

INTOSAI



# *Performance Audit Standard*

## ***EXPOSURE DRAFT***

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## INTRODUCTION

1. Professional standards and guidelines are essential for the credibility, quality and professionalism of public-sector auditing. The International Standard of Supreme Audit Institutions for Performance Auditing developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aims to promote independent and effective auditing and support the members of INTOSAI in the development of their own professional approach in accordance with their mandates and with national laws and regulations.
2. The Fundamental Principles of Public-Sector Auditing, amongst other things, defines the purpose and authority of ISSAIs and the framework for public sector auditing. The Fundamental Principles of Performance Auditing builds on and further develops the fundamental principles of ISSAI 100 to suit the specific context of performance auditing. ISSAI 3000 is the International Standard for Performance Auditing and should be read and understood in conjunction with ISSAI 100 and ISSAI 300.
3. ISSAI 3000 provides requirements for the professional practice of performance auditing followed by explanations in order to enhance the clarity and readability of the standard.
4. Requirements contain the content necessary for high quality audit work. They make transparent to auditors what is expected of them and to stakeholders what they can expect from the auditors work. ISSAI 3000 uses the term ‘the auditor’ and defines what is required by the auditor in the conduct of high quality audits. Where it is relevant – e.g. where institutional issues are involved - reference is also made to the Supreme Audit Institution (‘the SAI’). Requirements are “shall” statements presented in bold.
5. Explanations describe in more detail what a requirement means or is intended to cover.
6. ISSAI 3000 does not cover guidelines for performance auditing, which are provided by other ISSAIs in the 3000 series. ISSAI 3100 provides guidelines related to audit concepts while ISSAI 3200 provides guidelines related to the audit process. Guidelines contain clarifications and descriptions on how to implement the requirements and also include examples of good practices.
7. ISSAI 3000 is structured largely in the same order as ISSAI 300 and consists of four sections:
  - a) The first section establishes the scope of the International Standard for Performance Auditing and how reference to it can be made by Supreme Audit Institutions (SAIs).
  - b) The second section defines performance auditing and its objectives, as well as the principles underlining the concept of performance.
  - c) The third section consists of general requirements for performance auditing. These requirements shall be considered prior to commencement and throughout the audit process.
  - d) The fourth section contains requirements related to the main stages of the audit process itself.

## SCOPE OF THIS ISSAI

8. This document provides the International Standard for Performance Auditing for those SAIs that choose to make direct reference to international standards for their work. According to ISSAI 300/6-8, SAIs wishing to make reference to the ISSAI framework relating to performance audits can do so in two ways:
9. option 1: by developing a national authoritative standard that is based on or consistent with the Fundamental Principles of Performance Auditing, or

10. option 2: by making direct reference to the International Standard for Performance Auditing, (i.e. this document).

11. Under option 1, INTOSAI recognises that SAIs have contrasting mandates and work under different conditions. Due to the varied situations and structural arrangements of SAIs, not all auditing standards or guidelines may apply to all aspects of their work. National standards can achieve the principles of ISSAI 300 in different ways, given the national mandate, constitutional and other legal environment, and the strategy of the SAI or economic circumstances.

12. Therefore, ISSAI 3000 is not meant to be read as a prescription of how national standards should be formulated. SAIs have the option of developing authoritative standards that are either based on, or consistent with the Fundamental Principles of Performance Auditing. If an SAI chooses to develop its own national standards, those standards should include the level of detail necessary to accomplish the SAI's relevant audit functions and should correspond to the Principles in all applicable and relevant respects.

13. Under option 2, when considering the adoption of ISSAI 3000, it is useful to bear in mind that while a principle can be achieved in different systems by different means, a standard with an appropriate level of detail is necessary to guide the auditor to follow good practices when conducting a performance audit.

14. This standard in no way overrides national laws, regulations or mandates or prevents SAIs from carrying out investigations, reviews or other engagements that are not specifically covered by ISSAI 3000.

15. ISSAI 3000 provides the standard for those SAIs that choose to adopt it as their authoritative standard and make direct reference to it. In such cases, the auditor and the SAI shall comply with each requirement of this standard unless, in the circumstances of the audit, the requirement is not relevant because it is conditional and the condition does not exist. When all relevant requirements have not been fulfilled, reference to this standard shall not be made without disclosure of that fact and further explanations about the consequences thereof.

16. When an SAI chooses to make direct reference to the International Standard for Performance Auditing, this should be referred to by stating:

*... We conducted [description of covered audits] in accordance with the International Standard of Supreme Audit Institutions for Performance Auditing.*

17. Performance auditing can deal with a wide variety of subject matters and research methods. As a result, this standard is flexible and leaves enough room for different approaches. Therefore, users of ISSAI 3000 are also encouraged to make full use of the related guidelines for specific subject matters. Audits may be conducted in accordance with both ISSAI 3000 and standards from other sources provided that no contradictions arise. In those cases, reference should be made both to such standards and to ISSAI 3000.

18. Elements of performance auditing can be part of a more extensive audit that also covers compliance and financial auditing aspects. When dealing with overlaps between audit types (or combined audits) the auditor needs to observe all relevant standards and consider the following points: (a) in case of conflicting priorities, the primary objective of the audit guides the auditor as to which standards to apply, and (b) when determining which standards to observe in the case of combined audits, the auditor will have to determine which standards are the most feasible because in certain cases different standards may have different priorities.

## DEFINITION OF PERFORMANCE AUDITING

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

20. Performance auditing contributes to improved economy, efficiency and effectiveness in the public sector. Performance audit also contributes to good governance, accountability and transparency. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement.

21. Performance audits often include an analysis of the conditions that are necessary to ensure that the principles of economy, efficiency and effectiveness can be upheld.

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

a) The principle of economy means minimising the costs of resources, with due regard to quality. The resources used have to be available in due time, in and 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.

23. Further information on the definition of economy, efficiency, effectiveness and the ways performance audits provide new information can be found in the ISSAI 3100-3999 guidelines.

## GENERAL REQUIREMENTS FOR PERFORMANCE AUDITING

### *Independence and ethics*

#### Requirement

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

#### Explanation

25. Auditors can find additional guidance in ISSAI 10 Mexico Declaration on SAI Independence as well as ISSAI 11 INTOSAI Guidelines and Good Practices related to SAI Independence and ISSAI 30 Code of Ethics. The key principles of ethics as defined in ISSAI 30 are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

#### Requirement

**26. The auditor shall take care to remain independent so that his/her conclusions and findings will be impartial and be seen as such by third parties.**

#### Explanation

27. In performance audits there might be specific risks to independence that the auditor must also consider. In a performance audit the auditor has a particular role in identifying criteria, measuring against those criteria, and formulating a balanced report. In this regard the auditor needs

to ensure the independence of the audit and the final results and safeguarding the ethical behaviour of the audit team. It is also advisable considering the positions of various stakeholders and their interests, and establishing open and good communication with them.

### *Intended users and responsible parties*

#### Requirement

**28. 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.**

#### Explanation

29. The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users.

30. The role of responsible party may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter. The responsible party may include those responsible for the subject matter being audited in an operative and/or supervisory role but can also refer to those responsible to address the recommendations and initiate changes required. A responsible party may also be an intended user, but it will typically not be the only one.

31. It is advisable for the auditor to also consider the needs and interests of the intended users and responsible parties. By taking into account the needs and interests of the intended users and responsible parties the auditor can ensure that the audit report is most useful and understandable to these entities. This however should in no way undermine the independence of the auditor who remains responsible for a well balanced approach pursuing the public interest.

### *Subject matter*

#### Requirement

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

#### Explanation

33. The subject matter relates to the question “what is audited”. The subject matter of a performance audit may be specific programmes, undertakings, systems, entities or funds and may comprise activities (with their outputs, outcomes and impacts) or existing situations, including causes and consequences.

34. Many topics in performance auditing are politically sensitive. Performance auditing examines whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, but examines whether any shortcomings of the laws and regulations or their implementation have prevented the specified objectives from being achieved.

### *Confidence and assurance in performance auditing*

#### Requirement

**35. The auditor shall communicate in a transparent way assurance obtained on the subject matter with regard to aspects of economy, efficiency and effectiveness achieved by the audited entity.**

Explanation

36. As in all audits, the users of performance audit reports will wish to be confident about the reliability of the information that they use for making decisions. By providing information that is evidence based the auditor is enhancing the confidence of the intended user in the audit report.

37. The auditor has to provide users with assurance that the findings in the audit report are based on sufficient and appropriate evidence and that the auditor has taken sufficient steps to reduce or manage the risk of reaching inappropriate conclusions.

38. The assurance on the subject matter about the audited entity's achievement of economy, efficiency and effectiveness may be conveyed in the performance audit report in different ways but not limited to:

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

*Audit objective(s)*

Requirement

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

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

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

Explanation

42. A well-defined audit objective(s) relates to government undertakings, systems, operations, programmes, activities or organizations that are related to the subject matter. An audit objective(s) can be thought of as audit questions about the subject matter on which the auditor seeks to obtain answers based on the evidence obtained. The formulation of audit questions is an iterative process in which the questions are repeatedly specified and refined, account being taken of known relevant information on the subject as well as feasibility.

43. Many audit objectives can be framed as an overall audit question which can be broken down into more precise sub-questions. Instead of defining a single objective or overall audit question, the auditor may choose to develop several audit objectives, which need not always be broken down into sub-questions.

*Audit approach*

Requirement

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

Explanation

45. The audit approach determines the nature of the examination to be made. Based on the audit scope, objective(s), and subject matter, it is also relevant to define the necessary knowledge, information, data and the audit procedures to be used for gathering and analysing audit evidence. The audit approach is an important link between audit objective(s), criteria and the work done to collect evidence.

46. A result-oriented approach assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended. It can be used most easily when there is a clear statement of desired outcomes or outputs (e.g. in the law or a strategy decided upon by the responsible parties).

47. A problem-oriented approach examines, verifies and analyses the causes of particular problems or deviations from criteria. It can be used when there is a clear consensus on a problem, even if there is no clear statement of the desired outcomes or outputs. Conclusions and recommendations are primarily based on the process of analysing and confirming causes rather than just comparing findings with criteria.

48. A system-oriented approach examines the proper functioning of management systems. Frequently, elementary principles of good management will be helpful in examining the conditions for efficiency or effectiveness even lacking a clear consensus on a problem or clearly stated outcomes or outputs.

*Audit criteria*

Requirement

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

Explanation

50. Audit criteria are the benchmarks used to evaluate the subject matter. In audits covering complex issues it is not always possible to set criteria in advance; instead they will be defined during the audit process. Whereas in other audit types there are unequivocal legislative criteria, this is not typically the case in performance auditing. Criteria is not always readily available to the auditors in performance auditing; they are typically based on knowledge of best practice on how activities are carried to be most economical and efficient (or what conditions are the most favourable for good performance and effectiveness) It is essential to have suitable criteria for securing the quality of a performance audit, particularly since in many cases clarifying and developing these criteria might be part of the value added by the performance audit.

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

52. Key attributes of suitable criteria include that they have to be relevant, understandable, complete, reliable, and objective in the context of the subject matter, the audit objective(s) and the audit questions. Definitions of these attributes of criteria are described below:

- a) Relevant criteria contribute to conclusions that assist decision making by intended users (ISSAI 1003).
- b) Understandable criteria are those that are clearly stated, contribute to clear conclusions and that are comprehensible to the intended users. They are not subject to wide variations in interpretation.
- c) Complete 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 criteria result in reasonably consistent conclusions when used by another auditor in the same circumstances.
- e) Objective criteria are free from any bias on the part of the auditor or on the part of management of the audited entity.

#### Requirement

**53. The auditor shall, as part of planning or conducting the audit, discuss the audit criteria with the audited entities.**

#### Explanation

54. The criteria have to be discussed with the audited entities, but it is ultimately the auditor's responsibility to select suitable criteria.

55. Discussing the audit criteria with the audited entities serves to ensure that there is a shared and common understanding of what quantitative or qualitative criteria the audited entity will be assessed against. This is particularly important when the criteria are not obvious, or the criteria have to be developed and refined throughout the course of the audit work. In such cases, communication of the criteria with the audited entity helps enhance the acceptability and relevance of the audit criteria in relation to the audit objective(s).

#### *Audit risk*

#### Requirement

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

#### Explanation

57. Actively managing audit risk includes the following aspects: anticipating the possible or known risks of the work envisaged, developing approaches to addressing those risks during audit planning and methodology selection and documenting how those risks will be handled.

58. Actively managing audit risk also includes considering whether the audit team has sufficient and appropriate competence to conduct the audit, has adequate access to accurate information of good quality, has considered any new information that is available, and considered alternative perspectives.

59. A full consideration of new information and different perspectives can help ensure that the audit report's findings and recommendations will lead to meaningful improvements in the audited entity's performance and thereby add value for the intended users.

### *Communication*

#### Requirement

**60. The auditor shall maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process and define the content and process of the communication for each audit.**

#### Explanation

61. Effective communication is important, because establishing good two-way communication with the audited entity and stakeholders can help improve the auditor's access to information and data, and may help the auditor gain better insights into the audited entity's and stakeholders perspectives.

62. The key aspects of the audit that the auditor may communicate to the audited entity include, the audit subject matter, audit objective(s), criteria, audit questions, the time period to be audited, and the government undertakings, organizations and/or programmes to be included in the audit.

63. Communicating these key aspects of the audit can help the auditor exchange views with the audited entity especially in situations where there are no predefined criteria or when performance audits on the same subject matter have not been conducted regularly and therefore established channels of communication may not exist.

64. A sound dialogue with the audited entity involved is pivotal in achieving real improvements in governance and may increase the impact of the audit.

#### Requirement

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

#### Explanation

66. It is important for the auditor to maintain good professional relationships with all stakeholders involved in the audit, promote a free and frank flow of information in so far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding of the respective role and responsibilities of each stakeholder. The auditor needs to be able to interact appropriately with the audited entity and with any other party that provides information essential for the conduct of the audit, as well as the media and the legislature. However, these communications must not impact the independence and impartiality of the auditor.

#### Requirement

**67. The SAI shall clearly communicate the standards followed during the conduct of the performance audit.**

#### Explanation

68. SAIs need to make reference to the standard they follow in their audit reports; however, a more general form of communication may be used covering a defined range of engagements (ISSAI 300/7), such as through a statement in an annual report or on the SAI's website. Where the standard is based on several sources taken together, this needs to be stated.

### *Skills*

#### Requirement

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

#### Explanation

70. Professional competence includes sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques. It also includes personal abilities such as analytical capacity, writing skills and communication skills, creativity and receptiveness. Performance auditing also requires sound knowledge of government organizations, programmes, and functions related to the subject matter of the audit, and may require expertise in social, physical, computer, or other sciences, as well as legal expertise.

71. If the auditor determines that external expertise is required to complement the knowledge of the audit team then the auditor may consult, as appropriate, with individuals, within and outside the SAI, who have this specialized expertise. 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 auditor may use the work of experts as evidence, the auditor retains full responsibility for the conclusions in the audit report.

### *Supervision*

#### Requirement

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

#### Explanation

73. Audit supervision involves providing sufficient guidance and direction to the audit team assigned to the audit. The auditor who supervises the audit would be expected to have competence and knowledge in audit methodologies; planning and monitoring work; project management; strategic thinking; foresight and problem solving. The level of supervision provided by the auditor may vary depending upon the proficiency and experience of the audit team and the complexity of the subject matter of the audit.

### *Professional judgment and scepticism*

#### Requirement

**74. 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.**

#### Explanation

75. Performance audits require significant judgement and interpretation in concluding against the audit questions, due to the fact that audit evidence is more persuasive than conclusive in nature. Professional judgment refers to the application of collective knowledge, skills, and experience to the audit process. Using professional judgment helps the auditor determine the level of understanding needed for the audit subject matter. It involves the exercise of reasonable care in the conduct of the audit and the diligent application of all relevant professional standards and ethical principles.

76. Professional scepticism means maintaining professional distance and an alert and questioning attitude when assessing the sufficiency and appropriateness of the evidence obtained throughout the audit. It is vital that the auditor exercises professional scepticism and adopt a critical approach, make rational assessments and discount personal preferences and those of others.

77. Exercising professional judgment and scepticism allows the auditor to be receptive to a variety of views and arguments and better able to consider different perspectives, maintain objectivity, and evaluate the full range of evidence. It helps also ensure that the auditor avoids errors of judgment or cognitive bias and draws objective conclusions based on a critical assessment of all of the evidence collected.

Requirement

**78. The auditor shall be aware of the risk of fraud throughout the audit process.**

Explanation

79. Throughout all phases of the audit process the auditor must be cognizant to the possibility and risk of fraud within the context of the audit objective(s). Determining the risk of fraud is an ongoing process throughout the audit and relates not only to planning the audit but also to evaluating the evidence obtained during the audit.

80. During the conduct of the audit, it is important for the auditor to obtain a good understanding of the relevant internal control systems and examine whether there are any signs of irregularities that could result in fraud or other noncompliance. An attitude of professional scepticism assists the auditor in determining which factors or risks could significantly affect the audit objective(s).

Requirement

**81. The auditor shall maintain a high standard of professional behaviour.**

Explanation

82. Professional behaviour means that the auditor must 1) apply high professional standards in carrying out the work to perform their duties competently and with impartiality, 2) not undertake work they are not competent to perform, 3) know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices, 4) possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity.

Requirement

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

Explanation

84. By being creative, flexible, and resourceful the auditor will be in a better position to identify opportunities to develop innovative approaches for collecting, interpreting, and analysing information.

### *Quality control*

#### Requirement

**85. 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.**

#### Explanation

86. In establishing a quality control and assurance system (QCA), the SAI can use the guidance provided in ISSAI 40, which offers a framework for developing such a system. It is important to develop QCA procedures that are adequate, flexible and easy to manage. It is also important to develop consistent policies and procedures that are communicated to all audit teams and supported by training, as needed.

87. Measures that safeguard the quality of the audit process will be effective if they can ensure that the audit provides a balanced and unbiased view, adds value, considers all relevant viewpoints and satisfactorily addresses the audit questions.

88. An effective QCA system will also have mechanisms to take into account the audit team's perspectives ensuring that audit teams are open to feedback.

### *Materiality*

#### Requirement

**89. 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.**

#### Explanation

90. Materiality can be defined as the relative importance (or significance) of a matter within the context in which it is being considered. In addition to monetary value, materiality includes issues of social and political significance, such as public safety and security, environmental concerns, compliance, transparency, governance and accountability.

91. By considering materiality when selecting audit topics the auditor can reduce the risk of producing inappropriate or low-impact audit findings or reports. This is because impacts can be either relatively minor or comparatively significant, and by considering the materiality of the impacts on the audited entity the auditor can choose those topics that have more significant impacts rather than those that have insignificant impacts.

### *Documentation*

#### Requirement

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

Explanation

93. Documentation is important to provide a clear understanding of the work carried out to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.

94. The nature of the documentary record will depend on the particular circumstances and the nature of the audit. Depending on the purpose and context of the audit, examples of the types of records that are generally expected to be documented for most performance audits, include (a) details of the audit plan and methodology, (b) results of field work and analysis, (c) communications and feedback with the audited entity, and (d) supervisory reviews and other quality control safeguards.

95. It is important for the auditor to prepare the audit documentation in a timely manner; keep it up to date throughout the course of the audit; and complete the documentation, to the extent possible, before the audit report is issued.

**REQUIREMENTS RELATED TO THE PERFORMANCE AUDITING PROCESS**

*Planning – selection of topics*

Requirement

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

**97. The auditor shall select audit topics that are significant and auditable, and reflect the SAI’s mandate.**

**98. The auditor shall conduct the process of selecting audit topics to aim to maximise the expected impact of the audit while taking account of audit capacities.**

Explanation

99. The SAI’s strategic planning process is the first step of topic selection because it comprises the analysis of potential areas for audit and defines the basis for the efficient allocation of audit resources. In this sense it is an important tool in setting priorities and selecting audit topics.

100. During the strategic planning process, techniques such as risk analysis or problem assessments can help structure the process but need to be complemented by professional judgment to reflect the SAI’s mandate and to ensure the selection of significant and auditable audit topics.

101. Auditability is an important requirement in the planning process. It defines whether a topic is suitable for an audit. The auditor might have to consider, for instance, whether there are relevant approaches, methodologies, and criteria available and whether the information required is likely to be available and can be obtained efficiently. If the auditor determines that reliable information is not available then this may itself be a reason for selecting this area for an audit.

102. Other aspects to be considered are compliance with the audit mandate, resources, professional skills required, and conditions in terms of timing.

103. Since SAIs may have limited audit capacities in terms of human resources and professional skills, the process of selecting audit topics must consider the potential impact of the audit topic in providing important benefits for public finance and administration, the audited entity, or the general public with the resources available.

### *Planning - designing the audit*

#### Requirement

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

#### Explanation

105. The performance audit can be divided into a pre-study and a main study. The pre-study is part of the planning process. The main study is where the audit is conducted and reported.

106. To accomplish a high-quality audit the auditor needs to consider the performance audit as a project in the sense that it involves planning, organizing, securing, managing, leading, and controlling resources to achieve specific goals. Managing the performance audit as a project requires the development of project management methodologies and strategies.

#### Requirement

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

#### Explanation

108. To ensure the audit is properly planned, the auditors need to acquire sufficient knowledge of the audited program or audited entity's business before the audit is launched. Therefore, before starting the audit, it is generally necessary to conduct research work for building knowledge, testing various audit designs and checking whether the necessary data are available.

109. It is important to develop a sound understanding of the audited program, as well as the relevant background causes and the possible impacts to facilitate the identification of significant audit issues and to fulfil assigned audit responsibilities. Performance audits often involve a learning process and the development of methodology as part of the audit itself.

#### Requirement

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

#### Explanation

111. The audit plan is designed to ensure the gathering of sufficient and appropriate audit evidence that will allow the auditor to develop finding, conclusions, and recommendations in response to the audit objective(s) and questions.

112. It is also desirable that planning allow for flexibility, so that the auditor can benefit from insights obtained during the course of the audit. Practical considerations such as the availability of

data may restrict the choice of methods previously considered according with best practices. It is therefore advisable to be flexible and pragmatic in this respect.

Requirement

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

Explanation

114. SAI's senior and operational management as well as the audit team need to be fully aware of the overall audit design. Decisions on audit design and its consequences in terms of resources will often involve the senior management of the SAI, who can ensure that skills, resources and capacities are in place to address the audit objectives and the audit questions.

*Conducting*

Requirement:

**115. The auditor shall obtain sufficient and appropriate audit evidence in order to establish findings, reach conclusions in response to the audit objective(s) and questions and issue recommendations when appropriate.**

Explanation

116. Evidence should be both sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) – i.e. relevant, valid and reliable.

117. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions. In assessing the sufficiency of evidence, the auditor should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable. The need for further evidence is weighed against the cost and time needed to collect it.

118. Relevance, validity and reliability are measures of the quality of the evidence. Relevance refers to the extent to which the evidence has a logical relationship with, and importance to, the audit objective(s) and questions being addressed.

119. Validity refers to the extent to which the evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which the evidence represents what it is purported to represent.

120. Reliability refers to the extent to which the audit evidence is supported by corroborating data from a range of sources, or produces the same audit findings when tested repeatedly.

121. In a performance audit, the nature of the audit evidence required to establish findings and draw conclusions and make recommendation when appropriate, is determined by the subject matter, the audit objective(s) and the audit questions.

Requirement

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

### Explanation

123. The analytical process in performance auditing involves continuous consideration by the auditor of the audit questions, evidenced gathered, and methods employed. It may involve combining and comparing data from different sources, drawing preliminary conclusions and compiling findings in order to build hypotheses that can be tested, if necessary, against additional data. The whole process is closely linked to that of drafting the audit report, which can be seen as an essential part of the analytical process that culminates in answers to the audit questions. It is important for auditors to be goal-oriented and for them to work systematically and with due care and objectivity.

124. When analysing collected information, it is recommended to focus on the audit question and objective(s). This will help to organize data and also provide the focus for analysis. Because going back and forth is part of the analytical process, the auditor may need to revisit and revise the audit objective(s) in the light of the insights obtained during the audit.

125. Based on the findings, the auditor will reach a conclusion. Formulating conclusions may also require a significant measure of the auditor's professional judgment and interpretation in order to answer the audit questions. This would also depend upon the sensitivity and materiality of the audit issue under consideration. It is necessary to consider the context and all relevant arguments, pros and cons, and different perspectives before conclusions can be drawn. The need for precision is to be weighed against what is reasonable, economical and relevant to the purpose. The involvement of senior management is recommended.

### *Reporting*

#### Requirement

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

#### Explanation

127. To be comprehensive, a report needs to include all the information and arguments needed to address the audit objective(s) and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions. The minimum content of a performance audit report includes the:

- a) subject matter,
- b) audit objective(s),
- c) audit questions,
- d) criteria and its sources,
- e) method,
- f) time period covered,
- g) sources of data,
- h) limitations to the data used,
- i) audit findings,
- j) conclusions.

128. To be convincing, a report needs to be logically structured and present a clear relationship between the audit objective(s), criteria, findings, conclusions and recommendations. It also needs to present the findings persuasively, address all relevant arguments to the discussion, and be accurate. Accuracy requires that the evidence presented and all the findings and conclusions are correctly portrayed. Accuracy assures readers that what is reported is credible and reliable. One inaccuracy can cast doubt on the validity of an entire report and can divert attention from the substance of the report. In addition, inaccurate reports can damage the credibility of the SAI.

129. Being timely requires that a report needs to be issued on time in order to make the information available for use by management, government, legislative officials and other interested parties. Some SAI's control the timing of their work by setting specific tabling dates to coincide with the sitting of the legislature. Therefore, the tabling date of a report is set in advance. In other cases, SAIs may have more flexibility to determine deadlines, while considering the needs of intended users, the best timing for the report's issuance.

130. To be reader friendly, the auditor needs to use simple language in the audit report to the extent permitted by the subject matter. Technical terms and unfamiliar abbreviations need to be defined. It is good practice to use tables, charts, pictures, diagrams where appropriate to present and summarise complex information to facilitate the reader's understanding. Other qualities of a reader friendly report include the use of clear and unambiguous language, which helps avoid misunderstandings and confusion between facts and conclusions; and conciseness to ensure that the report is no longer than needed, which improves clarity and helps to better convey the message.

131. Being balanced means that presentation of the report needs to be impartial in content and tone. All evidence needs to be presented in an unbiased manner. The auditor needs to be aware of the risk of exaggeration and overemphasis of deficient performance. The auditor needs to explain in the report why and how problems noted in the findings hamper performance in order to encourage the audited entity or intended user to initiate corrective action. When the effects/impacts of the problems are explained in the report the reader will better understand the significance of the problem. This will in turn encourage corrective action and lead to improvements by the audited entity.

#### Requirement

**132. The auditor shall identify the audit criteria and the source of the criteria in the report.**

#### Explanation

133. Criteria and their sources must be identified in the report because the user confidence in the findings and conclusions of a performance audit depends largely on the criteria. Diverse sources can be used to identify criteria, besides legislation, including regulations, standards, sound principles and best practices, performance measurement frameworks and organization policies and procedures.

#### Requirement

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

#### Explanation

135. The audit findings have to be put into perspective, and congruence has to be ensured between the audit objective(s), audit questions, findings and conclusions. Conclusions are the statements deduced by the auditor from the audit findings. The report have to clearly answer the audit questions or explain why this was not possible.

#### Requirement

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

Explanation

137. A constructive recommendation is one that is well-founded, adds value, is practical and is linked to the audit objective(s), findings and conclusions. The recommendations must follow logically or analytically from the facts and arguments presented i.e. the reader must be able to connect what was examined, what was found, what was the impact and how the weakness identified can be addressed.

138. Recommendations need to be addressed to the audited entities that have the responsibility and competence for implementing them.

Requirement

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

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

Explanation

141. Comments from the audited entity on the audit findings, conclusions and recommendations contribute to the writing of a balanced report and helps the auditor resolve any disagreements and correct any factual errors before an audit report is finalized. The report have to reflect the views of the auditor but have also to show the perspective of the audited entity. Therefore, the audited entity must be given the opportunity to examine the content of the draft report and provide comments.

142. The examination of feedback received needs to be recorded in working papers so that any changes to the draft audit report, or reasons for not making changes, are documented. Such documentation provides transparency over why any changes to the draft audit report were or were not made, as well as the auditor's reasons for these decisions.

Requirement

**143. The SAI shall make its audit reports widely accessible.**

Explanation

144. Distributing audit reports widely can promote the credibility of the audit function. Therefore, reports need to be distributed to the audited entities, the executive and/or the legislature to other interested stakeholders and be made accessible to the general public directly and through the media, except for the classified information.

145. The primary audience for performance audit reports is the legislature and government agencies. A good performance audit enables the legislature to effectively scrutinise government and agency performance, and influence decision-makers in government and the public service to make changes that lead to better value for money outcomes. However, there are also other stakeholders such as citizens, the private sector and the media who all can have an interest, but possibly a different focus, in the outcome of a performance audit.

146. The results of audits must be communicated to all levels of government. The performance audit report is the product on which the government, the legislature, and the public judge the SAI's performance audit function.

## *Follow-up*

### Requirement

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

### Explanation

148. Follow-up refers to the auditor's examination of the corrective actions taken by the audited entity, or other responsible party, on the basis of the results of a performance audit. It is an independent activity that increases the value of the audit process by strengthening the impact of the audit and laying the basis for improvements to future audit work. It also encourages the audited entity and other users of reports to take the audit report and findings seriously, and provides the auditor with useful lessons and performance indicators. Follow-up is important for internal learning and development.

149. The SAI needs to report on the results of its follow-up actions appropriately in order to provide feedback to the legislature, stakeholders and the public. Reliable information on the implementation status of recommendations and the impacts of audits and of the relevant corrective actions taken can help demonstrate the value and benefit of the SAI.

### Requirement

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

### Explanation

151. Follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time.

152. The auditor needs to decide which recommendations are to be followed up (if not all) and how follow up will be undertaken (new audit or a simplified procedure).