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# The Gazette of the Democratic Socialist Republic of Sri Lanka

## EXTRAORDINARY

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## PART I : SECTION (I) — GENERAL

### Government Notifications

**SRI LANKA PERFORMANCE AUDITING STANDARDS APPLICABLE  
TO PERFORMANCE AUDITS UNDERTAKEN BY THE NATIONAL  
AUDIT OFFICE OF SRI LANKA (PASs - NAOSL)**

**National Audit Act, No. 19 of 2018**

Publication under Section 5(2)

BY virtue of the authority conferred upon the Audit Service Commission of Sri Lanka (hereinafter referred to as the “Commission”), the Commission hereby adopts the Performance Auditing Standards applicable to Performance Audits conducted by the National Audit Office of Sri Lanka (PASs-NAOSL), as published herein. These Standards shall take effect on the 11th day of December 2024.

Secretary,  
Audit Service Commission.

22nd day of December 2024.



**Performance Auditing Standards  
for the use of National Audit Office of Sri Lanka  
(Based on International Standards for Supreme Audit Institutions-  
ISSAI-3000)**

**Preface**

HAVING understood the need of localization of international auditing standards, the Audit Service Commission had decided at its meeting held on 24th May 2023 to appoint a Committee to set the International Standards of Supreme Audit Institutions (ISSAI) for Performance Auditing issued by the International Organizations for Supreme Audit Institutions (INTOSAI) to suit local requirements. The Performance Auditing Standards for the use of National Audit Office of Sri Lanka had been formulated accordingly.

As a part of INTOSAI Framework of Professional Pronouncement (IFPP), the INTOSAI had issued ISSAI -300 and ISSAI - 3000 for Performance Auditing, Implementation Handbook and two guidelines GUID 3910 and GUID 3920 and these Standards were formulated in line with the above mentioned INTOSAI publications.

These standards need to be read with the Performance Audit Standards Implementation Hand Book for Sri Lanka. Further, the explanatory material describing the practical aspects of the Standards are included in the PASs- NAOSL Implementation Hand Book.

These Standards are the properties of the NAOSL and publication and usage by the outside parties are restricted.

**Performance Auditing Standards for the use of National Audit Office of Sri Lanka (Based on International Standards of Supreme Audit Institutions - ISSAI-3000)**

**Introduction**

**01 General Matters**

- (a) Professional standards and guidelines are essential for the credibility, quality and professionalism of public-sector auditing. The Performance Auditing Standards for the use of National Audit Office of Sri Lanka are issued by the Audit Service Commission of Sri Lanka (ASCSL) with the aim of enhancing the quality of Performance Audits performed by the National Audit Office of Sri Lanka (NAOSL).
- (b) These Standards are known as Performance Auditing Standards for the National Audit Office of Sri Lanka.
- (c) These Standards are arranged in line with International Standards for Supreme Audit Institutions (ISSAI). In compliance with ISSAI 300 and ISSAI 3000, and the Standards are structured under main four parts;
  - (i) The scope of the Performance Auditing Standard.
  - (ii) Definition for Performance Auditing and its objectives.
  - (iii) General requirements for Performance Auditing. It includes independence and ethics requirements, address to the intended users and responsible parties, identification of subject matters, assurance, audit objectives, audit approach, audit criteria, audit risk, skills, communication, supervision, professional judgment and skepticism, quality control, materiality and documentation.
  - (iv) Main stages of the auditing process. It includes audit planning, execution, reporting and follow up actions etc.

## 02 Mandate

According to the Section 5(2) of the National Audit Act, No. 19 of 2018, the Audit Service Commission is empowered to publish these Standards.

### Part - 01

#### Scope of Works of the Auditor General on Performance Auditing in Sri Lanka :

- 03 (a) The Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka allows Auditor General to carry out audit of all government institutions including companies which hold 50% or more share rights by the government or government owned entities including the accounts thereof and provides freedom to carry out any type of audit of public entities.
- (b) According to the Section 3(2) of the National Audit Act, No. 19 of 2018. the scope of the works of the Auditor General is determined and it includes the audit of prudent management of public finance and properties of the public entities.
- (c) The ISSAI 300 allowed to Supreme Audit Institutions to develop authoritative set of Standards for Performance Auditing based on or consistent with Performance Audit Principles.
- 04 The concept of the Performance Auditing can deal with a wide variety of subject matters and research methods. Therefore, it is allowed to flexible enough to use different audit approaches and encourage to make full use of the related guidance for specific subject matters. Audits may be conducted in accordance with these standards, ISSAI and standards from other sources, if there are no contradictions arise. In those cases, reference should be made to such standards and to ISSAI.
- 05 Elements of Performance Auditing can be a part of a more extensive audit that also covers compliance and financial auditing aspects. When dealing with overlaps between audit types or combined audits, the auditor needs to observe all relevant standards and consider that where there are different priorities and the primary objective of the audit guild to auditor as to which standards to apply.

### Part - 02

#### Definition of Performance Auditing and its objectives :

##### 06 Definition

Performance Auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organizations are operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there is room for improvement.

##### Economy

The principle of economy means minimizing 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.

##### Efficiency

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.

##### Effectiveness

The principle of effectiveness concerns meeting the objectives set and achieving the intended results. It deals with outputs, results or impacts.

The auditor involved in performance audits shall analysis the conditions that are necessary to ensure that the principles of economy, efficiency and effectiveness through its institutional and regulatory arrangements. The auditor shall first satisfy with plans of the auditee entity for adoption of good management practices and procedures to ensure the correct and timely delivery of services to adopt with principles of economy, efficiency and effectiveness.

## 07 Objectives

The objectives of the Performance Auditing are to contribute to improve economy, efficiency and effectiveness in the public sector and it aims to contribute to ensure the concepts of good governance, accountability and transparency. Performance Auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement.

### Part - 03

#### General Requirements for Performance Auditing :

## 08 Independence and Ethics

The Performance Auditor shall comply with the procedures for independence and ethics adopted by the National Audit Office of Sri Lanka

Independence comprises in two parts

- (a) Independence in fact, and
- (b) Independence in appearance.

**Independence in fact** allows the auditor to perform activities with integrity, objectivity and professional skepticism and not affected by influences that compromise professional judgment.

**Independence in appearance** cause a reasonable and informed stakeholder, having knowledge of relevant information to have reasonably doubt on the integrity, objectivity or professional skepticism of the auditor and conclude that the auditor has been compromised professional judgment.

## 09 The Intended Users and the Responsible Parties

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

**The intended users** are the persons for whom the auditor prepares the Performance Audit reports. The Parliament, Government Agencies, third parties concerned by the audit report, and the citizens can all be treated as intended users.

**The responsible parties** may be a range of individuals or entities with the responsibility of different aspect of the topic which subjected to audit. The responsible party may include the parties with operative and/or supervisory roles in implementing of subject matter and responsible for addressing the recommendations and initiating the changes required. A responsible party may also be an intended user.

## 10 Subject Matter

The Performance Auditor shall identify the subject matter of a Performance Audit.

**The subject matter** describes the audit topic. It relates to the question “what is audited” which is defined in the audit scope. The subject matter of a Performance Audit may be specific programs, undertakings, systems, entities or funds and may comprise activities.

(with their outputs, outcomes and impacts) or existing situations, including causes and consequences.

**The audit scope** is the boundary of the audit and is directly tied to the audit objectives. The audit scope defines the subject matter that the auditor will assess and report on, the documents or records to be examined, the period reviewed, and the locations that will be included.

## 11 Confidence and Assurance in Performance Auditing

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

**Assurance** means the users can be confident in the findings, conclusions and recommendations in the report. The auditor provides the users with assurance by explaining how findings, criteria and conclusions were developed in a balanced and reasonable manner, and the findings resulted to the conclusion.

The Performance Auditor shall ensure that

- (a) The reliable and valid information had been presented to the intended user about the activities of a responsible party and
- (b) The conclusions on the subject matter are logically linked to the audit objective and criteria, and supported by sufficient and appropriate audit evidence

as enable to prove the conclusion arrived and the recommendations made thereon by the Performance Auditor consisted with or based on valid reasons.

## 12 Audit Objectives

The Performance Auditor shall set a clearly-defined audit objectives that relates to the principles of economy, efficiency and/or effectiveness.

The auditor shall articulate the audit objectives with sufficient details in order to be clear about the questions that will be answered and to allow logical development of the audit programs.

## 13 Audit Approach

The Performance Auditor shall choose a

- (a) Result-oriented
- (b) Problem- oriented
- (c) System-oriented audit approach, or
- (d) a combination thereof

**Result-oriented approach**, which assesses whether outcome or output objectives have been achieved as intended and the activities are operated in expected manner.

**Problem-oriented approach**, examines, verifies and analyses the causes of particular problems or deviations from audit criteria.

**System-oriented approach**, examines the proper functioning of management system.

#### 14 Audit Criteria

- (a) Audit Criteria are the benchmarks used to evaluate the subject matter.
- (b) The Performance Auditor shall establish suitable audit criteria, which correspond to the audit objectives and audit questions which related to the principles of economy, efficiency and/or effectiveness.
- (c) The Performance Auditor shall, as part of planning and/or conducting the audit, discuss the audit criteria with the auditee entity.

#### 15 Audit Risk

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.

**Audit risk** related to the Performance Auditing is the possibility that the auditor's findings, conclusions and recommendations may be improper or incomplete, as a result of factors such as the insufficiency or inappropriateness of evidence, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud.

#### 16 Communications

- (a) The Performance Auditor shall plan and maintain effective and proper communication system to communicate the key aspects of the audit with the auditee entity and relevant stakeholders throughout the audit process.
- (b) The Performance Auditor shall take care to ensure that communication with stakeholders and not to compromise the independence and impartiality of the NAOSL.

#### 17 Skills of the Audit Staff

- (a) The members of the Performance Auditing team collectively shall have necessary professional competence to perform the audit.
- (b) If the auditor determines that external expertise is required to complete the knowledge of the audit team then the auditor may consult, as appropriate, with individuals, within and outside the Supreme Audit Institution, who have specialized expertise.

#### 18 Supervision of Audit works

It shall be ensured that the work of the audit staff at each level is properly supervised during the audit process.

#### 19 Professional Judgment and Skepticism

- (a) The Performance Auditor shall exercise professional judgment and skepticism and consider issues from different sources, maintaining an open and objective attitude to various views and arguments.
- (b) The Performance Auditor shall assess the risk of fraud when planning the audit and be alert to the possibility of frauds throughout the audit process.

**Professional Judgment** refers to the application of collective knowledge, skills, and experience to the audit process. It helps to auditor to determine the level of understanding needed for the audit of subject matter.

**Professional Skepticism** is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skills, and abilities to perform the audit works in good faith and objectively to evaluate the evidence.

## 20 Quality Controls

It is required to establish and maintain a system within the NAOSL to safeguard quality of audit works. The Performance Auditor shall comply with such quality control system by ensuring that all requirements are met, and place emphasis on appropriate, balanced, and fair audit reports that add value and answer the audit questions.

The policies and procedures on quality control systems within the NAOSL shall be developed and maintained in consistent manner and communicated to the staff. It helps to resolve differences of opinion between supervisors and audit teams. In addition, the provisions of additional guidance and on-the job training is essential to ensure the effectiveness of the quality control mechanisms.

## 21 Materiality

The Performance Auditor shall consider the 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.

**Materiality** related to the Performance Auditing can be defined as the relative importance (or significance) of a matter within the context in which it is being considered.

The materiality includes the matters relating to the social and political significance, compliance, transparency, governance and accountability as well as the monetary value. The materiality can vary over time and can depend on the perspective of the intended users and responsible parties.

## 22 Documentation

The Performance Auditor shall document the audit works completed in sufficient and detailed manner.

The audit works carried out shall be documented in timely manners,

- (a) to provide a clear understanding of the audit work
- (b) to enable an experienced auditor with no prior knowledge of the audit to understand the nature, timing, scope and results of the audit work performed and
- (c) to evaluate the audit evidence obtained to support the audit findings, conclusions and recommendations, by providing evidence that exercising of professional judgments on all significant matters .

## Part - 4

### Stages of the Process of Performance Auditing

#### (a) Planning of Performance Audit

## 23 Selection of Audit Topics

- (a) The Performance Auditor shall select audit topics by adopting a strategic planning process.

**The strategic planning process** for Performance Auditing is covered by the operational audit plan of the NAOSL for one or more years. Considering the dynamic nature of the public sector of the country and the changing priorities in public policies, it is fair that the revising of operational audit plans annually.

The operational audit plan for the Performance Audit Unit of the NAOSL shall serve as a basis for operational planning and resource allocation. The plan can list out the audit areas and provide a brief account of the possible problems, questions, and other arguments supporting each one of them. Based on the above mentioned list, the topics for the performance audit will be selected by the Performance Audit Section of the NAOSL with the approval of the Auditor General.

- (b) The Performance Auditor shall analysis potential topics by conducting researches to identify audit risks and problems.
- (b) The selection of audit topics may result from assessing risk, analyzing problems and considering materiality. Risks are the likelihood and impact of an event with the potential to affect the achievement of an entity's objectives. Materiality relates not only to financial aspects, but also social and/or political impacts, such as the number of people affected by a law or reform, transparency and good governance.
- (c) The matters such as significance of the audit topic, auditability, compliance with the audit mandate, maximization of expected impact of the audit, the capacities to complete the audit and results and the recommendations of previous audits or examinations etc., shall be considered in selection of audit topics.

The Performance Auditor shall consider in the audit topic selection process on potential impact of the audit topic in providing important benefits for public finance and administration, the auditee entity, or the general public with the availability of the resources of the NAOSL.

**Auditability** defines whether a topic is suitable for an audit. The Performance Auditor requires to consider the matters such as applicability of relevant audit approaches, methodologies, and availability of audit criteria and other information for audit purposes in an efficient and timely manner. If the auditor determines that reliable information is not available then that matter may itself be a reason for selecting for an audit

## 24 Designing of Audit Procedures for Performance Auditing

- (a) The Performance Auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence that respond to the audit objectives and questions. For that purpose, the Performance Auditor shall acquire substantive and methodological knowledge on selected audit topics at the planning phase.
- (b) In designing of audit procedures, the auditor 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.

To accomplish a high-quality audit within a limited timeframe the Performance 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.

To ensure the audit is properly planned, the Performance Auditor needs to acquire sufficient knowledge of the audit program or auditee's business before the audit is launched. Therefore, before starting the audit, it is necessary to carry out a pre-study on audit works. It is similar to a research work for building of knowledge, testing various audit designs and checking whether the necessary data are available.

The senior auditor of the audit team should submit the audit plan to the responsible officers in the senior management level of the NAOSL such as Senior Assistant Auditor General and above, for approval purposes. The regular meetings to be arranged by the officers in the senior and operational management levels of the NAOSL with the audit team to make aware on the overall audit design and subsequent changes if any.



## (b) Execution of Performance Audit

### 25 Collection of Audit Evidence

The Performance Auditor shall obtain sufficient and appropriate audit evidence in order to establish audit findings, reach conclusions in response to the audit objectives and audit questions as enable to issue recommendations.

Audit evidence should be both sufficient (quantity) and appropriate (quality) to persuade a knowledgeable person that the audit findings are reasonable.

**Sufficiency** is a measure of the quantity of audit evidence used to support the audit findings and conclusions. **Appropriateness** refers to the quality of audit evidence. For that purpose, the audit evidence should be relevant, valid and reliable.

**Relevance** refers to the extent of the audit evidence for a logical relationship with, and importance to, the audit objectives and audit questions. **Validity** refers to the extent to which the audit evidence is a meaningful or providing of reasonable basis for measuring what is being evaluated. **Reliability** refers to the extent to which the audit evidence is supported by corroborating data from a range of sources, or produces the same audit findings when tested repeatedly.

### 26 Analysis of Audit Evidence

The Performance Auditor shall analyses the collected information to ensure that the audit findings are remained in line with the formulated audit objectives and audit questions and responding to such audit objectives properly. Otherwise the audit objectives and audit questions need to be reformulated, as needed.

The analytical process in performance auditing involves continuous consideration by the auditor of the audit questions, audit evidence gathered, and methods employed. The whole process is closely linked with drafting of the audit report, which can be seen as an essential part of the analytical process.

## (c) Reporting

### 27 Qualities of the Performance Audit Report

- The Performance Audit report should be a comprehensive, convincing, reader friendly, and balanced report and need to be submitted in timely manner.
- The Performance Auditor shall identify the audit criteria and their sources in the audit report.
- The Performance Auditor shall give an opportunity to the auditee entity to comment on the audit findings, conclusions and recommendations, before issuing of audit report.
- The Performance Auditor shall record the auditee entity's comments and the reasons for making changes to the audit report or for rejecting comments received
- The Performance Audit reports would be widely accessible and therefore, need to consider the regulations on confidential information contained in the audit report

To ensure the comprehensiveness of the audit report, all the information and arguments needed to be included to address the audit objectives and audit questions, with adequate details to understand the subject matter, audit findings and conclusions.

For the purpose of convincing, an audit report needs to be logically structured and present a clear relationship between the audit objectives and audit questions, audit criteria, audit findings, conclusions and recommendations.

Clear and unambiguous language should be used in the audit report to make it reader friendly.

To be a balanced Performance Audit report, it should be impartial in content and tone. The Performance Auditor needs to explain causes and the consequences of the problems in the audit report, because it allows the reader to better understand the significance of the problem.

The Performance 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.

## 28 Recommendation

The Performance Auditor shall provide constructive recommendations that contribute significantly by addressing the weaknesses or problems identified in the audit.

A constructive recommendation should be well founded, value added, practical and linked to the audit objectives, findings and conclusions. Recommendations need to address the causes of problems and not encroach on the management's responsibilities. It should be clear how the recommendation would contribute to better performance. The recommendations must follow logically or analytically from the facts and arguments presented. Before finalizing the recommendation, the audit team should discuss the findings of the audit and conclusions made thereon with the senior management of the NAOSL as enable to consider the different views on the matters highlighted in the audit report and make fair recommendations.

## 29 Publication of Performance Audit Reports

As par Section 13 of the National Audit Act, No. 19 of 2018, the NAOSL should take action to report to the Parliament on Performance Audits carried out in each year and publish the reports through on its website

### (d) Follow up

- 30 (a) The Performance Auditor shall take appropriate follow up actions on previous audit findings and recommendations.
- (b) The Performance Auditor shall focus the follow-up on whether the auditee entity has adequately addressed the problems and remedied the underlying situation after a reasonable period.
- (c) Action should be taken by the NAOSL to reports to the Committee of Public Accounts and Committee of Public Enterprises which are the steering committees of the Parliament appointed to investigate the Performance Audit reports submitted by the Auditor General, on the conclusions and impacts of all relevant corrective actions.

Follow-up refers to the Performance Auditor's examination of the corrective actions taken by the auditee entity, or other responsible party, based on 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 auditee entity, and other intended users of audit reports, to take the audit report and audit findings seriously, and provides useful lessons to follow performance indicators. Follow-up is important for the internal learning and development of the auditee entity.

Follow-up is not restricted to implementing recommendations but focuses on whether the auditee entity has addressed the problems adequately and remedied the underlying situation after a reasonable period.