality

The SAI should have a Quality Management guide that will provide detailed guidance on the procedures of quality control and that will reflect the importance of quality. This guide should comprise all the elements of ISSAI #2220 and more specific the ISA #220 part of it as far as they would be applicable for the public sector. Part of the guide would be the general quality management policy. This policy should at least state that:

- quality is the responsibility, and in the interest, of all employees;
- auditors must work continuously on maintaining and improving audit quality;
- as the SAI requires compliance and quality in the delivery of public services by its clients, so the SAI itself must strive to serve as a model for its clients; and
- quality procedures and processes are based on internationally recognised auditing standards and international good practices.

It is therefore the responsibility of each member of the organisation to strive for quality so that the end products of the SAI are of the greatest possible value to its clients and key stakeholders. This applies to each staff member, from front-line auditors to support staff.

The quality framework should include the following main components:

- **Quality Control:** means getting it right the first time by ensuring that quality procedures are embedded in auditing procedures;
- **Quality Monitoring:** involves an independent review of individual audits by the senior officer responsible for Quality Control (Assurance), to ensure that quality control procedures are being fulfilled effectively and in accordance with this manual and the detailed quality guidance; and
- **Quality Assurance:** involves an independent external assessment of the quality control and quality monitoring procedures set up and implemented at the SAI.

10.5 Quality Characteristics

Quality is an essential or distinctive characteristic or attribute. It is the degree to which a set of characteristics, inherent to a product, fulfils its requirements. In the case of the quality of the different audits conducted by the SAI, the general quality characteristics include the following points.

- **Scope:** Did the audit plan properly address all issues needed for a successful and effective audit? Did the execution of the audit satisfactorily complete all the required components of the task plan? Was the report in line with the stakeholders' requirements?
- **Reliability:** Did the audit findings and conclusions truly reflect actual conditions with respect to the matter being examined? Are the conclusions on the assertions in the audit report fully supported by the data and evidence gathered in the audit?
- **Objectivity:** Was the audit carried out in an impartial and fair manner? The auditors should base their assessment and opinions purely on the facts and on proper analysis of the evidence.
- **Timeliness:** Were the audit results delivered in a timely manner? This may involve meeting a statutory deadline or delivering audit results when they are needed for a policy decision, or when they will be most useful in correcting management weaknesses.
- **Clarity:** Was the audit report clear and concise in presenting the results of the audit? This typically involves ensuring that the scope, findings and any recommendations can be easily understood by users of the audit report. These users may not be experts in the matters that are being addressed but may still need to act in response to the report's findings.
- **Significance:** How important is the matter that was examined in the audit? This can be assessed from several perspectives, such as the auditees' financial outlay and the effects of the auditees' performance on the public at large or on major national policy issues.

More characteristics concerning ethical and engagement elements of quality control named and explained in ISSAI #2220.

10.6 Quality Control

Quality Control is about “**getting things right the first time**”. This is achieved by embedding quality procedures and processes into the audit work itself, at all stages of

the audit: planning, fieldwork, reporting and follow-up. Prior to considering detailed quality control procedures, there are several important aspects of working practices that underpin operational quality: documentation and supervision.

Documentation involves two key aspects, audit evidence and working papers:²⁷

- Auditors are required to obtain **sufficient and relevant evidence** to be able to draw reasonable conclusions. It is important for audit evidence to be reliable and sufficient to support the conclusions and any opinions that may be expressed; and
- **Working papers:** which are the documents that auditors prepare to record the performance of their work. Working papers should be sufficiently complete and detailed to enable an experienced auditor with no previous connection to the audit to gain a basic understanding of the work performed and conclusions reached.

Supervision is also a critical part of the process:

- The Team Leader of each audit team has a key role in this by reviewing the quality of working papers and ensuring that they have been prepared with due care and attention and are sufficient to support any conclusions drawn. They must also ensure that all auditors have the necessary skills for the job at hand, that the audit guidance and programmes have been understood and that the work is carried out in accordance with those programmes; and
- Supervision is done by reviewing the working papers against a checklist and providing written comments to the auditor, covering what has been accomplished and which areas need improvement.

10.7 Quality Monitoring

Quality monitoring is the internal review function established to ensure that quality control procedures are effective. Quality monitoring covers all audit work, from the planning stage through to reporting. Within SAI an *ad hoc* QARC should be established. It should meet on a regular basis to monitor the quality of ongoing audit tasks.

The QARC should carry out its review in reference to standard checklists for the planning stage, fieldwork stage, and reporting stage. The review covers all the relevant reports and working papers and may involve interviewing members of the audit team about specific aspects of the audit.

The Committee should produce an annual report based on these individual quality monitoring reviews to form part of the SAI Annual Report.

10.8 Quality Assurance

Quality assurance is quite distinct from quality monitoring and concerns an independent “post-audit” review of the quality management arrangements, including the effectiveness of the quality control and quality monitoring procedures. It is generally achieved through a combination of internal and external reviews.

The purpose of an external review is to obtain a fully independent assessment of satisfaction of the required standards – against a regional or sectorial benchmark rather than internal expectations. This external “peer” review might be carried out by another SAI or by a commercial audit firm. At intervals of no more than five years the quality of the audits performed by the SAI has to be assessed.

The external review team will submit a report to the Head of the SAI outlining its key findings, areas for improvement, and actions required to achieve these improvements. In the future, the scope of this external assessment will be extended to include feedback from the audited bodies on how the audits were conducted and, on the benefits, gained from the audit process. The results of the assessment will be transmitted to Parliament as part of the SAI Annual Report.

10.9 Quality Control Process in Performance Audit

Many steps and measures are possible to make sure that individual audits are of high quality. Following steps in different phases of audit that may help to improve the quality of the performance audit work.

Table 10: Quality Control Process in Performance Audit

Phase	Quality Control Activity		
Pre-study and Planning	<ul style="list-style-type: none"> • Check the comprehensiveness of the research done 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. 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. • Check if various perspectives and approaches were examined To see whether for instance the issue is of efficiency or effectiveness, and whether a system, result or a problem-oriented approach ought to be applied. • Check if scientists and experts were consulted and engaged where necessary As performance auditors are no experts in the subject matter, it is important to have assistance from independent persons with proper knowledge in the audit area. It might often be scientists or other experts including earlier employed managers by the institutions concerned. • Check if the work plan proposals were examined by top management After discussion on the draft, it needs to be adjusted in accordance with the review comments. Some criteria or checklist might help before the proposed work plan is sent to the decision makers (often Auditor General) for a final discussion and approval. • Checklist for Approval of the Work Plan 		
	Context and Motive <ul style="list-style-type: none"> • Are there any indications of material inefficiency or effectiveness problems? • Is relevant information examined, are experts consulted and experiences or stakeholders considered? <p>Is it an auditable topic and in accordance with mandate, policies and priorities?</p>	Design <ul style="list-style-type: none"> • Is the problem defined and put into 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 and its potential audit recommendations add value? 	Competence and Planning <ul style="list-style-type: none"> • Is the SAI able to conduct the audit? • Is sufficient competence on 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?

<p>Conducting</p>	<ul style="list-style-type: none"> • Check if the Audit Team provided the Audited Entity 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. • Check if the Audited Entity was involved in the Audit Process and if the Audit Team gathered evidence from different perspectives Contact persons and management from the audited entities should be well informed. 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. • Verify if the Communication Channel with the Management is Proper and Effective Continuous communication with internal management is vital 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 timetable but also for various issues concerning performance and completion of the audit. • Checklist for supervisor and the management during the audit process <ul style="list-style-type: none"> - 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 there 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? • Check if there was a Clearance Process To minimise contradiction with the audited entity on collected and compiled findings, the team should follow a proper clearance process. The audit team should analyse and discuss comments from the audited entity with the PA manager and conduct adjustments to the draft reports. 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.
<p>Reporting</p>	<ul style="list-style-type: none"> • Submit a Properly Processed Report Draft to Top Management After processing of the drafted report – internally and externally – audit team submits the draft to audit top management for final examination and decision. • Checklist for the Management Before Publishing the Report <ul style="list-style-type: none"> - 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 and is it linked to the audit objective? - Are disagreements with audited entities or experts or inconsistencies regarding facts analysed? - Are the recommendations evidence based, clear and adding value? • Check if the report is comprehensive and reader friendly The audit report is the product on which the audit function will be judged by external actors. So, 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. understandable by the interested but uninformed reader.

Chapter 11: Overall Arrangements and Strategic Intelligence

11.1 Introduction

Although not the only area of Performance Audit work, overall arrangements is an important area and a useful starting point if one is coming new to Performance Audit work in any organisation. [See **Template 2**]

The best approach is to compare the organisation with the current best practice and see how it measures up.

A framework for doing this is outlined below. The framework covers six characteristics of a well-managed organisation: **vision, strategy, structure, systems, staffing and skills and style.**

11.2 Vision

This is what the organisation is seeking to be or to achieve.

The auditor should see if there is any statement of significant changes expected in future years. Whether there is a summary statement of the aims of each sector of the organisation. Assess whether there is commitment from senior management to achieve these aims.

11.3 Strategy

This is how the vision is to be translated into reality.

The auditor should see whether there is a strategic planning process for implementing the vision covering a period of more than two years. Does this strategic plan cover points such as:

- Detailed analysis of the organisation's environment - physical, economic and social;
- Planned changes in client, service and management priorities;
- Standards of service to be produced by each area of the organisation defined in terms of output or results;
- Planned allocation of staff and other resources;
- Planned capital expenditure by project;
- Planned source and application of funds;
- Is the strategy made available to the general public and communicated to the staff?;
- Is it reviewed annually? If so is this a comprehensive review or just in areas where expenditure increases or decreases are considered?; and
- Are there contingency plans to deal with main risks to the overall plan?

11.4 Structure

This is the way the organisation's members/board, officers and staff are organised to implement the strategy.

The auditor should examine whether the overall committee/board structure is aligned to the management structure and to the organisation's policies and services.

Has this structure changed with changing policies over the years? Is there a review mechanism to do this?

Is the responsibility for each element of an organisation's activities clearly placed in the hands of one manager with minimal duplication of responsibilities?

Can these managers recommend pricing actions, personnel changes and re-allocation of resources within their budget?

11.5 Systems

This is the way in which the people in an organisation plan, decide, control and monitor day to day actions as well as longer term progress.

The auditor should determine the existence of a **longer-term policy review** process for all significant areas of operation. Such a process should cover:

- The continued relevance of services, service standards and alternative methods of delivery;
- Comparison with other similar organisations - both in the public and private sectors if possible;
- Examinations of the use of scarce resources of skilled manpower, land buildings, equipment and energy; and
- Potential for new information technology to improve services or reduce costs.

The auditor should also determine whether there are adequate processes for **planning and budgeting**. Such processes should include:

- Is there an annual plan setting performance milestones for each service or function?;
- Is there an annual budget placing responsibilities for income and expenditure on recognisable cost centres appropriate to the organisation?;
- Are output/performance measures considered as an integral part of the budget process and are they linked to the budget cost centres?

The table below gives examples of Performance Measures.

Table 11: Examples of Performance Measures

Area/Activity	Performance Measures
Transport	% usage of vehicles Cost per vehicle per hour Fuel cost compared with hired cost % idle time for vehicles
Stores	Ratio of stock held to turnover Ratio of slow-moving stock to stock held
Printing Services	Cost per page printed Average turnaround time % work completed on time
Cash Collection	Cost per transaction Investment income 'lost' Number of transactions per cashier per day

Source: Bangladesh Performance Audit Manual

The third systems areas that the auditor should examine is that of **performance review**. Amongst the areas that should be examined are:

- Whether budget holders receive regular monthly reports of actual versus budgeted income and expenditure within fifteen working days of the month's end;
- Has the year-end audit identified major surprises in terms of over-expenditure or under-collection or have major overspends been noted in contract?; and
- Do members/board receive regular quarterly performance review reports? Is there an annual review and is this made available to the general public?

11.6 Skills and Staffing

This is the way in which the critical resource in every organisation, its people, are acquired, trained, deployed, motivated and rewarded.

The areas with which the auditor should concern himself here are:

- Are individual responsibilities of the top three levels of management clearly defined in terms of results to be achieved?;
- Is every individual manager's performance regularly assessed by his/her superior against the agreed results and are training and development needs explicitly identified?;
- Is there a system for rewarding managers who consistently achieve more than their planned results?;
- Is there a significant investment in training for general management responsibilities for both members and officers?;
- Does the organisation have to recruit middle management externally or does it bring on its own staff?; and
- Are all manpower vacancies subject to senior management review before being filled?

11.7 Style

This is the way the organisation does things. The way that members, officers and employees relate to each other and to those that they are there to serve.

The sort of matters that the auditor could examine here are:

- Are questions of style ever discussed between the Chairman and the Chief Executive?;
- Do the members/board ever meet staff, apart from senior management, to discuss individual departmental problems?;
- Is responsibility for decision making and problem solving delegated as far as possible?;
- Are attempts made to secure participation of employees and supervisors in decisions affecting their future and does the system encourage the development of people?; and
- Are steps taken by senior officers throughout the organisation to re-enforce the commitment to serving the public well? Has any employee been awarded for outstanding service?

The auditor could also examine the paperwork supplied to the board, by whatever name called, for a recent meeting and satisfy himself, for example, that:

- Board Members received the material in good time. Say at least five days before the meeting;
- All the relevant facts (and **only** the relevant facts) were presented;
- Appropriate options has been identified and evaluated; and
- Manager's recommendations were clear.

More difficult, but the auditor could also try to assess the extent to which the board concentrated on important issues and how much time they spent on the trivial.

11.8 Specific Areas of Review

- In addition to determining the quality of the overall arrangements using the above framework, the auditor will need to examine the following key functions, controls and procedures:
- Internal Audit;
- Management Services;
- Computer Services and Information Technology;
- Manpower Management;
- Land and Property Management;
- Energy Conservation and Costs;
- Appraisal Procedures for New Development;
- Revenue Expenditure Controls;
- Capital Expenditure Controls;
- Management of Current Assets;
- Cash Flow and Debt Management;
- Ordering and Tendering;
- Charges for Services (Fixing and Reviewing); and
- Insurance Arrangements.

There are a number of sources of information which will help the auditor to select matters which merit attention and to decide upon priorities:

- Normal compliance and substantive testing of accounts;
- Comparative statistics. The use of unit cost statistics within an organisation over time or between similar organisations may well indicate areas worth examining;
- Discussions with members and officers;
- Reports issued by professional bodies, governments, other auditors, etc.; and
- The auditor's own perceptions of the organisation.

11.9 Strategic Intelligence

11.9.1 Introduction

Strategic intelligence and analysis have their point of departure in societal changes, trends, national objectives and visions and in the challenges these present for state organisations. At the same time, there are examples of problems in society that are not necessarily indicative of any form of government inefficiency.

11.9.2 Strategic Intelligence Activities should have a Broad Perspective

The mandates of most SAI are broad, and so strategic intelligence should not be too narrow. We may audit both the implementation of state activities (efficiency) and the result of these activities (effectiveness).

We may audit both activities that are within one organisation in their entirety and activities that span many state actors. We may have a fiscal or economic perspective in the audits, but also an explicit citizens' perspective. Indications of inefficiency can also be found at several different levels.

These may involve specific indications within a narrowly defined operation, but also general problem representations and structural problems for major industries or entire sectors. We may devise ideas for individual audits, but also for themes and future audit strategies. Some strategic intelligence activities are also aimed at the further development of knowledge, which only in the long term is expected to result in better audits.

11.9.3 Examples of Problem Indications

Below are some examples of situations where there are indications of efficiency problems.

- **The Objectives or the Intended Effects do not Appear to have been Achieved:** This may relate to indications that the effect of a reform failed to materialise or that the purpose of a particular activity has not been achieved. In some cases, this may involve specific targets that, according to information, have not been achieved. This may relate to an activity within an agency, but also to indications that a transfer payment or a support form is not reaching the right groups;
- **The Quality of a Certain Activity has been Questioned:** This might, for example, concern an agency being criticised for providing services that do not live up to the demands or expectations of quality or processing times, for example, that are unreasonably long;
- **Differences Between Various Comparable Units Appear to be Unreasonably Great:** Here, it may be a question of indications that various units within a larger agency, such as the Public Employment Service or the Social Insurance Agency, have unreasonably large differences in efficiency or productivity;
- **There Appears to be Excessive Differences in the Treatment of Citizens or Companies:** This can be a problem when equal treatment is important, for example in the exercise of authority (NB Equity);
- **The Productivity of an Organisation or Activity Appears to be Excessively Low:** Here, the issue may be that an agency or a particular operation is criticised for low productivity, or that there is economic evidence to suggest this.
- **The Costs of a Particular Operation Seem to be Too High:** Here, the issue may be indications that the costs of a particular operation, or part of an operation, are too high. These indications may relate to available financial information or criticism directed towards high costs;

- **Potential Synergies are Not Being Harnesssed:** This might relate to work confirmed to be duplicated at different agencies, or that obviously effective cooperation opportunities are not being taken advantage of;
- **Funds Seem to be Going to Unintended Activities.** One example might be that various regional and social support funds are not, to a sufficient extent, going to the activities that are intended to receive support;
- **Preparedness for Potential Adverse Events is Too Low:** Many agencies are sensitive to various types of external event that may have an adverse effect on their activities. There may then be indications that the preparedness for such events is too low (e.g. pandemics);
- **Agencies do not Appear to be Performing the Activities they are Supposed to be Performing:** This might relate to agencies not performing the activities, in accordance with the instruction, are to be performed. A related problem may also be that the agency has begun to operate activities that it should not be engaging in; and
- **The Demarcation of Responsibilities Between Different Agencies is Unclear:** This may involve several agencies having responsibilities in the same area or the responsibility for an initiative being found both within the state and the local government

11.9.4 Sources of Strategic Intelligence

Strategic intelligence is based on a variety of sources. The following is a presentation of some types of sources that are often used in strategic intelligence. The list should not be considered exhaustive.

- **Information in the Media:** This may be information in the news, features or discussions regarding conditions in the State. Here, various forms of direct or indirect criticism may be levelled against state activities or state initiatives;
- **Official Publications:** These primarily include committee reports, government bills, ordinances and instructions for agencies. Often of particular interest are bills of principle, where objectives for state activities are stated in the preparatory works to laws and in other explanatory texts. Official publications also include Government Official Reports, which often have a problem-based character and where there may be data indicating inefficiencies in state activities;
- **The External and Internal Information of Agencies:** This may, for example, concern annual financial reports and reporting to the Government on its own activities. Many agencies also have their own investigative activities and publish reports that may be of interest to us. Also, of interest may be internal information of a financial administrative nature, internal investigations and internal statistics on costs and productivity;
- **Public Statistics:** Such information is produced mostly by the Government Statistics Agency or by various other agencies. Such statistics can provide input for audit ideas. This may apply particularly in combination with other information that has emerged about the activities covered by the statistics. Use can also be made of **Government Financial Statistics (GFS)** which provide inter-governmental comparisons. Similarly the use of **Public Expenditure and Financial Accountability (PEFA)** studies can indicate topics which should be audited and provide data, on intra-country comparisons over time.;
- **Trade Journals and Research Papers:** Such publications in relevant areas can be both national and international. These are sometimes of great interest to us, in part as a source of knowledge. Sometimes, articles or reports may contain information that can directly or indirectly give us ideas for audits. Information and views from experts can also be obtained through interviews;

- **Documents Produced by the SAI:** Reports, minutes and audits of performance reports with findings from the financial audit can provide ideas for new audits. Information taken from previous audits are also among the documents that can provide ideas, as are documents from our own follow-up of completed audits. These include the annual follow-up reports; and
- **Information from Audit Institutions Overseas:** Ongoing or completed performance audits in other countries or INTOSAI or regional bodies can provide us with ideas.

PART THREE: NEXT STEPS

Chapter 12: How to Customise and Develop your Performance Audit Manual

12.1 Introduction

As was indicated in the introduction, this manual is designed to be a draft manual for you to develop your own manual suited to the unique circumstances of your mandate. It is accompanied by a separate volume containing a Case Study for Performance Auditing

12.2 Process

How you customise the two volumes is up to you. However, we think that the following approach is a good basic method:

- **Customise Manual:** go through this manual and delete sections not relevant to your mandate; draft and add any new material which you consider necessary. This includes the Acronyms;
- **Pilot Audits:** test the draft volumes you produce by undertaking a number of pilot audits. Ensure that there is detailed feedback from each audit and that this is used to update the draft manual; and
- **Final Manual:** you will then have a manual which is specifically tailored to your needs and which can be used to undertake your planned audit work.

12.3 Caveat

There can be no substitute for referring to, and using, the auditing standards appropriate to your jurisdiction and following your own regulatory framework. Nothing in the manual is intended to attempt to override these; its purpose is purely to offer guidance to each SAI with a view to improving the quality of external audit in the region. This, in turn, will lead to improved governance and will benefit all the citizens of our countries.

ANNEXURES

Annex 1: Characteristics of Performance Auditing

Overview of Characteristics of Performance Audit

Performance audit is one of the three basic approaches to public sector audit. It should provide sufficient information for findings on the effectiveness, efficiency, economy and equitability of used public resources.

If we analyse the characteristics of Performance Audit compared to the Financial Audit, the results is a number of similarities and differences that can be summarised depending on:

- auditing standards;
- audited subjects;
- assessment criteria; and
- nature of audit evidence.

Procedurally, performance audit and the financial audit have many things in common:

- audit planning (examples: the risk is assessed in both audits);
- assessment of accounting and internal control systems;
- audit evidence;
- audit approach;
- audit documentation; and
- audit quality.

However, there are also differences related to the provisions on:

- determined of objective;
- preliminary information (Preliminary study report);
- focus of the leader of audit;
- applying procedures and methods in order to obtain audit evidence; and
- audit based phase of audit reporting.

Special attention needs for **Performance indicators** which are related to the audit objectives determined in audit planning stage.

Performance indicators are used in accordance with the benchmark standards, relevant guidance and regulations. The performance indicators are identified in the stage of audit planning. During the planning stage the auditor identifies the inherent risk.

Inherent risk is a risk of errors and irregularities resulting from the auditee's activities, such as:

- The risk of poor management;
- The lack of experience and administration capacity;
- The risk of time delay;
- The risk of scope and work plan is not relevant to organisational needs; and
- The risk of inadequate resources to meet objectives.

Appropriate identification of Performance indicators and inherent risk are interrelated and will help the auditor to carry out an effective performance audit.

The **performance audit risk analyses type model** is one of the important tasks the auditor should do in a planning stage and is an important part in ensuring that the audit **will help in gathering sufficient, appropriate audit evidence at a minimum cost**. The proposal for an audit topic is based on the systematic and comprehensive analysis of risks (audit risk including its components: inherent risk, control risk and detection risk) in the audit area.

The risk model is based on the argument that overall audit risk (AR) is made up of three components:

- **Inherent Risk:** is the susceptibility of the component to error that could be material, when aggregated with error in other components, regardless of the existence of internal controls.
- **Control Risk:** is the risk that material error which has occurred in the components, when aggregated with error in other component will not be detected or prevented on a timely basis by the internal controls in place.
- **Detection Risk:** is the risk that the auditor's procedures will not detect error that exists in the component and that could be material when aggregate with errors in other components.

From the auditors' point of view, Audit Risk is the risk that the auditor is willing to take of issuing an unqualified opinion on a set of financial statements that are materially in error.

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

INTOSAI Auditing Standards state 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."

That means the auditor should conduct the audit in right time and in right place with minimum resources and maximum impact. To do so, we have to plan our audit carefully.

Perform risk assessment in order to:

- reveal areas of potential weakness in an organisation;
- identify risks and analyse those which are the most significant and critical to the achievement of good performance;
- examine how risks are managed by the organisation; and
- focus the audit on areas of high risk and develop related potential audit questions.

It is particularly important to discuss risks when the topic is delimited by selected audit perspectives and specifying audit questions.

Risk factors include:

- Other studies or evaluations that may be under way at the same time;
- Blurring of the financial perspective, especially if the topic is very broad and multidimensional;
- The availability of audit data;
- Adequacy of audit resources or the audit timetable;
- Expertise needed to collect and handle data; and

- Compliance with the audit framework.

Risks and uncertainties should be discussed with audit manager during different stages. Discussions with the auditee can also help to clarify risk involved in conducting in audit. The SAI can produce a guidance document²⁸ for auditees.

Preliminary Study Report as a hallmark of the performance audit should give a clear and well-grounded picture of how the audit will be conducted and any factors that may threaten the usefulness of conclusions.

Figure 24: Examples of Risks by Categories

CATEGORY	RISK
<p data-bbox="411 786 587 875">ECONOMY</p>	<ul style="list-style-type: none"> • Waste • Overpaying • Gold-plating
<p data-bbox="411 972 587 1061">EFFICIENCY</p>	<ul style="list-style-type: none"> • Leakages • Non optimal input/output ratios • Slow implementation of the intervention • Failure to identify and control externalities
<p data-bbox="411 1330 635 1420">EFFECTIVENESS</p>	<ul style="list-style-type: none"> • Faulty policy design: inadequate assessment of needs, unclear or incoherent objectives. • Management failures: objectives not being met, management not prioritising the achievement of objectives.

Problem areas identified in risk analysis can be approached using performance audit's audit perspectives, to which risks involving external factors have been added.

Financial Audit and Performance Audit: Similarities and Differences

Introduction

In contrast to financial audit, which is subject to fairly specific requirements and expectations, performance audit is wide-ranging in nature and is more open to judgement

28 For example: "What to Expect" Office of the Auditor-General of Canada; https://www.oag-bvg.gc.ca/internet/English/meth_lp_e_30860.html

and interpretation; coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period; and it does not normally relate to particular financial or other statements. As a consequence, performance audit reports are varied and contain more discussion and reasoned argument.

Auditing Standards

Notwithstanding the wider nature and possible scope of a performance audit, the auditor must still seek, to the fullest degree possible in the circumstances of the specific audit being undertaken, to carry out that audit in accordance with the INTOSAI Auditing Standards. In particular, the auditor:

- may need, in determining the **extent and scope** of the audit, to study and evaluate the reliability of internal control;
- **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; and
- should ensure that **competent, relevant and reasonable evidence** is obtained to support the auditor's judgement and conclusions regarding the organisation, programme, activity or function under audit. This evidence and the judgements made by the auditor on the basis of this evidence must be adequately documented and subject to quality assurance measures.

Moreover, given that performance audit may be more open to judgement and interpretation than financial audit, the auditor must exercise additional care to ensure the independence and objectivity of the report that is produced.

The Choice of Audit Subjects and the Preliminary Study

In financial audits, the audit subject is often defined for the SAI by its own basic legislation or by the legislation establishing or governing the audited entity. The SAI is often required to provide an audit opinion upon the annual accounts of the audited entity or to comment in its annual report upon the legality and regularity of the audited entity's operations, etc. The SAI usually has much greater freedom in the choice of performance audit subjects. Thus, a performance audit may examine an audited entity, a programme, an activity or individual operations, etc. The SAI must therefore give careful consideration to the criteria to be applied in choosing subjects for performance audits.

In contrast to financial audits, the greater degree of freedom in the selection of subjects, coupled with the wider-ranging nature and greater opportunity for judgement and interpretation in performance audits, means that many SAI consider it necessary to undertake detailed preliminary studies before performance audit plans can be drawn up.

Assessment Criteria

In financial audits, transactions that are examined tend to be judged by the auditor as being "correct" or "incorrect", "legal" or "illegal", etc. These assessment criteria that the auditor uses for reaching a final opinion at the end of the audit tend to be relatively closed and are usually predefined by, for example, the legislation establishing the audited entity. For performance audits, however, the choice of audit criteria is normally more open and made by the auditor himself. Thus, in performance auditing, the general concepts of economy, efficiency, effectiveness and equity need to be interpreted in relation to the subject audited and the resulting criteria will vary from one audit to another.

However, in all performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse.

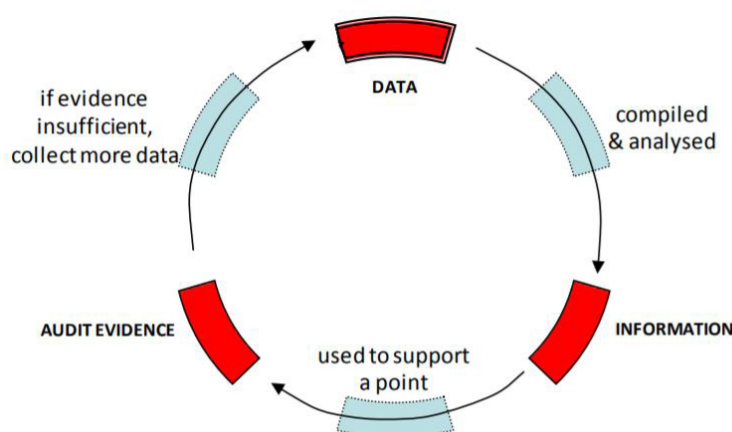
The Nature of Audit Evidence

Whilst much evidence in financial audits tends towards being conclusive (“yes/no”, “right/wrong”), this is infrequently the case in performance audits. More typically, performance audit evidence is persuasive (“points towards the conclusion that ...”). The auditor must carefully choose appropriate auditing methodologies so as to obtain audit evidence that is strongly persuasive (and to take advantage of any possibilities that exist to obtain conclusive evidence). Often the auditor may seek to obtain different types of data from different sources using different methodologies: if all this evidence points towards the same conclusion, the SAI’s report may be more persuasive.

When working in areas where the evidence to be obtained is persuasive rather than conclusive, it is frequently useful to discuss in advance with the audited entity the nature of the evidence to be obtained and the way in which it will be analysed and interpreted by the auditor. This approach reduces the risk of disagreement between the auditor and the audited entity at later stages and may speed up the reporting process. At least, it will normally permit the auditor to identify areas of potential later disagreement and allow the auditor to plan to obtain any additional evidence necessary to overcome these.

Audit evidence is closely linked to both data and information as in Figure 25.

Figure 25: From Data to Audit Evidence



Source: ECA Performance Audit Manual

The Audit Approach

As in financial audits, the audit approach for performance audits needs to be structured and the stages of the audit carried out in a logical order. The audit might include both:

- **in-depth examinations** of systems of internal control procedures put in place by audited entities to ensure the economy, efficiency and effectiveness of their operations: This allows the auditor to identify areas where remedial action is necessary to secure improvements; and/or
- **substantive examinations** of the economy, efficiency and/or effectiveness/equity of the organisations, activities, programmes or functions concerned.

In financial audits, the auditor may have the choice between adopting a systems-based or a direct substantive testing approach. Generally speaking, however, a performance audit report that identifies weaknesses in systems or procedures and provides examples obtained from substantive tests of the effect of these weaknesses (in terms of failures to achieve

economy, efficiency and/or effectiveness) will have more impact than one that identifies weaknesses in systems without indicating the effect of these weaknesses or, conversely, identifies substantive cases of poor economy, efficiency and/or effectiveness without identifying the reasons for these. Thus, the auditor may often opt in a performance audit to obtain a mixture of systems-based and substantive evidence.

In circumstances where internal control procedures are highly developed, and particularly when legislation makes it mandatory upon ministerial departments and other agencies to have their policy programmes and their organisations (self-) evaluated ('self-assessment') on a regular basis, SAIs may choose to limit their performance audit to a form of meta-evaluation (evaluating the evaluations). It must be underlined, however, that such an approach is only feasible when the SAI auditor is fully satisfied that the internal evaluation processes provide objective, timely and comprehensive assessments of the programmes concerned.

For an Approach to Performance Auditing: A Way of Looking at Intangible Problems see **Template 1**.

The Importance of Performance Auditing in the Public Sector

Performance Auditing leads to the SAI knowing better how the public administration works, helps it in developing a systemic vision and helps to identify inefficiency and waste.

Performance audit is one of the three basic approaches to public sector audit. It should provide sufficient information for findings on the effectiveness, efficiency, economy and equitability of used public resources.

Performance audit should be integrated to form a comprehensive audit framework which contributes to improved public finances, sound governance and reduced corruption.

"Financial audits alone do not provide sufficient information for findings on the effectiveness, efficiency and economy of used public resources".²⁹

Thus, there needs to a different approach to ensure that sufficient information is available and that approach is Performance Auditing.

Performance audit should be integrated with financial and compliance auditing to form a comprehensive audit framework which contributes to improved public finances, sound governance and reduced corruption. It is frequently the case that possible areas for performance audit arise out of compliance or financial audits.

Through its Performance Audits, the SAI is able to assist decision makers by answering essential questions such as:

- whether public resources have been used regularly, economically, efficiently and effectively;
- which mistakes were made; and
- how mistakes can be avoided in the future?

The SAI can provide independent, unbiased, reliable information to Parliament and citizens on all aspects of government activities by means of Performance Auditing.

Performance Audit can impact and contribute to:

- Good Governance;

- The effective use of Performance Information;
- Sustainable Development;
- Strengthening of SAI; and
- Capacity Development.

Management in the Public Sector and Performance Auditing

The form of public funds administration influences priorities in performance auditing as well.

In countries where public funds administration is mainly concerned with **means** rather than with ends, audits tend to analyse especially whether the rules and regulations has been observed, and correctly applied, giving a lower importance to the manner in which these rules and regulations are appropriated to the purpose of their issuance.

In countries that have a funds administration based on **objectives and results**, audits are mainly focused on the analysis of the opportunity of rules and regulations, giving a lower importance to the observing of legal provisions.

Performance Audit of public funds administration is performed through the analysis of economy, efficiency and effectiveness, the analysis of their use or of different combinations between these philosophies.

Generally, in Performance Audit, the auditors try to answer to a number of questions, that allows them to formulate certain pertinent conclusions and recommendations, from which it results if:

- is there a clearly defined structure of performance objectives and have the appropriate instruments and priorities been chosen for the use of public funds?
- is there an appropriate distribution of the responsibilities between the different levels of authority, bearing in mind also the principle of subsidiary?
- is there a general cost awareness and an orientation towards production of services, putting citizens' needs in focus?
- is there an adequate emphasis on management control and reporting requirements?

Performance Auditing and the ISSAI Framework

Performance Audit, called also **Value-for-Money** audit or audit of **Sound Financial Management (SFM)**. There are various definitions of the performance audit. As we have seen, one of them explains that Performance Audit substantively examines the economy, efficiency, effectiveness and equity of the use of resources by the government to achieve desired outcomes. Its focus is on how well government has managed its resources and delivered services or other outputs.³⁰

According to the **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.

As stated **GUID #3910** – Performance Audit Guidelines: Key Principles - GUID #3910 focuses on the strategic challenges concerned with the implementation process and the resources needed to conduct performance audit. It highlights the key features of

³⁰ ID INTOSAI Implementing ISSAI; adopted from various SAI's reports and prepared Practical Guidelines under INTOSAI

performance auditing and its importance to SAI, 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.

Performance (or Value-for-Money) Audit:

Aimed at examining and enhancing the Economy,
Effectiveness and
Efficiency of
Public Sector Financial,
Organisational and Administrative
Systems.

These principles need to be followed prior to commencement of an audit and also throughout the audit process. In order to assure compliance with general principles of auditing the SAI needs to have policies and manuals in place, which define the principles in context of its environment.

Implementing ISSAI allow the SAI beneficiary to receive and implement Practical Audit Guidance, methodology, list steps to do in practice according to the respective audit position and separation of duties to carry out the overall audit process covering in detail each stage in the three main phases of the audit process according to the INTOSAI and ISSAI.

In practice, adopting the ISSAI, including “Fundamental Principles of Performance Auditing” standard will ensure the functioning the required SAI core process under the INTOSAI and ISSAI:

Standard - Methodology - Audit Practice - Quality Assurance³¹

Auditors Proficiency Requirements

Auditors assigned to conduct Performance Auditing should possess adequate professional proficiency for the activity of investigation/assessment. In Performance Audit the personal qualities of auditors are also important (analytical ability, creativity, receptiveness, social skills, integrity, judgement, endurance, good oral and writing skills, etc.). The auditor may also benefit from training in administration, management, economics and social sciences.

Performance Auditing is an activity based on important professional information and values. The possibility to develop auditor skills and to improve the results at desired quality standards creates the opportunity to permanent improving the quality of performance auditing.

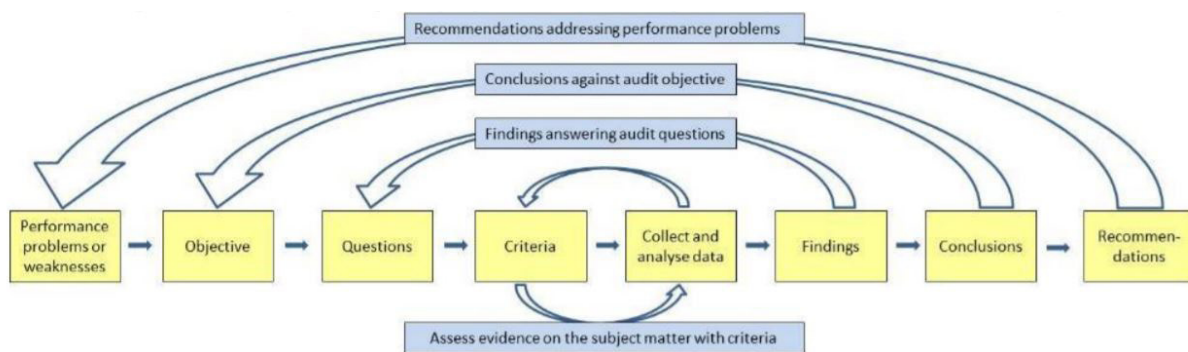
Performance auditors must often exercise professional reasoning, in line with policies and standards established by the leadership of their Audit Institution. Auditors should adopt an attitude of professional scepticism. For instance, they should recognise that information relating to performance may be materially misstated.

31 INTOSAI Capacity Building Committee, Implementing the International Standards for Supreme Audit Institutions (ISSAIs); Supporting SAIs in implementing ISSAIs, ID INTOSAI, 2014; Nature and scope of the International Standards for Supreme Audit Institutions (ISSAIs), Brief paper under the project, 2018

Conceptual Logic in Performance Audit

A performance audit can be described as a process of activities that can be grouped into main phases of planning, conducting, reporting and following up the audit. This is the structure that is used for the remaining chapter of this handbook. Another way to describe a performance audit is conceptual, illustrating the logic the auditors are working according to when performing the activities. Figure 26 shows this conceptual logic and how some of the concepts are related to each other. For a performance audit to be of a high quality, the conceptual framework needs to be coherent and consistent.

Figure 26: Conceptual Logic in Performance Auditing



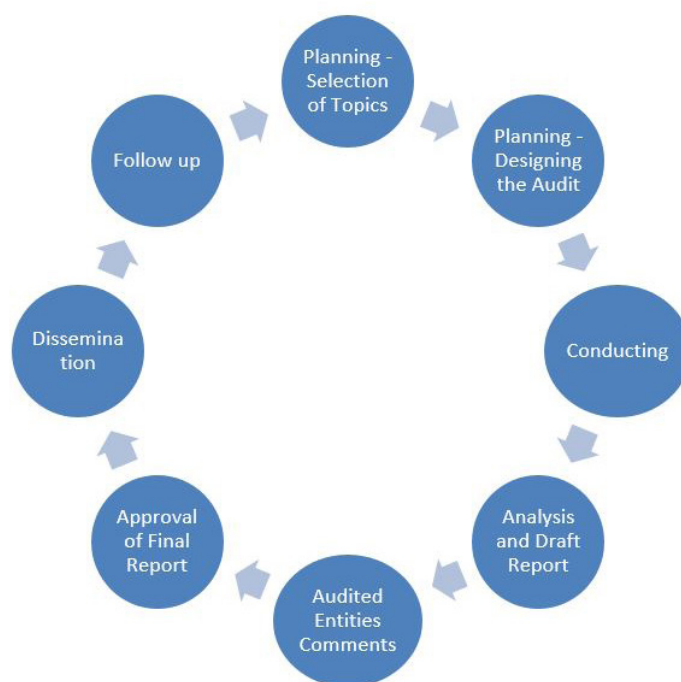
Source: Based on SNAO Model

Usually, a reason to carry out performance audit is that there are significant **performance problems or weaknesses** in a selected area of government, or risks for such weaknesses. By formulating the **audit objective**, the auditors establish a main focus of the audit. This is done after initial research where the auditors developed an understanding of the audit area and the problems/weaknesses in it. While it would be possible to formulate detailed audit objectives, it is common to instead detail one or a few overall objectives through **audit questions** and sometimes sub-questions. In order to be able to assess the subject matter defined by the objective and question, the auditors identify audit criteria.

The Performance Audit Cycle

Overview

The performance audit cycle begins with the selection of topics, 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 audit 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.

Figure 27: The Performance Audit Cycle

Source: PAM Brazil/18

Planning: Selection of Topics

The selection of topics is the first step in audit cycle. 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 consistent with the SAI's mandate. The audit has to conduct the process of selecting audit topics with the aim of maximising the expected impact of the audit while taking account of audit capacities. The strategic planning should be integrated into the SAI's strategic planning (ISSAI #3000/89-91).

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.

Planning: Designing the Audit

Audit planning aims at defining 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 realisation.

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;
- design matrix;
- development of tools for data collection;

- pilot testing; and
- audit plan.

More details about how to plan a performance audit are in [Chapter 4](#) of this Manual.

Conducting

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 organisation of field work and data analysis strategy.

[Chapter 5](#) of this Manual has more information about how to conduct a performance audit and analyse data.

Draft Report

With the evidence gathered and analysed during the conduct phase, the audit team 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 provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced (ISSAI #300/39; ISSAI #3000/116).

It is important that after production of the final report, a master copy of the report is **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.

More details about reporting on a performance audit can be found on the [Chapter 6](#) of this Manual.

Audited Entity Comments (Natural Justice)

Unless prohibited by legislation or regulations, before publishing a performance audit report, the SAI should give the audited entity the opportunity to comment on the audit findings, conclusions, and recommendations (ISSAI #300/29; ISSAI #3000/129).

Therefore, the SAI shall request that the audited entity submit their written comments on the draft report and establish a compatible deadline. Usually, the draft report has all the elements of the final report, except the chapter on analysis of the audited entity's comments (PAM Brazil, 2010/185).

Where audited entity's responses provide new information, the team should assess this, according to the standards applicable to the evidence, 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 and factual errors corrected (ISSAI #300/29). 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.

Managers shall be informed about the confidentiality of the draft report.

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 reviewed by the supervisor and by the head of office and sent to the Head of SAI, for approval. In Court model SAI, the report is judged by the members of the Court.

Dissemination

Comprehensive reports and wide distribution of every report are key to the credibility of the audit function. If possible, each performance audit will be published in a separate report. SAIs decide about the method of distribution in conformity with their respective mandates. The reports should be distributed to the audited entities, the Executive and/or the Legislature and, where relevant, be made accessible to the general public directly and through the media and to other interested stakeholders, except for the classified information (ISSAI #300/41; ISSAI #3000/134).

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.

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.

Follow-up

Following up on SAI recommendations may serve several purposes (GUID #3920/146-147):

- increasing the effectiveness of audit reports – the prime reason for following up audit reports is to increase the probability that recommendations will be implemented;
- identify the extent to which audited entities have implemented changes in response to audit findings and recommendations and determine the impacts which can be attributed to the audits;
- evaluation of SAI performance – following up activity provides a basis for assessing and evaluating SAI performance;
- assisting the government and the legislature;
- creating incentives for learning and development; and
- identify areas that would be useful to follow-up in future work.

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 (ISSAI #300/42).

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

- if the manager solved the problems found;
- what was implemented; and
- if the actions taken generated benefits and, if possible, quantify those benefits.

[Chapter 7](#) of this Manual has more information about how to follow-up SAI recommendations.

The Elements of Performance Auditing

Introduction

The ISSAI #100 establishes five elements of a public-sector audit: **the three parties** (auditor, responsible party, intended users), **subject matter** and **criteria**. Those elements may assume distinct characteristics in performance auditing. Auditors should explicitly identify the elements of each audit and understand their implications so that they can conduct the audit accordingly.

The Three Parties in Performance Auditing

Auditors in performance audits typically work in a team offering different and complementary skills. Auditors frequently have considerable discretion in the selection of subject matter and identification of criteria. While auditors can give recommendations, they need to take care that they do not assume the responsibilities of the responsible parties (ISSAI #300/16).

The role of **Responsible Party** may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter. Some parties may be responsible for actions that have caused problems. Others may be able to initiate changes to address the recommendations resulting from a performance audit. Others still may be responsible for providing the auditor with information or evidence (ISSAI #300/17).

The **Intended Users** are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users (ISSAI #300/18).

Subject Matter in Performance Auditing

The subject matter relates to the question “what is audited” and is defined in the audit scope. The subject matter of a performance audit may be specific programmes, undertakings, systems, entities or funds and may comprise activities (with their outputs, outcomes and impacts) or existing situations, including causes and consequences. The subject matter is determined by the objective and formulated in the audit questions (ISSAI #300/19; ISSAI #3000/30).

Criteria in Performance Auditing

Audit criteria are the benchmarks used to evaluate the subject matter. In audits covering complex issues, it is not always possible to set audit criteria in advance. The auditor might find more detailed audit criteria during the audit process. Whereas in other audit types there can be unequivocal audit criteria, this is not typically the case in performance auditing. Audit criteria are not always readily available to the auditor in that type of audit (ISSAI #3000/46).

Combined Audits

The ISSAI mention overlaps between different types of audits and combined audits, without elaborating on this in any detail. The standards for all three main types of audit enable the auditors to bring up other issues than the main purpose under certain conditions.

For this reason, we suggest that the term “combined audits” is limited to situations where different audit standards need to be applied for different elements in the same audit.

We also recommend SAI in the process of increasing the quality of the audits and improve the compliance with ISSAI to be cautious in combining different aspects or applying different audit standards in the same audit. **Our experience is that conducting financial, performance and compliance audits separately creates better conditions for SAI to be ISSAI compliant.**

ISSAI #300/14 and ISSAI #3000/16 deals with overlaps between audit types (or combined audits). The following points should be considered:

- elements of performance auditing can be part of a more extensive audit that also covers compliance and financial auditing aspects;
- in the event of an overlap, all relevant standards should be observed. This may not be feasible in all cases, as different standards may contain different priorities; and
- in such cases, the primary objective of the audit should guide the auditors as to which standards to apply. In determining whether performance considerations form the primary objective of the audit engagement, it should be borne in mind that performance auditing focuses on activity and results rather than reports or accounts, and that its main objective is to promote economy, efficiency and effectiveness rather than report on compliance.

Annex 2: General Principles of Performance Auditing

Introduction

This chapter examines the main general principles laid down in the ISSAI as having to be followed when undertaking a Performance Audit.

In order to establish a framework for timely delivery of high-quality audit reports and to avoid unnecessary activities, performance audits must be undertaken using the **SMARTEST** approach:

The auditor should ensure that:

- **S**ound judgement is exercised throughout the audit process;
- **M**ethodologies are appropriate and combined to capture a range of data;
- **A**udit question(s) are set which can be concluded against;
- **R**isks to delivering the audit report are analysed and managed;
- **T**ools are employed to help achieve successful delivery of the audit;
- **E**vidence is sufficient and appropriate (relevant, reliable and valid) to support the audit findings;
- **S**tructure of the final report is considered from the planning phase onwards; and
- **T**ransparency - a 'no surprises approach' - is adopted with the auditee.

Audit Approach

Introduction

The overall audit approach is a central element of any audit. It determines the nature of the examination to be made and is an important link between the audit objective(s), audit criteria and the work done to collect the evidence (ISSAI #3000/41). It also defines the necessary knowledge, information and data and the audit procedures needed to obtain and analyse them.

The Three Approaches in Performance Auditing

Auditors have to design a performance audit using one approach or a combination of approaches. The different approaches mentioned in the ISSAIs are **result, problem or system-oriented approach**.

Results-Oriented Approach

A result-oriented approach assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended (ISSAI #3000/43). In this approach, the findings will be in the form of a deviation from the criteria and the recommendations will aim at eliminating such deviations.

In the result-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 to

develop credible 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. A result-oriented approach deals mainly with questions such as: what results have been achieved?; have the objectives been met? (GUID #3910/51).

Problem-Oriented Approach

In the problem-oriented approach the starting point for an audit would normally be a problem that needs to be verified. This approach examines, verifies and analyses the causes of particular problems or deviations from audit criteria. It can be used when there is a clear consensus on a problem, even if there is no clear statement of the desired outcomes or outputs. Conclusions and recommendations are primarily based on the process of analysing and confirming causes rather than comparing audit evidence with audit criteria (ISSAI #3000/44). The audit criteria have a less significant role in this approach.

A major task in the problem-oriented approach audit is to analyse the causes of the problem from different perspectives. This approach deals with questions such as:

- What are the causes of the problem?; and
- To what extent can the government solve the problem?

(GUID #3910/52).

Systems-Oriented Approach

A system-oriented approach examines the proper functioning of management systems. 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. Frequently, elementary principles of good management will be helpful in examining the conditions for efficiency or effectiveness even when there is a lack of a clear consensus on a problem or when outcomes or outputs are not clearly stated (ISSAI #3000/42).

This approach does not focus primarily on the policy or the goals, but on well-functioning management systems as a condition for effective and efficient policies. Some examples could be evaluation systems, control systems, Information and Communications Technology (ICT) systems.

This type of audit can use descriptive questions, such as:

- What are the responsibilities of each actor?; and
- What are the relevant information flows?

Can be complemented by evaluative questions, such as:

- Is there a good quality monitoring system?; and
- Are the processes evaluated periodically and properly?

(GUID #3910/54).

All three approaches can be pursued from a **top-down or a bottom-up** perspective. **Top-down audits** concentrates mainly on the requirements, intentions, objectives and expectations of the legislature and central government. **A bottom-up perspective** focuses on problems of significance to people and the community (ISSAI #300/26).

Audit Risk

Introduction

Audit Risk is the risk that the audit report may be inappropriate or the risk of reaching incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users (ISSAI #100/40 and ISSAI #300/28). Therefore, the performance auditor shall design and conduct the audit in order to reduce the audit risk to acceptably low levels.

The concept of audit risk is inseparable from the concept of audit assurance⁹ (ISSAI 100/40). For the same reasons that the auditor cannot provide absolute assurance,¹⁰ he/she will always have to deal with some level of audit risk.

According to the ISSAI, dealing with audit risk is embedded in the whole process and methodology of performance audit (ISSAI #300/28). The auditor shall select the subject matter and criteria taking into consideration risk and materiality (ISSAI #100/26-28) and the audit planning documents should state the possible or known risks and show how these risks will be handled (ISSAI #300/28). The definition of the scope and audit questions shall be guided by the audit risk assessment (ECA, 2013) and, during conducting stage, the auditor shall perform procedures to obtain sufficient and appropriate evidence to support audit findings, as a response to the risks identified in the subject matter.

The ISSAI #3000/53 and 54 states that managing audit risk includes the following:

- anticipating the possible or known risks;
- developing audit approaches to addressing those risks;
- documenting how those risks will be handled; and
- considering whether the audit team has competence to conduct the audit, has adequate access to accurate, reliable and relevant information, has considered any new information that is available, and has considered alternative perspectives.

Risks Not Related to Specific Subject Matter

The nature of the risks that the auditor has to deal with varies according to the subject matter and to the audit's objective(s). However, there are some risks to be dealt with in any audit, regardless of its specific conditions or elements. Some of those risks are:

- lack of necessary skills by the audit team;
- unfeasible time frames for meeting audit's objectives;
- lack of sufficient supervision;
- misconceptions concerning the subject matter or the interpretation of existing criteria;
- misunderstandings that lead to the development of inappropriate criteria; and
- existence of falsified information or fraud.

Risk Assessment in Performance Audit

Many SAIs have developed both formal and less formal ways of assessing audit risk in performance audit. A general definition of risk assessment is the identification and analysis of relevant risks to the achievement of objectives, forming a basis for determining how the risks should be managed (ECA, 2013 *apud* COSO, 2004).

The basis of any risk assessment process is to have a sound, up-to-date knowledge of the audit area, irrespective of the size and nature of the subject matter. The auditor should

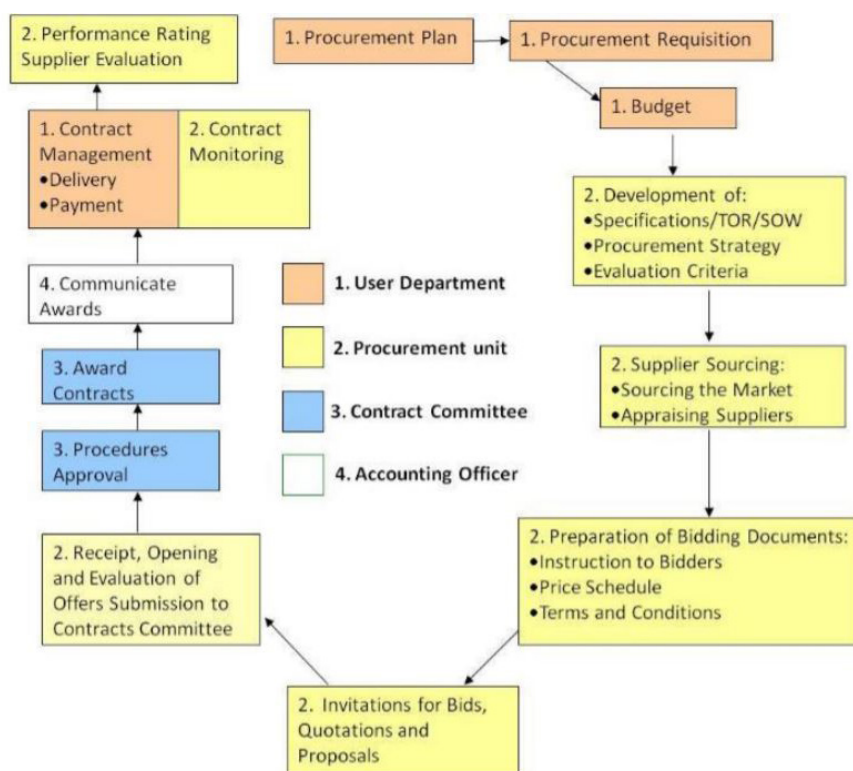
acquire and demonstrate a thorough understanding of the policy/programme/entity’s objectives and related success indicators, of the key actors, processes and key controls (ECA, 2013).

The assessment of the risks of the subject matter should be the link between the knowledge acquired on the audit area, its relevant internal controls and its environment, and the process of scoping and defining audit questions to make sure that the audit will evaluate the most important issues related to the subject matter.

Identifying and assessing risk is not an exact science and will mostly depend on the professional judgement of the auditor. This judgement should be based on knowledge, analysis and experience. The auditor has to be systematic, comprehensive and rigorous. No important risks should be overlooked (ECA, 2013).

There are a variety of tools that can be used to improve the knowledge on the subject matter, such as SWOT Analysis, Risk Verification Diagram (RVD), also known as Heat Map, Problem Tree, Ishikawa Analysis, Stakeholder Analysis, Flowcharts, Logic Model, Theory of Change, Systems Graphs and others.

Figure 28: Example of a Systems Graph: Local Government Procurement



Source: AFROSAI-E Performance Audit Manual

The knowledge acquired by the auditor on the subject matter, its internal controls and its environment needs to be documented, to support the auditor’s analysis. The tools mentioned above can also help on the task of documentation. The best tools to be used in each audit are a matter of professional judgment and depends on the circumstances of the audit and also on the audit approach.

Skills and Staffing

The professional competences to perform the audit includes sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills, creativity and receptiveness. Performance auditors should also have a sound knowledge of government organisations, programmes and functions (ISSAI #300/30; GUID #3910/74-81).

Since performance auditing is a team effort and the issues involved are complex, it is not suggested to conduct a performance audit alone. Consequently, not all members of an audit team may possess all required skills. However, the SAI shall ensure that the audit team collectively possess all necessary professional competence to perform the audit (ISSAI #3000/63). Furthermore, it may not always be possible for an SAI to recruit people who meet all the requirements. The required skills may therefore be developed once a person is in service, as long as candidates for appointment have clearly demonstrated the potential mindset and aptitude for the kind of work that performance auditing entails (GUID #3910/79).

It is a good practice for the SAI to have a training and staff development programme to ensure that its staff maintains professional proficiency through continuous education and training. A key factor in the development process is learning through practical auditing work (GUID #3910/77).

Depending on the nature of the specific audit, some special skills or expert knowledge of the subject matter may also be required. If the auditor determines that external expertise is required to complement the knowledge and skills of the audit team, then the auditor may consult, as appropriate, with individuals, within and outside the SAI, who have this specialised expertise. Before using experts, the auditor needs to ensure that the expert indeed has the necessary competence required for the purpose of the audit. Any external experts engaged with the audit also need to be informed about the conditions of the audit and the ethical requirements and need to be independent from situations and relationships that could impair the external experts' objectivity. Although the auditor may use the work of experts as audit evidence, the auditor retains full responsibility for the audit work and the conclusions in the audit report (ISSAI #3000/65).

Professional Judgement and Scepticism

Professional judgment refers to the application of collective knowledge, skills, and experience to the audit process. Using professional judgment helps the auditor determine the level of understanding needed for the audit subject matter. It involves the exercise of reasonable care in the conduct of the audit and the diligent application of all relevant professional standards and ethical principles (ISSAI #3000/70).

Some examples of how professional judgment can be used in performance audits are:

- identifying and evaluating threats to independence;
- determining the required level of understanding of the subject matter;
- determining the nature, timing and extent of audit procedures;
- determining which findings are significant enough to report;
- evaluating whether sufficient and appropriate audit evidence has been obtained; and
- determining the recommendations to be made.

Professional scepticism means maintaining professional distance from the audited entity and an alert and questioning attitude when assessing the sufficiency and appropriateness of the audit evidence obtained throughout the audit (ISSAI #3000/71).

Some examples of how apply professional scepticism in performance audit are:

- considering the integrity of management;
- revising risk assessment;
- planning for sufficient procedures; and
- being alert to audit evidence that contradicts other.

Performance audits require significant judgment and interpretation because audit evidence for this type of audit is more persuasive than conclusive. Exercising professional judgment and scepticism allows the auditor to be receptive to a variety of views and arguments and better able to consider different perspectives (ISSAI #3000/69, 72).

The information obtained may be summarised in a standard document called a “**programme analysis**”. The programme analysis includes the following rubrics: objectives, inputs, processes, outputs, variables, and outcomes (see table below).

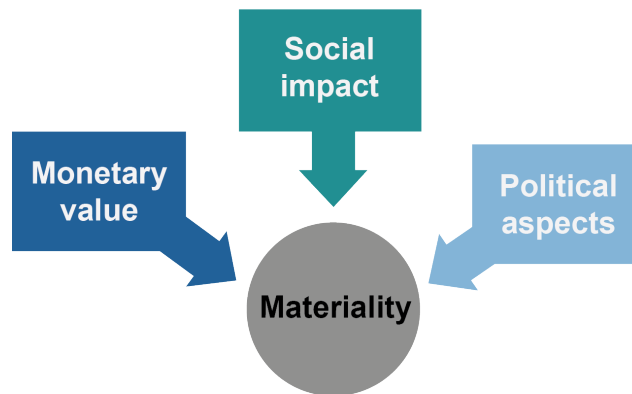
Table 12: Programme Analysis

Objectives	Inputs	Processes	Outputs	Variables	Outcomes
Aims Objectives Target	Resources used to achieve the objectives, including personnel, equipment, buildings, legislation and quality standards (inputs)	Activities; Procedures; Systems	Services and products offered by the entity as result of implementing a programme	External factors that influence the outcome	The impact of programme implementation in the society, including the unintended impacts

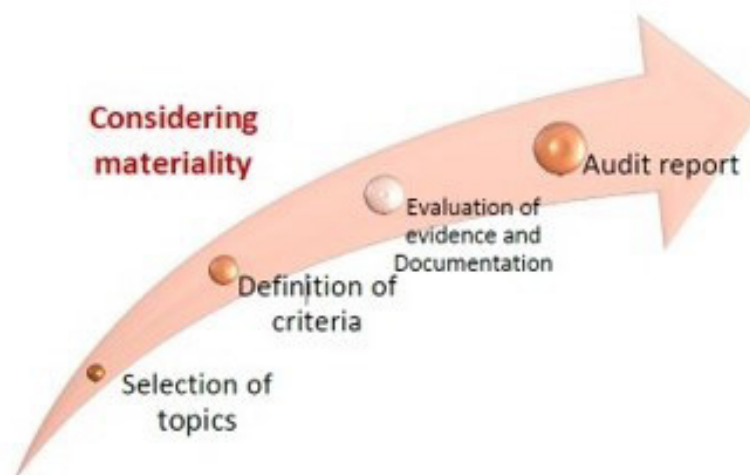
Source: NAO (UK) Performance Audit Guide

Materiality

The concept of materiality is important in the three audit streams. Materiality can be defined as the relative importance (or significance) of a matter within the context in which it is being considered (ISSAI #3000/83). In performance audit, materiality by monetary value may, but need not, be a primary concern. The auditor should consider also what is socially or politically significant and bear in mind that this varies over time and depends on the perspective of the relevant users and responsible parties (ISSAI #300/33), as shown below.

Figure 29: Materiality (1)

Performance auditors should consider materiality at all stages of the audit process, as shown in Figure 30. It concerns all aspects of performance audits, such as the selection of topics, definition of criteria, evaluation of evidence and documentation and management of the risks of producing inappropriate or low-impact audit findings or reports (ISSAI #300/33; ISSAI #3000/83).

Figure 30: Materiality (2)

The audit should lead to important benefits for public finance and administration, the audited entity, or the general public. Aside from audits carried out under legal mandate at the request of the Parliament or other empowered entity, performance audit topics have to be selected on the basis of problem and /or risk assessment and materiality or significance (not only financial significance, but also social and/or political significance), focusing on the results obtained through the application of public policies.

When planning the audit, it is important that the auditors examine the risks and materiality of government programmes or activities, taking into account the resources involved, the importance of the environmental aspects to be addressed, and the magnitude of the intended effect. The auditors should also consider whether there are indications of problems of efficiency and effectiveness in the area to be audited.

In the conducting phase, the auditor should collect sufficient and appropriate evidence to support the finding and conclusion. One of the factors that contributes to evaluate the strength of evidence required to support a finding is the level of materiality or significance.

Throughout the whole audit process, the auditor needs to manage the risk of producing inappropriate or low-impact audit findings and audit reports.

Ethics and Independence

ISSAI #130 define those ethical values, including also confidentiality and transparency.

According to ISSAI #3000, independence comprises two aspects: independence in fact and independence in appearance.

GUID #3910 defines ethics as the moral principles of an individual that include independence, integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Independence in fact allows the auditor to perform activities without being affected by influences that compromise professional judgement, to act with integrity and exercise objectivity and professional scepticism. Independence in appearance is the absence of circumstances that would cause a reasonable and informed stakeholder, having knowledge of relevant information, to reasonably doubt the integrity, objectivity or professional scepticism of the auditor, or conclude that they have been compromised (ISSAI #3000/22; GUID #3910/10).

The auditor has to consider specific risks to independence that may be present in performance audits. The auditor has a particular role in identifying audit criteria, measuring against them, and formulating a balanced audit report. In this regard, the auditor needs to remain independent so that the audit report is impartial and the ethical behaviour of the audit team is safeguarded. It is also important to consider the positions of relevant stakeholders, and their interests, and to establish open and good communication with them nevertheless it is essential to guard one's independence (ISSAI #3000/24).

Threats independence requirements must be considered before and during an audit. Threats may be related to:

- self-interest;
- advocacy;
- familiarity;
- intimidation;
- self-review; and
- management participation.

If the threat is significant, control mechanisms ought to be applied. Some control mechanisms could be: involving another person to review the work done, consulting a third party, rotating personnel, having the independence confirmed by the individuals working in the audit, removing a person which independence is compromised (GUID #3910/14, 17, 19).

Teamwork

The existence of a good team and good teamwork is essential of effective Performance Auditing (see [Annex 4](#)).

Annex 3: Auditing Gender Equity

Planning Framework: Gender Equity

Gender-based analysis (GBA) is a lens of analysis that examines and assesses existing differences between women's and men's socio-economic realities and life situations. It also analyses the differential impacts of proposed and existing policies, programs, legislative options, and agreements on women and men. The use of GBA as an analytical tool is critical in designing legislation, policies, regulations, programs, or projects. GBA is a management tool that can be examined by auditors and that can also be used as an audit tool.

Gender-responsive budgeting (GRB) is a government planning, programming, and budgeting process that contributes to advancing gender equality and fulfilling women's rights in particular. It entails identifying and reflecting needed interventions to address gender gaps in sector and local government policies, plans, and budgets. GRB also aims to analyse the gender-differentiated impact of revenue-raising policies and the allocation of domestic resources and official development assistance.

Gender-Responsive National Development Plans and Sectorial Plans have been developed by more than 40 countries to take into account the importance of unpaid work in households and how it factors into the overall economy. The Gender & Work Database, an online research tool, provides extensive information about work and employment as they relate to gender and other social factors.

Auditing Equity

Equity audits are essentially "social audits" that consider whether government policies, internal practices and related support systems to mainstream socially disadvantaged segments/groups are effective, reinforce each other and are being implemented. These audits practices focus on stakeholder participation [i.e. participation of rights holders (people) and duty bearers (government or service providers)] and accountability.

Auditors examine all facets of a given subject matter (i.e. a policy, a programme or an institution) in order to determine whether gender is incorporated adequately and appropriately into objectives and targets, project design, implementation, monitoring and evaluation, in order to ensure outcomes and policies align with higher level objectives on gender.

Ideally, an equity audit focuses on both the programme and the organisation but it could focus on one or the other. So the audit can be roughly divided into two groups: questions about programme, policy objectives and implementation and more internally focused questions on the organisation, i.e. capability of the organisation to address equity issues, organisation culture etc. The audit examines the relative progress made in mainstreaming issues of the target group and helps to build organisational ownership for equity/equality initiatives and sharpens organisational learning.

Importance of Performance Audit on Gender Equity/Equality

There are several reasons why it is important to examine gender equity or equality through a performance audit:

- To determine the degree of implementation of national and international commitments to gender equity or equality, including legislation, policy, and action plans;
- To identify and examine the gender-specific impacts of government programs,

operations, administration, and financing; and

- To make recommendations that can lead to improvements in the design, implementation, and results of government policy and programming, contributing to better gender equality outcomes.

Audit Process: Addressing Equity and Equality

In order to provide a practical understanding of how concepts of social inclusiveness, equality and equity can be addressed through a performance audit, the following sections illustrate on ‘gender equality’ in relation to different audit phases.

Although significant progresses have been made in both developed and developing countries to address the inequalities between women and, girls and boys, but it has been demonstrated clearly that gender equality matters needs to be addressed further both as a core development objective and as a means to increase economic growth and development. Goal #5 of the SDG specifically looks at gender equality and women empowerment. Therefore, as more governments are carrying out gender responsive programmes supported by improved legislation, policy making and funding, audits of gender equality/equity are becoming more and more imperative.

Audit Topic Selection and Definition

As we know, the first step in the performance audit cycle is to select a topic. The importance of gender equality may influence audit topic selection. SAls are encouraged to apply a “gender lens” to their strategic planning process and related activities such as area watching, scanning the public sector environment, and discussions with external stakeholders. In effect, this involves assessing individual entities and programs as well as government-wide initiatives to determine if gender equality is relevant and significant.

Each of these situations could influence whether the entity or program will be selected for a gender equality audit and, if so, the focus and type of audit approach that will be adopted.

Audit Planning

Determining whether gender equality issues should be included in the scope of an audit is a crucial decision to be taken during the planning phase. In some cases, gender equality may be an explicit component of the audit topic, for example where the organisation is delivering a gender equity program. In other cases, a focus on gender equality may be less apparent, and may be achieved through routine management activities that foster gender equality in public sector entities and programs.

Developing Audit Questions

Depending on the explicit or implicit nature in which gender equality is being addresses, the auditor can develop questions about programme, policy objectives and implementation and/ or more internally focused questions on the organisation, i.e. capability of the organisation to address equity issues, organisation culture etc. Following there are some examples of questions that could be used on gender audits.

Questions for Overall Government

- Has the government endorsed the UN Convention for Elimination of Discrimination against Women?
- Has the government developed a Policy or legislation related to gender equity or equality?

- Does the government require a Gender-Based Analysis of policies, legislation, programs and budgets?

Questions for Individual Programmes or Government Entities

- Has management issued a policy or strategy that clearly articulates its commitment to gender equality?
- Is there communication to ensure employees, service providers, and beneficiaries are aware of the policy or strategy?
- Has senior management provided a clear mandate and authority to a person(s) or group in terms of program delivery, coordination, assessing results, and reporting?
- How are gender issues mainstreamed into programme implementation?
- Has the entity established an operational plan to achieve gender equity or equality?
- Has the plan established baseline data, performance indicators, or targets relating to gender equality issues?
- Are operational plans supported by appropriate information and data analysis?
- Does the organisation use gender-based analysis to support policy decisions and funding requests? Does it integrate the results of such analyses into policies and programmes?
- Does the organisation track program budget, inputs, outputs, and outcomes using sex-disaggregated data?
- Do program managers collect and provide the required performance information related to gender equality?
- Does the organisation report on its gender equality program, activities, and initiatives?

Assessing Risks: Indicators that Gender Equity is at Risk

During the planning phase, auditors may come across information or situations that suggest that the achievement of gender equality is at risk in a given program or entity. The following are some potential **indicators that gender equality is at risk**:

- A gender-based analysis has not been conducted or insufficient attention is paid to completed analyses.
- Policy or program design and implementation do not consider gender issues.
- An approved program has no financial or technical resources dedicated to the design and implementation of a gender equality strategy or plan.
- Personnel have not been trained in gender equality issues both in internal administration and program delivery options.
- Barriers to achieving gender equality still exist.
- There is no mechanism to allow staff to raise gender-based issues.
- The organisational culture does not stress the need for gender equality.
- For a gender equality programme, standards of service are not met.

Relationship of Gender Equality to Program Efficiency, Economy, and Effectiveness

In determining the audit focus, the auditor also needs to consider the “3 Es”. Specifically, the auditor has to decide which of the 3 Es — economy, efficiency, or effectiveness—the audit is primarily concerned with. This drives the audit objective and associated criteria as well as the evidence required to reach conclusions against the objectives.

- A performance audit that is primarily concerned with whether the government’s intended gender equality outcomes, goals, and targets are being realised suggests a focus on effectiveness.
- An audit that is primarily concerned with how resources and processes are used to achieve intended output or outcomes suggests an emphasis on efficiency.
- An audit that is primarily concerned with how program resources are acquired (people, assets, funding) suggests a focus on economy.

Deciding on the Audit Approach

SAI can use a system, result, or problem-oriented approach, or a combination thereof for the audit. During the planning phase of an audit, auditors are encouraged to gain an understanding of the system and processes in place to achieve gender equity/equality. This understanding will help the auditor to focus the audit on the most significant aspects.

In a system-oriented approach audit of gender equality, the focus is on the management systems, practices and internal controls used by an organisation to achieve, maintain, demonstrate, and improve the gender equality aspects of its services or operations.

In practical terms, this approach means examining the policy framework, human resource management, performance measurement and reporting systems, and management’s systems for benchmarking organisational performance. In a result-oriented approach audit, the focus is on determining whether a program or activity is achieving intended gender equality outcomes. Generally, this involves comparing current or recent performance against benchmarks, a baseline, or key performance targets.

Systems and results are inter-related. During the planning phase, if results are not being achieved, this may suggest a weakness in underlying systems and processes. Even if intended results are being achieved, the auditor may wish to examine systems and processes to ensure that results will be consistently and sustainably achieved. Alternatively, if systems and processes are found to be robust but intended results are still not being achieved, this may cause the auditor to investigate other underlying causes or problems.

Examples

OAG Canada 2015 – Implementing Gender-Based Analysis

What was examined?

Whether the selected departments performed adequate gender-based analysis to inform government decisions, and whether Status of Women Canada and the relevant central agencies (the Treasury Board of Canada Secretariat and the Privy Council Office) appropriately supported the implementation of gender-based analysis throughout the federal government.

Why we did this audit?

Because it can help the government assess progress made to implement gender-based analysis, in keeping with its goal of meeting its international commitments to gender-based

analysis and its obligations to gender equality.

What we concluded?

That the selected departments have not always adequately performed gender-based analysis (GBA) to inform government decisions. As in 2009, gender-based analysis has not been implemented in some federal departments and agencies. Furthermore, the departments that had implemented a GBA framework did not always conduct complete analyses, and the quality of their analyses was not consistent.

We also concluded that since 2009, Status of Women Canada, the Treasury Board of Canada Secretariat, and the Privy Council Office made progress in supporting the implementation of gender-based analysis throughout the federal government by providing assistance, guidance, and training. Despite these efforts by Status of Women Canada and the central agencies, barriers (such as the absence of mandatory requirements for gender-based analysis across government) prevent departments and agencies from embedding gender-based analysis in the development of their policy, legislative, and program initiatives.

OAG Uganda 2015 – Mainstreaming Gender and Equity in the Formulation and implementation of the National Budget

What was examined

Gender budgeting is a practice/ approach of allocating resources taking into consideration the different needs, interests and constraints of women and men. It involves an analysis and understanding of the situation of different categories of men and women, boys and girls to determine the gender gaps/ inequalities and setting appropriate interventions in development plans and budgets to address them.

In Government, Gender and Equity Budgeting is spearheaded by the Ministry of Finance, Planning and Economic Development (MoFPED), which aids the strengthening of the technical capacity for Gender and Equity mainstreaming in Budget and Budget monitoring processes across Government.

We assessed the extent to which MoFPED, in collaboration with Local Governments and MDAs, mainstreams gender and equity issues during formulation and implementation of the National Budget.

Why we did this audit

Gender budgeting is one of the ways of gender mainstreaming in development processes and it is about equality of access to public sector expenditure. Gender responsive budget initiatives can be carried out at various levels of public intervention be it government, civil society or in the private sector and in different domains which may cover the overall budget or selected parts.

What we concluded

There is inadequate capacity for implementing gender and equity budgeting within the MoFPED, MDAs and LGs. MoFPED needs to ensure that its officers trained in gender and equity budgeting do actually gain practical competences for implementing gender and equity budgeting. LGs also need to have their theoretical and practical competences for gender and equity budgeting built. In addition, there is need for closer collaboration amongst MoFPED, MoGLSD and LGs in the implementation and monitoring of gender and equity budgeting.

Annex 4: Teamwork

Introduction

In this section we will briefly discuss:

- The characteristics of an effective team;
- How team members can contribute to a well-functioning team;
- How to lead a team; and
- Steps to develop a high performing team.

Characteristics of Effective Teams³²

Effective teams need a clear unity of purpose. While it is important to have initial free discussions, it is also important to reach agreements on the objectives of the team different team members can commit themselves to. The team also needs to have a mutual understanding of how they should operate, what norms, approaches and rules to follow. Based on this understanding the team can regularly reflect on how they are proceeding towards the objectives, and when things are not going as intended openly discuss the problems and find solutions to them. Establishing clear performance goals and milestones is essential to help teams to monitor progress and be successful in stepwise achievements towards the larger goal.

The effective team has committed people working in an informal, comfortable and relaxed atmosphere without fatal tensions. They stay focused on goals and purposes at the same time as there are open discussions where people listen to each other, and everyone can contribute. There is trust enough for the team members to be creative in brainstorming, express feelings, and even to make mistakes. Disagreements are contributing to better results when the team reach a consensus, meaning that none is allowed to dominate another. The effective team is also able to live with the disagreements that cannot be resolved without letting that hinder them from reaching their objectives.

Each individual contributes to the team by doing their best and meet or exceed the expectations of others. Everyone is respectful to one another and the group by listening actively, completing agreed tasks, arriving at time, etc. Criticisms are frequent but frank and constructive. There is a formal team leader that can make a final decision when needed, but it is the team member's competency in each task that leads the group in the specific area to get the job done.

To summarise, the characteristics of effective teams are that:

- There is a clear unity of purpose;
- The group is self-conscious about its own operations;
- The group has set clear and demanding performance goals;
- There is trust which creates informal, comfortable and relaxed working conditions;
- There will be lively and open discussions in which virtually everyone participates;
- People are free in expressing their feelings in a respectful way as well as their ideas;
- There are disagreements that are resolved into agreements or an agreement that one cannot agree;

- Diversity is considered to be a contribution to the result;
- Most decisions are made at a point where there is general agreement;
- Each individual carries his or her own weight;
- Criticism is frequent, respectful but frank and will be received relatively comfortably; and
- There is a formal leader but the day to day leadership of the group shifts from time to time.

How Team Members can Make a Team Work Well³³

A performance audit team depend on all its members. Different team members may possess different technical skills, ensuring that the team together are capable of carrying out the work. However, many other factors have an influence on how well different persons will function as team players.

Most auditors would prefer members in the audit team that **demonstrates reliability**, people who always gets the job done. There is also a need for people who **communicates constructively**, expressing their thoughts and ideas clearly, honestly and with respect for others and the team. On the other hand, they also need to **listen actively** in order to understand and consider ideas and views from other people and think them through before entering into a meaningful dialogue. This includes to be able to give and take criticism.

Good team players are **active participants**, fully engaged, taking initiatives and volunteer for assignments. They come prepared for team meetings. Information, knowledge, and experience are **shared openly and willingly**. They take trouble to keep one another in the team. They **cooperate and pitches in** to help other team members for the greater good. They find ways to cooperate even when there are differences between them and figure out ways to get the work done. Good teams are also **flexible** and able to adopt to changing conditions as well as initiate change themselves when needed. They are also able to consider different points of views and compromise when needed. Strong team players are firm in their thoughts yet open to what others have to offer — flexibility at its best.

Strong team players also show **commitment to the team** and teamwork and expect other to do the same. They **work as problem-solvers**. They don't look for others to fault but get problems out in the open for discussion and then collaborate with others to find solutions and form action plans. They also **treat others in a respectful and supportive manner**. They show understanding and appropriate support of other team members to help get the job done. Good team players also have a sense of humour and know how to have fun. Quite simply, effective team players deal with other people in a professional manner.

Team players with commitment look beyond their own duties and care about the team's overall work. In the end, their commitment is about winning (reaching a goal) — not in the sports sense of beating your opponent but about seeing the team succeed and knowing they have contributed to this success. Winning as a team is one of the great motivators of employee performance. Good team players will be motivated by the end result being achieved.

33 <http://www.dummies.com/how-to/content/ten-qualities-of-an-effective-team-player.html> by Marty Brounstein from Managing Teams For Dummies.

How to Lead a Team Effectively

A few practical tips to team leaders to effectively lead the audit teams are listed here:

- **Stand by your team. People need to know you're in their corner.** Support equals motivation. Let your team see and hear you cheering them on. If they know they have your support, they will feel more motivated to do their jobs well. If you have resources that may help them achieve their goals, share them. It will make everyone's job easier. A little encouragement, along with the right resources, can create amazing results;
- **Cultivate relationships.** Take the time to get to know your team members. Meet with them one-on-one with no interruptions. You'll be amazed at what you find out. When people know you care, they'll be more inclined to work harder;
- **Acknowledge a job well done.** Let people know they make a difference. When people hear a compliment, they are more apt to repeat the behaviours that got them the compliment in the first place. Also, let others know if someone else praised them. It can be a great motivator, and it serves as a double dose of recognition;
- **Set specific, challenging, yet attainable outcomes for members of your team.** When you set specific goals from the beginning, you can avoid unnecessary surprises in the end. It allows your team to more easily check their progress and ensures that they know what your expectations are;
- **Recognise that "my way or the highway" tactics don't work today.** People want to be heard and they want choices. Keep an open mind and listen to your team's ideas. Perhaps your way would work, but their way might be even better. New ideas can increase productivity;
- **Think and talk in terms of "we."** This approach reminds you and your team that you're all in it together. No one wants to feel like they are working on a project alone. When there is a sense of unity, people are more likely to help each other, which will result in the job getting done more effectively and efficiently;
- **Share your principles and live by them (in other words, practice what you preach).** People want to know what you stand for, and they want to see that your values and beliefs guide you. Your team will learn more from what they see you do than from what you tell them. If you lead with the right example, they will respond with your high standards;
- **Squelch the rumours.** Rumours can wreak havoc on an organisation. The key is to squelch rumours before they begin to spread, and you can do this by simply keeping your team informed. If everyone knows exactly what is going on, the chances for rumours to arise will decrease dramatically;
- **Use humour in your daily interactions.** A good laugh can be a great stress reliever. It makes people feel relaxed and renewed, which in turn creates a more positive environment;
- **If you see a problem, fix it.** Whether it's a process, a way of thinking or a machine, if it is not working properly, fix it as soon as possible. People do not need to be burdened when trying to produce services and products;
- **Do it now. Don't let things get in the way.** Take a good, long look at your priorities. Many of the tasks and chores that dominate our time are urgent, but not necessarily important. Don't let the urgent drive out the important!; and
- **Be more, not less, available in times of change.** When your organisation is going through a change, you should limit meetings and other commitments that may take you away from your team. People need you most during these times. When they have questions, you need to be there with answer.

Source: From the article 20 Keys to Leadership by Joanne G. Sujansky. Eight of the keys have been excluded as they are less relevant for team leaders.

Steps to Develop a High Performing Team

The following seven generic steps, included in the *team performance model*,¹³⁵ can be taken to develop a high performing team.

- **Orientation:** When teams are forming everybody wonders **WHY** they are here, what their potential fit is and whether others will accept them. People need some kind of answer to continue;
- **Trust Building:** Next, people want to know **WHO** they will work with – their expectations, agendas and competencies. Sharing buildings trust and a free exchange among team members;
- **Goal Clarification:** The more concrete work of the team begins with clarity about team goals, basic assumptions and vision. Terms and definitions come to force. **WHAT** are the priorities?;
- **Commitment:** At some point discussions need to end and decisions must be made about **HOW** resources, time, staff (bottom-line constraints) will be managed. Agreed roles are key;
- **Implementation:** Teams turn the corner when they begin to sequence work and settle on **WHO** does **WHAT, WHEN** and **WHERE** in action. Timing and scheduling dominate this stage;
- **High Performance:** When methods are mastered, a team can begin to change its goals and flexibly respond to the environment. The team can say “**WOW!**” and surpass expectations’ and
- **Renewal:** Teams are dynamic. People get tired; members change. People wonder “**WHY** continue?” It’s time to harvest learning and prepare for a new cycle of action.

Annex 5: Pre-Study Audit Reports

Introduction

The pre-study report should summarise the result of the preparatory work. The pre-study report is a basis for the Head of the SAI's decision on whether the audit shall be carried out. Most common is a proposal for proceeding with a main study. In this case, the report contains an assessment of the focus the main study shall have. If the report's assessment is that there are no grounds for proceeding with a main study, the arguments for this assessment are to be reported.

Proposing that the Main Study is to be Conducted

When it is believed that there are grounds for conducting the main study, the pre-study report is written in the format below.

PART 1 PROPOSAL FOR A DECISION TO INITIATE A MAIN STUDY

Part 1 summarises the pre-study report and represents at the same time a proposal for a decision. This decision can be communicated externally, for example, to auditees and other stakeholders. Normally, this section should be able to be written on 2-3 pages. Appropriate subheadings:

- Background;
- Reasons for the audit;
- The purpose of the main study; and
- Conducting the audit.

PART 2 THE PRECISE FOCUS OF THE MAIN STUDY

Chapter 1: Organisation or Activity Overview

This chapter describes the organisation or activity that is in view for auditing and why it is audit worthy. Thus, the problem representation is reported as well as other potential grounds that exist for carrying out the audit. The state of knowledge in the area in question should also be accounted for, that is, a brief description should be given of inquiries, research reports etc. on the subject of the current issues. This chapter should normally comprise no more than 5-6 pages.

Chapter 2: The Audit Design of the Main Study

Here the audit design is reported in more detail, as compared with the summary text in Part 1. The following is thus accounted for:

- Purpose/audit questions;
- Delimitations;
- Specifications of central concepts;
- Assessment bases; and
- Methods of data collection.

This chapter should normally be able to be presented in no more than 5-6 pages.

Chapter 3: Risk Analysis

Here an assessment is presented of possible risks that, among other things, might cause time lags and of how it is intended that these be handled during the audit. These include operational risk (the topic is sensitive, complex, etc.), method risk (e.g. the risk of necessary data not being able to be collected), confidentiality (the risk of a slower work process) and timing (the risk that the report comes at the wrong time).

Chapter 4: Planning the Main Study.

This chapter presents the project group's proposal for the time of publication and the arguments in favour of this proposal. As a basis for the proposal for the time of publication, assessments should be made of the time for various steps in the audit, given the data collection methods we are using. This chapter should also contain brief information about the staffing of the project in the main study as well as the need for supplementary internal or external support.

Proposing that the Main Study is Not to be Conducted

If the project group and programme manager make the assessment that the project shall not proceed to a main study, this proposal is also to be accounted for in the pre-study. This report is designed as follows.

Chapter 1: Overview of the Organisation or Activity

This chapter describes the organisation or activity in question and the reasons for the audit. Often these reasons have already been presented in the audit proposal.

Chapter 2: Grounds for Not Proceeding to a Main Study.

This is a presentation of the arguments that have arisen and that, in an overall assessment, have led to the project group and the programme manager not considering that the main study should be carried out.

Annex 6: Example of a Stakeholder Analysis

Stakeholder Analysis in a Performance Audit on Actions to face Domestic and Family Violence against Women

Stakeholder	Role of the Stakeholder in the Theme	Interest of the Stakeholder in the Theme	Level of Interest	PRIORITY FOR THE AUDIT
Women who suffer domestic violence	<ul style="list-style-type: none"> Denounce physical, psychological, sexual, moral domestic violence. Ask for psychological support and shelter. Know the procedures related to the aggressor, specially information about prison. 	<ul style="list-style-type: none"> Feel safe. Go back to normal activities. Don't suffer aggression again. Punishment for the aggressor. Access to goods, family and friends. 	++	High
Secretary of Women Policy	<ul style="list-style-type: none"> Advise the President in formulation and coordination of women policy. Elaborate and implement educational campaigns. Elaborate gender planning for the government. Promote gender equality. Promote cooperation with national and international organisations regarding women policy. 	<ul style="list-style-type: none"> Diminish violence against women in the country. Elaborate and implement public policies to prevent and fight against women violence. 	+	High
Health Services Specialised on Helping Women who Suffered Violence	<ul style="list-style-type: none"> Have multidisciplinary team to attend the women. Prevent sexual transmissible diseases. 	<ul style="list-style-type: none"> Guarantee health service to women. 	++	High
Aggressors	<ul style="list-style-type: none"> Seek for help to not repeat the aggressions. 	<ul style="list-style-type: none"> Obtain resocialisation measures. Change behaviour and attitude. 	++	High

Shelters	<ul style="list-style-type: none"> • Guarantee physical and psychological integrity of the women on life risk and her children. • Offer housing and attention to the women. • Promote activities to reinsert the woman in the society (programmes on health, employment, housing etc.). • Give information about public services. 	<ul style="list-style-type: none"> • Guarantees temporary shelter. • Guarantee the welfare of the victim. • Promote activities to the woman and family. 	++	High
NGOs	<ul style="list-style-type: none"> • Mobilise society about gender discrimination. • Ask for actions and measures to improve care for women victim of violence and their children. • Inform women about their rights. • Give medical and psychological assistance to women victim of domestic violence. 	<ul style="list-style-type: none"> • Ensure welfare of women victim of domestic violence. • Promote assistance to the women and their children on education, health, inclusiveness in work market, access to justice and housing. 	+	Medium
Police Station / Specialised Police Stations	<ul style="list-style-type: none"> • Ensure protection. • Help the woman to go to hospital, if necessary. • Inform woman about her rights. • Collect proof of aggression. • Hear aggressor and witnesses. 	<ul style="list-style-type: none"> • Inform victim about her rights. • Start police procedures. • Guarantee protection for women victim of violence. • Provide good services to women. 	++	High

Annex 7: Example of a SWOT Analysis and a Risk Verification Diagram

SWOT Analysis – Rural Drinking Water Supply Scheme (RDWSS)

		Internal environment	External Environment
+		Strengths 1. Clear established goal related to Sustainable Development Goals 2. RDWSS exists since 2001 3. Entities responsible for water supply on three government levels 4. Well defined responsibilities among three government levels 5. Annual plans defined 6. Monitoring cell 7. Existence of Village Water and Sanitation Committee (VWSC) 8. Transparent process for contracts for establishing water supply schemes	Opportunities 1. River runs across the length of the country 2. Established criteria from World Health Organization to testing water quality 3. Increase of tourism brings more financial resources to the country
		Weaknesses 1. Behind established goal (26% still don't have access to safe drinking water) 2. Non-availability of drinking water all the time in some villages 3. Shortage of testing laboratory (should be one per district) 4. Shortage of material for testing kits 5. Few people training to using test kits (should be 3 per village) 6. Shortage of people to maintain water distribution network in order to avoid water leakage 7. Shortage of people in districts and villages to regularly inspect the water structures and to operate maintain water supply schemes 8. Shortage of village financial resources for regular maintenance 9. Some districts have less water coverage 10. No gender equality in composition of Village Water and Sanitation Committee (VWSC) 11. Deficiencies in water storage 12. Lack of water harvesting (collect from rain) 13. Lack of information system and performance indicators	Threats 1. Biological surface water contamination 2. Chemical ground water contamination 3. Little articulation between water supply program, sanitation service and health system 4. Little articulation among districts and villages to share water 5. Dependency on weather conditions

Impact	Low Probability/High Impact	Medium Probability/High Impact	High Probability/High Impact
	Difficulty to have the annual plan approved (W10)	Water leakage (W6, W7, W8) Low priority for the subject in municipality (W10) Not taking advantage of the possibility of save money (W12) Management difficulties (W13)	Not reach the Sustainable Development Goal (W1, W13, T1, T2, T3) Increase in disease due to contaminated water (W1, W2, W3, T1, T2, T3, T5) Bad quality water (W1, W4, W5, W6, W7, W8, W9, T1, T2) Waste of public resources (W6, W7, W8, W11, T3) Less water testing (W10) Inefficiency (W12) Difficulty to measure performance (W13) Increase in expenses with water treatment (T1, T2)
	Low Probability/Medium Impact	Medium Probability/Medium Impact	High Probability/Medium Impact
	Biased view on water problems (W10)	Rural exodus (W1, T1, T2, T5) Low frequency on VWCS meetings (W10)	Water storage in bad conditions (unclean tanks, bowls, buckets) (W2) Difficulty to write annual plan (W13)
	Low Probability/Low Impact	Medium Probability/Low Impact	High Probability/Low Impact
		Schools and offices have to be closed (W2) Women less empowered (W10)	Increase in health expenses (W1, W2, W3, T1, T2, T3, T5)
	Probability		

Annex 8: Visual Aids

Graphs

The information box below contains some other general tips for using graphs in an audit report.

Hints for Better Graphs

- Titles should clearly state what the graph is. The graph should be referenced and easily connected to the relevant section of the text by either the title or the reference. Graphs should avoid acronyms.
- Someone may have forgotten that MAPM is mean applications per month. Make sure that both the X and Y axis are properly labelled and have enough values indicated to be able to see the relationship between the variables.
- Include a total of items measured if it's relevant. For example, n = 638 indicates that your sample included 638 transactions.
- Do not use a legend unless you cannot find a way to prepare a graph that does not need one. A legend requires the reader to take another mental step to translate the information.
- As with the language in your report, you are creating a functional graph to convey a message, not a work of art. Don't try to be too creative. Skewing, or twisting the bars to odd angles, may add visual interest, but can make it more difficult to understand or even change the meaning of the graph.
- Use larger, simple fonts that are easy to read. Fonts without serifs, such as Arial or Calibri are less fussy than fonts like Times New Roman. If the words are taking up too much space on the page, find other words, don't reduce the font size to a point where it maybe unreadable.
- Avoid using clip art and other amusing pictures. This material is fine for presentations where you are talking to people and trying to keep their attention. Its presence in reports makes the reports seem less serious and detracts from the overall effectiveness.
- If you are printing your report in colour, avoid bright colours like lime green or hot pink; they are hard on the eyes and distract from the message.
- 8% of the male population are colour blind. The most important reader of your report may be one of those 8%. The most common form is an inability to distinguish red from green. If printing in colour, consider using colours that can distinguished by people who are colour blind or may suffer some
- other form of visual impairment.
- Remove the grey walls and background lines from graphs unless they are needed to make the data more readable. White is the best background and the fewer lines on the graph that are not data lines, the easier it is to see what the graph is trying to communicate.
- Make borders thinner and dark grey instead of heavy and black. This emphasises the content of the chart rather than the border.
- Make the y-axis in particular legible. Use larger increments in the y-axis using larger intervals so that the number of labels is reduced. Choose a font size that is easy to read and doesn't obscure the numbers above and below.
- Make the maximum number only slightly higher than the tallest bar to optimise use of space.
- Always identify the source of a graph. If it is sourced externally, acknowledge the provider. If it is constructed from audit evidence, indicate where this evidence has come from.

Types of Graph and their Use

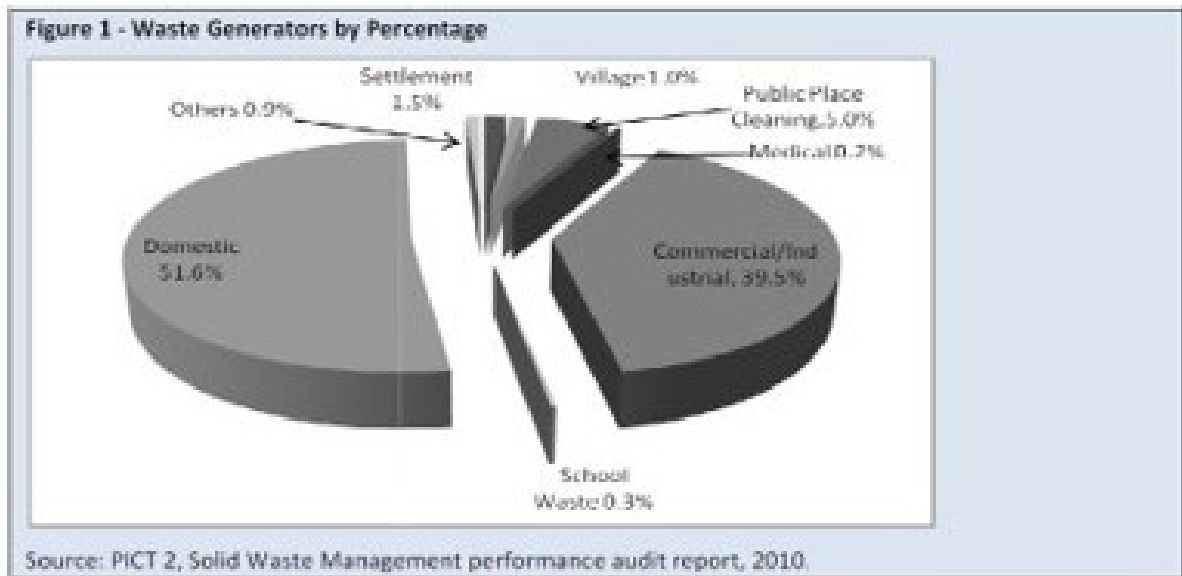
There are various types of graphs that may be used to present data. The most common types are pie charts, bar (horizontal representation) and column (vertical representation) graphs and line graphs (also called trend graphs). Various software applications such as Excel provide a variety of other types which are more complex versions of these four or are more specialised. These latter types may be more difficult for a reader to understand. An area graph for example is a three-dimensional version of a line graph, adding a second variable. Many people will have difficulty understanding what this means. The auditor should keep graphs as simple as possible and never try to show too many variables at once.

Pie Charts

Pie charts show the parts of a whole. Pie charts are the most common form of graph used in business communication, because they are simple to understand. Their use in audit reports is also common, particularly when the auditor is dealing with a relatively small number of items and some of those items are very large. They have been criticised because it is often difficult to differentiate between the sizes of the smaller slices of the pie and auditors should be careful to put values in the chart if this is the case. As a result of this, pie charts are generally better at showing that a particular population is dominated by one or two items rather than allowing a reader to gain an understanding of the makeup of the entire population.

If you want to show the different levels of purchases from five or six different suppliers, then a pie chart will enable you to clearly demonstrate that one supplier is being heavily favoured or that the purchase are being spread around.

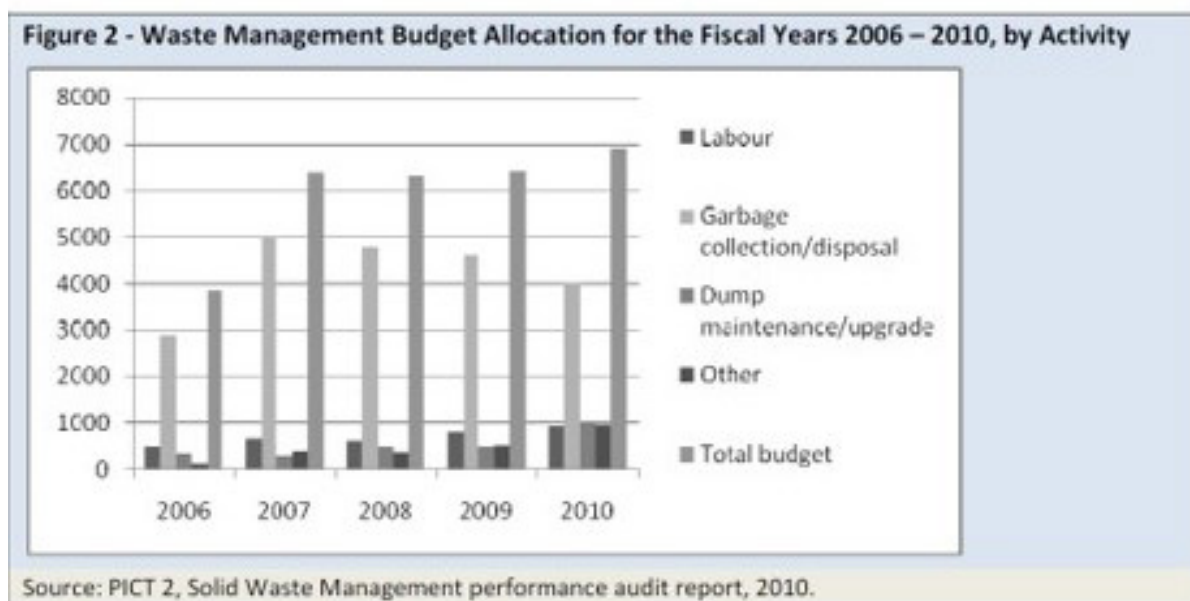
Figure 1 shows which sectors of the population are responsible for waste generation which support the development of appropriate waste reduction strategies and which have been implemented and monitored. Note with pie charts it is important to use colour carefully; different colours may be hard to “see” white.



Bar Charts/ Column Charts

Bar charts and column charts show data at a “point in time” not unlike a snapshot. They are useful for showing comparisons and relativities between the various items which make up a population. They are designed to show the relationship between variables which have discrete values rather than being continuous. When the reader looks at a bar or column chart they can see that one item is bigger or smaller than another. If you want to show that the total number of machine parts bought in 2006 is greater than it was in 2005 and twice as much as it was in 2004, then a bar or column graph will show this most effectively.

Figure 2 shows how a bar graph has been used to show the change in a number of parameters from year to year. Because there are only five parameters and five years, it is cleaner and more effective than a line graph, which could also have been used. If the period here was fifty years, a line graph would be more effective.



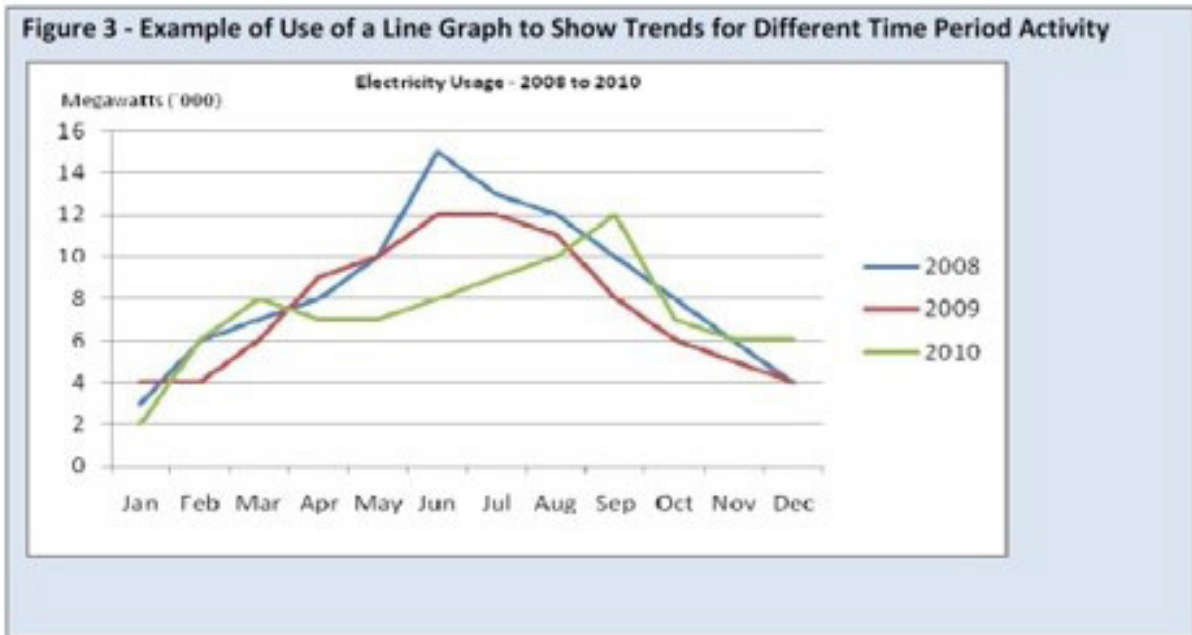
Line Graphs

Often called a trend graph, a line graph is used to show the way something has moved over time. It is also useful for those occasions where the auditor wants to demonstrate how related variables have moved over time, through using more than one line. One of the best examples of the use of multiple line graphs is with currency exchange rates. It is possible to plot the movement of multiple currencies against the American dollar on a single graph by using a line for each currency. Line graphs also provide a more useful facility for plotting two completely different variables against a third variable. For example, it may be useful to plot the number or volume of houses sold and the total sales of new cars against the unemployment rate, even though the sales of cars and the turnover in houses appear to have little to do with each other.

When creating line graphs it is important to limit the number of trend lines so that they do not overlap and you can't tell which is which. A full-page chart can contain more lines than a small one, which should have only a few.

It is also useful to make the lines heavier, with larger markers (the little triangles or boxes along the lines) so that they can be seen more easily. Care should be taken when using colours, lines such as those shown in Figure 3 would be hard to understand if copies were made in black and white.

Legends are more useful in line graphs than in other types of graph because it is often difficult to associate text boxes with the specific lines they describe. The graph below shows the electricity usages for an entity over three different years and enables the reader to easily see that it declined from 2008 but for some reason peak usage moved to later in the year.



Supporting Information for Graphs

It is helpful to provide the data that supports a graph, either in the relevant chapter or in an appendix to the report. This allows a reader to see precisely what data the graph is representing. Some readers will also be more comfortable with data in a tabular form than in a graph.

Formatting Graphs

All visual aids should have a title and a letter or number that can be used in the text. The title and/or reference letter or number should be used in the text (do not use words such as above, below, or on the next page when referring to the visual aid). Additionally, the visual aid should be placed as close as possible to the text in which it is referenced. The source for each visual aid should be specifically identified. Usually the source is given at the bottom of the visual aid. It can be something provided by the auditee, it can be something developed by the audit team, or it may be something drawn from a public reference resource. Regardless of what it is, the source should be identified clearly.

Annex 9: Interviews and Focus Groups

Free Interviews

Free interviews can be conducted in the form of a conversation or, more usually, with a set of questions as a basis. With a number of free interviews, the set of questions can vary from case to case. In free interviews, the purpose of the interview does not need to be as clear, and the focus is broader. Here, we are often trying to capture the interviewee's valuation of various conditions, just as much as purely factual circumstances. In-depth interviews are a type of free interview where the purpose is to elicit more specific and, perhaps also, more sensitive information. Here, extra great demands can be placed on objectivity and independence with regard to documentation and the use of interview results. Interviews of this kind can be particularly useful in the early phases of the audit – in order to obtain documents, opinions and ideas. Free interviews can take place by telephone but are usually conducted through a personal meeting.

- **Advantages:** of free interviews are that we can go in-depth with issues, and that we really can pose those questions that are relevant in the context. Validity can thereby be high. It is also possible to ask follow-up questions about where to find additional evidence for the details or ideas that emerge in the interview. We also normally obtain a type of empirical data that has not been acquired in the past; and
- **Disadvantages:** of free interviews are that interviewer influence can be great, and the outcome of the interview may be dependent on who has conducted it and how the questions are posed. Reliability can therefore be low.

Structured and Semi-structures Interviews

In structured interviews, use is made of standardised questions and response options that are arranged in advance. Here, the interviewer has a clear idea of the objective of the interview, and the purpose is also usually for the information to be capable of systematisation together with information from other interviews. In semi-structured interviews, use is made of standardised questions that are the same for everyone interviewed, but the response options are more open. The interviews may take place on site, but also by telephone. The difference is that telephone interviews typically give a slightly lower level of interviewer influence.

- **Advantages:** are that it is often possible to draw general conclusions where there have been correct sampling procedures, that the response rate is higher than with questionnaires, that the question can be explained if the respondent does not understand and that more, and more complex, questions can be posed than with postal questionnaires; and
- **Disadvantages:** are a certain risk of interviewer influence and that the method can be more expensive compared with, for example, a questionnaire.

Focus Interviews

A focus group consists of a number of selected persons whom we gather to discuss specific topics and questions. Focus groups are used primarily for collecting qualitative data – such as information that can provide insights into these persons' values and opinions with respect to the process or activity that is being audited.

- **Advantages:** of group interviews are that they can be a resource-efficient way of quickly acquiring deep and broad knowledge. They also provide the opportunity to gain in-depth information through follow-up questions. Everyone has the chance to speak, also those who are not very good at writing. The interaction that arises

between the participants can create new ideas. Interviews of this kind can also capture the ideas that the group has common; and

- **Disadvantages:** of group interviews are that peer pressure can cause participants who do not agree with the others to remain silent. The details that emerge can also be difficult to structure and analyse. They do not provide a basis for generalisations and statistical calculations. The group leader can also influence the conversation by his or her own attitudes, culture, age or gender. It may also, in practice, be difficult to gather everyone, and we must expect that at least some persons who promised to attend do not come.

Reference Groups

During the planning of an audit, we can conduct a stakeholder study to determine the groups that primarily have an interest in the area that we are studying. Usually, this will be experts and specialists. Sometimes use is made of a reference group as a source of views both in connection with the start of an audit and while the audit is in progress. The purpose of using experts is to ensure that the project group has access to the necessary specialist knowledge or expertise. Reference groups and experts can also be used as a part of quality assurance and factual examination.

- **Advantages:** of reference groups are that we gain quick and relevant information and that views from various quarters are tested against each other; and
- **Disadvantages:** of reference groups are that we can be controlled by the group's view. Moreover, it may be difficult to assess the experts' skills, to find the appropriate expert knowledge, to check the work of the experts or to evaluate the results produced by the experts.

Assessments by Expert Panels

In certain audits, we have also obtained outcome data through expert panels. We have used this model, for example, in the assessment of quality in higher education. Here, the model has been justified by the particular difficulties that exist in measuring the quality of higher education activities using more normal methods. Assessments by expert panels do not in themselves constitute the assessment basis, but instead represent outcome data in an audit of effectiveness. The assessment basis may then be objectives for high quality teaching, for example. This is why it is also a type of effectiveness audit.

- **Advantages:** of expert panels are that we obtain outcome data within areas that are otherwise very difficult to measure or assess. A breadth in the panel avoids excessive dependence on individual persons; and
- **Disadvantages:** of expert panels are the risk that the experts introduce quite a lot of their own subjective assessments since they can have varying ideas about what is good quality. The method can also easily be questioned, partly with respect to the selection of experts and how sampling has been done.



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