

ISSAI 300

Performance Audit Principles

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by the International
Organisation of Supreme Audit
Institutions, INTOSAI, as part of
the INTOSAI Framework of
Professional Pronouncements.

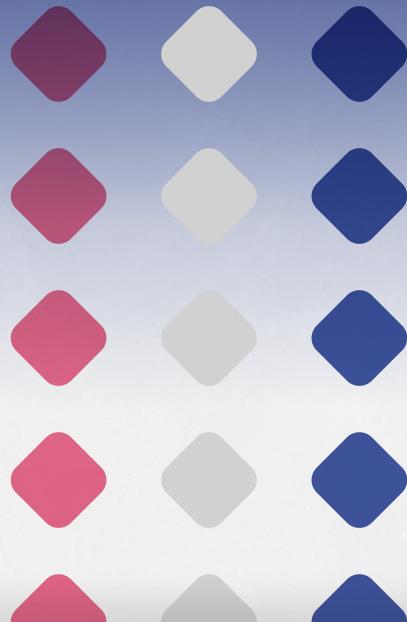
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INTOSAI, 2019

- 1) Endorsed as **Field standards in government auditing and standards with ethical significance** in 2001
- 2) Content reformulated and endorsed as **Fundamental Principles of Performance Auditing** in 2013
- 3) With the establishment of the Intosai Framework of Professional Pronouncements (IFPP), renamed as **Performance Audit Principles** with editorial changes in 2019

ISSAI 300 is available in all INTOSAI official languages: Arabic, English, French, German and Spanish



TABLE OF CONTENTS

1. INTRODUCTION	5
2. PURPOSE AND AUTHORITY OF THE PERFORMANCE AUDIT PRINCIPLES	
AUDIT PRINCIPLES	6
3. FRAMEWORK FOR PERFORMANCE AUDITING	8
Definition of performance auditing	8
Economy, efficiency and effectiveness	8
Objectives of performance auditing	9
Applicability of ISSAI 300	10
4. ELEMENTS OF PERFORMANCE AUDITING	11
The three parties in performance auditing	11
Subject matter and criteria in performance auditing	12
Confidence and assurance in performance auditing	12
5. PRINCIPLES OF PERFORMANCE AUDITING	14
General principles	14
Audit objective	14
Audit approach	15
Criteria	16
Audit risk	17
Communication	18
Skills	19
Professional judgement and scepticism	20
Quality control	21
Materiality	22
Documentation	23

Principles related to the audit process	24
Planning	25
Selection of topics	25
Designing the audit	26
Conducting	28
Evidence, findings and conclusions	28
Reporting	29
Content of the report	29
Recommendations	30
Distribution of the report	30
Follow-up	31

1

INTRODUCTION

- 1) Professional standards and guidelines are essential for the credibility, quality and professionalism of public-sector auditing. The International Standards of Supreme Audit Institutions (ISSAIs) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aim to promote independent and effective auditing by supreme audit institutions (SAIs) and support the members of INTOSAI in the development of their own professional approach in accordance with their mandates and with national laws and regulations.
- 2) *ISSAI 100 - Fundamental Principles of Public-Sector Auditing* provides the fundamental principles for public-sector auditing in general and defines the authority of the ISSAIs. *ISSAI 300 - Performance Audit Principles* builds on and further develops the fundamental principles of ISSAI 100 to suit the specific context of performance auditing. ISSAI 300 should be read and understood in conjunction with ISSAI 100, which also applies to performance auditing.
- 3) *ISSAI 300 - Performance Audit Principles* consists of three sections.
 - a) The first section establishes the framework for performance auditing and for reference to the relevant ISSAIs.
 - b) The second section consists of the general principles for performance audit engagements that the auditor should consider prior to commencement and throughout the audit process.
 - c) The third section contains principles of relevance to the main stages of the audit process itself.

Each principle is followed by a brief explanation.

2

PURPOSE AND AUTHORITY OF THE PERFORMANCE AUDIT PRINCIPLES

- 4) This document 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. INTOSAI members are encouraged to develop or adopt authoritative standards consistent with ISSAIs 100 and 300 and to also take into account the INTOSAI standards and guidance on performance auditing in ISSAIs 3000-3899 and GUDIs 3900-3999. The ISSAIs 3000 - 3899 provide performance audit standards for SAIs that have chosen to adopt the ISSAIs as their authoritative standards.
- 5) Pronouncements 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.
- 6) INTOSAI recognises that SAIs have contrasting mandates and work under different conditions. Due to the varied situations and structural arrangements of SAIs, not all auditing standards or guidelines can apply to all aspects of their work. SAIs therefore have the option of developing authoritative standards that are either based on or consistent with the Performance Audit Principles. If an SAI chooses to base its standards on these principles, those standards should correspond to these principles in all applicable and relevant respects.
- 7) Where an SAI's auditing standards are based on or consistent with the Performance Audit Principles, these may be referred to by stating:

... We conducted our audit[s] in accordance with [standards], which are based on [or consistent with] ISSAI 100 - Fundamental Principles of Public-Sector

Auditing and ISSAI 300 Performance Audit Principles of the International Standards of Supreme Audit Institutions.

The reference may be included in the audit report or communicated by the SAI in a more general form covering a defined range of engagements.

- 8) SAIs may choose to adopt the Performance Audit Standards (ISSAI 3000 – 3899) as the authoritative standards for their work. Where an SAI has chosen so to adopt these standards, it must comply with them in all relevant respects. Reference in this case may be made by stating:

...We conducted our [performance] audit[s] in accordance with the International Standards of Supreme Audit Institutions [on performance auditing].

3

FRAMEWORK FOR PERFORMANCE AUDITING

DEFINITION OF PERFORMANCE AUDITING

- 9) As carried out by SAIs, 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.
- 10) 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;
 - providing an independent and authoritative view or conclusion based on audit evidence;
 - providing recommendations based on an analysis of audit findings.

ECONOMY, EFFICIENCY AND EFFECTIVENESS

- 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.
- 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.
- 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 framework on the performance of the audited entity should also be taken into account.

OBJECTIVES OF PERFORMANCE AUDITING

- 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, SAIs are free to decide, within their mandate, what, when and how to audit, and should not be restrained from publishing their findings.

APPLICABILITY OF ISSAI 300

- 13) The Performance Audit Principles provide the basis for the adoption or development of standards by SAIs. They have been formulated with a view to the institutional background of SAIs, including the prerequisites for the proper functioning of SAIs on independence and constitutional mandates of the INTOSAI Core Principles (INTOSAI-P 10-99) and ethical obligations and further SAI organizational requirements (ISSAI 130-199).
- 14) When dealing with overlaps between audit types (or combined audits) the following points should be considered:
 - The statement of standards applied in the audit (paragraph 7 or 8 above) may need to be adjusted in accordance with ISSAI 100, paragraph 9 or 10.
 - 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.

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.

4

ELEMENTS OF PERFORMANCE AUDITING

- 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.

THE THREE PARTIES IN PERFORMANCE AUDITING

- 16) 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.
- 17) 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.
- 18) 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 AND CRITERIA IN PERFORMANCE AUDITING

- 19) 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.
- 20) In performance auditing, the auditor is sometimes involved in developing or selecting the criteria that are relevant to the audit. Paragraph 27 describes which specific requirements follow from this for the auditor.

CONFIDENCE AND ASSURANCE IN PERFORMANCE AUDITING

- 21) 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.

- 22) 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.
- 23) Audit reports should only include findings that are supported by sufficient appropriate evidence. The decisions made in drawing up a balanced report, reaching conclusions and formulating recommendations frequently need to be elaborated upon in order to provide sufficient user information. Performance auditors should specifically describe how their findings have led to a set of conclusions and – if applicable – a single overall conclusion. This means explaining which criteria were developed and used and why, and stating that all relevant viewpoints have been taken into account so that a balanced report can be presented. The principles on reporting give further guidance for this process.

5

PRINCIPLES OF PERFORMANCE AUDITING

GENERAL PRINCIPLES

- 24) The general principles set out below give guidance on aspects of performance auditing that are relevant throughout the audit process.

Some areas to which these principles apply are not covered by ISSAI 100. These are the selection of audit topics, the identification of audit objectives and the definition of an audit approach and criteria.

In other areas, such as audit risk, communication, skills, professional judgment, quality control, materiality and documentation, the general principles draw on the principles of ISSAI 100 and explain how they specifically apply in performance auditing.

Finally, some areas, such as ethics and independence, are currently addressed by ISSAI 100, by INTOSAI Core Principles (INTOSAI-P 10-99) and by SAI organizational requirements (ISSAIs 130-199).

» AUDIT OBJECTIVE

- 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.

Many audit objectives can be framed as an overall audit question which can be broken down into more precise sub-questions. They should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit question. All terms employed in the question should be clearly defined. The formulation of audit questions is an iterative process in which the questions are repeatedly specified and refined, account being taken of known relevant information on the subject as well as feasibility.

Instead of defining a single objective or overall audit question, auditors may choose to develop several audit objectives, which need not always be broken down into sub-questions.

» AUDIT APPROACH

- 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

- 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.

The criteria should be discussed with the audited entities, but it is ultimately the auditor's responsibility to select suitable criteria. While defining and communicating criteria during the planning phase may enhance their reliability and general acceptance, in audits covering complex issues it is not always possible to set criteria in advance; instead they will be defined during the audit process.

Whereas in some audit types there are unequivocal legislative criteria, this is not typically the case in performance auditing. The audit objectives, question and approach determine the relevance and the type of suitable criteria, and user confidence in the findings and conclusions of a performance audit depends largely on the criteria. Thus it is crucial to select reliable and objective criteria.

In a problem-oriented performance audit, the starting point is a known or suspected deviation from what should or could be. The main objective is therefore not just to verify the problem (the deviation from the criterion and its consequences) but to identify causes. This makes it important to decide how to examine and verify causes during the design phase. Conclusions and recommendations are primarily based on the process of analysing and confirming causes, even though they are always rooted in normative criteria.

» AUDIT RISK

- 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.

The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors and, as a consequence, not being able to provide users of the audit report with knowledge or recommendations that would make a real

contribution to better performance.

Important aspects of risk may include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to quality information, obtaining inaccurate information (e.g. because of fraud or irregular practices), being unable to put all findings in perspective, and failing to collect or address the most relevant arguments.

Auditors should therefore actively manage risk. Dealing with audit risk is embedded in the whole process and methodology of performance audit. Audit planning documents should state the possible or known risks of the work envisaged and show how these risks will be handled.

» COMMUNICATION

- 29) Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.

There are several reasons why planning communication with the audited entities and stakeholders is of particular importance in performance audit.

- As performance audits are not normally conducted on a regular (e.g. annual) basis on the same audited entities, channels of communication may not already exist. While there may be contacts with the legislature and government bodies, other groups (such as academic and business communities or civil society organisations) may not have been engaged with previously.
- Often there are no predefined criteria (such as a financial reporting framework), and thus an intensive exchange of views with the audited entity is necessary.
- The need for balanced reports requires an active effort to obtain insight into the points of view of the various stakeholders.

Auditors should identify the responsible parties and other key stakeholders and take the initiative in establishing effective two-way communication. With

good communication, auditors can improve access to information sources and to data and opinions from the audited entity. Using communication channels to explain the purpose of the performance audit to stakeholders also increases the likelihood that audit recommendations will be implemented. Auditors should therefore seek to maintain good professional relations with all relevant stakeholders, 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 for the role and responsibilities of each stakeholder. However, care should be taken to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI.

Auditors should notify audited entities of the key aspects of the audit, including the audit objective, audit questions and subject matter. Notification will usually take the form of a written engagement letter and regular communication during the audit. Auditors should maintain communication with audited entities throughout the audit process, by means of constructive interaction as different findings, arguments and perspectives are assessed.

Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report. Any disagreements should be analysed and factual errors corrected. The examination of feedback should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented.

At the end of the audit process, stakeholder feedback can also be obtained on the quality of the published audit reports. The audited entities' perception of audit quality may also be solicited.

» SKILLS

- 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.

There may also be specific ways of acquiring the necessary skills. For each performance audit the auditors need to have a full understanding of the government measures which are the subject matter of the audit, as well as the relevant background causes and the possible impacts. This knowledge must frequently be acquired or developed specifically for the engagement. Performance audits often involve a learning process and the development of methodology as part of the audit itself. On-the-job learning and training should therefore be available to auditors, who should maintain their professional skills through ongoing professional development. An open attitude to learning and an encouraging management culture are important conditions for enhancing individual auditors' professional skills.

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 SCEPTICISM

31) Auditors should exercise professional scepticism, but also be receptive and willing to innovate.

It is vital that auditors exercise professional scepticism and adopt a critical approach, maintaining an objective distance from the information provided. Auditors are expected to make rational assessments and discount their own personal preferences and those of others.

At the same time, they should be receptive to views and arguments. This is necessary in order to avoid errors of judgement or cognitive bias. Respect,

flexibility, curiosity and a willingness to innovate are equally important. Innovation applies to the audit process itself, but also to the audited processes or activities.

Auditors are expected to consider issues from different perspectives and maintain an open and objective attitude to various views and arguments. If they are not receptive, they may miss important arguments or key evidence. As auditors work to develop new knowledge, they also need to be creative, reflective, flexible, resourceful and practical in their efforts to collect, interpret and analyse data.

A high standard of professional behaviour should be maintained throughout the audit process, from topic selection and audit planning, via the audit proper, to reporting. It is important for auditors to work systematically, with due care and objectivity and under appropriate supervision.

» **QUALITY CONTROL**

- 32) Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced and fair reports that add value and answer the audit questions.**

ISSAI 140 Quality Control for SAIs provides general principles and application material on the system of quality control established at the organisational level to cover all audits. In the conduct of performance audits the following specific issues need to be addressed:

- Performance audit is a process in which the audit team gathers a large amount of audit-specific information and exercises a high degree of professional judgement and discretion concerning the relevant issues. This must be taken into account in quality control. The need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams should be seen as part of quality management. This may entail applying quality control procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received from quality control. If there is a difference of opinion between supervisors and the audit team, appropriate steps should be taken to ensure that the

audit team's perspective is given sufficient consideration and that the SAI's policy is consistent.

- In performance auditing, even if the report is evidence-based, well-documented and accurate, it might still be inappropriate or insufficient if it fails to give a balanced and unbiased view, includes too few relevant viewpoints or unsatisfactorily addresses the audit questions. These considerations should therefore be an essential part of measures to safeguard quality.
- As audit objectives vary widely between different audit engagements, it is important to define clearly what constitutes a high-quality report in the specific context of an audit engagement. General quality control measures should therefore be complemented by audit-specific measures.

No quality control procedures at the level of the individual audit can guarantee high-quality performance audit reports. It is equally important for auditors to be – and remain – competent and motivated. Control mechanisms should therefore be complemented by support, such as on-the-job training and guidance for the audit team.

» MATERIALITY

- 33) Auditors should consider materiality at all stages of 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.

Materiality can be understood as the relative importance of a matter within the context in which it is being considered. The materiality of an audit topic should have regard to the magnitude of its impacts. It will depend on whether the activity is comparatively minor and whether shortcomings in the area concerned could influence other activities within the audited entity. An issue will be considered material where the topic is considered to be of particular importance and where improvements would have a significant impact. It will be less material where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or otherwise minimal.

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

- 34) 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.

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.

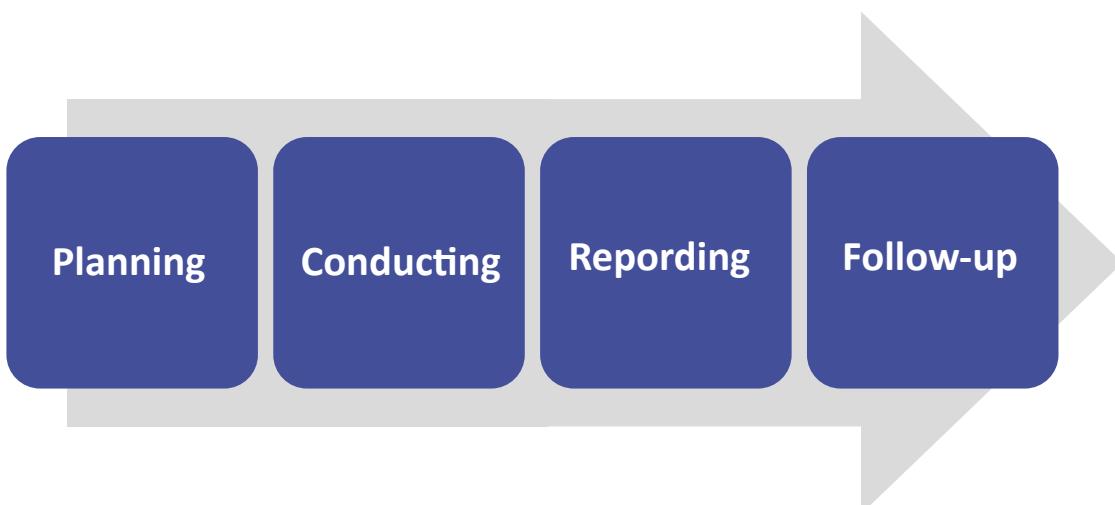
- Frequently the auditor will have acquired specialised knowledge about the audit topic that is not easily reproduced in the SAI. Since the audit methodology and criteria may have been developed specifically for a single engagement, the auditor carries a special responsibility to make his reasoning transparent.
- 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 with in 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.
- Maintaining adequate documentation is not only part of safeguarding quality (e.g. by helping to ensure that delegated work has been performed satisfactorily and that the audit objectives have been achieved) but also of the SAI's and individual auditors' professional development, as it can shape good practice for similar audits in the future.

PRINCIPLES RELATED TO THE AUDIT PROCESS

35) Performance auditing comprises the following main steps:



- Planning, i.e. selection of topics, pre-study and audit design;
- Conducting, i.e. collecting and analysing data and information;
- Reporting, i.e. presenting the outcome of the audit: answers to the audit questions, findings, conclusions and recommendations to users;
- Follow-up, i.e. 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

- 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.

» DESIGNING THE AUDIT

- 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);
- 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").

When planning the audit, the auditor should design the audit procedures to be used for gathering sufficient appropriate audit evidence. This can be approached in several stages: deciding on the overall audit design (which questions to ask, e.g. explanatory/descriptive/evaluative); determining the level of observation (e.g. looking at a process or individual files); methodology (e.g. full analysis or sample); specific data-collection techniques (e.g. interview or focus group). Data- collection methods and sampling techniques should be carefully chosen. The planning phase should also involve research work aimed

at building knowledge, testing various audit designs and checking whether the necessary data are available. This makes it easier to choose the most appropriate audit method.

Senior and operational management and the audit team should be fully cognisant of the overall audit design and what it entails. Decisions on the overall audit design and its consequences in terms of resources will often involve the senior management of the SAI, who can ensure that skills, resources and capacities are in place to address the audit objectives and the audit questions.

Planning should allow for flexibility, so that the auditors can benefit from insights obtained during the course of the audit. The audit methods chosen should be those which best allow audit data to be gathered in an efficient and effective manner. While the auditors should aim to adopt best practices, practical considerations such as the availability of data may restrict the choice of methods. It is therefore advisable to be flexible and pragmatic in this respect. For this reason, performance audit procedures should not be overly standardised. Excessive prescriptiveness may hamper the flexibility, professional judgement and high levels of analytical skills that are required in a performance audit. In certain cases – where, for example, the audit requires data to be gathered in many different regions or areas or the audit is to be conducted by a large number of auditors – there may be a need for a more detailed audit plan in which audit questions and procedures are explicitly defined.

When planning an audit, auditors should assess the risk of fraud. If this is significant within the context of the audit objectives, the auditors should obtain an understanding of the relevant internal control systems and examine whether there are signs of irregularities that hamper performance. They should also determine whether the entities concerned have taken appropriate action to address any recommendations from previous audits or other examinations that are of relevance to the audit objectives. Lastly, the auditors should seek contact with stakeholders, including scientists or other experts in the field, in order to build up proper knowledge regarding, for instance, good or best practices. The overall aim at the planning stage is to decide, by building up knowledge and considering a variety of strategies, how best to conduct the audit.

CONDUCTING

» EVIDENCE, FINDINGS AND CONCLUSIONS

- 38) Auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations.**

All audit findings and conclusions must be supported by sufficient appropriate evidence. This should be placed in context, and all relevant arguments, pros and cons and different perspectives should be considered before conclusions can be drawn. The nature of the audit evidence required to draw conclusions in performance auditing is determined by the subject matter, the audit objective and the audit questions.

The auditor should evaluate the evidence with a view to obtaining audit findings. Based on the findings, the auditor should exercise professional judgement to reach a conclusion. Findings and conclusions are the results of analysis in response to the audit objectives. They should provide answers to the audit questions.

Conclusions can be based on quantitative evidence obtained using scientific methods or sampling techniques. Formulating conclusions may require a significant measure of judgement and interpretation in order to answer the audit questions, due to the fact that audit evidence may be persuasive ("points towards the conclusion that ...") rather than conclusive ("right/wrong"). The need for precision should be weighed against what is reasonable, economical and relevant to the purpose. The involvement of senior management is recommended.

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.

REPORTING

» CONTENT OF THE REPORT

- 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

- 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

- 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.

FOLLOW-UP

- 42) **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.