Central Concepts for Performance Auditing

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GUID 3910 is available in all INTOSAI official languages: Arabic, English, French, German and Spanish
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1) Professional standards and guidelines are essential for the credibility, quality and professionalism of public-sector auditing. *ISSAI 100 Fundamental Principles of Public-Sector Auditing* defines the purpose and authority of ISSAIs and the framework for public-sector auditing, amongst other things. *ISSAI 300 Performance Audit Principles* builds on and further develops the fundamental principles of ISSAI 100 to suit the specific context of performance auditing.

2) ISSAI 3000 is the Performance Audit Standard and should be read and understood in conjunction with ISSAI 100 and ISSAI 300. It provides the requirements for the professional practice of performance auditing followed by explanations in order to enhance the clarity and readability of the standard. ISSAI 3000 is the authoritative standard for performance auditing and consequently each requirement must be complied with if an SAI chooses to adopt it.

3) For each requirement set out in ISSAI 3000, supporting non-mandatory guidance are provided in *GUID 3910 Central Concepts for Performance Auditing*, and *GUID 3920 the Performance Auditing Process*.

4) GUID 3910 is intended to help the auditor interpret central concepts for performance auditing used in ISSAI 3000. Thus, the guidance provided in this document should make it easier to understand and implement the requirements in the performance audit standard.
5) GUID 3910 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.

6) GUID 3910 and GUID 3920 should be read together to get a deeper understanding of how the central concepts are considered throughout the audit process.
DEFINITION OF PERFORMANCE AUDITING

ECONOMY, EFFICIENCY AND EFFECTIVENESS

7) Performance auditing carried out by SAIs 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.

8) The principles of economy, efficiency and effectiveness can be defined as follows:
   a) 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.
   b) 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.
   c) The principle of effectiveness concerns meeting the objectives set and achieving the intended results.

9) 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. (For further guidelines on the three E’s, see Audit Objective)
INDEPENDENCE AND ETHICS

Requirement according to ISSAI 3000:

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. *(ISSAI 3000/21)*

GUIDANCE

10) Ethics means the moral principles of an individual that include independence, integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. To be independent, and be seen as such, the auditor needs to be free from situations which could impair the auditor’s objectivity. Independence comprises:

a) Independence in fact - allows the auditor to perform activities without being affected by influences that compromise professional judgment; to act with integrity and exercise objectivity and professional scepticism.

b) Independence in appearance - 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.

11) Independence is important in the context of a performance audit because of key decisions made by the auditor, such as:
   a) identifying and deciding on an audit topic;
   b) establishing the audit objective;
   c) identifying the applicable criteria;
   d) determining the methodological approach to the audit;
   e) assessing audit evidence and forming conclusions;
   f) discussing audit criteria and findings with the audited entity;
   g) assessing the positions of various stakeholders; and
   h) writing a fair and balanced report.

12) The auditor should be cognisant of any issues or situations that might threaten the independence of the SAI and/or the members of the audit team.

**Requirement according to ISSAI 3000:**

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.

*(ISSAI 3000/23)*

**GUIDANCE**

13) In addition to confirming his/her independence, throughout the audit process, the auditor need to establish open and good communication with the responsible party of the audit about its understanding of the auditor’s
independence. (For further guidelines on this topic, see Intended users and Communication).

14) Threats to compliance with the relevant independence requirements must be considered before and during an audit. Threats may fall into one or more of the following categories:

a) Self-interest. This threat occurs when the auditor could benefit directly or indirectly from an interest or relationship with the responsible party.

b) Advocacy. This threat occurs when an auditor promotes a position or opinion to the point that neutrality and/or objectivity may be, or may be perceived to be, impaired.

c) Familiarity. This threat occurs when, by virtue of a close relationship with the responsible party, the auditor becomes too sympathetic to its interests.

d) Intimidation. This threat occurs when the auditor may be deterred from acting objectively and exercising professional scepticism by threats, actual or perceived, from the responsible party.

e) Self-review. This threat occurs when any product or judgment from a previous engagement needs to be evaluated to reach conclusions in the current engagement.

f) Management participation. This threat occurs when the audited entity becomes unduly involved in the audit, for example as a team member.

15) The nature of the threats and the applicable control mechanisms necessary to eliminate them, or reduce them to an acceptable level, will differ depending on the particulars of the audit.

16) In considering the significance of any particular matter, qualitative factors ought to be taken into account. A matter may be considered insignificant only if it is both trivial and inconsequential.

17) If the threat is other than insignificant, available control mechanisms ought to be identified and, where applicable, applied to eliminate the threat or reduce
it to an acceptable level. In the event that an auditor does not comply with independence requirements, the SAI must consider if disciplinary action is needed, up to and including termination of employment.

18) Applying control mechanisms eliminates or reduces threats to an acceptable level. Safeguards are necessary when threats identified are at a level where a reasonable observer would likely conclude that compliance with the relevant ethical or independence requirements may be compromised.

19) Examples of audit-specific control mechanisms could include the following:

a) involving another person to review the work done or advise as necessary, without compromising the auditor’s independence. This person could be someone from outside the SAI, or someone from inside it who was not otherwise associated with the audit team. The person needs to be independent of the responsible party and will not, by reason of the review performed or advice given, be considered part of the audit team;

b) consulting a third party, such as a committee of independent directors, a professional regulatory body, or a professional colleague;

c) rotating personnel to performance audits of different entities after a few years to counter the familiarity threat;

d) all individuals working on an audit having to confirm their independence before commencing work on the audit and consider throughout the audit; and

e) removing a person from the audit team when that person’s financial interests, relationships, or activities create a threat to independence.
INTENDED USERS AND RESPONSIBLE PARTIES

Requirement according to ISSAI 3000:

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.

(ISSAI 3000/25)

GUIDANCE

20) The intended users are the persons for whom the auditor prepares the performance audit. The legislature, the executive, government agencies, third parties concerned by the audit report, 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. In many cases the legislature or the executive will be the primary intended user of an audit report. However, other intended users may exist, both inside as well as outside the executive. Citizens can use the results to make better-informed choices and thus could be intended users. Interest groups, organisations involved in implementing policies, the academic community and last but not least the media, can all also be intended users in a specific context. It is advisable to find out who the relevant intended users are in the very early stages of the audit.

21) A special group of intended users are the experts in a specific audit field. Authoritative reports benefit from their support. On the other hand, reports are in danger of losing authority when experts challenge conclusions and recommendations.

22) The responsible parties are primarily the ones that are supposed to act upon the conclusions and recommendations in the audit report. The role of the responsible party may be shared by a range of individuals, each with responsibility for a different aspect of the subject matter. The responsible
party may include those responsible for the subject matter being audited in an operative and/or supervisory role. At the end of the accountability chain there will always be a responsible party (for example, a minister) that will be held to account by the legislature for spending and performance in a certain area.

23) The performance auditor frequently has considerable discretion in the selection of the subject matter and identification of criteria, which in turn influences who the relevant responsible parties and intended users are. The auditor needs to consider the roles of the intended users while designing and conducting the audit and at the same time maintain their independence.

**SUBJECT MATTER**

**Requirement according to ISSAI 3000:**

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

*(ISSAI 3000/29)*

**GUIDANCE**

24) Subject matter refers to what is audited. The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities 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.

25) In many SAI s, the mandate of performance auditing will stop short of reviewing the policy bases of government programmes. In these cases, performance auditing does not question the merit of policy objectives but can rather involve examinations of actions taken to design, implement, or evaluate the results of these policies, and may imply an examination of the adequacy of information leading to policy decisions.
26) The subject matter needs to reflect the risk and materiality within the audit area. This is important in order to add value and ensure that the audit is relevant. Identification of the subject matter will often be done on the basis of a risk analysis. Whereas the subject matter refers to what is audited, the scope defines the boundaries of the subject matter.

CONFIDENCE AND ASSURANCE IN PERFORMANCE AUDITING

Requirement according to ISSAI 3000:

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

(ISSAI 3000/32)

GUIDANCE

27) All audit work is a type of assurance service, meaning that the auditor provides reliable and valid information to an intended user (typically the legislature or the executive) about the activities of a responsible party (typically a government agency or the executive).

“Reliable and valid information” in this context requires that the conclusions on the subject matter are logically linked to the audit objective(s) and criteria, and are supported by sufficient and appropriate audit evidence. To achieve this, the conclusion(s) must be clearly linked to the audit objective(s) and audit criteria, and written in a way that enhances the degree of confidence of the intended users about the evaluation of the underlying subject matter against criteria.

28) Thus, assurance reports are intended to provide confidence for intended users that the audit conclusions accurately reflect the state of the underlying subject matter. Put simply, intended users of assurance reports should be able to be reasonably sure that the conclusion(s) are reliable and valid.
29) To achieve this, the conclusion(s) must be clearly linked to the audit objective(s) and audit criteria, and written in a way that enhances the degree of confidence of the intended users about the evaluation of the underlying subject matter against criteria.

30) Reaching an audit conclusion is an inferential exercise involving considerable judgement. Because of this it is very important that all aspects of the conclusion(s) are supported by evidence-based findings relative to the audit criteria. On the other hand, all findings should also be considered when expressing the conclusion. The logic is this: “Given findings A, B, C and D compared to the applicable audit criteria X, the natural conclusion is as follows.”

31) Second, in order to reach a conclusion, it is very important that the findings are based on sufficient and appropriate evidence. If the evidence is flawed in any way, the findings and conclusion will also be flawed.

32) Providing assurance in this sense requires that conclusions are based on solid findings compared to the audit criteria, and that findings are based on solid evidence. However, it is also important to make these links clear to the intended users. This is done by being clear on how findings, criteria and conclusions were developed in a balanced and reasonable manner, and why the combinations of findings and criteria result in a certain overall conclusion or set of conclusions (ISSAI 100/32). If this is done properly, the intended users can be confident about the validity of the conclusions. The auditor has then provided assurance.

**FORMS OF PROVIDING ASSURANCE**

33) Assurance can be conveyed in different ways. Some examples of how this can be done include, but are not limited to, the following:

a) 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

b) 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.
34) It is good practice to make an informed choice, depending on the circumstances, regarding how assurance is communicated. It is also important not to confuse alternative

a) with a formal attestation opinion which explicitly conveys the level of assurance (ISSAI 300/21). A formal opinion, comparable to the opinion on financial statements, is not possible in performance audit. Thus, how assurance is conveyed will fall under the heading of “In other forms” as described in ISSAI 100/32.

**AUDIT OBJECTIVE(S)**

### Requirement according to ISSAI 3000:

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

*(ISSAI 3000/35)*

**GUIDANCE**

35) The audit objective(s) state(s) the purpose of the audit and what the auditor seeks to achieve by conducting the audit. The audit objective(s) need(s) to be formulated in a way that makes it possible to conclude whether the objective(s) has/have been reached after the audit is finished.

36) It is good practice to establish the audit objective(s) early in the planning process to assist in identifying the matters to be audited and reported on. The audit objective(s) determine(s) the subject matter, which is formulated in the audit questions, and provides the answer for why the audit is taking place. The audit objective(s) and scope are interrelated and need to be considered together. Further information on defining the audit objective(s) is provided in GUID 3920.
37) In the definition of performance auditing the three E’s, economy, effectiveness and efficiency have a central place. The relation between these three principles is explained further in figure 1 below. In this figure input refers to the financial, human, and material resources used for a government intervention (government undertaking, policy, system, operation, programme, activity or organisation). Output refers to the products, capital goods and services which result from a government intervention. Outcome refers to the likely or achieved effects of an intervention’s outputs. These can be short-term, mid-term or even long-term (long term effects can also be referred to as ‘impacts’).

**Figure 1.**

38) Auditing economy focuses the audit on how the audited entity succeeded in minimising the cost of resources (input) taking into account the appropriate quality of these resources. This type of audit focuses only on the input. The main question is: “Are the resources used available in due time, of appropriate quantity and quality, and at the best price?” Quality is an important concept on the input side (both in economy as well as in efficiency).
Quality

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 of 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.

EFFICIENCY

39) Auditing efficiency focuses the audit on whether the resources used have been put to optimal or satisfactory use, or whether the same or similar results in terms of quantity, quality and turn-around time could have been achieved with fewer resources. Efficiency assesses the relationship between inputs and outputs. The key questions are: “Are we getting the most output – in terms of quantity and quality – from our inputs?” or “Could the same output have been achieved with less input?”

40) Audits of efficiency can be aimed at technical efficiency (for example, can processes be streamlined to improve performance?), allocative efficiency (for example, can efficiency be improved by allocating resources differently, for instance by moving them to instruments that contribute the most to the output?), or scale or synergy efficiency (for example, can the same output be realized with less input by sharing means or processes, or even merging organisations?).

41) Efficiency is a relative concept. A process, instrument or programme is either more or less efficient than another. This means that for an audit on efficiency, some kind of comparison is needed. Examples are: comparing similar activities in comparable entities, comparing one process (in one entity) with the same
process at an earlier point in time, comparing a process before and after adaptation of policy or procedure, comparing the efficiency of an organisation with an accepted set of characteristics of efficient organisations. Efficiency-oriented audits can also examine the processes leading from input to output to expose shortcomings in these processes or in their implementation. This can lead to a better understanding of why processes are efficient, even without measuring the efficiency itself.

» EFFECTIVENESS

42) Effectiveness is about the extent to which policy objectives have been met in terms of the generated output. It is concerned with the relationship between goals or objectives on the one hand, and outcome on the other. As shown in the figure the question of effectiveness consists of two parts: first, to what extent are the objectives met and second, can this be attributed to the output of the policy pursued. Both parts are discussed below.

43) The first question: “to what extent are the objectives of a programme or policy met?” can be answered by a result-oriented audit. In such audits the main focus is on the objectives (are they specific and measurable?) and on the comparison between the actual output and/or outcome and these objectives (see also the result-oriented approach in paragraph 61).

44) Measurement and comparison of outputs or outcomes against objectives in a result-orientated approach may give an indication of effectiveness but does not establish a causal relationship between the outcome and the programme being audited. Nor does it provide information on the reasons for performance. The second part of the effectiveness question, however, may address the contribution the programme makes to achieving objectives. When auditing effectiveness, one should try to identify the relationship between the achievement of objectives and the implemented programme. A useful instrument for this is the ‘theory of change’.
Theory of change

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 (figure 1). 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.

45) Effectiveness can be measured by various methods. The most sophisticated methods compare the situation being addressed before and after the introduction of the policy or programme and involve measuring the behaviour of a control group, which has not been subject to the policy or programme (the counterfactual). This can be done by a randomized trial or as a quasi-experiment. However this type of method is not always feasible. Sometimes more qualitative methods are better suited to gain insight into causal relations between policy or programme and effect, especially for finding answers to questions such as ‘what works for whom under which circumstances?’. When drawing conclusions on the causal relation between policy or programme and effects it is important to be transparent on the strengths and limitations of the methods used. There are various (evaluation) handbooks providing guidance in choosing the right methods.

46) Another approach that is often used in performance auditing is not measuring effectiveness itself but focusing on the conditions that are (thought to be) necessary to ensure effectiveness. These conditions may include good management practices and procedures to ensure the correct and timely delivery of services (see output in the figure in paragraph 8). Other conditions might be the extent to which target groups have been reached, or the level of performance. These types of audits often have the characteristics of a process based audit or a programme evaluation. Data from performance management systems can be very useful for these kinds of audits; however assessing the quality of these data is of great importance.
47) An audit will often focus on only one of the three E’s, since auditing effectiveness of efficiency often is time consuming and can require specific expertise. However it is advisable not to examine aspects of economy or efficiency or effectiveness of activities in total isolation. For instance, looking at economy without also considering, at least briefly, the outcome of a policy might lead to cheap but ineffective interventions. 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 outcome, but were the resources very costly?

48) An audit does not necessarily have to focus only on the intended effects of a policy. Unintended effects (positive or negative) can also be relevant for the auditor to consider. Unintended effects can for instance be revealed by interviewing the target group of an intervention, critics of the audited programme or other relevant stakeholders. Addressing unintended effects might be especially relevant if the auditee seems unaware of these effects or if the effects are not included in the theory of change as described in the key documents on the audited policy or programme.

**COST-EFFECTIVENESS**

49) Cost-effectiveness combines both elements of efficiency and effectiveness (see figure 1) by analysing the relationship between the outcome of an instrument, a project or programme and the input, in terms of money and human capital. The result of this type of analysis can be expressed as a ratio: cost per unit of outcome or output per unit of cost. An example is the cost of reducing CO2 emissions. This can be described as X euro/kg avoided CO2 emissions or the other way around as X kg avoided CO2/euro spent.
Equity and performance auditing

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.

Audit approach

Requirement according to ISSAI 3000:

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

(ISSAI 3000/40)

Guidance

50) The audit approach determines the nature of the examination to be made. The audit approach is an important link between the audit objective(s), audit criteria and the work done to collect evidence. Performance auditing generally follows one of three approaches or a combination thereof:

a) a result-oriented approach, which assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended;

b) a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from audit criteria;
c) a system-oriented approach, which examines the proper functioning of management systems

51) A result-oriented approach deals mainly with questions such as:

‘What is the performance or what results have been achieved, and have the requirements or the objectives been met?’ In this approach, the auditor studies the actual performance, results and outcomes and relates those to the (criteria based on the) policy goals/objectives. The findings will therefore often be in the form of a deviation from the criteria. Recommendations, if presented, are often aimed at eliminating such deviations. The perspective is in that sense basically normative.

52) A problem-oriented approach deals primarily with problem verification and problem analysis. It has its starting point in a problem or a “known” deviation from what should or could be. The audit criteria have a less significant role than in the result-oriented approach. They are mainly used for identifying the problem(s) as a starting point for the audit. A major task in the audit is to verify the existence of stated problems and to analyse their causes from different perspectives (problems related to economy, efficiency, and effectiveness of government undertakings or programmes). The problem-oriented approach deals with questions such as: ‘What is the problem? What are the causes of the problem? To what extent can the government solve the problem? What, if any, is the programme of the government to solve the problem?’

53) The perspective is analytical and instrumental; the aim is to deliver updated information on the stated problems and how to deal with them. The auditor can use various methods and is not restricted in his/her analyses. The approach may either apply the technique of providing answers to audit questions or focus on testing stated hypotheses. All possible material causes are considered (only general goals are taken for granted). So proposals to amend laws, regulations, and structural design of government undertakings are not excluded, if it is shown that the existing structure gives rise to severe and verified problems.
54) The system oriented approach is an approach that does not focus primarily on the policy or the goals, but on well-functioning management systems as a condition for effective and efficient policies. Examples of these systems are financial management systems, evaluation systems, control systems or ICT systems. This type of audit can use descriptive questions such as:

a) What is the objective of the system?

b) Who are the responsible actors within the system?

c) What are the responsibilities of each actor?

d) Which rules, regulations and procedures are relevant?

e) What are the relevant information flows?

And can be complemented by more evaluative questions such as:

a) To what extent is there a sound plan?

b) Is there a good quality monitoring system?

c) Is the comparison between the information of the monitoring system and the plan leading to adjustments, if necessary?

d) Is planning, monitoring and adjusting recorded in a systematic way, ensuring accountability to a higher administrative level?

e) Are processes evaluated periodically in a proper way?
## AUDIT CRITERIA

### Requirements according to ISSAI 3000:

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.

*(ISSAI 3000/45)*

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

*(ISSAI 3000/49)*

### GUIDANCE

55) The audit criteria represent the standards against which the audit evidence is judged. Performance audit criteria are reasonable and attainable, audit-specific standards of performance against which the economy, efficiency, and effectiveness can be assessed and evaluated to determine whether performance falls short of, meets or exceeds expectations. The audit criteria are intended to give direction to the assessment (helping the auditor to answer questions such as ‘On what grounds is it possible to assess actual performance?’ ‘What is required or expected?’ ‘What results are to be achieved – and how?’).

56) 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:

a) Relevant audit criteria contribute to conclusions that assist decision-making by intended users and to conclusions that answer on the audit questions.

b) Understandable audit criteria are those that are clearly stated, contribute to clear conclusions and are comprehensible to the intended users. They are not subject to wide variations in interpretation.
c) Complete audit criteria are those that are sufficient for the audit purpose and do not omit relevant factors. They are meaningful and make it possible to provide the intended users with a practical overview for their information and decision-making needs.

d) Reliable audit criteria result in reasonably consistent conclusions when used by another auditor in the same circumstances.

e) Objective audit criteria are free from any bias on the part of the auditor or the audited entity.

57) The audit criteria can be qualitative or quantitative and may be general or specific, focusing on what is expected, according to sound principles, scientific knowledge and best practice; or on what could be (given better conditions) or on what should be according to laws, regulations or objectives. Diverse sources, besides legislation, can be used to identify audit criteria, including regulations, standards, sound principles and best practices, performance measurement frameworks and organisational policies and procedures.

58) Criteria can perform a series of important roles to assist the conduct of a performance audit, including:

a) providing a basis on which procedures can be built for the collection of audit evidence;

b) providing the basis for assessing the evidence, developing audit findings and reaching conclusions on the audit objectives;

c) helping to add form and structure to observations;

d) forming a common basis for communication within the audit team and with SAI management concerning the nature of the audit; and

e) forming a basis for communication with the audited entity’s management.

59) In performance auditing, the general concepts of economy, efficiency, and effectiveness need to be interpreted in relation to the subject matter, and
the resulting criteria will usually vary from one audit to another. However, established criteria may also be useful for other audits of the same audited entity or for audits of entities with a similar scope.

60) Audit criteria are established by the auditor. However, they must be discussed with the audited entity (and possibly with other stakeholders) during the planning phase, or at the latest in the conducting phase of the audit. 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 audited entity. It is therefore important to clearly define the criteria that the audited entity will be assessed against.

**AUDIT RISK**

**Requirement according to ISSAI 3000:**

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.

*(ISSAI 3000/52)*

**GUIDANCE**

61) Audit risk 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.

62) Dealing with audit risk is embedded in the whole process and methodology of performance audit. To manage audit risk, the auditor needs to:

a) Identify the risks

b) Assess these risks
c) Develop and implement strategies to prevent and mitigate the risks

d) Monitor audit risk and mitigation strategies throughout the audit and make adjustments as needed to changing circumstances (i.e. apply a risk management approach when addressing audit risk).

COMMUNICATION

Requirements according to ISSAI 3000:

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.

(ISSAI 3000/55)

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

(ISSAI 3000/59)

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

(ISSAI 3000/61)

GUIDANCE

63) The development of good and proper external relations is often a key factor in achieving effective and efficient audits of government programmes. The progress and outcome of the audit will be enhanced if the audit team can obtain good contact and foster confidence by maintaining a fully professional approach during the course of the audit. One needs to keep in mind that it is the SAI that seeks access to sources, data and arguments in an audit. Without good communication it may prove difficult to create an atmosphere which will serve that interest.
64) The communication process between the auditor and audited entity 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.

65) The auditor needs to inform the audited entity of the audit subject matter, audit objective(s), audit criteria, audit questions, the time period to be audited, and the government undertakings, organisations and/or programmes to be included in the audit, as soon as possible after the decision to start an audit.

66) The communication of these key aspects provides a clear picture of what the audit is about and why it is undertaken, what the result might be, and how the audit will affect the audited entity (e.g. time, documentation, resources) before the audit starts. Furthermore, it creates the basis for exchanging views, avoiding misunderstandings and facilitating the process. This does not mean that the audited entity dictates conditions or in any way controls the audit process, but rather involves establishing a constructive process of interaction. As a rule, the assistance of individuals from the audited entity is essential to an effective audit. An active dialogue during the audit with the audited entity, experts and others makes it easier; for instance, to continuously verify the auditor’s understanding and preliminary audit findings.

67) The following topics may serve as examples for further discussion between the auditor and the audited entity:

a) the audit scope, audit criteria, methodology, and the expected audit process;

b) functions and persons of importance for the data-collection and who the SAI may liaise with, the expected types and quantities of documents that would or could be requested by the SAI;

c) how to keep the audit entity’s management informed about the progress of the audit and emerging findings;

d) the ability to carry out the audit as planned (e.g. resources, time schedule, scope).
When important audit findings are made during an audit, the SAI needs to consider communicating the findings with those charged with corporate governance in a timely manner.

Finally, one needs to remember the importance of feedback from the audited entity on how well the communication process functioned during the audit and if there is room for improvement. It is also important to follow up on whether the audited entity found the report to be fair, balanced and useful.

OTHER STAKEHOLDERS

Good external relations are important not only in the short-term perspective of getting access to information and achieving a good understanding of the subject matter; it is equally important in the long-term perspective for an SAI to gain trust, respect and credibility with stakeholders.

Some of the key stakeholder groups are:

- The legislature
- The executive (other than the audited entity)
- The citizens
- The media
- The academic community
- Non-governmental organisations

During communications with stakeholders the auditor needs to be, and must be seen to be free of influences that would impair the objectivity of the SAI or the auditor. Accordingly, the auditor must be independent. More information on independence is provided in the section on “Independence and ethics”.

Further information regarding the communication process can be found in GUID 3920.
SKILLS

Requirement according to ISSAI 3000:

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

(ISSAI 3000/63)

GUIDANCE

74) Performance auditing is a knowledge-based, complex investigatory activity with professional values occupying a central position. These values include the importance of the auditor being given the opportunity to develop skills and attain good quality results in audits. This includes creating an environment that is stimulating and that furthers quality improvements.

75) To become a performance auditor, a performance audit team-leader or a performance audit manager, there is a need for a wide range of skills and disciplines, including:

a) research design,

b) social sciences,

c) scientific investigation/evaluation methods and the experience needed to apply such knowledge,

d) good knowledge of organisational management,

e) knowledge of government organisations, programmes, and functions,

f) personal qualities including integrity, creativity, judgment, analytical skills, team work,

g) ability to communicate clearly and effectively, orally and in writing; and
h) special skills depending on the nature of the specific audit (e.g. statistics, information technology (IT), engineering) or expert knowledge of the subject matter concerned.

76) Special knowledge of the different functional areas to be audited might also prove essential, but advanced skills in accounting and financial auditing are normally not needed in performance auditing. It is important to ensure that competence is built step by step, and to stimulate knowledge sharing and learning in the organisation. On-the-job learning and training can help the auditor develop the professional knowledge and skills needed for performance auditing.

77) Often SAIs organise their performance auditing separately from financial and compliance auditing, with personnel selected for performance auditing having different backgrounds and skills from those selected for the other audit streams. To meet the quality requirements, 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.

78) Continuous education and training may include topics such as current developments in performance audit methodology, research design, management or supervision, qualitative investigation methods, case study analysis, statistical sampling, quantitative data-gathering techniques, evaluation design, data analysis, and reader-based writing amongst others. It may also include subjects related to the auditor’s fieldwork, such as public administration, public policy and structure, government administration policy, economics, social sciences, or Information Technology. It is good practice to require auditors to maintain their skills by obtaining a certain number of continuous professional education hours every year or within a 2-year period.

79) Since performance auditing is a team effort, it is not a good practice to conclude a performance audit alone, since the issues involved are complex. Consequently, not all members need to possess every skill mentioned above. 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.

80) The auditor needs to possess adequate professional proficiency to perform his/her tasks. The SAIs need to recruit personnel with suitable qualifications, adopt policies and procedures to develop and train SAI employees to perform their tasks effectively, prepare written guidance concerning the conduct of audits, support the skills and experience available with the SAI and review the internal procedures.

» USE OF EXTERNAL EXPERTS

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.

SUPERVISION

Requirement according to ISSAI 3000:

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

(ISSAI 3000/66)
GUIDANCE

82) Supervision is essential to ensure that audit objectives are met and the quality of the audit work is maintained. Proper supervision and control is therefore necessary in all cases, regardless of the competence of the individual auditor. Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit, to address the audit objectives and to follow applicable methodology, while staying informed about significant problems encountered, and reviewing the work performed. More specifically, supervision includes:

a) Ensuring that all team members fully understand the audit objectives;
b) Ensuring that audit procedures are adequate and properly carried out;
c) Ensuring that the audit evidence is relevant, reliable, sufficient and documented;
d) Ensuring international and national auditing standards are followed;
e) Tracking the progress of the engagement to ensure that budgets, timetables and schedules are met;
f) Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;
g) Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately;
h) Supporting the auditor as and when needed to overcome challenges in the audit;
i) Providing hands-on support in solving issues that arise;
j) Identifying matters for consultation or consideration by more experienced engagement team members during the engagement;
k) Reviewing the audit work.
83) The nature and extent of staff supervision, the review of audit work, and evidence of it, varies depending on a number of factors, such as the size of the audit organisation, the significance and complexity of the work, and the experience of the staff.

84) All audit work needs to be reviewed by a senior member of the audit team as the audit progresses and particularly before the audit reports are finalised. Review brings more than one level of experience and judgment to the audit task and needs to ensure that:

a) The audit work has been performed according to the audit plan;

b) The nature, timing, and extent of the procedures performed are consistent with the audit programmes;

c) The results of the audit procedures and evidence obtained are clearly reflected in the audit documentation and the conclusions reached are consistent with the results of the work performed;

d) Consultations have taken place, where appropriate, and the resulting advice documented and implemented;

e) The evidence obtained is sufficient and appropriate to support the observations, conclusions, and recommendations in the report.

**PROFESSIONAL JUDGMENT AND SCEPTICISM**

**Requirement according to ISSAI 3000:**

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.

*(ISSAI 3000/68)*
GUIDANCE

85) Professional judgment is the application of relevant training, knowledge and experience in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. In performance auditing, the audit team gathers a large amount of audit-specific information and exercises a high degree of professional judgment and discretion concerning the relevant issues.

86) In addition to personnel directly involved in the audit, professional judgment may involve collaboration with other stakeholders, external specialists, and management in the audit organisation.

87) Professional judgment is essential to the proper conduct of an audit. The following are examples of how professional judgment is required in the context of performance audits:

   a) Identifying and evaluating any threats to independence, including threats to the appearance of independence;
   b) Deciding what to audit;
   c) Determining the required level of understanding of the audit subject matter and related circumstances;
   d) Determining the objective(s), questions and scope of the audit;
   e) Determining the criteria;
   f) Determining the nature, timing, and extent of audit procedures;
   g) Determining the review and consultation procedures required for the audit, and how advice will be addressed;
   h) Determining which findings are significant enough to report;
   i) Evaluating whether sufficient and appropriate audit evidence has been obtained, and whether more needs to be done to answer the audit questions and to conclude against the objective(s);
j) Drawing conclusions based on the audit evidence obtained compared with the criteria and audit objective(s); and

k) Determining the recommendations to be made.

88) 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. It is vital that the auditor exercises professional scepticism and adopts a critical approach, makes rational assessments and discounts personal preferences and those of others. The following are examples of how professional scepticism is particularly important in the context of a performance audit:

a) Considering the integrity of management;

b) Questioning responses to inquiries and other information obtained from management and those charged with governance;

c) Revising risk assessment as a result of identified material or significant inconsistent information;

d) Planning for sufficient procedures to evaluate the reliability of data to be used during the audit; and

e) Being alert to audit evidence that contradicts other audit evidence obtained.

89) Professional scepticism is often demonstrated in the various discussions held with the audit team, management, and those charged with governance. Examples of how professional scepticism can be applied and assessed at each stage of the audit include, but are not limited to, the following:

a) The auditor assessing the logic of the audit argument, alternative perspectives and views presented, and amending where necessary his/her understanding during the course of the audit, rather than just relying on evidence supporting the final conclusion.
b) The auditor challenging management views, assumptions, not just accepting them.

90) The auditor needs to be receptive to views and arguments and to consider issues from different perspectives. This is necessary in order to avoid errors of judgment or cognitive bias. Therefore, it is important that the auditor exercises professional scepticism and adopts a critical approach, makes rational assessments and discounts personal preferences and those of others.

**Requirement according to ISSAI 3000:**

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

*(ISSAI 3000/73)*

**GUIDANCE**

91) Fraud is defined as an intentional act by one or more individuals among employees, management, those charged with governance, or third parties involving the use of deception to obtain an unjust or illegal advantage such as:

a) breach of trust,

b) collusive awarding of grants and contributions,

c) collusive bidding or awarding on contracts,

d) deceit,

e) dishonest acts,

f) false representation,

g) fraudulent concealment,

h) illegal acts,
i) intentional misstatements,

j) irregularities,

k) kickbacks,

l) secret commissions, and

m) theft.

92) Unlike error, fraud is intentional and usually involves deliberate concealment of the facts. It may involve one or more members from the audited entity or third parties. The primary responsibility for the prevention and detection of fraud rests both with those charged with governance of the audited entity and with management of the audited entity. The auditor’s responsibilities are to identify and evaluate the risk of fraud where the risk is significant. The auditor also needs to determine audit procedures in response to those risks.

93) The auditor needs to maintain professional scepticism during the planning phase and during the entire audit because, typically, management and employees engaged in fraud will take steps to conceal the fraud from the auditor and others inside and outside the audited entity. When conducting audits, the auditor needs to maintain an awareness of the possibility of fraud related to the subject matter (for example contracting or grants and contributions). If the auditor suspects or encounters fraud, he/she has to bring the matter to the attention of the supervisor and the relevant authorities for further action.

**Requirement according to ISSAI 3000:**

The auditor shall maintain a high standard of professional behaviour.

*(ISSAI 3000/75)*
GUIDANCE

94) High expectations for the auditing profession include compliance with all relevant legal, regulatory and professional obligations, and avoidance of any conduct that might bring discredit to the auditor’s work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditor’s work was professionally deficient. The auditor is expected to apply a systematic audit approach and due care in all phases of the audit process. Due care generally refers to the care that a person of normal prudence would have exercised in performing a given work. This includes adequate care in audit planning, gathering and evaluating evidence and in reporting findings, conclusions and recommendations. The audit team and the SAI must exercise due care and concern in complying with the auditing standards.

95) Legislatures and citizens expect the SAI and its auditors to maintain a high level of competence. This underscores the need to maintain individual professional skill and competence by keeping abreast of, and complying with, developments in professional standards and pertinent legislation. The expectation to operate with due care requires the auditor to act diligently and according to applicable technical and professional standards when performing performance audits. Diligence includes the responsibility to act with care, in respect of an engagement.

96) A high standard of professional behaviour needs to be maintained throughout the audit process, from topic selection and audit planning, to reporting. It is important for the auditor to work systematically, with due care and objectivity. A good practice is the use of audit programmes which are detailed work plans to guide the execution of the work.

Requirement according to ISSAI 3000:

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

(ISSAI 3000/77)
GUIDANCE

97) By being creative, flexible, and resourceful, the auditor will be in a better position to identify opportunities to develop innovative audit approaches for collecting, interpreting, and analysing information. It is important to recognize that different stages of the audit process provide different levels of innovation opportunities. During the planning stage, the auditor may have the greatest opportunity to innovate while still in the process of determining the best audit approaches and techniques applicable to the audit.

98) Within audit and the fields of evaluation and social science, methodologies will evolve and develop, and new techniques and technologies for evidence gathering and analysis might be established which enhance the quality of the audit and audit report. As SAIs adopt new techniques and technologies as result of this, the auditor should be perceptive and willing to try new techniques and methodologies. Tools like data analytics and data mining can be used, for example, for identifying trends, patterns and knowledge from large amounts of data. Using enhanced data analytics can lead to more focused risk assessments, more efficient execution of the audit, and more effective reporting. Other examples of innovation include the broadened use of electronic working papers and knowledge management systems for sharing information that could be useful to more than one audit team, and the use of drones for photographic purposes (for example in agricultural performance audits).

99) An SAI needs to foster an innovative culture, and auditors need to learn from each other and open their minds to doing things differently. In other words, an SAI could:

a) Stimulate innovative, low-cost, sustainable and web-based ways for SAIs to exchange views, documents and experiences;

b) Encourage collaborative audits of relevant topics and foster experimentation with new approaches, techniques and reporting;

c) Lead by example in its governance and modus operandi;

d) Seek an independent evaluation of its own governance and modus operandi;
e) Facilitate activities to develop its capacity to “deliver the message” in an effective way; and

f) Keep informed about new evaluation methodologies.

QUALITY CONTROL

Requirement according to ISSAI 3000:

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 reports that add value and answer the audit questions.

(ISSAI 3000/79)

GUIDANCE

» QUALITY CONTROL (WHILE CONDUCTING THE AUDIT)

100) A quality control system includes policies and procedures designed to provide the SAI with reasonable assurance that it, and its personnel, comply with professional standards and applicable legal and regulatory requirements. The objective is to ensure that audits are conducted at a consistently high level. Quality control procedures cover matters such as direction, supervision and review of the audit process and the need for consultation in order to reach decisions on difficult or contentious matters.

101) The system of quality control (QC) needs to be designed so it is appropriate to the SAI’s mandate and circumstances and able to respond to their risks to quality. For the system of quality control to be effective, it needs to be part of the SAI’s strategy, culture, and policies and procedures. This way, quality is built into the performance of the audit and the production of the report,
rather than being an additional process once the report is produced (see quality assurance below). Maintaining a system of quality control requires ongoing monitoring and a commitment to continuous improvement.

102) QC procedures need to be an integral part of the conduct of each performance audit to minimise the risks of error and drive consistency in conduct. Those procedures need to be documented and include, for example, the various steps in the audit process, checks to be undertaken (such as management review, peer review of draft work and editorial review of final reports). It may be helpful for the SAI to first clearly define the characteristics of what constitutes a high-quality audit report.

103) A key aspect of any performance audit is the formal and informal consultation that takes place within audit teams, between audit teams, and with internal or external specialists. Consultation during the course of an assurance engagement is important, as it helps to promote quality and improves the application of professional judgment, as well as reducing the risk of error. Consultation is advantageous for reaching sound conclusions, for ensuring that the report is appropriate, fair and balanced and that it adds value. It is a good practice to document the key consultations that take place, the nature of the advice received, and the manner in which the audit team deals with the advice.

104) A key component of QC is an engagement quality control reviewer (EQCR). An EQCR is an individual, independent from the audit team, who conducts an objective evaluation of significant matters, including risks identified and significant judgments made by the audit team, and the team’s conclusions reached in formulating the audit report. It is a good practice to appoint an EQCR to high-risk audits, as defined by the SAI.

105) It is difficult for an SAI to develop effective quality control procedures on an individual basis that can guarantee high-quality performance audit reports across the organisation. It is therefore important to develop such procedures at an institutional level. It is equally important for the auditor to be – and remain – competent and motivated as well as open to feedback from quality control. Control procedures need therefore to be complemented by support, such as on-the-job training and guidance for the audit team.
106) See ISSAI 140 - Quality Control for SAIs for additional guidance on quality control.

» QUALITY ASSURANCE (AFTER THE COMPLETION OF THE AUDIT)

107) A quality assurance (QA) process allows audits to be independently assessed after their completion on a consistent basis against specific criteria. The main purpose of a QA process is to monitor the SAI’s quality control system as designed and assess if the appropriate controls are in place and are working appropriately. Undertaking a QC process outlined above would be step one that the QA process would review and the SAI can develop its own criteria, based on its particular circumstances, with examples of criteria-based questions including:

a) To what extent does the report clearly describe the context within which the area examined is carried out?

b) To what extent is the report well-structured and well written, and does it include an effective executive summary?

c) To what extent is the rationale for the scope clearly set out?

d) Is the audit methodology clearly set out?

e) To what extent were the report’s findings, conclusions and recommendations balanced, logical, consistent and supported by the evidence quoted?

f) To what extent has the audit been successful in concluding against its objectives and providing useful information to help improve public services?

g) To what extent is there sufficient documentation on team competencies, audit procedures carried out, evidence to support findings, consultations done and treatment of comments received, and supervision?

108) Those carrying out the independent QA could be senior members of the performance auditing unit (with no involvement in the conduct of the audit) or external. A peer review, carried out by members of other national SAIs,
might also be considered for this purpose. The benefit of a peer review is that the members clearly understand the role and responsibilities of the SAI, while at the same time they have the distance from the SAI to allow their assessment to be independent. Using external QA provides an opportunity for the SAI to demonstrate its accountability to stakeholders, understanding that the main reason for QA is to improve audits, the audit process and the system of quality control. The SAI can use the results of QA reviews by circulating good examples of performance audit reports within the SAI for the benefit of all auditors. Where performance audit reports are found to need strengthening, senior staff members should assess the QC system to identify which controls might need strengthening to produce performance audit reports that meet the standards of the SAI, and work with the audit teams to identify lessons learned and possibilities for training, mentoring and coaching in specific areas.

**MATERIALITY**

**Requirement according to ISSAI 3000:**

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.

*(ISSAI 3000/83)*

**GUIDANCE**

109) Materiality is the relative importance of a matter, in the context in which it is being considered, that can change or influence the decisions of users of the report such as legislatures or executive. Materiality can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the interests expressed by intended users or recipients. In addition to monetary value, materiality includes issues of social and political significance, compliance, transparency, governance and accountability. Materiality can vary over time and can depend on the perspective of the intended users and responsible parties.
110) Qualitative factors may include such things as:
   a) Whether a finding is the result of an intentional act (fraud) or is unintentional.
   b) Whether a particular aspect of the programme or entity is significant with regard to the nature, visibility and sensitivity of the programme or audited entity.
   c) Whether the health or safety of citizens is affected.
   d) Whether a finding relates to transparency or accountability.

111) The consideration of materiality is relevant in all aspects of performance audits. Therefore the auditor needs to consider materiality when selecting the audit topics, determining the audit objective(s), questions and scope, defining the criteria, evaluating the evidence, documenting the findings and developing the conclusions and recommendations.

112) Findings are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions taken by intended users on the basis of the auditor’s report. The auditor’s consideration of materiality is a matter of professional judgement, and is affected by the auditor’s perception of the common information needs of the intended users.

113) Quantitative factors relate to the magnitude of the findings that are expressed numerically. The auditor needs to consider the aggregate effect of individually insignificant findings.

**DOCUMENTATION**

**Requirement according to ISSAI 3000:**

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

*(ISSAI 3000/86)*
GUIDANCE

114) The auditor needs to keep all relevant documents collected and generated during a performance audit. Examples of the types of records that are generally expected to be documented for most performance audits include (a) details of the audit plan and methodology, (b) results of fieldwork and analysis, (c) communications and feedback with the audited entity, and (d) supervisory reviews and other quality control safeguards. However, the particular circumstances of the performance audit, will determine the specific purpose and context of the audit documentation. This includes substantive e-mail communications sent to, or received from, an official in an audited entity or an outside party that are relevant to the audit and are related to the report. The documentation records who performed the audit work and the date such work was completed. Documentation of the audit work has to be sufficient to enable an experienced auditor with no previous connection to the audit to understand:

a) The nature, timing and extent of the work conducted;

b) The findings of the audit work, and the audit evidence obtained; and

c) Significant matters arising during the audit (for example changes in the scope or approach of the audit, decisions regarding a new risk factor identified during the course of the audit, actions taken as a result of disagreement between the audit entity and the team), the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

115) 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.

116) In determining the nature and extent of the documentation for a particular audit area or procedure step, the auditor generally needs more audit documentation when:

a) the risk is high (the risk associated with conducting the audit or when the finding is significant, sensitive or contentious);
b) more judgment is needed in performing the work or evaluating the results; and

c) the evidence is more significant (i.e., the evidence is critical to conclude on the objectives of the audit).

117) It is advisable for the documentation to include a system that cross-references the audit report to the working papers.

118) The auditor needs to adopt appropriate procedures to maintain the confidentiality and safe custody of the working papers. The auditor also needs to retain the working papers for a period sufficient to meet the needs of the legal, regulatory, administrative and professional record retention requirements and to conduct audit follow-up activities.
INTRODUCTION

1) Performance auditing greatly enriches public accountability and enables the SAI to make practical contributions to improving the efficiency and effectiveness of public administration. This guide aims to set out the benefits to an SAI from introducing performance auditing, and addresses some of the key issues to consider in introducing and maintaining performance auditing in a SAI. The guide’s main audience is the Head of the SAI and its senior management staff, to help them understand the requirements and challenges that need to be faced.

2) The idea is to focus on the strategic needs and general implications of introducing a sustainable performance auditing function. SAIs operate under different mandates and models, and the size of SAIs and the administrative culture vary around the world. Therefore it is not possible to produce detailed guidelines applicable to all. Thus, this document focuses on the strategic challenges concerned with the implementation process and the resources needed. It also highlights the key features of performance auditing and its importance to SAIs, public administrations and society as a whole.

3) A significant number of SAIs have encountered difficulties in introducing a sustainable performance auditing function. Besides political and administrative factors, the complexity and challenge of performance auditing itself should also be acknowledged. Experience has shown that it may take years to develop this form of audit work in a sustainable way. In
addition, having a strong financial and compliance auditing function does not guarantee success in performance auditing, since performance auditing is a very different discipline.

4) These guidelines consist of four main chapters:
   a) Chapter 2: presents the key performance auditing principles and describes internal and external benefits of this type of work;
   b) Chapter 3: points out the main challenges of introducing performance auditing;
   c) Chapter 4: highlights the key aspects to be considered when starting performance auditing; and
   d) Chapter 5: provides an outline of the principal issues for a sustainable performance auditing function.

5) As part of the mandated regular maintenance of the INTOSAI Framework of Professional Pronouncements (IFPP), this appendix was revised and incorporated in ISSAI 3100 in 2016, and in GUID 3910 in 2021 following the migration process.
THE NATURE AND BENEFITS OF PERFORMANCE AUDITING

WHAT IS PERFORMANCE AUDITING?

6) Performance auditing carried out by SAIs 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/or effectiveness and whether there is room for improvement (ISSAI 3000/17).

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

a) Are the right things been done;

b) If so, are things been done in the right way; and

c) If not, what are the causes?

8) The perspectives and the entities to be audited vary, i.e. individual departments as well as government programmes and undertakings may be audited. Some of the main differences between performance and financial auditing are summarised below.
9) Further information on the definition of economy, efficiency, effectiveness and the ways performance auditing provides new information can be found in GUID 3910 Central Concepts for Performance Auditing.

### EXTERNAL BENEFITS

10) Performance auditing has important functions to fulfil, both in relation to the general public, the legislature, the government and the entities that are audited.

11) The democratic principle is based on the public’s right to hold the government accountable for its actions through general elections. In order for this principle to have significance, the public needs information on how public resources are spent and how public services perform. By providing objective and reliable information on these issues, performance auditing contributes to transparency and accountability.

12) Performance auditing also plays an important role in keeping the legislature well informed about the government’s actions, and the outcome of its own decisions. Legislature needs reliable and independent information on the results and effects of programmes and decisions. Performance auditing
represents a unique source of information, as it does not represent political activists or institutions. It may also be of value for Government to get an independent evaluation of the outcome of its decisions, the performance of public services and the causes for eventual performance problems.

13) Performance auditing provides incentives for learning and change in the public sector, by providing new information and drawing attention to various challenges. It also addresses problems that are beyond the auditee mandate by including the theme on the political agenda. It contributes to improvement and reform in public administration and government. In this way performance auditing adds value far beyond that of a control mechanism.

» INTERNAL BENEFITS

14) Performance auditing enhances cultural diversity, creativity and learning in the SAI, leading the auditors to concentrate on relevant social, political and economic issues.

15) It has the potential to make SAI s more visible in the media because performance auditing topics attract a wider audience. This can have a flow-on effect of increasing auditors’ motivation within the SAI due to the visibility of their work.

16) Given that the objective of performance auditing is to identify potential improvements in the efficiency of public administration, (and therefore to help save government outlays) the credibility obtained from this type of auditing can provide greater incentives for governments/legislatures to allocate human and financial resources to the SAI.
THE CHALLENGES OF INTRODUCTING PERFORMANCE AUDITING

17) These are a number of issues that the head of an SAI needs to address when developing a sustainable capacity for performance auditing. Successful implementation of performance auditing requires political support, appropriate regulation, leadership and active management involvement. The head of the SAI needs to ensure sufficient funding and seek partners that may assist in capacity building and quality control.

» LONG TERM MANAGEMENT COMMITMENT IS NEEDED

18) It is important that the head of the SAI takes into account that performance auditing is different, demanding and takes time to implement. The head of the SAI needs to communicate a clear vision of the purpose for performance auditing and the desired outcomes to be achieved. The introduction of performance auditing requires a personal commitment from the head of the SAI, and it is also important to get management actively involved and professionally trained.

19) Experience proves that introducing performance auditing will often require changes in attitudes, management style, organisational behaviour, recruitment practices etc. It requires leadership to publish critical performance audit reports, especially in an environment less used to such criticism. It takes courage to reveal poor performance of government programmes or services, even when backed up by reliable, objective and balanced evidence and arguments. Performance auditing requires skills which SAIs with limited or no experience in the field will have to acquire.

» A PROPER MANDATE IS VITAL

20) The head of the SAI should seek to obtain a suitable legal mandate that comprises the following criteria:

a) A mandate to carry out performance auditing on the economy, efficiency and effectiveness of government programmes and entities;
b) Freedom to select what to audit, when to audit, and how to audit, conclude and report on findings;

c) Freedom to place the audit results in the public domain;

d) Access to all information needed to conduct the audit; and

e) Freedom to decide who to recruit.

» THE IMPORTANCE OF BUILDING RELATIONSHIPS WITH STAKEHOLDERS

21) The head of the SAI should be prepared to promote the value of performance auditing to a number of stakeholders. The SAI needs to identify its key stakeholder groups and establish effective two-way communications with them. One reason for doing this is to enable the SAI to develop a full understanding of the needs and expectations of the different groups in order to make decisions based on knowledge of what those expectations are. Another reason is to give the SAI the opportunity to explain the purpose of performance auditing to stakeholders.

22) When considering communications with stakeholders on performance auditing, it is important to recognise that some stakeholders will be the SAI’s usual contacts, such as the legislature and government bodies, but others may be new groups not engaged with previously, such as the academic and business communities, citizens and their representatives, research institutions, interest groups, independent agencies such as non-governmental organisations, politicians and media representatives.

23) In order to develop good relations with the legislature and government the head of the SAI should also work closely with these stakeholders. The head of the SAI needs to develop procedures for communicating with the media, the auditee and other key stakeholders, and to establish networks where appropriate. Some of the key stakeholder groups are discussed below but the list is not intended to be comprehensive.

The legislature

24) The legislature should be convinced of the need for performance auditing if it is to support additional funds being provided for its introduction within the SAI.
It is important for the head of the SAI to manage the legislature’s expectations carefully because performance audit is unlikely to deliver immediate results and impacts from any decision to invest in performance auditing: the benefits will come in the medium and longer term.

25) The legislature should be made aware of the fact that performance auditing is about identifying opportunities for improvement in economy, efficiency and effectiveness. Public sector reform and improvement of government is more likely to happen if there is a parliamentary mechanism in place to consider the performance audit reports. The legislature needs to set out a clear procedure for receiving and deliberating on performance audit reports in order to ensure that appropriate actions are taken. The SAI should make it clear that naming and blaming individuals is not the purpose of performance auditing. Nor do such reports cross the borderline into political territory.

26) In some cases the SAIs will need to seek legislative changes to allow it to undertake performance audits. In such cases the SAI may need to harness a variety of means to help the legislature see the value of this type of auditing. This might involve visits to other legislatures, presentations on the impact of the work and meetings with representatives of SAIs with long experience in performance audit.

27) The SAI will need to establish the legislature’s preferences for performance audits regarding:
   a) Meetings to establish performance audit topics of interest to the legislature;
   b) Developing a good working relationship between the legislature and the SAI that ensures that audit reports will be debated; and
   c) Additional briefing that the legislature may require to enable those working with the SAI’s performance audit reports to interact effectively with the government, for example through committee hearings involving questions to officials of audited bodies and production of legislative reports.

Audited bodies involved

28) The relationship between the SAI and government is long-term. Both parties need to cooperate to identify constructive ways of working together. Effort should be placed on making audited bodies aware of the procedures relating to performance auditing.
29) In performance auditing the SAI is seeking to achieve beneficial change in the operations of government. The SAI is therefore supporting the interest of government in helping it to meet its objectives. It is not necessarily a criticism of government when an SAI points the way to better performance, because new opportunities to improve are constantly emerging.

30) It is important to ensure that government authorities are made aware of the procedures relating to performance auditing, and understand the key requirements of performance auditing.

31) In some countries, the Ministry of Finance is a key central contact for the SAI and a potential ally. Developing good communications with the Ministry of Finance on performance auditing will enable the SAI to achieve cross-government impacts on performance auditing issues. The SAI will benefit from working closely with the Ministry of Finance, to strengthen support for performance audit recommendations and proposals for systemic improvements across government. Maintaining good contacts with audited bodies is equally important.

32) SAI s need to be balanced and objective in communications involving both the Ministry of Finance and audited bodies, to ensure that they are not seen as taking sides with either party.

33) A sound dialogue with the public authorities involved is pivotal in achieving real improvements in government. Although an SAI needs to maintain independence from the auditee, the development of good and open professional relations is likely to make it easier for the SAI staff to conduct rigorous and useful audits.

34) It may also increase the impact of the audit if there is agreement on the findings between the SAI and the audited bodies involved. If the SAI demonstrates that it recognises the pressures under which the audited body has to operate, and if the SAI is willing to acknowledge what audited bodies have achieved as well as what more needs to be done, the auditee is likely to be more open in its communications with the SAI. In addition, the SAI may find that the auditee more willingly provides the access to people and data that is necessary for performance auditing. Mutual responsibilities concerning sharing of information should be clarified.
Citizens

35) It is important to consider the interests of citizens on performance auditing. Citizens are a source of ideas for performance auditing, a source of demand for performance auditing, and users of performance audit reports. They may be contacted directly or through non-governmental organisations that represent them.

36) The SAI will need to consider how best to communicate with the public. Depending on the circumstances within the SAI’s country, this could include a mix of media interviews, articles in various publications, leaflets in public places such as libraries and use of the SAI’s website. The SAI could use these media to explain the new performance auditing approach and how it will enable the SAI to check that taxpayers’ money is being used economically, efficiently and effectively by government. The SAI’s website could also include notifications of future performance audits, inviting those with particular interests to contact the SAI with their comments, particularly about service delivery.

The media

37) It is also important for the SAI to have good communications with the media. They may serve as a bridge to citizens and the citizen’s view of public services. Sometimes public opinion, as expressed by the media, provides added support and impact for audit topics and audit reports.

Other key stakeholders

38) Other important external stakeholders are representatives of the academic community. They have expert knowledge in specific audit areas, and may provide a more objective view, less restricted by personal interest. Academics may thus serve as suitable discussion partners, co-readers and sometimes also consultants at all stages of an audit. In addition, academics are often suitable potential recruits to the SAI’s performance auditing function. The national and international performance auditing professional community is also an available source of inputs. There may be occasions when the business community can also provide expertise for specific performance audit topics.
Non-governmental organisations can be a useful source of ideas. They may have conducted their own research through surveys and case studies, and may have a range of relevant contacts. Civil society can be motivated to put pressure on the legislature to act, particularly if the SAI is providing high profile material that is of interest to them.

**ORGANISATIONAL ISSUES NEED TO BE ADDRESSED**

Performance auditing is a knowledge-based activity, and high quality work is of great importance. Owing to its special features it requires special competences. It is an investigatory discipline that requires flexibility, imagination and analytical skills. Excessively detailed procedures, methods and standards may in fact hamper the effective functioning of performance auditing.

The ability to recruit the right staff is a critical factor. It is well understood by SAIs with long experience of performance auditing, that conducting performance audits requires different skills from financial auditing. Consequently, an appropriate recruitment process is essential.

It is generally required that performance auditors should hold a university degree. Experience of qualified investigative/evaluation work is an advantage. Personal competences like creativity, receptiveness, integrity, and oral and written skills are vital. It is also necessary to be familiar with methods applied in social sciences as well as other relevant methods/skills. Good knowledge of organisational management also helps ensure that performance auditors make realistic and achievable suggestions for improvements.

It is important to ensure that competence is built up step by step, and to stimulate knowledge sharing and learning in the organisation. Recruiting a competent operational manager is also a strategic issue. The manager is a key factor for sustainable capacity building. In the longer term, how to develop capacity for methodological, analytical and professional in-house training should be considered. Setting conditions, standards and guidelines that will safeguard quality and sustainability are also issues that will need to be addressed. This includes a well-functioning process for efficient production of performance audit reports.
THE KEY SUCCESS FACTORS

44) In short, these are some of the key success factors for developing a sustainable performance auditing function:

Management involvement

a) Define a clear vision for what to achieve and set the objectives for the performance auditing;

b) Realise that performance auditing is demanding, differs from financial and compliance auditing and takes time to implement;

c) Be aware that changes in management style and organisational behaviour might be required;

d) Get management actively involved and professionally trained; and

e) Be comfortable in challenging poorly functioning programmes or services, if backed up by reliable, objective and balanced evidence and arguments.

External relations

a) Get political support and a sufficient legal mandate;

b) Safeguard sustainable funding;

c) Ensure that government authorities understand the key requirements of performance auditing;

d) Establish networks with academics, non-governmental organisations and other stakeholders;

e) Establish strategies for communicating with the media, auditees, citizens and other stakeholders; and

f) Produce interesting, challenging, well founded and reader-focused reports that add value, promote better spending and results, and are widely appreciated.

Institutional issues

a) Select competent staff and get a competent operational manager in place;

b) Make the recruitment process a better fit for performance auditing;
c) Build up competence step by step and stimulate knowledge sharing and learning;

d) Develop capacity for methodological, analytical and professional in-house training;

e) Set conditions, standards and guidelines that will safeguard quality and sustainability, including a well-functioning process for efficient production of performance audits; and

f) Provide professional support on statistics, information technology, editorial work, communication office.

HOW TO GET STARTED

BEGINNING SMALL SCALE, WITH A PILOT AND FOCUSED THEMES

45) SAIs should not try to do too much too quickly. Performance audits are time consuming, and even more so for newcomers. In order to get performance auditing established, it is advisable to look for some quick wins in one or two subjects that are likely to be of particular interest to stakeholders, but which the SAI has some experience and confidence in dealing with. Such audits should not be too complicated to handle, and not too broad in scope, but still be able to add value.

46) The SAI might want to consider carrying out a pilot performance audit. This might be carried out away from the public eye so that there is a ‘safe space’ in which mistakes can be made and lessons learned.

47) It might be helpful to consider a theme for the initial performance audit work. It enables the SAI to learn by doing in a structured manner. In addition, a thematic approach makes it possible to recognise similar problems in public administration and to use experiences from one area for new audits in another area. This in turn may have positive impacts on the efficiency of the production. This would provide opportunities for focused capacity building.
48) A general requirement is, of course, that the problems are possible to examine with available methods, and that the processes are possible to influence, i.e. better practice is known and it is likely that the performance can be improved or money saved.

49) Examples of possible themes for initial performance audit work might include:
   a) Performance Management: for example the quality of setting objectives and targets, and the monitoring and evaluation of results;
   b) Time & Resource Management: for example the efficiency of organisational processes and the cost-consequences for service users and society;
   c) Systems for Inspection and Control: for example whether systems are focused on significant organisational risks such as corruption, rather than compliance with lower level procedures;
   d) Public procurement strategic functions and processes;
   e) Service delivery;
   f) Environment, climate change and sustainability;
   g) Productivity and skills;
   h) Efficiencies; and
   j) Personal safety and security.

» DETERMINING THE RESOURCES NEEDED

Financial resources

50) Starting small scale would enable SAIs with limited resources to commence performance auditing. The costs relating to building up the necessary competence should be taken into account. Staff costs would be estimated according to established costing methodologies (for example salary costs plus basic overheads, allocated as a share of total time per month or year). Other costs may include, travel, consultancies and printing, which should be readily estimated as part of the planning process.
51) To satisfy good budgeting practices, it is important that the performance auditing function has a cost centre distinct from other SAI activities from the outset, and that budgets for individual performance audits and other key performance audit costs, such as travel, printing and use of consultants, are separately identified and monitored, as well as staff costs.

52) After the performance auditing function becomes more established it will be necessary to factor in the costs of developing administrative systems, such as those supporting policies and procedures, audit reporting and quality assurance. It would be possible to use such information from SAIs with existing performance auditing functions and similar cost levels and approaches.

53) The additional costs required both in terms of staff resources, training and materials will need to be carefully estimated and discussed with the legislature. It might then be for the legislature to recommend enhancements to the SAI’s budget to reflect the need for increased resources.

**People**

54) It would be possible to conduct a competent initial performance audit using 3-5 full time equivalent staff (though if the performance auditing function is to be sustainable, the number will need to grow from this base point). A good ambition might be for the performance auditing cadre to grow to perhaps 15 staff within 18-36 months. In order for the performance audit function to have sufficient professional weight, an even larger number of staff would be very useful.

55) The initial performance audits might be staffed by people currently working on financial or compliance auditing. While it is the case that some of the elements of accountancy training are very relevant to performance auditing, such as investment appraisal and costing methodologies, performance auditing is a speciality in its own right, with its own particular skills requirements. In due course the SAI could recruit people with solid experience from analytical work and/or a research background. Eventually the performance audit function might consist of people with academic backgrounds from a variety of disciplines.
56) It is therefore worth thinking early on about how a wider range of skills can be brought to bear. If funding is available, the SAI could consider recruiting one or two people with backgrounds in evaluation, social sciences or management consultancy. Alternatively, a shorter term commitment would be to bring such skills in through contracting with consultancy firms.

**Partnerships with other SAIs and academics**

57) National organisations can sometimes be cautious about the risks of funding a new venture, and in such cases international support may be the best approach initially. This is because other SAIs have widespread experience and can provide advice regarding factors which are important when introducing performance auditing. International donors might also contribute, for example by commissioning SAIs who are experienced in performance auditing to provide support.

58) Another potential source of support is the local academic community. Academic institutions will have much relevant experience, for example of evaluating policy and conducting social research. Such institutions might be willing to work in partnership with the SAI, possibly through providing academics on secondment to the SAI.
RAISING AWARENESS WITHIN THE SAI

59) If performance auditing is to take root within an SAI it is important to build awareness, interest and enthusiasm. One of the key messages to pass on to staff is that the Head of the SAI considers developing performance auditing to be an important priority. This can be done through whichever internal communication channels are most appropriate. These channels might include direct briefings from senior management. Importantly, for the successful introduction and ongoing benefits of performance auditing to be realised, these communications must also be supported by ongoing actions including those outlined in this guide.

NOT SETTING UP DETAILED SYSTEMS AND PROCEDURES AT THIS EARLY STAGE

60) SAIs should not feel that they cannot ‘jump into the performance auditing water’ before they have a detailed system in place for planning and implementing a performance audit. Work on developing audit manuals, toolkits and quality assurance arrangements can come at a later stage, because the burden of doing this can be prohibitive, and it is much more important to invest initial resources in actually trying it out. Approaching the first performance audits with a ‘pilot mentality’ can be quite helpful in terms of all parties understanding that what needs to be learned, and that mistakes might be made.

BUILDING THE CAPACITY FOR A SUSTAINABLE PERFORMANCE AUDITING FUNCTION – ‘MAINTAINING THE MOMENTUM’

61) Performance auditing is an ever evolving function within an SAI, even for those who have had a firmly established capability for a number of years. Once the SAI has begun performance auditing, it is important to maintain the momentum to realise the full benefits. This involves progressively building the core performance auditing capacity over a number of years to ensure that early work can develop into a sustainable product. In
doing this, consideration should be given to both how initial learning is captured to improve the process going forward, and also how the function can be developed into a mature performance auditing capability. These considerations will necessarily differ between short, medium and long-term goals, however regardless of the issue or timeframe, the keys to success will lie in being realistic about your ambitions and flexible in your approach. The following provides a high-level outline of some issues that the SAI will need to consider as it works to build its performance auditing capability.

» OPERATIONAL MANAGER

62) A key factor to the sustainability of the performance auditing function in the SAI will be establishing an operational manager role with responsibility for development and oversight of the function. Amongst the duties of the role would be managing the various issues outlined in this guidance and ensuring that areas such as staffing, training and the development of a performance auditing framework are being adequately addressed and progressed.

63) Ideally, the operational manager role and the performance auditing function should be supported by a member of the SAI Executive who can act both as manager with accountability for the function and a ‘champion’ to help promote its benefits and ensure that it has the necessary resources devoted to it to help build its ongoing success.

» STAFF RECRUITMENT AND TRAINING

64) It is the quality of the staff undertaking performance audits that will be a large contributor to the success of the function. While at the outset, the SAI may wish or need to use auditors with a background in the existing functions of financial and/or compliance auditing, over time this composition should be reviewed. Performance auditing covers the full spectrum of public administration and therefore it is important that the skills and competencies of staff reflect this. People with:
a) academic qualifications in areas such as social science or broader investigative and evaluation work; and

b) personal qualities including integrity, creativity, judgement, analytical skills and oral and written communication skills;

65) are often those who are targeted for recruitment by SAIs within their performance auditing function. Using people with these and other skills, and adopting a flexible approach in utilising resources across the SAI to allow staff with relevant expertise to work across audits where that expertise is best used, will help the SAI develop the performance auditing capability. Recruiting mid-career professionals to strengthen performance audit and ground the work in wider public sector management experience is also an option.

66) This recruitment should be complemented by both initial training in performance auditing (and the processes of the SAI) and ongoing training in areas that will develop auditors’ skills and improve the SAI’s performance auditing capability. This training can be delivered through a combination of internal and external models and cover both audit process skills, such as audit interviews and technical skills such as data analysis. From a sustainability perspective, developing a balanced internal training capacity that covers methodological, analytical and professional areas will assist in building a strong learning environment. The more that a learning culture can be developed and promoted within the SAI the greater in-house knowledge sharing can be utilised to both improve staff skills and experiences and the overall quality of performance audits being produced.

67) Introducing performance auditing can also bring the benefit of stimulating knowledge sharing across the SAI. With the development of a new auditing function the SAI should remain conscious of the benefits to be gained from all auditing functions (financial, compliance and performance), drawing benefit from the work of each other (such as risks or issues that have been identified) and using the expertise of others to assist in developing a better product. While each is covering a different aspect of auditing, combined, they allow the SAI to present a powerful and more complete analysis of the audited entities and public administration.
68) In a similar vein to better utilise the internal skills and expertise of an SAI, many of the techniques applied in performance auditing lie within the scope of academic fields such as social and economic research. Accordingly, developing relationships and collaboration with experienced external researchers over time can bring an additional independent dimension to the work supporting a performance audit.

» PERFORMANCE AUDITING FRAMEWORK

69) Part of having a mature and sustainable performance auditing function within an SAI involves developing a framework that is supported by such things as manuals, policies, and a quality assurance process. This framework should be progressively developed as the performance auditing activities carried out by the SAI mature. The framework could utilise both the learning from performance audits undertaken and information resources such as INTOSAI, IDI and other SAIs with an already developed performance auditing capability.

Manuals, policies and procedures

70) The development and introduction of manuals, policies, procedures and other supporting tools will play an important role in consolidating and institutionalising performance auditing in the SAI over the longer term. As the SAI adapts to the introduction of a performance auditing capability and determines how it wishes to develop and utilise the function, consideration can be given to standardising the approach and methods used through means such as a performance auditing policy manual.

71) An example of the high-level structure that could be used to develop a performance auditing policy manual is provided below:

a) Foreword or Introduction

b) SAI Mandate and Legislative Framework

c) Structure of the Performance Auditing Function

d) Strategic Planning of Performance Audits (criteria for selection)

e) Planning Individual Performance Audits
f) Managing the Audit and Relationships with audited entities

g) Conducting the Audit

h) Reporting and Tabling

i) Parliamentary Review

j) Follow up

k) Other Products and Services

l) Quality Assurance

73) Once developed, this documentation should then be revised periodically as more performance audits are completed and the function evolves.

**Quality Control and Assurance Processes**

74) A quality control (QC) process needs to sit above the conduct of each performance audit to minimise the risks of error and drive consistency in conduct. This process should be documented and include, for example, the various steps in the audit process, checks to be undertaken (such as peer review of draft work and editorial review of final reports) and provision of space for reflection on issues identified in the audit by audit teams, audit managers and the Executive. In essence, the QC process could be covered in a ‘checklist’ that audit managers are required to complete while conducting an audit. This process should be an integral part of the SAIs overall quality control framework, as outlined in ISSAI 140 Quality Control for SAIs.

75) Further, in developing a robust performance auditing framework the SAI should look to implement a structured quality assurance (QA) process for all performance audits. A QA process allows audits at their completion to be independently assessed on a consistent basis against specific criteria. Undertaking a QC process outlined above would be one step that the QA process would review and the SAI can develop its own criteria, based on its particular circumstances, with examples of criteria-based questions including:
a) To what extent does the report clearly describe the financial, administrative and managerial context within which the area examined is carried out?

b) To what extent is the report well-structured and well written, and does it include an effective executive summary?

c) To what extent were graphics and statistics appropriately presented and used?

d) To what extent is the rationale for the report’s scope clearly set out?

e) Is the audit methodology clearly set out?

f) To what extent were the report’s conclusions and recommendations balanced, logical, consistent and supported by evidence?

g) To what extent has the audit been successful in meeting its objectives and providing useful information to help improve public services?

76) Given the key role played by the QA process in developing a performance auditing capability, the executive of the SAI should be involved in crafting the criteria and clearly determining their expectations for what constitutes an efficient and effective high quality performance audit.

77) Those carrying out the independent QA could be senior members of the performance auditing unit (with no involvement in the conduct of the audit), or external figures such as senior academics from universities and business schools. Using external QA provides an opportunity for the SAI to demonstrate its accountability to stakeholders. Following QA reviews the SAI can circulate good practice examples of performance audit reports within the SAI for the benefit of all auditors. Where performance audit reports are found to need strengthening, a senior staff member(s) could work with the audit team concerned to identify lessons learned and possibilities for training, mentoring and coaching in specific areas.
Planning

78) Performance auditing should be progressively integrated within the overall strategy of the SAI and should therefore be reflected in SAI planning (such as annual and strategic plans) and the subsequent allocation of resources. The different forms of audits undertaken by the SAI should seek to complement each other in such a way that the total information provided by the SAI contributes to a comprehensive understanding of government functions.

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

80) The importance of having a strategic plan underpinning the performance audit programme will grow as the number of staff and audits planned increases. In determining the performance audit programme, considerations can include:

a) Assessment of government programmes based on risk- or problem-analysis;

b) Discussions with the legislature on what they would like to see covered in the annual programme of performance audits; and

c) Identification of key themes that might govern the selection of audit topics – some possible examples are detailed at paragraph 49.

» COMMUNICATIONS STRATEGY

81) Publicising of performance audit reports contributes to transparency in public sector management and demonstrates how performance auditing can contribute to improvements in public administration and governance.
Accordingly, having in place a process for communicating the results to key audiences, such as the legislature, stakeholders and the media is paramount. At the basic level this should entail clarifying which stakeholders should receive information (and in what order) and what information should be provided.

82) SAIs adopt many different ways for publicising performance audit reports. For example, some SAIs take a highly visible approach and develop press releases and/or conduct press conferences, while others rely on a more low-key approach and ensure audit reports are made easily available to the legislature, stakeholders, media and the general public.

83) Regardless of the method for communication, it is important to consider the specific messages to be communicated and the appropriate style and language. Focus should be on strategic issues relating to public administration that warrant attention or are better practice, rather than single performance deficiencies. Consideration should also be given to the specific details of the information to be published. For example, in some cases there might be a need for ensuring anonymity, such as where general disclosure is prohibited by laws or regulations in national security areas.

**Differences in the Auditing Functions**

84) An advantage of introducing performance auditing is the new ‘lens’ that it will bring to examining aspects of public administration. However, with this benefit comes the risk that the new aspect of auditing will not always necessarily accord with, or support the findings of, financial and/or compliance auditing. It is therefore important that the SAI communicates to its stakeholders the differences between the objectives of the auditing functions and why conclusions can differ.

85) Depending on the mandate of the SAI, it can choose to adopt a position along a spectrum which at one end highlights the differences between the auditing functions and presents conclusions that are not necessarily congruent; and at the other end encourages collaborative work to help guard against audited entities receiving different messages and the SAI publishing inconsistent information.
» FOLLOWING-UP THE IMPLEMENTATION OF PERFORMANCE AUDIT RECOMMENDATIONS

86) Following publication of the performance audit report and any deliberations by the legislature, the auditee may be required to respond to the SAI or the legislature about implementation of performance audit recommendations.

87) Where it is considered that the findings and/or recommendations of a performance audit warrant further review it may be appropriate for the SAI to conduct a follow-up on the report. Accordingly, the SAI needs to have in place a system that captures audit findings and/or recommendations and the auditee’s undertakings in relation to them. Then, after an appropriate time period has elapsed, the SAI can undertake a further assessment of the auditee’s progress with responding to audit findings and implementing recommendations and report on this through a follow-up audit.

88) Follow up is also important for the purpose of evaluating the benefits that arose from performance audit work. This helps to assess the effectiveness of performance audit in terms of improving public services and making them more efficient, and is useful when the SAI is seeking additional funds for its performance auditing.