

INTOSAI



*Standards and
guidelines for
performance auditing
based on INTOSAI's
Auditing Standards
and practical
experience*

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IMPLEMENTATION GUIDELINES FOR PERFORMANCE AUDITING

Standards and guidelines for performance auditing
based on INTOSAI's Auditing Standards
and practical experience



Preamble

At the International Congress of Supreme Audit Institutions (INCOSAI) conference in Montevideo (1998) it was agreed to endorse the development of guidelines for the implementation of the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards. The INTOSAI Auditing Standards Committee (ASC) would carry out the development work in consultation with other standing committees and working groups.

The Auditing Standards focus mainly on financial auditing, but they cover performance auditing as well. As many Supreme Audit Institutions have pointed out, there is a need for special guidelines in performance auditing, since it differs in character from financial auditing. It has therefore been thought wise to develop separate guidelines for performance auditing.

A first discussion was held at the Committee meeting in London (2000), and after the meeting in Lisbon (2002) working-material was sent to the Committee members for comments. The ongoing work was supported by the Governing Board and the INCOSAI congress in Seoul (2001).

At the Committee meeting in Stockholm (2002), it was decided to send an exposure draft to all INTOSAI members for comments. A final draft was produced and thereafter approved by the Committee at its meeting in Bratislava (2003). Throughout the process the Governing Board has been informed of the progress of the work and approved the presented working plans.

These Implementation Guidelines for Performance Auditing are the result of the joint efforts of the members of the INTOSAI Auditing Standards Committee, which has included the Supreme Audit Institutions of:

Antigua and Barbuda	Brazil	India	Portugal	Tonga
Argentina	Cameroon	Lithuania	Samoa	Tunisia
Austria	Costa Rica	Japan	Saudi Arabia	Ukraine
Australia	Denmark	Namibia	Slovakia	United Kingdom
Azerbaijan	Canada	Norway	Sweden;	United States
	Egypt	Philippines	Chairman	Uruguay

I would especially like to recognize the SAIs of the United Kingdom (English), Canada (French), Austria (German), Saudi-Arabia (Arabic) and the United States (Spanish) for their support in proof-reading the different language versions.

I am pleased to submit this document. It constitutes an important step forward in the process of enhancing performance auditing among government auditors. It should be considered a living document, which has to be updated as practices progress. It is not a normative or a technical document, or a handbook, but it contains a number of guidelines and other information with practical implications that take into consideration the special premises and features of performance auditing. Even though these guidelines reflect current best practices, they will not fully be applicable to all INTOSAI members, due to different traditions and mandates. It is up to each member to determine how to best apply and utilize these guidelines.

The purpose of this document is to:

- Describe the features and principles of performance auditing.
- Assist SAI performance auditors in managing and conducting performance audits efficiently and effectively.
- Provide a basis for good performance audit practices.
- Establish a framework for the further development of performance audit methodology and professional development.

On behalf of the Auditing Standards Committee, I would like to thank all INTOSAI Committees and members for their dedication and cooperation in completing this project. I also thank my Committee colleagues for their timely support and positive contributions to this activity.

Stockholm, July 2004

Kjell Larsson

Auditor General, Swedish National Audit Office
Chair of the INTOSAI Auditing Standard Committee

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Introduction

Performance auditors can be faced with considerable variety and ambiguity in their work. They require skills in analyzing activities and management practices. They can be faced with the need to become familiar with a wide range of organizational contexts and subject matters. They need the ability to write logically and thoroughly on complex issues. These guidelines can provide some assistance in these areas, but much is incumbent on the performance auditors themselves to develop their skills in these areas by other means.

The guidelines take into account relevant INTOSAI auditing standards and are based on generally accepted principles of performance auditing, distilled from the experience of INTOSAI members.¹ In order to produce experience-based implementation guidelines, a study has been made of standards and guidelines from a number of SAIs with many years' experience of performance auditing. Their experience of conducting performance audits and implementing the Auditing Standards has added valuable information, not least with respect to the practical interpretation of the Auditing Standards.

It is not possible to produce guidelines applicable to all kinds of performance auditing, since comparisons between the practices of performance auditing in different countries show considerable variations in mandate, organisation, and methods used. Guidelines in performance auditing cannot comprehensively embrace all possible approaches, methods and techniques, since in practice that would include everything in the social sciences. Furthermore, performance audits deal with a multitude of topics and perspectives covering the entire government sector, and it would not be possible to develop detailed standards and

¹ Audit Director Tony Angleryd (Sweden) prepared the guidelines, but many INTOSAI members have assisted in the processes. Performance Audit Standards from members and regional working groups have been studied. The 'Performance Auditing Guidelines', approved at the 8th ASOSAI Assembly in October 2000, should explicitly be mentioned.

procedures that work equally well in all these situations. In performance auditing it is not possible to produce a 'cookbook' type of manual that can universally be followed for good results.

Consequently, some SAIs will find guidelines of this type of limited value. For instance, they might be considered too ambitious for auditors with little or no experience of dedicated performance audit projects or program evaluations. As stated in the Auditing Standards, paragraph 1.0.6: 'The SAI should apply its own judgments to the diverse situations that arise in the course of government auditing.' Moreover, paragraph 1.0.13 states: 'Because of the approach and structure of some SAIs, not all auditing standards apply to all aspects of their work. For example, the collegial and juridical nature of the reviews conducted by Courts of Account make aspects of their work fundamentally different from the financial and performance audits conducted by SAIs, which are organized under a hierarchic system led by an Auditor-General or a Comptroller General.' This means that the SAI itself should decide how and to what extent the guidelines are to be used in its own audit practices and development work.²

What has been said above must not be taken as an argument against any standardisation or guidelines, but when it comes to standardisation in performance auditing it is mostly a question of what to do, rather than how to do it. For example, in designing a study one would expect the auditors to make certain considerations and cover particular aspects. How that is done must be decided on a case-by-case basis and with consideration of the fact that methods and techniques have to be applied with the necessary care that is commonly considered to be the best practice in social sciences and auditing.

This document reflects the experience of SAIs with a long tradition and well-established standards of performance auditing. It deals with performance auditing carried out as separate examinations or investigations; i.e. performance auditing as a separate and professional activity that requires specialised skills, separate standards, special planning, special reports, etc.³ Consequently, this document is aimed mainly at

² In this paper, the various paragraphs of the Auditing Standards (2001) have been referred to as 'AS' followed by the respective paragraph number(s). The references are in italics. The term 'regularity (financial) auditing' has been abbreviated to 'financial auditing.'

³ This document provides general guidelines. Since performance auditing varies considerably between different countries, it was considered sensible to make the guidelines less normative and detailed than is traditionally the case.



those SAIs that are carrying out – or are planning to carry out – this type of performance auditing.⁴

These guidelines consist of five main parts.

Part 1 sets out the general framework for performance auditing,

Part 2 defines application of auditing principles to performance auditing,

Part 3 provides standards and guidance for planning performance audits,

Part 4 provides standards and guidance for conducting performance audits,

Part 5 provides standards and guidance for presenting the audit results.

The Appendices contain further information on how to plan and conduct performance audits. The appendices also include information on performance auditing in relation to information technology (IT) and on conducting performance audits with an environmental perspective. Further, a framework of system-oriented approaches in performance auditing is presented.

⁴ This would, for instance, to some extent exclude the kind of continuous monitoring exercise that is based on the concept of so-called performance indicators. However, non-regular (in-depth) studies on topics such as whether performance measurement systems in government programs are effective and valid or not are not excluded. (See section 1.7.)



Part 1: What is performance auditing?

1.1 What is performance auditing according to INTOSAI?

INTOSAI's Auditing Standards (*AS 1.0.38 and 1.0.40*) state the following:

'The full scope of government auditing includes regularity and performance audit', and 'Performance auditing is concerned with the audit of economy, efficiency and effectiveness and embraces:

(a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;

(b) audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and

(c) audit of the effectiveness of performance in relation to achievement of the objectiveness of the audited entity, and audit of the actual impact of activities compared with the intended impact'.

Performance auditing is based on decisions made or goals established by the legislature, and it may be carried out throughout the whole public sector.

Performance auditing is an independent examination of the efficiency and effectiveness of government undertakings, programs or organizations, with due regard to economy, and the aim of leading to improvements.

1.2 What is the special feature of performance auditing?

As stated in the Auditing Standards, performance auditing is not overly subject to specific requirements and expectations. While financial auditing tends to apply relatively fixed standards, performance auditing is more flexible in its choice of subjects, audit objects, methods, and opinions. Performance auditing is not a regular audit with formalized opinions, and it does not have its roots in private auditing. It is an independent examination made on a non-recurring basis. It is by nature wide-ranging and open to judgments and interpretations. It must have at its disposal a wide selection of investigative and evaluative methods and operate from a quite different knowledge base to that of traditional auditing. It is not a checklist-based form of auditing. The special feature of performance auditing is due to the variety and complexity of questions relating to its work. Within its legal mandate, performance auditing must be free to examine all government activities from different perspectives (*AS 4.0.4, 4.0.21-23 and 2.2.16*).

The character of performance auditing must not, of course, be taken as an argument for undermining collaboration between the two types of auditing.

Performance auditing does not have its roots in the form of auditing common to the private sector. Its roots lie in the need for independent, wide-ranging analyses of the economy, efficiency, and effectiveness of government programs and agencies made on non-recurring basis.

1.3 What ideas form the basis of performance auditing?

Public accountability means that those in charge of a government program or ministry are held responsible for the efficient and effective running of such. Accountability presupposes public insight into the activities of the program or ministry. Performance auditing is a way for taxpayers, financiers, legislatures, executives, ordinary citizens and the media to 'execute control' and to obtain insight into the running and outcome of different government activities. Performance auditing also provides answers to questions such as: Do we get value for money or is it possible to spend the money better or more wisely? A criterion of good governance is that all public services (or all government programs) are subjected to auditing



Legitimacy and trust are essential values in all government undertakings, and performance auditing may contribute to strengthening these values by producing public and reliable information on the economy, efficiency, and effectiveness of government programs. This is facilitated by the fact that performance auditing is independent of the government ministries whose activities are subject to the audit. In this way, an independent and reliable view of the performance of the audited program or objects is obtained. The performance audit does not represent any vested interest and has no ties, financial or otherwise, to the audited objects. By producing independent assessments, performance auditing may also serve as a basis for decisions on future investments and activities. The basis for this instrument – providing incentives for change by conducting independent analyses and assessments of public sector performance – is the importance of learning and reliable information. In a rapidly changing, complex world with limited resources and many uncertainties, there is a need for performance auditing.

Certain ideas form the basis of performance auditing:

- One starting point is that it is important to assess the economy, efficiency, and effectiveness in all government activities and, for that purpose, an audit is needed, which examines and evaluate such matters and which may contribute to better government spending, better public services and better public accountability and management.
 - Secondly, it is important to have reliable and independent information. An examiner is needed who represents the public interest; who can think and act independently in order to show and question the current situation.
 - Finally, an overview and insights into government activities and the ability to influence and improve its performance are important. A competent examiner is needed who can fulfil this role, who will promote incentives for learning and change and improved conditions for decision-making.
-

1.4 What are the basic questions in performance auditing?

All government programs or undertakings (and most processes they generate) can, at least in theory, be analysed with the use of a formula that describes how to move from one position to another by certain

means in order to achieve specific objectives. In performance auditing, this is often done by trying to answer two basic questions:

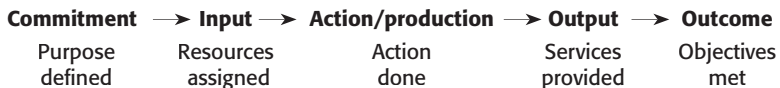
- Are things being done in the right way?
- Are the right things being done?

The first question is primarily aimed at the ‘producer’ and is concerned with whether policy decisions are being carried out properly. This question is usually associated with a normative perspective, i.e. the auditor wants to know whether the executive has observed the rules or the requirements. In order to widen the analysis, the question may be extended to whether the activities carried out are also considered the most appropriate – provided that the right things are being done. Until this stage in the process, performance auditing has been mainly concerned with different aspects of the economy or the efficiency of operations.

The scope for analysis becomes considerably wider when the second question – whether the right things are being done – is asked. In other words, whether the adopted policies have been suitably implemented or whether adequate means have been employed.

This kind of question refers to effectiveness or impact on society. In fact, the question might even imply that a government undertaking – or a chosen measure to achieve a certain objective – runs the risk of being contested. A performance auditor might, for instance, find a chosen measure ineffective and inconsistent with objectives. However, the moment auditors start asking whether the public commitment itself is feasible at all they will also have to be cautious not to go beyond their mandate by crossing the borderline into political territory.

The so-called input–output model is another means of illustrating these interactions. The model assumes a flow as shown below.



Outputs are the result of inputs and actions taken to achieve specific goals. Theoretically, it should be possible for performance auditing to scrutinize all components and relations in the input-output model, except for the component on the far left. The two basic questions given above are still relevant, as is the wide range of perspectives that can be applied to answer them.



1.5 What does auditing of economy, efficiency and effectiveness mean?

As stated above, performance auditing is mainly concerned with the examination of economy, efficiency, and effectiveness.⁵ According to the Auditing Standards (AS 1.0.40), an individual performance audit may have the objective of examining one or more of these three aspects.

Economy – keeping the costs low

According to the Auditing Standards, ‘economy’ means minimising the cost of resources used for an activity, having regard to appropriate quality.

Audits of economy may provide answers to questions such as:

- Do the means chosen or the equipment obtained – the inputs – represent the most economical use of public funds?
- Have the human, financial or material resources been used economically?
- Are the management activities performed in accordance with sound administrative principles and good management policies?

Even though the concept of economy is well defined, an audit of economy is not that easy to conduct. It is often a challenging task for an auditor to assess whether the inputs chosen represent the most economical use of public funds, whether the resources available have been used economically, and if the quality and the quantity of the ‘inputs’ are optimal and suitably co-ordinated. It may prove even more difficult to be able to provide recommendations that will reduce the costs without affecting the quality and the quantity of services.

Efficiency – making the most of available resources

Efficiency is related to economy. Here, too, the central issue concerns the resources deployed. The main question is whether these resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources. *Are we getting the most output – in terms of quantity and quality – from our inputs and actions?* The question refers to the relationship between the quality and quantity of services provided and the activities and cost of resources used to produce them, in order to achieve results.

⁵ Standards concerning ‘environmental considerations’ and ‘equity requirements’ are also taken into account in performance auditing. (See Appendix 6.)

Clearly, any opinion or finding on efficiency is usually only relative, while occasionally inefficiency is immediately apparent. A finding on efficiency can be formulated by means of a comparison with similar activities, with other periods, or with a standard that has explicitly been adopted. Sometimes standards, such as best practices, are applicable. Assessments of efficiency might also be based on conditions that are not related to specific standards – when matters are so complex that there are no standards. In such cases, assessments must be based on the best available information and arguments and in compliance with the analysis carried out in the audit.

Auditing efficiency embraces aspects such as whether:

- human, financial, and other resources are efficiently used;
- government programs, entities and activities efficiently managed, regulated, organised, executed, monitored and evaluated;
- activities in government entities are consistent with stipulated objectives and requirements;
- public services are of good quality, client-oriented and delivered on time; and
- the objectives of government programs are reached cost effectively.

The concept of cost-effectiveness concerns the ability or potential of an audited entity, activity, program or operation to achieve certain outcomes at a reasonable cost. Cost-effectiveness analyses are studies of the relationship between project cost and outcomes, expressed as cost per unit of outcome achieved. Cost effectiveness is just one element in the overall examination of efficiency, which might also include analyses of, for example, the time in which outputs were delivered. This, however, does not always coincide with the optimal timing with a view to optimising impact.

In some cases it may prove difficult to totally separate the two concepts – efficiency and economy – from each other. They may both directly or indirectly, concern whether, for instance, the audited entity:

- is following sound procurement practices;
- is acquiring the appropriate type, quality, and amount of resources at an appropriate cost;
- is properly maintaining its resources;
- is using the optimum amount of resources (staff, equipment and facilities) in producing or delivering the appropriate quantity and quality of goods or services on time;
- is complying with requirements of regulations that govern/affect the acquisition, maintenance and use of the entity's resources; and



- has established a system of management controls.

In reality, audits of economy tend to focus on the first three points. The concept of efficiency is mainly restricted to the question of whether the resources have been put to optimal or satisfactory use. Consequently, efficiency is mostly specified in two possible ways: whether the same output could have been achieved with fewer resources, or, in other words, if the same resources could have been used to achieve better results (in terms of quantity and quality of the output).

Financial auditing is also engaged in these issues, for instance when auditing procurement practices. However, in financial auditing the scope is more limited. Unlike performance auditing, the objective strictly relates to financial accountability.

Effectiveness – achieving the stipulated aims or objectives

Effectiveness is essentially a goal-attainment concept.⁶ It is concerned with the relationship between goals or objectives, outputs and impacts. *Are the stipulated aims being met by the means employed, the outputs produced and the impacts observed? Are the impacts observed really the result of the policy rather than other circumstances?*

The question of effectiveness consists of two parts: first, if the policy objectives have been achieved, and second, if this can be attributed to the policy pursued. In order to judge the extent to which the aims have been achieved, they need to be formulated in a way that makes an assessment of this type possible. This cannot easily be done with vague or abstract goals. In order to judge the extent to which observed events could be traced back to the policy, a comparison will be needed. Ideally, this consists of a measurement before and after the introduction of the policy and a measurement involving a control group, which has not been subject to the policy.⁷

In practice, such comparisons are usually difficult to make, partly because comparative material is often lacking. In such cases, one alternative is to assess the plausibility of the assumptions on which the policy is based. Often a less ambitious audit objective will have to be chosen, such as assessing to what extent objectives have been achieved, target groups have been reached, or the level of performance.

⁶ That is, the extent to which a program or entity is achieving its goals and objectives.

⁷ The term policy covers both government policy and agency policy (see section 2.1 and footnote 25). There are always difficulties involved in conducting performance audits when the policy objectives are vague and abstract. For more information, see Appendix 2.

The auditor might seek to assess or measure effectiveness by comparing outcomes – or ‘impact’, or ‘state of things’ – with the goals set down in the policy objectives. This approach is often described as ‘goal achievement’ analysis. However, when auditing effectiveness, one should usually try also to determine to what extent the instruments used have in fact contributed towards the achievement of the policy objectives. This is effectiveness auditing in its ‘true’ application and requires evidence that the outcomes, which have been observed, have actually been caused by the action in question rather than by some other factors. For example, if the policy objective is to reduce unemployment, is an observed reduction in the numbers of unemployed the result of the actions of the audited entity, or is it the result of a general improvement in the economic climate over which the audited entity had no influence? Here, the design of the audit must include questions of attribution and be able to cope with the problem of effectively excluding external, intermediary variables.

Side effects – a separate aspect of performance auditing is the unintended side effects of policy. The study of side effects is complicated by the fact that they can be very diverse, since they are not limited by the policy objectives. One possible way of limiting the scope of the investigation is to focus on those side effects, which, in other situations, one tries to avoid (e.g. unfavourable environmental effects of economic policy). This does not mean, however, that all side effects are undesirable.

In auditing effectiveness, performance auditing may, for instance,

- assess whether government programs have been effectively prepared and designed and whether they are clear and consistent;
- assess whether the objectives and the means provided (legal, financial, etc.) for a new or ongoing government program are proper, consistent, suitable, or relevant;
- assess the effectiveness of the organizational structure, decision-making process and management system for program implementation;
- assess whether the program supplements, duplicates, overlaps, or counteracts other related programs;
- assess whether the quality of the public services meets the people’s expectations or the stipulated objectives;
- assess the adequacy of the system for measuring, monitoring and reporting a program’s effectiveness;



- assess the effectiveness of government investments and programs and/or their individual components, i.e. ascertain whether goals and objectives are met;
- assess whether the observed direct or indirect social, economic and environmental impacts of a policy are due to the policy or to other causes;
- identify factors that inhibit satisfactory performance or goal fulfillment;
- analyse causes of findings and observed problems in identifying ways of making government activities and programs work more effectively; and
- identify the relative utility of alternative approaches to yield better performance or eliminate factors that inhibit program effectiveness.

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

For the examination of effectiveness, it is generally necessary to assess the outcome or impact of an activity. Thus, while a ‘system-based approach’ may be useful (to assess, e.g. how the audited entity measures and monitors its impact), the auditor will usually also need to obtain sufficient substantive evidence of the impact of the activity or the program. Likewise, in order to assess the impact of an activity or a government reform, it is in general always necessary to collect information not only on the audited institutions and their activities and interactions, but also on other stakeholders in the area. This is of course of special interest when it is believed that actions of other stakeholders may influence the impact.⁸

One specific aspect is the study of unintentional effects, especially if these effects were negative. There is a problem of demarcation here, because these effects may spread into areas beyond the competence and powers of the SAI. One way of limiting the scope might be to look at

⁸ The scope must be limited. The analyses, however, should not be too limited.

those unintentional effects that are being combated in other programs, environmental side effects of an economic stimulation program, for example.⁹

All other things being equal, economy is about keeping the cost low, efficiency is about getting the most or best output from available resources, and effectiveness is about achieving the stipulated aims or objectives.

1.6 How does public management affect performance auditing?

The form of public management employed will necessarily influence priorities in performance auditing. In countries where public management is mainly concerned with means and less involved with ends, audits also tend to focus on whether rules have been observed and enforced rather than whether the rules serve or are seen to serve their intended purpose. In countries that have acknowledged management by objectives and results, the audit focus is different. Public sector management generally displays a combination of these philosophies.

As mentioned above, management by objectives and results tends to promote interest in auditing efficiency and effectiveness. As a result, the auditor might not have to confront a traditional, rule-bound government administration but an administration whose mandate has been widened considerably in terms of how the intentions of the legislature should be put into operation and which means should be employed in order to achieve them.

Typically, the following questions would be of interest to a performance auditor:

- Is there a clear structure of performance goals and have the appropriate priorities and instruments been chosen for the use of public funds?
- Is there a clear distribution of responsibility between the different levels of authority, bearing in mind the principle of subsidiarity?
- Is there a general cost awareness and an orientation towards production of services, putting citizens' needs in focus?

⁹ For more information: Auditing Efficiency, Office of Auditor General (Canada), 1995 and Auditing Policy Results Manual, Algemene Rekenkamer (Netherlands), 1997.



- Is there an adequate emphasis on management controls and reporting requirements?

The ministries and their subordinate bodies are responsible for ensuring that good internal control routines are established. In this context, it is the particular task of the performance auditor to keep an eye on whether this responsibility has been properly taken care of. The extent to which it has in fact also been observed by the auditee or the auditees in their operations is for the financial auditor to judge.¹⁰

In addition, a common objective of most governments today is to improve the quality of public services, particularly as people's expectations (often with reference to the service they receive from the private sector) of what constitutes quality continue to increase. To promote improvements of this type, many governments have embarked on modernisation programs to deliver better services that are, for instance, more easily accessible and convenient, provide citizens with more choice, and are delivered more quickly. The quality of public services is an increasingly important issue, which members of parliaments and governments across the world expect the SAIs to address in their performance audit reports.

Countries that have acknowledged management by objectives and results tend to focus more on performance than before. The form of public management employed will influence the interest in performance auditing.

1.7 How does performance auditing relate to performance measurement and program evaluation?

Both the executive branch and the legislature need evaluative information to help them make decisions about the programs they are responsible for—information that tells them whether, and in what important ways, a government undertaking or program is working well or poorly, and why. Many analytical approaches have been employed over the years by agencies and others to assess the operations and results of government programs, policies, activities, and organizations. Performance audit and evaluation studies are designed to judge how specific

¹⁰ In recent years, experience of auditing government administration policies and administrative reforms has been frequently discussed by SAIs.

programs are working and thus may differ a great deal. One particular aspect is the relationship between performance measurement, program evaluation, and performance auditing.

Performance measurement

Performance measurement normally means the ongoing process of monitoring and reporting on program accomplishments, particularly progress towards pre-established goals. Performance measures may address the type or level of program activities conducted (process), the direct products and services delivered by a program (outputs), and/or the results of those outputs (outcomes). Performance measurement focuses on whether a program has achieved its objectives or requirements, expressed as measurable performance standards. Performance measurement, because of its ongoing nature, can serve as an early warning system to management and as a vehicle for improving accountability to the public.

The ongoing process of ensuring that a government program or body has met the targets set is a matter of internal management and control, not a task for external auditors. It is the responsibility of the financial auditors – not the performance auditors – to confirm that the accounts are correct. However, in the area of performance measurement – the check on the quality of performance-related information produced by the executive branch for the legislature – both financial and performance auditors might be involved, either in separate activities or in joint audits.¹¹ Performance indicators can sometimes also be used as indicators or references in planning individual performance audits. One topic for performance auditing is whether performance measurement systems in government programs are efficient and effective. For example, questions could be developed that address whether the performance indicators measure the right things or whether the performance measurement systems involved are capable of providing credible measured results.¹²

¹¹ Ad hoc and in-depth studies of performance measurement systems are typically a task for performance auditing in any SAI. The ongoing or regular performance reports of different government institutions, however, may just as well be an audit task for the financial auditors (sometimes in co-operation with performance auditors, for instance if the financial auditors have not been trained to conduct audits of this type).

¹² See, e.g. AS 1.0.27 and 1.0.45.



Program evaluation and performance auditing

Program evaluations are individual systematic studies conducted to assess how well a program is working. Program evaluations typically examine a broader range of information on program performance and context than is feasible to monitor on an ongoing basis. A program evaluation may thus allow for an overall assessment of whether the program works and what can be done to improve its results. Program evaluations are one type of study that might be executed by a SAI under the general heading of performance audits.

In recent years, the concept of program evaluation has been a growing subject of discussion amongst SAIs. Whether or not program evaluation is an important task for a SAI has been discussed. A special group (INTOSAI Working Group on Program Evaluation) has been set up to promote principles and guidance in this area. It is generally accepted that program evaluation has objectives identical or similar to those of performance auditing in that it seeks to analyse the relationship between the objectives, resources, and results of a policy or program. It has also been agreed that program evaluation is an important task for a SAI that has the authority and competence to carry out such studies.

Program evaluation has been described as an epitome of activities and methods that have aim to make exhaustive assessments of an issue, using more or less sophisticated scientific approaches. Although performance auditing may use the same approaches and methodologies as program evaluation, it does not, according to the INTOSAI Working Group on Program Evaluation, necessarily engage in assessing policy effectiveness or policy alternatives. In addition to examining the impact of outputs, program evaluation may include issues such as whether the stipulated aims are consistent with general policy. This issue has been the subject of discussion among SAIs. Some SAIs have the right to evaluate government and/or agency policy effectiveness and include program evaluation in their performance audit mandate. Others are not required to conduct such audits.

According to INTOSAI's Working Group on Program Evaluation, auditing and evaluation may be divided into the following seven categories:¹³

¹³ INTOSAI Working Group on Program Evaluation (1995), draft summary report.

- *Regularity audit*: are regulations complied with?
- *Economy audit*: do the means chosen represent the most economical use of public funds for the given performance?
- *Efficiency audit*: are the results obtained commensurate with the resources employed?
- *Effectiveness audit*: are the results consistent with the policy?
- *Evaluation of the consistency of the policy*: are the means employed by the policy consistent with the set objectives?
- *Evaluation of the impact of the policy*: what is the economic and social impact of the policy?
- Evaluation of the effectiveness of the policy and analysis of causality: are the observed results due to the policy, or are there other causes?

In practice classifications vary. One SAI with many years' experience of program evaluation is the General Accounting Office of the US. It defines four common types of program evaluations in performance auditing:¹⁴

(1) Process evaluation

This assesses the extent to which a program is operating as intended. Typically, it is concerned with the program activities' conformity with statutory and regulatory requirements, program design, and professional standards or customer expectations. It is increasingly important to assess whether the quality of the operations – for instance application forms, processing times, service deliveries and other client-oriented activities – meets the people's expectations.

(2) Outcome evaluation

This assesses the extent to which a program achieves its outcome-oriented – and client-oriented – objectives. It focuses on outputs and outcomes (including side effects and unintended effects) in order to judge program effectiveness, but it may also put emphasis on quality issues and client perspectives. An outcome evaluation may also assess program processes in order to fully understand a program and how outcomes are produced.

(3) Impact evaluation

This assesses the net effect of a program by comparing program outcomes with an estimate of what would have happened in the absence

¹⁴ Performance Measurement and Evaluation: Definitions and Relationships (GAO/GGD-98-26), General Accounting Office (USA), 1998.



of the program. This form of evaluation is employed when external factors are known to influence the program's outcomes, in order to isolate the program's contribution to the achievement of its objectives.

(4) Cost-benefit and cost-effectiveness evaluations

These are analyses that compare a program's outputs or outcomes with the costs (resources expended) to produce them. When applied to existing programs, they are also considered a form of program evaluation. Cost-effectiveness analysis assesses the cost of meeting a single goal or objective, and can be used to identify the least costly alternative to meet that goal. Cost-benefit analysis aims at identifying all relevant costs and benefits.¹⁵

In the area of performance measurement both financial and performance auditors might be involved. In some countries, an individual performance audit may include many different kinds of studies and even several program evaluations. In that sense program evaluation may be considered one of many possible 'tools' that performance auditing uses. Program evaluation is one type of study that might be executed by the SAI under the general heading of performance auditing. It is an activity of increasing interest and importance.¹⁶

1.8 Are there differences in analytical ambitions and approaches?

The mandate and orientation of performance auditing may, as stated above, vary in different countries. A number of SAIs are not required to execute performance audits or may consider themselves somewhat limited in their capacity and experience in respect of these audits. Other SAIs may have a long tradition of carrying out both advanced performance audits and complex program evaluations. One of the characteristics of auditing is the normative perspective where discrepancies between 'the norms and the reality' – the actual findings – are expressed explicitly, and assessments and recommendations are provided as 'normative'. However, as well as being normative, performance auditing is usually descriptive, and may also include analytical

¹⁵ Some SAIs may as part of their mandate also include 'Policy evaluation' (the effectiveness of the policies set), and a few SAIs conduct what they define as 'System evaluation' (the appropriateness of the systems adopted).

¹⁶ Other areas of increasing interest are performance audits of activities with an environmental perspective and performance auditing concerning information technology. (See Appendices 5 and 6.)

elements. (A performance audit may, for instance, ascertain the causes of the difference between the conditions and the criteria.)

The results-oriented and the problem-oriented approaches

Performance auditing has various traditions and ambitions. Two approaches differ quite significantly, although each is based on national standards for performance auditing. They are called the results-oriented and the problem-oriented approaches.

The results-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 performance (concerning economy, efficiency, and effectiveness) and relates observations to the given norms (goals, objectives, regulations, etc.) or the audit criteria (more or less precisely defined before the main study begins). If the criteria are difficult to determine, the auditor may need to work with experts in the field to develop credible criteria that, when applied, are objective, relevant, reasonable and attainable. The audit criteria make it possible to provide assessments on the findings. In this approach, shortcomings are likely to be defined as deviations from norms or criteria. Recommendations, if presented, are often aimed at eliminating such deviations. The perspective is in that sense basically normative.

The problem-oriented approach, on the other hand, deals primarily with problem verification and problem analysis, normally without reference to predefined audit criteria.¹⁷ In this approach, shortcomings and problems – or at least indications of problems – are the starting point of an audit, not the conclusion.¹⁸ 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 programs). The problem-

¹⁷ In order to assess a problem one must first understand it (and its possible intricate causes and implications). When it comes to analyses of complex problems of efficiency and effectiveness, it is not always possible to define the audit criteria in the planning stage.

¹⁸ Indications of problems concerning efficiency and effectiveness are often vague, subjective, and difficult to define and understand. Examples of possible indications of problems concerning the three Es (economy, efficiency, and effectiveness) are: rising costs resulting in demands for more resources; stated imbalances between inputs and goals; lack of clarity in the allocation of responsibility between executive bodies involved; ambiguities and contradictions in regulation; long waiting times or large backlogs; stated lack of competence, criticism of management style, shortcomings in services and client-orientation; large numbers of complaints or appeals by the public; changes in external conditions; and indications of negative side effects of government programs.



oriented approach deals with questions such as: ‘Do the stated problems really exist and, if so, how can they be understood and what are the causes?’ Hypotheses about possible causes and consequences are formulated and tested.¹⁹ The perspective is analytical and instrumental; the aim is to deliver updated information on the stated problems and how to deal with them. The auditors are not restricted in their analyses.²⁰ 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 give rise to severe and verified problems.²¹

Thus, assessment in these two performance audit approaches might be derived normatively (based on deviations from norms or criteria) or analytically (based on analyses of the specific causes of problems). In fact, it is the independent analysis that characterizes the problem-oriented approach, while the results-oriented approach is mainly characterized by its impartial assessment of whether given norms or criteria have been met (even though it may involve analytical elements as well). On the one hand, the results-oriented and the problem-oriented approaches represent different audit traditions.²² On the other, the approaches may also serve to illustrate the fact that performance auditing includes various types of practical methods.²³

Top-down and bottom-up perspectives

The perspectives of the two objectives may also vary. Performance auditing is normally based on an overall owner perspective, that is, a top-down perspective. It concentrates mainly on the requirements, intentions, objectives and expectations of the legislature and central government. In some countries, however, it is also possible – within the framework of given objectives and premises – to add a ‘client-oriented perspective’ (a focus on service-management, waiting-time, and other issues relevant to the ultimate clients or consumers involved).

¹⁹ A hypothesis is a well-founded (testable) statement regarding causes and consequences of the problem to be audited (based on the assumption that the problem exists).

²⁰ They are not limited to analyses of differences between conditions and audit criteria.

²¹ For more information on the problem-oriented approach, see for instance Handbook on Performance Auditing, RRV (Sweden), 1998.

²² They can be said to represent different levels of ambition.

²³ The two methodological approaches can also be seen as linked to each other in terms of different steps in an audit. Even if the problem-oriented approach by nature goes wider and deeper in its analytical ambition, the results-oriented approach may in its advanced form also allow for sophisticated analyses.

This might be viewed as an interpretation of the audit mission in order to meet citizens' interest in having SAIs focus on problems of real significance to the people and the community – a kind of bottom-up perspective.

Focus on accountability or causes to the problems

Auditing is normally associated with accountability, but in performance auditing this is not always the case. Auditing accountability can be described as judging how well those responsible at different levels have reached relevant goals and met other requirements for which they are fully accountable, (factors outside the control of the auditees are not expected to influence the outcome). An alternative approach is to focus on understanding and explaining the actual observations that have been made during the audit. Instead of trying to find out who is at fault, it is possible to analyse the factors behind the problems uncovered and to discuss what may be done about these problems. This approach reflects the idea that the overall aim of performance auditing is to promote economy, efficiency and effectiveness. The two approaches represent different ideas to performance auditing; one in which accountability (as in compliance and financial auditing) is at the centre of attention of the audit, while the other – which put emphasis on economy, efficiency and effectiveness – primarily concerns itself with the subject matter of the audit causes of problems observed. (Even if the main area of focus is not accountability, recommendations arising from the audit as a rule encompass the question of division of responsibility.)

Accountability auditing has the advantage that it is often easier to carry out and that it corresponds to the conventional picture of auditing. The problem, however, is that efficiency and effectiveness are complex issues which demand more comprehensive analyses (of conditions and circumstances outside the control of the auditees). Accountability auditing also involves risks – the perspective and scope must be limited, which in turn unduly limits the possibility of making an independent analysis. If, on the other hand, focus is placed on problems observed and possible causes, this facilitates audits covering the areas of responsibility of several different parties. Conditions are thereby created for comprehensive analyses. It must be stated, however, that this approach makes greater demands in terms of the skills of auditors.



The message of this section is that there are also differences in methodological approaches with respect to analytical ambitions. Generally speaking, there are SAIs that have established high analytical ambitions in their performance auditing, while others have settled for a lower level.

Performance auditing should not be streamlined. Advanced performance auditing is complex investigatory work that requires flexibility, imagination and high levels of analytical skills. Streamlined procedures, methods and standards may in fact hamper the functioning and the progress of performance auditing. Consequently, standards – as well as quality assurance systems – that are too detailed should be avoided. Progress and practices must be built on learning from experience.

The orientation of performance auditing varies between SAIs. Two approaches differ more significantly, namely the results-oriented and the problem-oriented approaches. The results-oriented approach deals with questions such as: 'What is the performance, and have the objectives been met?' The problem-oriented approach deals primarily with problem analysis. It deals with questions such as: 'Do the stated problems really exist and, if so, what are the causes to the problems?' Performance auditing may apply both top-down and bottom-up perspectives. Auditing is normally associated with accountability, but in performance auditing this is not always the case. Performance auditing should not be guided by standards that are too detailed and streamlined. This may hamper creativity and professionalism.

1.9 Summary

- Performance auditing examines the economy, the efficiency and the effectiveness of government programs and organizations and answers questions such as: Do the inputs chosen represent the most economical use of public funds? Are we getting the best services from available resources? Are the aims of the policy being fully met, and are the impacts the result of the policy? The perspectives and the objects to be audited may vary, i.e. both individual agencies as well as government-wide undertakings may be audited. Performance auditing is based on decisions made and goals set by the legislature, and it may be carried out throughout the whole public sector.

- Performance auditing is not a regular audit with formalized opinions. It is an examination made on an ad hoc basis. It is an audit that focuses on performance, rather than expenditure and accounting. It has its roots in the requirements for independent analyses of the economy, efficiency, and effectiveness of government programs and organizations. The special feature of performance auditing is partly due to the variety and complexity of questions related to its work.
- All government activities can be analysed with the use of a formula that describes how to move from one position to another by certain means in order to achieve specific objectives. In performance auditing, this is often done by trying to answer two basic questions: Are things being done in the right way? Are the right things being done?
- The ongoing process of ensuring that a government program or body has met the targets set is a matter of internal management and control. However, in the area of performance measurement, both financial and performance auditors might be involved.
- Apart from examining the impact of outputs, program evaluation may include issues such as whether the objectives are consistent with the policy or with the options given for changing the policy in order to achieve outcomes that are more effective. In some countries, performance audits may include many kinds of studies and even several program evaluations. In that sense program evaluation may be considered one of many possible 'tools' that performance auditing uses.
- Performance auditing has various traditions. Two approaches differ quite significantly. The results-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?' The problem-oriented approach deals primarily with questions such as: 'Do the stated problems really exist and what causes them?' Auditing is usually associated with accountability, but in performance auditing this does not always have to be the case.
- Performance auditing should not be streamlined. It is investigatory work that requires flexibility, imagination and analytical skill. Streamlined and detailed procedures, methods and standards may in fact hamper the functioning of performance auditing.



Part 2: Government auditing principles applied to performance Auditing

In conducting a performance audit the auditors should follow the INTOSAI Code of Ethics and Auditing Standards as well as relevant SAI standards and guidelines applicable to performance auditing. The INTOSAI general auditing standards states that the audit and the SAI must be independent, possess required competence and exercise due care (*AS 1.0.6 and 2.2.1.*)²⁴

2.1 How do the auditing principles apply to performance auditing?

The audit mandate and the general goals should be properly defined. Statutes generally lay down the audit mandate. Among other things it regulates the extent to which a SAI can audit public sector programs and organizations. Special regulations are often needed that specify the conditions for performance auditing, for example, access to information from sources other than the auditees, the ability to give recommendations, the mandate to scrutinize government undertakings and programs, and the effectiveness of legislation. The mandate ordinarily specifies the minimum audit and reporting requirements, specifies what is required of the auditor, and provides the auditor with authority to carry out the work and report the results (*AS 2.2.12, 2.2.19, 1.0.32-38, 1.0.42 and 1.0.47*).

If possible, the mandate should cover the whole state budget, including all relevant executive bodies and all corresponding government programs or public services. Without sufficient legal support, it might even be considered illegal to publish justified criticism of the efficiency and effectiveness of government programs, at least in respect to issues that are politically sensitive. To avoid this situation – and suspicion of

²⁴ For more information see these INTOSAI-documents: The Lima Declaration, The Code of Ethics and Auditing Standards, and Independence of Supreme Audit Institutions.

self-censorship – the mandate needs to be both politically and publicly supported (AS 2.2.18-20 and 2.2.23)

The audit objects (those that might be subjected to performance audits by the SAI according to the mandate) can be described as ‘*policy*’, ‘*programs*’, ‘*organization*’ and ‘*management*’. ‘*Policy*’ is usually defined as an effort to achieve certain aims with certain resources and perhaps within a certain time.²⁵ A ‘*program*’ can be described as a set of inter-related means – legal, financial, etc.– to implement a given government or agency policy. ‘*Organization*’ can be defined in different ways, but mostly it is taken to mean the aggregate of people, structures, and processes that have the aim of achieving particular objectives. ‘*Management*’ is generally taken to mean all the decisions, actions, and rules for the steering, accounting and deployment of human, financial, and material resources. Management is often related to the internal operations of an organization. Policies and programs—decided by the legislature, the executive or executive officials—may also have an internal focus, relating to a specific organization (and its internal activities and performance). But mostly their focus is wider and more external and relates to activities of even non-governmental organizations (NGOs) (and the impacts of the policies and programs in society, etc.).²⁶

In many countries, the constitution or legislation gives the SAI the explicit right to undertake some form of performance auditing. Some SAIs may carry out examinations of the efficiency and effectiveness of complex government policies or undertakings, perhaps by in-depth analyses of stated problems. Others are more limited in their approach. As part of the explanation of standards, the Auditing Standards (AS 1.0.42) state: ‘In many countries, the mandate of performance auditing will stop short of review of the policy bases of government programs.’ In these cases, performance auditing does not question the merits of policy objectives but rather involves 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. Even in countries where the constitution or legislation does not require the SAI to carry out audits of economy, efficiency, and

²⁵ The term policy covers in this guidelines – if nothing else is said – both government and agency policy. The term policy can be used as equivalent to agency policy for SAIs who do not have the right to review or evaluate government policy. (The term government undertaking covers both policy and program.)

²⁶ See for instance Manual of Performance Auditing, AG (The Netherlands), 1996.



effectiveness, current practice shows a tendency to include this sort of work as part of financial or regularity audits (*AS 1.0.13, 1.0.42-43*).

The general goals of performance auditing should also be defined in the legislation or be decided on by the SAI. In general, SAIs may seek to achieve one or more of the following general goals:

- (1) To provide the legislature with independent examination of the economical, efficient, or effective implementation practices of government policies or programs.
- (2) To provide the legislature with independent, ad hoc analyses of the validity and reliability of performance measurement systems, or statements or self-evaluations about performance that are published by executive entities.
- (3) To provide the legislature with independent analyses of problems of economy, efficiency, and effectiveness in government activities and thus contribute to improvements.
- (4) To provide the legislature with independent assessments of the intended and unintended direct or indirect impact of government and agency programs and whether, and to what extent, stated aims or objectives have been met or why they have not been met.

One common objective of performance auditing in many countries – set by the legislator or the SAI itself – is to assess and improve the functioning of government programs, central government itself and any connected bodies (*AS 1.0.20, 1.0.27, 1.0.40 and 4.0.25*). Providing recommendations is important in most countries. In others, recommendations are not given at all, due to legal conditions and historical traditions.²⁷

Performance auditing must be free to select audit areas within its mandate

According to the Auditing Standards (*AS 2.2.10-19*), a SAI must be free to determine the areas covered by its performance audits. *AS 2.2.8* states: ‘The SAI may give members of legislature factual briefings on

²⁷ Most SAIs provide recommendations in their performance audit reports. It has been claimed that such a policy has inherent disadvantages. It could compromise the SAI’s independence and make further examinations difficult. However, a SAI cannot be held accountable for its recommendations, and performance auditors can never claim to have found the only rational solutions (even if the recommendations put forward are both logical and well founded, there are always other options). A SAI’s recommendation can only be based on an assessment of what appeared at the time to be a rational, or possibly the most rational, solution. Moreover, performance auditing is by nature a non-recurrent activity. It is therefore unlikely that a subject will be audited in the same way twice. For more information, see *Performance Auditing at the Swedish National Audit Bureau, 1993*, pp 51.

audit reports, but it is important that the SAI maintain its independence from political influence, in order to preserve an impartial approach to its audit responsibilities. This implies that the SAI should not be responsive, nor give the appearance of being responsive, to the wishes of particular political interest.’ In paragraph 2.2.10 it is stated: ‘In some countries the audit of the executive’s financial management is the prerogative of the Parliament or elected Assembly; this may also apply to the audit of expenditure and receipts at a regional level, where external audit is the responsibility of a legislative assembly. In these cases audits are conducted on behalf of that body and it is appropriate for the SAI to take account of its requests for specific investigations in programming audit tasks. It is nevertheless important that the SAI remains free to determine the manner in which it conducts all its work, including those tasks requested by the Parliament.’ It is also important ‘that there be no power of direction by the executive in relation to the SAI’s performance of its mandate’ (AS 2.2.14).

Performance audits should in general be ex post audits

The earliest point at which a SAI can examine efficiency and effectiveness is after the government has made a decision on the policy concerned (this is more or less implied in AS 4.0.22 and 4.0.25). An analysis of objectives or an audit of policy preparation activities may be carried out in some countries before the policy itself is implemented. Even so, the problems that performance auditing focuses on – or aims to eliminate – should be current problems in order to add value for the user of the audit reports.

General aims of legislature should be taken for granted

Political decisions and goals established by the legislature are in general the frame of reference, which form the basis of the audit criteria used in performance auditing. It is not the role of a SAI to question these decisions and goals. However, a SAI may, as a result of its findings, make critical comments on the goals, for example if they are inconsistent or if it proves impossible to follow up the extent to which they have been achieved. Consequently, a performance audit report may in fact question the merits of existing policies or decisions. The goals or objectives may be too vague, in conflict with other objectives, or based on insufficient information. The policy may be inefficient and ineffective, and changes might be required if existing shortcomings are to be overcome. On the other hand, it is definitely the role of performance



auditing to assess the economy, efficiency and effectiveness of more specific objectives and regulations established, for example, by government agencies. (See AS 2.2.5 and 2.2.9.)

While performance auditing does not question political goals, it can highlight the consequences of a given policy. It may also identify and illustrate shortcomings resulting from conflicting goals. Thus, performance auditing does not for example question the level of compensation in social welfare systems. The auditors must have, as a starting point, a set of problems that are related to economy, efficiency, and effectiveness in the welfare systems being audited. This might be the case when, for example, a level of compensation in a given area has unintended marginal effects in another area. The performance auditor can then study the lack of coordination between different systems and point out the resulting problems. If the actual level of compensation is demonstrably different from the level that was originally set, the performance audit can examine the reasons for this development.

High professional quality of work should be promoted and secured

INTOSAI's Auditing Standards and its Code of Ethics states that all government auditors should act with integrity, impartiality, objectivity, competence and professionalism. High ethical standards must be exercised in order to serve the public interest best, and in AS 2.2.36 it is stated, 'Since the duties and responsibilities thus borne by the SAI are crucial to the concept of public accountability, the SAI must apply to its audits, methodologies and practices of the highest quality. It is incumbent upon it to formulate procedures to secure effective exercise of its responsibilities for audit reports, unimpaired by less than full adherence by personnel or external experts to its standards, planning procedures, methodologies and supervision.'

Performance audits are often complex undertakings, requiring a wide range of skills, expertise, and experience. AS 2.1.26 states 'Because of the importance of ensuring a high standard of work by the SAI, it should pay particular attention to quality assurance programs in order to improve audit performance and results.' It is also stated that the SAI should establish systems and procedures in order to '(a) confirm [that] the integral quality assurance processes have operated satisfactorily; (b) ensure the quality of the audit report; and (c) secure improvements and avoid repetition of weaknesses' (AS 2.1.27). However, no system for quality assurance can guarantee high quality performance audit reports. It is, simply put, more important to have competent and

motivated staff than advanced systems for quality assurance. In other words, systems for quality assurance should be relevant and easy to manage, rather than complex and overly sophisticated.

According to INTOSAI, quality issues must be integrated in the execution process. Even in the early planning stages, systems of quality assurance might prove indispensable to ensure that the problems to be addressed are material and well defined. The objectives, problems, audit questions, and selected areas largely determine the quality of the audit. The process of planning, and the various stages that make up the decision-making process, ensure that quality is regularly assessed, since certain conditions must be met before the audit can move forward. Meticulous preparations are important to define the audit questions, the information needed, and the audit design (*AS 2.1.27 and 3.1.1*). For more information, see Appendices 3 and 4.

The mandate of performance auditing should cover the state budget and all corresponding government programs. The auditor must be free to select audit areas within its mandate. Political decisions and goals established by the legislature are the basic frame of reference. A performance audit may, as a result of its findings, question the merits of existing policies. Performance audits are in general *ex post* audits that deal with current issues. High levels of quality in the work must be promoted and secured.

2.2 What are the general requirements for a performance auditor?

Performance auditors must possess specific professional skill

Performance auditing is an information-based activity, with professional values occupying a central position. These values include the importance of auditors being given the opportunity to develop their skills and attain good quality of results in their audits. This includes creating an environment that is stimulating and that furthers quality improvements (*AS 1.0.45 and 2.1.9*).

All auditors should possess adequate professional proficiency to perform their tasks (*AS 2.2.1 and 2.2.33-38*). The SAIs should 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 (AS 2.1.2).

The ability to recruit the right staff is a decisive factor in performance auditing. Each staff member is a unique investment. A performance auditor must be well educated, and in general it is required that the auditor should have a university degree and experience in investigative/evaluation work. Personal qualities are also of considerable importance (analytical ability, creativity, receptiveness, social skills, integrity, judgment, endurance, good oral and writing skills etc.). (AS 2.1.4 and 2.1.10.)

To become a performance auditor, a performance audit team-leader or a performance audit manager, certain distinctive qualifications have to be met. For instance, a performance auditor should be well educated in the social sciences and in scientific investigation/evaluation methods. Special knowledge of the different functional areas to be audited might also prove essential, but advanced skills in accounting and financial auditing are not always needed in performance auditing or program evaluation. Where SAIs have organized their performance auditing separately from financial auditing, it is quite acceptable that personnel selected for performance auditing have different backgrounds and skills than those selected for financial auditing.²⁸ To meet the quality requirements specified in the Auditing Standards (AS 2.2.36-39), the SAI should have a program 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 (AS 2.1.2, 2.2.37-38 and 2.1.16).

Continuous education and training may include such topics as current developments in performance audit methodology, management or supervision, qualitative investigation methods, case study analysis, statistical sampling, quantitative data-gathering techniques, evaluation design, data analysis, and reader-based writing. It may also include subjects related to auditors' fieldwork, such as public administration, public policy and structure, government administration policy, economics, social sciences, or Information Technology science (AS 2.1.6-10).

²⁸ Unless being well experienced in performance auditing or similar work, a performance audit team-leader or manager might run the risk of not being totally accepted (or respected) by the performance auditors.

Qualifications for staff members who conduct performance audits include

- knowledge of the methods applicable to performance auditing and the education, skills, and experience needed to apply such knowledge;
- knowledge of government organizations, programs, and functions;
- skills to communicate clearly and effectively, orally and in writing; and
- special skills depending on the nature of the specific audit (e.g. statistics, information technology (IT), engineering etc, or expert knowledge of the subject matter concerned (*AS 2.2.33-38 and 2.1.11-12*).

Performance auditing should be a team effort, 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 a 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 and attitude for the kind of work that performance auditing entails.

Effectiveness, professionalism and care must guide the audit work

The performance audit should be sufficiently well defined and the audit approach functional. The organization of the audit should satisfy the general requirements of good project management (*AS 3.0.2-3 and 3.1.1-3*).

The performance audit must be carried out thoroughly, with the aim of collecting relevant, reliable and sufficient evidence in order to enable anyone else to arrive at the same conclusions as the performance audit report. This calls for exercising sound judgment when deciding the audit objective, what and when to audit, the approach and methodology, the scope of the audit, the issues to be reported, and the overall audit conclusion.

Good communication with the auditee(s) and experts from different backgrounds is important during the entire audit process. Similarly, performance audit managers must also be vigilant. It is important that the factual basis of final descriptions, analyses and recommendations is accurate. The report should be objective and balanced and have a sober tone, with the purpose of adding value for the government. (*AS 2.2.39, 3.5.1-2 and 4.0.22-25*.)



The principles of proper administration should be observed. The audit process should be well recorded. Important decisions made during the course of the audit and the underlying considerations should be recorded in writing. Accessible files and a logbook should be kept. The main objectives of documentation – besides helping the auditing team – are to record the audit evidence in support of conclusions and decisions, to provide records to assist audit management and monitoring, and to enable work to be reviewed by senior officers. Information obtained during the audit should be treated as confidential until the report has been tabled (AS 2.2.39-40, 3.0.2-3, 3.1.1, 3.2.1, 3.5.2-7, and 4.0.24).

All government auditors should act with integrity, impartiality, objectivity, competence and professionalism. To meet these standards the performance auditor must be adequately educated and have experience of investigative/evaluation work. Personal qualities are also of considerable importance. Effectiveness, professionalism and care must guide the audit work.

2.3 Are there other important safeguards?

Although these guidelines set out a coherent basis for conducting a performance audit, professional judgment (applied on the basis of relevant rules and procedures) remains the most important ingredient in performance audit work. The auditor should adopt an attitude of professional scepticism throughout the audit, recognizing that circumstances may exist that could cause the information relating to performance to be materially misstated.

Various safeguards, both principal and practical, might have to be applied in order to prevent material misstatements.

Reasonable assurance on the quality of information should be provided
A performance audit conducted in accordance with applicable auditing standards must examine the quality of the information provided. Performance auditing is increasingly dependent on the quality of information produced by the auditees and others, often stored on electronic media. What is 'reasonable' depends on the situation, i.e. on the kind of evidence at hand and the conclusions that can be drawn from it. (AS 3.5.2)

The institutions concerned should be properly informed

The SAI should notify the government institutions responsible for or involved in the audited program of the details of the audit, preferably before it starts (AS 3.1.4). Due to the character of performance auditing, it is important that senior officials are well acquainted with the purpose of the audit.

The work performed should be properly supervised

The INTOSAI auditing standards state: ‘The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a senior member of the audit staff’ (AS 3.2.1). When work is delegated to a member of the audit team, the project manager should carefully direct, supervise, and review the work delegated. All team members should understand the objectives of the audit, the terms of reference of the work assigned to them, and the nature of obligations imposed on them by applicable auditing standards (AS 3.2.2).

Supervision of the performance audit team by senior members of the audit staff involves directing, supporting and monitoring their work to ensure that the audit objectives are met. (See Appendix 4.) According to the Auditing Standards (AS 3.2.3), this involves ensuring that

- all team members fully understand the audit objectives,
- audit procedures are adequate and properly carried out,
- international and national auditing standards are followed,
- audit evidence is relevant, reliable, sufficient and documented, and supports the audit findings and conclusions; and
- audit budgets, timetables and schedules are met.

The use of experts requires special care

Experts are often used in performance auditing. Before using experts, the auditor should ensure that the expert has the necessary competence required for the purposes 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. The auditor must ensure that the expert is independent of the activity/program, and the experts should be informed about the conditions and the ethics required. 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 (AS 2.1.18, 2.2.43-45).



The auditors should notify the government institutions involved in the audited program of the details of the engagement. They should provide reasonable assurance that the information relating to performance is reliable. Although the auditor may use the work of expert, the auditor retains full responsibility for the conclusions.

2.4 Summary

- The mandate of performance auditing should be defined in the legislation, and special regulations are often needed that specify the conditions for performance auditing. The mandate should cover the whole state budget, including all relevant government undertaking and all relevant public services. The mandate should allow for audits of both individual government institutions and large state-owned enterprises of public interest as well as government-wide programs from different perspectives. The performance auditor must be given the freedom to select audit areas within the performance audit mandate.
- Political decisions and goals established by the legislature should be the starting point for performance auditing. However, a SAI may, as a result of its findings, also make critical comments on them, for example if goals are inconsistent or if it proves impossible to follow up the extent to which they have been achieved.
- Performance audits should in general be ex post audits, but in some countries an audit of policy preparation activities may be carried out before the policy itself is implemented.
- All government auditors should act with integrity, impartiality, objectivity, competence and professionalism but, due to its features, this is of special importance in performance auditing. The performance auditor must be well educated and have experience of investigative/evaluation work. Personal qualities are also of considerable importance (analytical ability, creativity, receptiveness, social skills, integrity, judgment and patience, as well as having good oral and written skills).
- Performance auditing is a knowledge-based activity, and due to its special features – and its close links to politics – high quality of work is perhaps the most important single factor for recognition. To ensure high quality of work, the SAI should pay particular attention to creating an environment for performance auditing that ensures incentives for good quality and quality improvements. A properly functioning system for quality assurance is one of the important elements in this context.

- Effectiveness, professionalism and care must guide the audit work, and the principles of proper administration should be observed. The auditors should notify the government institutions involved in the audited program of the details of the engagement.
- Before using experts, the auditor should ensure both that this is necessary and that the experts are competent and independent. Although the auditor may use the work of experts as evidence, the auditor retains full responsibility for the conclusions.



Part 3: Field standards and guidance: Initiating and planning the performance audit

3.1 What are the overall steps in the performance audit cycle?

As stated in *AS 3.0.1*: ‘The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow.’ The field standards establish the framework for planning, conducting and managing audit work (*AS 3.0.2*).

The performance audit cycle covers several steps. Broadly speaking, it comprises the planning process, the execution process and the follow-up process. The planning process is often divided into different stages. The first stage is strategic planning, where potential themes and topics are analysed. Once a topic has been selected for performance audit, a pre-study – resulting in a work plan for the main study – may be undertaken to gather information in order to be able to design a proposal for the main study.

Throughout the main study, the emphasis should be on the production of a final report to be considered by the government, the legislature, the executive bodies concerned, and the public. The report-writing process should, based on experience, be viewed as a continuous one of formulating, testing and revising ideas about the topic. Issues, such as the expected impact and value of the audit, should be considered throughout the audit. By setting deadlines for the writing process, timely reporting may be enhanced.

Follow-up procedures identify and document audit impact and the progress made in implementing audit recommendations. Such processes are vital to provide feedback to the SAI and the legislature. (*AS 2.2.5-6*)

The performance audit cycle involves several steps: strategic planning, preparation work, the main study and follow-up activities.

3.2 What does strategic planning involve?

Performance auditing should be directed towards areas where an external, independent audit may add value in promoting economy, efficiency, and effectiveness. In financial auditing, the audit objects (and the perspectives to be applied) are often defined for the SAI by its own basic legislation. As noted above, the SAI usually has greater freedom in the choice of performance audit objects and audit approaches. The SAI must carefully consider the strategy for selecting subjects for performance audits that help to set priorities and make selections. Interest in change shown by, for instance, the government may contribute to this process (AS 2.1.21-22 and 3.1.1-2).

The choice of audit areas should take place without any outside pressure (AS 2.2.14). The SAI must maintain its political neutrality, but maintenance of the SAI's independence does not preclude requests to the SAI from the executive, proposing matters for audit. However, if it is to enjoy adequate independence, the SAI must be able to decline any such request (AS 2.2.16).

Strategic planning is the basis for the selection of audit topics and possible pre-studies. The planning might be carried out with the following steps:

1. *Determining the potential audit areas from which the strategic choices are to be made.* The selection of audit areas involves strategic choices with consequences for the SAI. The number of potential areas is considerable and the SAI's capacity is limited. This means that choices must be made with care (AS 2.1.21 and 2.2.38).
2. *Establishing the selection criteria to be used for these choices.* The main selection criterion is probably the audit's primary contribution to the assessment and improvement of the functioning of central government and the bodies connected with it. (AS 3.0.1.)

As for step 2, the general selection criteria would be as follows:

- *Added value:* The better the prospects of carrying out a useful audit of good quality, and the less the policy field or subject has been covered earlier by audits or other reviews, the greater the added value might be. Adding value is about providing new knowledge and perspectives.
- *Important problems or problem areas:* The greater the risk for consequences in terms of economy, efficiency, and effectiveness or public trust, the more important the problems tend to be. A problem may be judged important or material if knowledge about it would be



likely to influence the user of the performance audit report. Active and problem-oriented monitoring makes it easier to identify areas for audits.²⁹

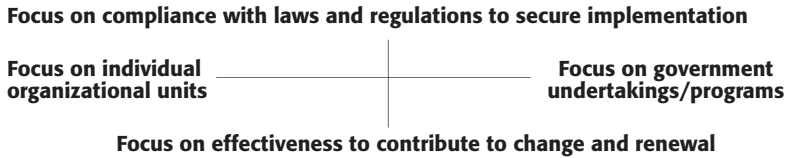
- *Risks or uncertainties*: The strategic planning may be based on risk analysis, or – less theoretical – analysis of indications of existing or potential problems. The stronger the public interest involved where there is reason to suspect inefficiency, the greater the risks (the less the knowledge), and the greater the uncertainty. The accumulation of such indicators or factors linked to an entity or a government program may represent an important signal to SAIs and should induce them to plan audits whose range and scope will depend on the indices detected. Factors that may indicate higher risk (or uncertainty) could be the following:
 - The financial or budgetary amounts involved are substantial, or there have been significant changes in the amounts involved.
 - Areas traditionally prone to risk (procurement, technology, environment issues, health, etc, or areas of unacceptable risk) are involved.
 - New or urgent activities or changes in conditions (requirements, demands) are involved.
 - Management structures are complex, and there might be some confusion about responsibilities.
 - There is no reliable, independent, and updated information on the efficiency or the effectiveness of a government program.

Some SAIs may choose topics based on strategic choices rather than selection criteria (for example, with regard to the type of performance audit, policy spheres, relationship with reforms within the public sector etc). Sometimes these strategic choices may reflect the constitutional and legal conditions and the established traditions. They may also reflect ‘political realities’ (i.e. certain topics are not expected to be subjected to auditing).

Consequently, strategic planning allows for different ambitions and decisions. Linked to a SAI’s annual planning system, strategic planning may be a useful tool in setting priorities and selecting potential audits to be executed. In another context, it may serve as a mechanism to select future audit themes, as a basis for more detailed planning. It may also serve as an instrument for strategic policy decisions on the

²⁹ For further discussion on the selection of problems, see *Handbook in Performance Auditing* RRV (Sweden), 1999, and *Picking the winners*, NAO (United Kingdom) 1997.

future direction of the audit. As an illustration, a SAI might outline the following options for its future audit orientation.



One possible strategic choice is to decide to contribute to the modernisation of the government administration and focus on auditing government programs with material effectiveness problems. An alternative choice might be to simply focus on auditing individual government agencies and their compliance with administrative/economic regulations.

In a changing society, it is quite natural that public activities are regularly reviewed to see whether they fulfil the goals and solve the problems for which they were created. As time proceeds, new demands replace old. Since demands and conditions constantly change, performance auditing will have to be prepared to monitor and follow developments and trends, review priorities, and use new approaches and methods. If a SAI is defined – or defines itself – as an instrument for change, it is important that its priorities for performance auditing reflect the need for improvement in the public sector. For example, in a situation with a large budget deficit or old-fashioned management style, performance auditing may provide contributions to savings, better use of resources, or modernization of management. If, on the other hand, problems concerning unemployment, environment, equity, transparency, services to the clients, etc. are in focus in the public debate, performance auditing may prefer to give priority to such issues.

In other words, strategic planning may aim to do more than produce viable subjects for audits. Ideally it should integrate audit topics – or audit themes – in an overall perspective.³⁰ Some SAIs conduct special studies to build up knowledge or skills – either within a single area of government or in an area defined by an audit theme – to assist the strategic planning process.³¹

³⁰ Auditing work on a particular theme has become more common in recent years. This is longer-term work, which usually produces a number of interrelated audit reports.

³¹ For an example, see *Strategy for Performance Audits in the Chemical Sector*, Swedish National Office, 2002.



The strategic planning exercise normally results in a coherent and cogent audit program for the SAI. The program lists the audit areas and provides a brief account of the provisional problems, questions, and other arguments supporting each one of them. Ideally, the program then serves as a basis for operational planning and resource allocation.

Strategic planning is the basis for the selection of audit topics. Linked to a SAI's annual planning system, it may be a useful tool in setting priorities and selecting audits. It may serve as a mechanism for selecting future audit themes, and a basis for detailed planning. Finally, it may serve as an instrument for strategic policy decisions on the future direction of the audit. Planning might be carried out in the following steps: determining potential audit areas; establishing the selection criteria to be used; and identifying the main sources of information for the potential audits. The strategic planning exercise would normally result in a coherent and cogent audit program for the SAI and serve as a basis for operational planning and resource allocation.

3.3 What does planning of individual performance audits involve?

According to the INTOSAI auditing standards (*AS 3.1.1*), the auditor should plan the audit in a manner, which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner. A well thought-out plan is in general indispensable in performance auditing. Before starting the main study, it is consequently important to define the audit objectives, the scope, and the methodology to achieve the objectives. This is often done in the form of a pre-study.³²

The purpose of a pre-study is to establish whether the conditions for a main study exist and, if they do exist, to produce an audit proposal with a work plan. Primarily, operational planning should be a tool for directing the execution process. In addition, it provides background knowledge and information needed to understand the entity, program, or function. An appropriate audit work plan makes it easier, for instance, to ensure that the performance audit coverage is comprehensive and realistic. The pre-study should normally be carried out in a fairly short period.

³² Some SAIs use the term 'preliminary study'.

Three important steps

The most important steps in drawing up an audit proposal are the following:

- Defining the specific issue to be studied and the audit objectives,
- Developing the scope and the design of the audit,
- Determining the quality assurance, the timetable, and the resources.

In practice, these steps cannot always be strictly separated and they do not necessarily take place in the same order.

1. Defining the specific issue to be studied and the audit objectives

One initial step is the more precise definition of the topic or the problems to be audited. The motives and the objectives for the study must be elaborated upon. This is a difficult and important step that involves examining the subject matter in depth, by studying relevant literature, documents and statistics, conducting interviews with major stakeholders and experts etc, and analysing potential problem indications from various viewpoints. It is important that the definitions are distinct. Ambiguous or vague definitions must be avoided.³³ Even minor changes to the audit question or the problem to be studied may have a major impact on the general scope of the audit.

In short, this step involves elaborating on the following two questions:

What? What is the audit question or the problem to be studied?

Why? What are the audit objectives?

The wording of the basic audit question is an aspect in the examination process that is of great importance: it is a decisive factor for the results of the audit. It can be thought of as the fundamental research question into a government program that the auditors seek the answer to. Consequently, it is important that it is based on rational and objective considerations. In general, a SAI must apply a holistic perspective that best favours the public interest and the general mission for its performance auditing.

Audit objectives relate to the reasons for conducting the audit and should be established early in the execution process to assist in identifying the matters to be audited and reported on. In determining objectives, the audit team must take into account the roles and responsibilities of the SAI and the expected net impact of the audit as defined in the strategic audit plan. The audit objectives and scope are interrelated

³³ For more information, see, e.g. *Handbook on Performance Auditing*, RRV, 1999.



and should be considered together. It is good management practice to discuss the scope of the audit with the audited entities at the earliest opportunity.³⁴ When defining the audit objectives, one criterion might be to optimise the contribution made by the audit. A possible tool in determining this contribution is to outline the expected conclusions. If an audit takes place on request, the audit objectives might be more or less determined or obvious (AS 3.1.3).

The detail in which the audit is to be planned is another decision to be made. Careful advance planning will prevent problems in the way the audit should be handled arising at a later stage. At the same time, planning that is too detailed may sometimes inhibit innovative thinking and openness. Audits are carried out in a complex world, and it is therefore rarely possible to devise a comprehensive audit design that predicts the progress of a performance audit in every detail.

2. Defining the scope and the design of the audit

The next step in the design phase is the development of the scope and design of the audit. As in financial auditing, the audit approach for performance auditing needs to be structured.³⁵

Defining the scope and the specific questions or hypotheses to be examined

The scope defines the boundary of the audit. It addresses such things as specific questions to be asked, the type of study to be conducted and the character of the investigation.³⁶ Further, it comprises the work of collecting information and the analyses to be executed (AS 3.1.3-4).³⁷

³⁴ In some cases it may also prove useful to explicitly clarify what is not going to be audited in the actual study (what is not intended to be covered). This may contribute to reduce misconceptions or false expectations among stakeholders.

³⁵ In this step, it may sometimes be a good idea to study scientific work and theories concerning the area to be audited or the questions to be answered.

³⁶ See section 4.2 below. For more information, see Performance Audit Manual, CAG, Bangladesh, 2000 and Government Auditing Standards, GAO (US), 2002.

³⁷ Sometimes a SAI may limit its performance audit to a 'meta-evaluation' (an evaluation of self-evaluations). It must be understood, however, that such an approach is only feasible when the SAI auditor is fully satisfied that the internal evaluation processes provide objective, timely, and comprehensive assessments of the programs concerned.

The scope of an audit is determined by answering the following questions:

What? What specific questions or hypotheses are to be examined?
What kind of study seems to be appropriate?³⁸

Who? Who are the key players involved and the auditee(s)?

Where? Are there limitations in the number of locations to be covered?

When? Are there limitations on the time frame to be covered?

Having defined the motives and the objectives for the study as well as the general audit question or the problems to be considered, it is important to define the specific questions to be answered or the hypotheses to be examined (the plausible causes of the problem). In practice, they will form the basis for the selection of data collection methods. The auditor must also define the character of the study: what kind of study is needed to highlight the questions? (Some common methods in performance auditing are presented in appendix 1.)

It must be stated, however, that conducting fieldwork is a more of a continuous learning process than a matter of simply collecting data. And questions (or hypotheses) may have to be changed as the auditors become more knowledgeable during the audit. However, during the planning stage, the purpose is to systematically direct attention to what the auditors need to know, and from where and how they can obtain the information.

Auditability is an important requirement in the operational planning process. It defines whether a topic is suitable for a main study. As objectives and scope vary from one audit to another, the audit team needs to assess whether an audit can be carried out. An issue must be both auditable and worth auditing in order to be included in the audit scope. The auditor might, have to consider, for instance, whether there are relevant approaches, methodologies, and criteria available and whether the information or evidence required is likely to be available and can be obtained efficiently. Furthermore, reliable and objective information should exist and there should be reasonable chances of obtaining this information. Other aspects to be considered are compliance with the audit mandate, resources, professional skills required, and conditions in terms of timing. Personnel with relevant skills must be available, and an audit should not be overruled by other studies already being made by other bodies (*AS 2.1.23, 2.2.39, 3.0.3 and 3.1.1-4*).

³⁸ The study design (goal-attainment study, time-management study etc.). See Appendix 1.



Understanding the program

It is important to develop a sound understanding of the audited program or the auditee's business that is sufficient to achieve the audit objectives, facilitate the identification of significant audit issues and fulfil assigned audit responsibilities. This knowledge includes an understanding of:

- the character of the government program being audited (role and function, activities and processes in general, development trends etc);
- legislation and general programs and performance goals;
- organizational structure and accountability relationships,
- internal and external environment and the stakeholders;³⁹
- external constraints affecting program delivery;
- earlier investigations in the field; and
- management processes and resources.

The aim in the design phase is to develop a basic understanding of the audited program. Obtaining the required knowledge is a continuous and cumulative process of gathering and assessing information, and relating the resultant knowledge to audit evidence at all stages of the audit. It is important that auditors weigh the costs of obtaining information and the additional value of the information to the audit.

Sources of information may include:

- enabling legislation and legislative speeches;
- ministerial statements, government submissions, and decisions;
- recent audit reports, reviews, evaluations, and inquiries;
- scientific studies and research (including that from other countries);
- strategic and corporate plans, mission statements, and annual reports;
- policy files and management committee and board minutes;
- organization charts, internal guidelines, and operating manuals;
- program evaluation and internal audit plans and reports;
- conference reports and minutes;
- viewpoints from experts in the field;
- discussions with auditee management and key stakeholders;
- management information systems; and
- other relevant information systems as well as official statistics.

³⁹ Some SAIs may, if required, conduct stakeholder analyses at this stage in order to get a clear picture of the actual situation from different perspectives.

Past reviews are often a useful source of information. They can help avoid unnecessary work in examining areas that have been under recent scrutiny and highlight deficiencies that have not yet been remedied. Discussions with senior program management to gain an overall program perspective may also prove important. Other relevant sources of information are:

- studies by industry and professional or special interest groups;
- inquiries or previous reviews by the legislature;
- information held by coordinating agencies or government committees;
- work undertaken by other governments; and
- press coverage.

Defining the audit criteria

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 behaviour?’ ‘What is required or expected?’ ‘What results are to be achieved – and how?’ – by program?) Audit criteria are standards used to determine whether a program meets or exceeds expectations.⁴⁰

In financial audits, transactions that are examined tend to be judged by the auditor as being ‘correct’ or ‘incorrect,’ ‘legal’ or ‘illegal,’ etc. Such criteria tend to be relatively closed and are usually prefixed by, for example, the legislation establishing the audited entity. (For more information, see appendix 2.) For performance audits, however, the choice of audit criteria is normally relatively open and formulated by the auditor, and as mentioned earlier, criteria are often less important in the problem-oriented approach. In the problem-oriented approach it is more important to formulate testable (verifiable) hypotheses on possible causes to the audit problem.⁴¹

Thus, 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 vary from one audit to another. In defining audit criteria, auditors must ensure that they are relevant, reasonable, and attainable. Finally, every criterion is elaborated in the form of questions. These questions are factual in character and intended to describe or measure the practical situation to be audited.

⁴⁰ Audit criteria should be reliable, objective, useful, complete and accepted.

⁴¹ For information on how to define audit problems, and how to formulate and test hypotheses, see e.g. *Handbook in Performance Auditing: Theory and practice*, The Swedish National Audit Office, 1999.



Audit criteria can, for instance, be obtained from the following sources:

- laws and regulations governing the operation of the audited entity;
- decisions made by the legislature or the executive;
- references to historical comparisons or comparisons with best practice;
- professional standards, experiences, and values;
- key performance indicators set by the auditee or the government
- independent expert advice and know-how;
- new or established scientific knowledge and other reliable information,
- criteria used previously in similar audits or by other SAIs;
- organizations (inside or outside the country) carrying out similar activities or having similar programs;
- performance standards or previous inquiries by the legislature; and
- general management and subject-matter literature.

The basis of the audit criteria may be considered from different angles:

- depending on the case in point, the most authoritative sources will either be official standards (such as goals laid down in laws and regulation, decisions and policies taken by the legislature or the executive branch), or
- on the basis of the scientific grounds of the standards, greater emphasis will be placed on specialist scientific literature and other sources such as professional standards and best practices.

Sometimes audit criteria are easy to define, for example when the goals set by the legislature or the executive branches are clear, precise and relevant. However, this is often not the case. The goals may be vague, conflicting or non-existent. Under such conditions, the auditors might have to reconstruct the criteria. One possibility is to apply a ‘theoretical’ approach, by allowing experts in the field to answer questions such as: ‘what ought to be the ideal results under perfect conditions according to rational thinking or best-known comparable practice?’ Alternatively, to define and obtain support for well-founded and realistic criteria, it may prove helpful to apply an ‘empirical’ approach, involving discussions with stakeholders and decision makers.⁴²

⁴² It is sometimes advisable to avoid setting precise and detailed audit criteria in the design phase (since the knowledge is limited). For more information, see appendix 2.

Methodological planning

Methodological planning involves many different activities. For instance, it is important to distinguish between the audit program (the type of investigation that is needed for the data collection) and the data-collection techniques. Performance audits can draw upon a large variety of data-gathering techniques that are commonly used in the social sciences, such as surveys, interviews, observations, and studying written documents.⁴³ The aim is to adopt best practices, but practical reasons such as availability of data may restrict the choice of methods, i.e. the auditors may often have to settle for the second-best solution. As a general rule, it is advisable to be flexible and pragmatic in the choice of methods.⁴⁴ Practical considerations will also have to influence the audit program. Sampling methods and surveys might allow general conclusions to be drawn and case studies provide an opportunity for in-depth studies.⁴⁵

Even though the nature of performance audits requires careful choices and combinations of methodologies for examining variables, it is important to have an open mind during the execution process. The selection of sources must not be rigid at this stage (*AS 3.0.3, 3.1.1-4, 3.5.2-4, and 4.0.4*). For more information, see Appendix 1.⁴⁶

For performance audits in particular, the auditor will be concerned about the validity and the reliability of methods to be used to collect and analyse data:

- Validity: methods should measure what they are intended to measure.
- Reliability: findings should remain consistent if studies are made repeatedly in the same environment⁴⁷

⁴³ This implies that the performance auditors should take an active interest in, and be given time for, continuous improvement of their methodological skills, and follow methodological developments in various research institutions, etc. This could, for instance, be done by arranging in-house seminars with external professionals, and by reading articles and literature. In choosing methods for data collection, the auditors should be guided by the purpose of the audit and the specific questions or hypotheses to be answered. For an overview on using different techniques for collecting audit evidence and for analysis of information, see *Evidence-Gathering Techniques*, OAG (Canada), 1994. For further discussion on methodology, techniques and concepts in social research, see *The Research Methods Knowledge Base*, Trochim, 2002. See also *Evaluation*, Rossi et al. 1999, and *Case Study Research, Design and methods*, Yin et al, 1994.

⁴⁴ The reasons for being pragmatic in the choice of methods are elaborated in *Designing Evaluations*, GAO (USA), 1991, chapter 2.

⁴⁵ See *Case Study Research, Design and Methods*, Yin et al, 1994. Ways of selecting cases can be used in *Case Study Evaluation*, GAO, (USA), 1990. For surveys, see *Conducting Surveys*, OAG (Canada), 1998. *Using statistical sampling*, GAO (USA), 1992 and *The Research Methods Knowledge Base*, Trochim, 2002.

⁴⁶ For designing performance audits, see *Handbook in Performance Auditing*, RRV (Sweden) and *Designing vfm studies, a guide*, NAO (United Kingdom), 1997.

⁴⁷ For a further discussion, see e.g. *The Research Method Knowledge Base*, Trochim, 2002.



3. Determining quality assurance, timetable, and resources

The final step is the determination of the quality assurance measures to be taken in the audit, the timetable and the financial budget.

Quality assurance

The INTOSAI Auditing Standards (*AS 2.1.27*) state that the SAI should establish systems and procedures for quality assurance. Quality control procedures should be designed to ensure that all audits are conducted in accordance with relevant standards and policies.

A distinction might be made between *ex ante* (ongoing quality arrangements while work is in progress for example through peer review, 'co-readers', use of expert panels, special committees and specialists or experts in the field concerned, and techniques such as issue analysis) and *ex post* arrangements (such as independent reviews of published reports to identify lessons learned and how reports are received by key stakeholders and the benefits they drive from them). Some SAIs have engaged individual scientists or scientific institutions to conduct *ex post* assessments. Both *ex ante*, intermediate and *ex post* arrangements have to be planned.⁴⁸

The audit manager is responsible for the day-to-day management of the audit, including detailed planning, execution of the audit, supervision of staff, reporting to SAI management and overseeing preparation of the audit report. Where more complex performance audits are concerned, the SAI may consider appointing a steering committee to guide the audit team and to monitor the progress of the audit. (See appendix 4.)

Administrative planning

The audit team and a team leader have to be selected, and an activity plan is required. It is important to determine the timetable and the resources needed. Relevant factors include the manner in which the audit is organized, the expected costs (for both staff, on the basis of predetermined rates, and equipment), and the expected completion time. The budget and timetable should be documented. Progress against these targets should be monitored. The audit manager and SAI management are responsible for ensuring that performance audit is completed within budget and on time (*AS 2.1.26-28, 2.2.36 and 3.1.4*).

⁴⁸ Building quality into the performance audit examinations requires many considerations. See for instance *Value for money handbook: a guide for building quality into VFM examinations*, NAO, United Kingdom, 2003.

Compliance with laws and regulations

When laws, regulations, and other compliance requirements pertaining to the auditee are significant to audit objectives, auditors should design the audit to provide reasonable assurance of compliance with these requirements. In performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse. They may need to determine the extent to which such acts affect the audit results. In complicated cases, specialists on these matters might be required (AS 3.4.1-7).

The result of the pre-study – the main study proposal

The audit design phase results in a consistent audit proposal with a work plan (AS 3.0.1-3). The quality of the work must be secured before the decision to start a main study is taken.

Before starting the main study in performance auditing, it is important to define the audit objectives, the scope, and the methodology to achieve the objectives. This is done in a form of a pre-study. The purpose of a pre-study is to establish whether the conditions for a main study exist and, if they exist, to produce an audit proposal with a work plan. The most important steps in drawing up audit proposals are: defining the specific issue to be studied and the audit objectives; developing the audit framework and the audit design; and determining quality assurance, the audit team, the timetable, and the resources. The auditee(s) should be informed of the objectives, scope, and time schedule of the audit.

3.4 Summary

- The performance audit cycle involves strategic planning, preparation work, main study and follow-up activities. Strategic planning is the basis for the selection of audit topics or audits themes to be executed. It may also serve as an instrument for strategic decisions concerning the direction of the audit. Planning might be carried out in these steps: determining potential audit areas, establishing the selection criteria, and identifying the main sources of information for the potential audits.
- Before starting the main study in performance auditing, it is important to define the audit objectives, the scope, and the methodology to achieve the objectives. This is done in form of a pre-study. The purpose of a pre-study is to establish whether the conditions for a main study exist and, if they exist, to produce an audit proposal with a work plan.



- In planning performance audits, auditors should observe the following:
 - Consider the significance and the needs of potential users of the audit report as well as other interested parties.
Obtain an understanding of the entity to be audited and of the problems to be scrutinized, including the context of the activities in question.
 - Identify significant findings from previous audits and other investigations and reports that could affect the audit objectives (even ongoing studies).
 - Consider political objectives and the legal and regulatory environments.
 - Define the topics or the problems to be studied, the entity to be audited and the audit objectives, i.e. the expected effect of the audit.
 - Define the basic audit questions – as well as the more specific questions – to be answered or the hypothesis to be tested.
 - Establish the audit criteria. The audit criteria represent the normative standards against which the audit evidence is judged. The criteria will vary according to the specific audit subject and objectives, the legislation governing the undertaking or the audited entity, the stated objectives, and the specific conditions that the SAI deems relevant and important for the case.
 - Determine the audit evidence that will answer the audit question: the relevance, reliability and sufficiency of any data available within the audited entities should be evaluated. The possibility of collecting the required evidence (data) should be tested.
 - Identify potential sources of information that should be used in order to verify hypotheses, gain better knowledge of the subject, or obtain answers to audit questions, i.e., information that may be used as evidence.
 - Consider, if needed, help from experts (consultants, other auditors) concerning how to secure quality in the audit. It is important to evaluate the professional knowledge and skills required by the audit team to carry out the audit.
 - Provide sufficient staff and other resources to perform the audit and prepare a written plan. Select a suitable audit team. Decide upon a budget for the resources needed to carry out the examination and the timetable.
 - Consider the possible conclusions and impacts of the examination. The proposed outcome should be judged in terms of ‘usefulness’ and ‘feasibility’. The auditor should consider the views and interests of the stakeholders.



Part 4: Field standards and guidance: Conducting the performance audit

4.1 What characterizes the main study process?

The purpose of the main study is to implement the work plan, conduct the audit and produce a high quality audit report.⁴⁹ A performance audit does not consist of a series of clearly defined measures, operations, or sub-processes that are carried out separately and in sequence. In practice, the processes evolve gradually through interaction with one another, and are carried out simultaneously, allowing the methods to develop in depth and become increasingly sophisticated (AS 2.2.39, 3.0.1 and 4.0.21).

Carrying out an audit may be seen as both an analytical and a communicative process. In the analytical process, data are collected, interpreted, and analysed. The communication process begins when the audit is first presented to the auditee, and continues as the audit proceeds, as different findings, arguments and perspectives are assessed, and continues until the report has been finalized.⁵⁰

An open and constructive dialogue is the ideal, but an audit may provoke negative reactions. The auditor may face varying situations, from openness and willingness to cooperate, to evasiveness and secrecy. It is therefore important that the auditors inform the auditee of the audit's objectives and methods. This does not mean that the audit object should dictate conditions or in any other way control the execution process. Instead, it involves establishing a constructive process of interaction. As a rule, the assistance of individuals from the auditee is essential to an effective audit. An active dialogue during the audit with

⁴⁹ The main study shall be carried out in compliance with the best practices with respect to techniques and methodologies (AS 2.2.36-37, 1.0.14 and 1.0.46).

⁵⁰ For more information, see for instance *Performance Auditing at the Swedish National Audit Bureau*, RRV, (Sweden), 1994.

the auditee, experts and others makes it easier, for instance, to make continuous checks of preliminary findings (AS 2.2.25-26).

It is also important to conduct the audit with integrity. The work plan must be followed (resources, time, and quality) and the audit must be carried out in accordance with relevant decisions and standards (AS 2.2.39 and 3.0.2).

The purpose of the main study is to implement the work plan, conduct the audit and produce an audit report. Performance audits must be carried out in compliance with the best practices. Carrying out an audit may be seen as both an analytical and a communicative process. An open and constructive dialogue is the ideal, but integrity is also important. The work plan must be followed and the relevant standards met.

4.2 What has to be considered in the data collection process?

Quality in data collection and documentation is vital, since performance audit is open to judgment. The Auditing Standards state that ‘Competent, relevant and reasonable evidence should be obtained to support the auditor’s judgment and conclusion regarding the organization, program, activity or function under audit’ (AS 3.5.1). While evidence in financial audits tends towards being conclusive (yes/no or right/wrong), this is seldom the case in performance audits. More typically, performance audit evidence is persuasive (‘points towards the conclusion that...’).⁵¹

The auditors must be creative, flexible and careful in their search for evidence. When working in areas where evidence is persuasive rather than conclusive, it is sometimes useful to hold discussions in advance with the experts in the field the nature of the evidence to be obtained and the way it will be analysed and interpreted by the auditor. This approach reduces the risk of misunderstanding and may speed up the process. It is also important that the auditors seek information from different sources, since organizations, individuals in an organization, experts, and interested parties have different perspectives and arguments to put forward (AS 2.2.39, 3.4.5 and 4.0.24).

Data, information, and knowledge are, broadly speaking, similar, linked concepts. Data is the primary tool. Data, which has been com-

⁵¹ For more information see *Government Auditing Standards*, GAO (USA), 2002.



piled, is transformed into information. Information, which is analysed and understood, will become knowledge. Both qualitative and quantitative data may be collected for different purposes during an audit, whether as part of the learning process, or in order to describe and analyse an outcome or a problem.⁵²

Based on general experience, it is important to distinguish between the following components in the information gathering process:

- Questions formulated to be answered by the study.
- Study design, i.e. the type of study that is needed to answer the questions set (time management, cost-benefit, goal attainment studies, etc.).
- Audit programs, i.e. the type of investigation that is needed for the data-collection (such as sampling, case studies, secondary analysis, inquiries, 'before- and after analysis', comparable evaluations, etc.).
- Data-collection techniques needed in order to answer the questions set (study of documentation, meetings, questionnaires, interviews etc.).
- Quantitative and qualitative analysis, applied to the data collected (for deeper analysis of the information collected).

Data collection may be performed once or through ongoing measurements (such as time series design, longitudinal analysis etc.). Information may be gathered on the basis of physical evidence, documents (including written statements), oral testimonies (interviews), or by other means depending on the objectives of the audit. It will often be necessary to collect both quantitative and qualitative data. The types of data to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance, and reasonableness. Performance auditing may produce primary data (its own source material) with the aid of questionnaires, surveys and direct observation. However, a great deal of secondary data (material produced by others) is also often used. The best available information should be gathered. The auditors, however, must not be rigid in their requirements for exactness. It might prove costly and unnecessary, i.e. a second-best solution is often quite sufficient and appropriate (*AS 3.4.5 and 3.5.1-4*).⁵³

It is vital that the auditors adopt a critical approach and maintain an objective distance to the information put forward. At the same time, they must be receptive to views and arguments. The auditors must be

⁵² See *Handbook on Performance Auditing*, RRV (Sweden), 1998.

⁵³ As the saying goes: 'It is better to be vaguely right than exactly wrong.'

able to see things from different perspectives and maintain an open and objective attitude to various views and arguments. If they are not receptive, the auditors may miss the best arguments. This also underscores the importance of making rational assessments, in that the auditors discount their own personal preferences and those of others. It is therefore important for the auditor's involvement to be expressed in a process of reflection and objective analysis rather than in a conviction that certain standpoints are correct (AS 2.2.40, 3.5.1 and 4.0.24).

Where computer-processed data are significant to the findings of the audit, it may be wise to take extra precautions in order to obtain sufficient, competent, and relevant evidence that the data are valid and reliable. Additionally, when assessment of the reliability of an information system is the primary objective of the audit, the auditors should review the system's general and application controls. Adding to this, during a main study the auditors may obtain sensitive information (such as opinions on management or politics). Consequently, they should guarantee anonymity and not divulge people's opinions (AS 2.2.37, 2.2.46 and 3.3.4).

The results of the fieldwork and analysis, along with the audit planning paperwork, need to be documented, filed, and cross-referenced to permit audit managers to review the work done and validate the conclusions reached. A record of the work should be retained in the form of working papers. Sufficient, competent, and relevant evidence should be obtained to afford a reasonable basis for the findings and the conclusions (AS 3.2.1 and 3.5.5-7).

Quality in data collection and documentation is vital. The auditors have to be creative, flexible and careful in their search for sufficient evidence. It is important to maintain an objective distance from information put forward, but the auditors must also be receptive to views and arguments and seek information from different sources and stakeholders.

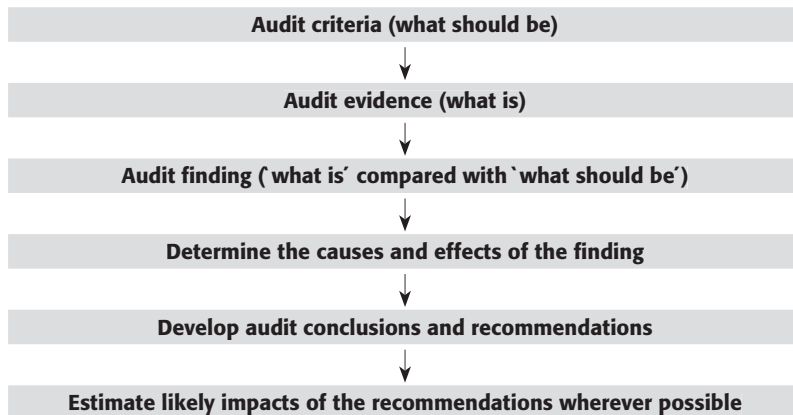
4.3 What characterizes the audit evidence and the audit findings?

Evidence may be categorized as physical, documentary, testimonial, or analytical. A direct inspection or observation of people, property, or events obtains physical evidence. Documentary evidence consists of information such as letters, contracts, accounting records, invoices, and management information on performance. Testimonial evidence



is obtained through interviews or questionnaires. Analytical evidence includes computation, comparisons, separation of information into components, and rational arguments. Evidence should be sufficient, competent, and relevant. It is sufficient if there is enough of it to support the audit finding. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding. It is competent if it is consistent with facts (AS 3.4.5 and 3.5.1).

Audit findings are the specific evidence gathered by the auditor to satisfy the audit objectives, in order to be able to answer the audit questions and verify the stated hypothesis, etc. Conclusions are statements deduced by the auditor from those findings, and recommendations are courses of action suggested by the auditor relating to the audit objectives. Audit findings contain the following elements: *criteria* ('what should be'), *condition* ('what is'), and *effect* ('what are the consequences' – observed as well as 'reasonable and logical future impact'), plus *cause* ('why is there a deviation from norms or criteria'), when problems are found.⁵⁴ However, all four elements are not always required in an audit; the element 'criteria' is for instance not always specifically addressed in the problem-oriented approach.⁵⁵ The process of analyzing evidence, developing findings, and producing recommendations to resolve identified areas of poor practice is summarized in the following diagram from ASOSAI guidelines.



⁵⁴ For more information, see Government Auditing Standards, GAO (USA), 2002.

⁵⁵ See section 1.8.

Once an audit finding has been identified, two complementary forms of assessment take place: the assessment of the significance of the findings and the determination of the causes (of increased performance or of the lack of performance where performance is below that expected).

The auditors may also try to assess the consequences of the finding. In many cases, the effect of a finding may be quantifiable. For example, the cost of expensive processes, expensive inputs, or unproductive facilities can be estimated. Additionally, the effect of inefficient processes, such as idle resources or poor management, may become apparent in terms of time delays or wasted physical resources. Qualitative effects as evidenced in a lack of control, poor decisions, or lack of concern for service may also be significant. The effect should demonstrate the need for corrective action. The effect can also have occurred in the past, be occurring now, or possibly occur in the future. To make a finding stand, be certain that, if the effect occurred in the past, the situation has not already been remedied to prevent it from recurring. If the effects are not readily identified, the performance auditor may need to assert potential effects.⁵⁶

Evidence may be categorized as physical, documentary, testimonial, or analytical. Evidence should be sufficient, competent, and relevant. Audit findings provide answers to the audit questions. Conclusions are statements deduced from the findings. Comparing audit observations (conditions) with audit criteria identifies audit findings. Once an audit finding has been identified, two complementary forms of assessment take place: the assessment of the significance of the findings and the determination of the causes.

4.4 How should a changeable and conflicting environment be handled?

A performance audit may run for a long time, and there may be changes in knowledge and reality from the point in time when it started. In performance auditing it is often difficult to make a choice between the directions set out in the work plan and the description of the audit's structure on the one hand, and the interest in studying questions that

⁵⁶ For more information, see Performance Auditing Guidelines, ASOSAI, 2000.



arise at a later date on the other. To avoid getting caught up in details and a flood of data, detailed assessments of the need for information must be made both before and during the audit. Based on experience, this makes it easier to eliminate extraneous detail and irrelevant approaches, and to sort or structure the information gathered. Again, however, the auditors must not be rigid and avoid all unplanned data gathering.

AS 2.2.26 states 'In contrast to private sector audit, where the auditor's agreed task is specified in an engagement letter, the audited entity is not in a client relationship with the SAI. The SAI has to discharge its mandate freely and impartially, taking management views into consideration in forming audit opinions, conclusions and recommendations, but owing no responsibility to the management of the audited entity for the scope or nature of the audits undertaken.' However, auditors should always seek to create good relationships with the auditees and other interested parties.

To avoid unnecessary conflicts, auditors should listen and learn, and try to understand the particular nature of the activity under audit. To do so they must be able to look at an activity from different perspectives, and maintain an open and objective attitude to views and objections put forward. Regular meetings and discussions with the auditee are often a valuable part of the audit. If conflicts occur, efforts should be made to air contradictory opinions with a view to making the final picture as true and fair as possible. The auditors should attempt to establish open co-operation and interaction and an atmosphere of confidence with the auditee at the earliest opportunity. However, the very nature of auditing and the importance of its independence means that a clear limit must be set up to prevent the individual performance auditor from becoming involved in the practical work of implementing changes at the auditee (AS 2.2.25, 2.2.29, 4.0.24).

There are limits to how far a performance audit can go to corroborate statements and verify findings. It is, generally speaking, impossible to avoid criticism, even when the most sophisticated scientific methods are used. The advantages of verifying an issue must, therefore, be weighed against time constraints and resource consumption. At the same time, the basic data must be of good quality (AS 3.1.1, 3.5.1, 4.0.23 and 2.1.26).

A well-designed work plan may help the auditors avoid getting caught up in details and a flood of data. To avoid unnecessary conflicts, auditors should try to understand the particular nature of the activity under audit. If conflicts occur, efforts should be made to air contradictory opinions with a view to making the final picture as true and fair as possible.

4.5 What is important when analysing data and drawing conclusions?

Most audits involve some type of analysis in order to understand or explain what has been observed. A wide range of models or methods of analysis is used (*AS 4.0.21*). This could be done in the form of more detailed statistical analysis, discussions on the findings within the audit team, studies of documentation and working papers etc. The analysis might sometimes also require comparisons of findings between for instance subjects that work well and those that work less well; one or more subjects and an overview; and the audited area and a similar audit area in another country.

The final stage in the analysis of data involves combining the results from different types of sources. There is no general method for doing this, but it is of central importance that the auditor works systematically and carefully in interpreting the data and arguments collected. This phase involves weighing up arguments and assertions, consulting experts, and making comparisons and analyses. As the work continues, the draft report gradually takes shape.⁵⁷ The notes and observations are put into structured order, and as internal and external discussions progress, text is drafted, assessed and rewritten; details are checked and conclusions are discussed. There is a need for exchanges of information based on discussion papers to discuss major issues that have emerged during the course of the audit. These meetings may serve to confirm facts with the audited entities and to promote the development of audit findings and recommendations.

If possible, all the main arguments that can be envisioned should be covered, so that no entirely new and possibly decisive arguments –

⁵⁷ If the analyses are based on scientific knowledge and well-established theories, they will probably be more solid and interesting. It is also often easier to interpret observations in the light of a well-known theory. ('There is nothing so practical as a good theory.')



or facts – may be introduced at the final stage of the audit. In a properly conducted performance audit, the arguments put forward are balanced against the best possible counter arguments, and the various contrasting views are weighed against each other. Experienced colleagues and contracted external advisors etc. can assist in this process. The conclusions should be based on objectives, rationality and project-specific criteria (*AS 2.2.36, 2.2.39-40, 3.2.4, 3.5.2, 3.5.7 and 4.0.24*).

Recommendations, if provided, should be argued in a logical, knowledge-based and rational fashion. The cause of a finding forms the basis for the recommendation. The cause may be outside the control of the entity under audit, in which case the recommendation should direct attention outside the auditee. It is important to ensure that recommendations are practicable, add value and address the objectives of the audit. In some cases it is also important to present the arguments for and against various alternative proposals. By following the underlying arguments, the reader will be better able to understand the final recommendations (*AS 1.05 and 4.0.23-27*).

Before publishing a performance audit report, the auditee(s) involved should always be given the opportunity to examine its content. The draft report provides the first opportunity for the auditee to see the full context of audit findings, conclusions and recommendations in written form. Where responses provide new information, the auditor should assess this and be willing to modify the draft report, provided the usual standards of evidence are met. Oral and written responses, should, as far as possible, be documented. All disagreements must be analyzed. The final report must be balanced and fair (*AS 3.2.4 and 4.0.23-24*).

The final stage in the analysis of data consists in combining results from different types of sources. There is no general method for doing this. In a properly conducted performance audit, the arguments put forward are balanced against the best possible counter arguments, and the various contrasting views are weighed against each other. The conclusions should be based on objectives, rationality and project-specific standards and criteria. Before publishing a performance audit report, the auditee(s) should always be given the opportunity to examine its factual content. The recommendations, if provided, have to be argued in a logical, knowledge-based, and rational fashion. They should be directed to remedy root causes of problems

4.6 Summary

In brief, when conducting an audit, the following should be considered:

- Execute the work plan with integrity and care in a timely manner, and in accordance with international and national standards for performance auditing. Planning should continue throughout the audit. Activities should be reviewed and modified as the execution process evolves.
- The project should be properly introduced to the auditee. An active, open and constructive dialogue should be maintained with the auditee and other interested parties during the audit. The auditee (or the main executive entities involved in the undertaking to be scrutinized) should be involved in the process.
- Implement the audit scope with care. Quality in data collection, analysis, and documentation is vital.
- Gather the best possible or most suitable information – facts as well as opinions, arguments and reflections – from different sources and seek requisite knowledge and expertise. See that the work is characterized by objectivity, impartiality, and sensitivity. Critically evaluate information obtained and arguments put forward. All relevant facts and arguments must be collected.
- Protect the integrity of persons providing information, ensure that working papers are not disseminated incorrectly and, in all other ways, observe high ethical standards.
- Recommendations, if provided, should be directed to remedy root causes of problems. The results of the fieldwork need to be documented, filed, and cross-referenced. Evidence should be sufficient, competent, and relevant.
- Undertake adequate quantitative and qualitative analyses. Discuss the analyses with senior auditors, stakeholders and experts in the field. Make analyses and assessments of observations on the basis of political intentions, rational considerations, and criteria specific to the audit. The findings should form the basis for recommendations.
- Ensure that the factual basis of descriptions, analyses and recommendations is accurate and that they are fair and well founded, balanced and correctly communicated to the auditee. The auditor should ensure that the recommendations, if provided, address the objectives of the audit.



Part 5: Reporting standards and guidance: Presenting the audit result

5.1 What does the need to focus on the final report involve?

According to the Auditing Standards, auditors should prepare written audit reports (*AS 4.0.7*). Written reports should communicate the results of audits to all levels of government, make the results less susceptible to misunderstanding, make the results available for public inspections, and facilitate follow-up to determine whether corrective actions have been taken. The performance audit report is the product on which the government, the legislature, and the public judge the SAI performance audit function.

Most SAIs with long experience of performance auditing publish individual reports, i.e. each performance audit is published separately. Other SAIs which are not required to execute such audit projects or are restricted from publishing all of their performance audit findings, may publish their observations and conclusions in summarized form in their annual reports. The following guidelines are mainly applicable to SAIs which are not restricted in their reporting.

Given the amount of reporting required during an audit, the reporting process may be facilitated by the use of a continuous report-writing process. This process may start at the beginning of the audit with an outline that develops into discussion papers, which are then brought together in the proposed report and further refined in the final audit report (*AS 3.2.4*).

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

5.2 What is required to make the reports reliable?

The audit report should be reliable and contain objectives, scope, methodology and sources used, as well as audit findings, conclusions and recommendations.⁵⁸ Any limitations on the scope of the work and the reasons for this should be described. It should be easy for the reader to understand the purposes of the audit and to properly interpret the results. The report should be complete, accurate, objective, convincing, and as clear and concise as the subject-matter permits (AS 4.0.8 and 4.0.24).

Being *complete* requires, for instance, that the report contains all information and arguments needed to satisfy the audit objectives, promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements.⁵⁹ It is vital that the starting points of the audit and the methods used, as well as important source material and conclusions, are described in the final audit report. The relationship between audit objectives, criteria, findings and conclusions needs to be verifiable, complete and clearly expressed. If recommendations are to be provided, there needs to be a clear link between the analysis or conclusions and the recommendations. Auditors should, within the audit objectives, report all significant instances of non-compliance and significant instances of abuse that were found during or in connection with the audit (AS 4.0.87-8, 4.0.22).

Accuracy requires that the evidence presented should be true and comprehensive and that all findings are correctly portrayed. The need for accuracy is based on the need to assure readers that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report. In addition, inaccurate reports can damage the credibility of the SAI. In other words, a high standard of accuracy requires an effective system of quality assurance. Reported evidence should demonstrate the correctness and reasonableness of the matters reported. Correct portrayal means accurately describing the audit

⁵⁸ The report could, for instance, include comparisons with audit criteria, and contain an analysis of differences between what is observed and the audit criteria, including the causes and effects of the differences.

⁵⁹ Certain information may be prohibited from general disclosure by law or regulation. Such information may be provided on a 'need-to-know basis' only to persons authorized by law to receive it. However, it may be possible to include confidential or sensitive material in a separate, unpublished report (AS 4.0.8).



scope and methodology, and presenting findings and conclusions in a manner consistent with the scope of audit work (AS 4.0.23-24).

Objectivity requires, as mentioned above, that the presentation of the entire report be balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner. The report should be fair and not misleading, and should place the audit results in perspective. This means presenting the audit results impartially and guarding against the tendency to exaggerate or overemphasize deficient performance. Interpretations should be based on insight and understanding of facts and conditions. One-sided presentations should be avoided. Even though auditing by its very nature has its focus on shortcomings, it is an advantage if the performance audit reports can make room for both positive and negative findings and assessments (AS 4.0.7 and 4.0.23).

Being *convincing* requires that the audit results should be responsive to the audit objectives, the findings presented persuasively, and the conclusions and recommendations follow logically or analytically from the facts and arguments presented. Facts should be presented separately from opinions. The language used should not be tendentious or suggestive, and the information presented sufficient to convince the readers to recognize the validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations. Different opinions and arguments should be represented (AS 4.0.7 and 4.0.24).

Clear requires that the report be easy to read and understand (as clear as the subject-matter permits). Technical terms and unfamiliar abbreviations must be defined. Logical organization of material, and accuracy in stating facts and in drawing conclusions, are essential to clarity and understanding. Although findings should be presented clearly, the auditors must keep in mind that one of their objectives is to be persuasive, and this can best be done by avoiding language that generates defensiveness and opposition (AS 4.0.7-8).

Being *concise* requires that the report be no longer than needed to convey and support the message. Although scope may exist for considerable judgment in determining the content of reports, those that are complete, but still concise, are likely to achieve greater results. It must be stated, however, that advanced studies often require longer reports. One must also have in mind that the performance audit reports are not only written for those who have special knowledge; they are also written for those who need more information to understand the subjects.

A more comprehensive report might provide the reader with a better understanding of the basis for the conclusions drawn, and thus add value and creditability to the audit report. In a wider sense, comprehensive reports may strengthen a SAI's capacity to serve the citizens' interest in openness and transparency (AS 4.0.4).

The audit report should be reliable. The report should be informative and, if provided, have logical and clear recommendations that are linked to the audit objectives and the findings. The auditors should report the audit objectives, scope, methodology and sources used, as well as audit findings, conclusions, and recommendations. It should be easy to understand the purposes of the audit and interpret the results. The report should be complete, accurate, objective, convincing and as clear and concise as possible.

5.3 What characterises a good and usable performance audit report?

Good performance audit reports should add value to the stakeholders and meet the objectives set. They should provide accessible, concise, and up-to-date information, which the government, parliament, auditee, and other stakeholders can use to improve the economy, efficiency, and effectiveness of the public sector: i.e. the report should contribute to better knowledge and adequate improvements.⁶⁰ Good performance audit reports should be reader-based and well structured, and the language should not be ambiguous. They should present findings objectively and fairly (AS 4.0.7). This requires that:

- there are separate presentations of findings and conclusions;
- facts are presented and interpreted in neutral terms;
- different perspectives and viewpoints are represented;
- all relevant findings, arguments, and evidence are included; and
- reports are constructive, and positive conclusions are presented.⁶¹

⁶⁰ The form and content of all audit reports are founded on the following general principles: a suitable title and a properly signed report, a clear presentation of objectives and scope, completeness, addressees and identification of subject matter (AS 4.0.7-8).

⁶¹ One possible structure of performance reports is the following: (1) Executive summary, (2) Introduction and audit design (including background, motives for the study, objectives, scope, methods), (3) Description of the audit object, (4) Findings and analyses, (5) Conclusion and assessments, and (6) Recommendation and Appendix.



In a wider sense – and to sum up – the quality of a performance audit may be assessed by means of specific criteria, including those considered below:

Materiality, relevance and objectivity

The topics dealt with should be material. The information given should be relevant to the topic; the audit question or the problem studied. Objectivity can be defined as ‘impartiality, balance and neutrality’. When making decisions about scope, audit evidence, significance of observations, and conclusions, the auditor must have an unbiased point of view and an objective state of mind. The audit design should ensure that the selection of facts to be investigated and presented in the report is balanced and unprejudiced. The findings should be influenced by evidence obtained and assembled in accordance with relevant audit standards. Facts must not be suppressed, and the auditor must not exaggerate minor shortcomings. Explanations – especially from the auditee(s) – must always be sought and critically evaluated (*AS 1.0.9, 2.2.40, 3.5.4, 4.0.7, and 4.0.24-26*).

Reliability, validity and consistency

Users should be able to trust the reliability and validity of reported results. The data collection methods should be valid and reliable. The audit design should be such that conclusions arise from the findings and the analysis, based on verified facts and other information from various sources. All the documents in the process must be well balanced in their perspectives and judgments (*AS 2.2.36, 2.2.39, 3.2.3, 3.4.5, 3.5.2, 4.0.8, and 4.0.22-25*).

Transparency, usability and timeliness

A SAI must not be forced to withhold findings and should, within its legal mandate, be free to decide what to publish and how. The report should provide accessible, concise and up-to-date information, which the government, parliament, and government entities can use to improve the way they function, i.e. the information provided should add value. The audit questions should be answered. The points on which the SAI expects action to be taken, and by whom, should be clearly stated. Being timely requires that the report should be issued on time in order to make the information available for timely use by management, government, legislative officials and other interested parties (*AS 2.2.10-11, 3.1.1, 4.0.4-5, 4.0.7-8 and 4.0.21-22*).

Good performance audit reports add value to the stakeholders and meet the objectives set. They contribute to better knowledge and highlight improvements needed. They are reader-based and well structured, and the language is not ambiguous. Findings are presented objectively and fairly. There are separate presentations of findings and conclusions, and facts are presented and interpreted in neutral terms. Different perspectives and viewpoints are represented, all relevant findings, arguments and evidences are included, and the reports are constructive; i.e. positive conclusions are presented.

5.4 How should the performance audit reports be distributed?

Comprehensive reports and wide distribution of every report are keys to the credibility of the audit function. In accordance with its fundamental role, each SAI must decide on how to best serve its own and the public interest in distributing the audit reports, both in general and for each report. If possible, all relevant audit findings should be made public (in individual performance reports or in the annual report from the SAI). It is an advantage if the reports are available for public discussion and criticism (*AS 2.2.11*).

The report should, if possible, be distributed to the auditee, the government, legislative officials, the media and other interested parties. Appropriate officials who may be included in the distribution include those designated by law or regulation to receive such reports, those responsible for acting on the findings and recommendations, those of other levels of government who have provided assistance to the auditee and legislators (*AS 4.0.8*).

Publishing audit reports may cause misunderstandings. The media may misinterpret and exaggerate findings, and as a consequence frustrate the purpose of the audit. It is therefore – based on experience – recommended that one provides the media with adequate and well-balanced information backed by factual evidence, for instance in the form of press releases.

Comprehensive reports and wide distribution of every report are keys to the credibility of the audit function. If possible, each performance audit should be published in a separate report.



5.5 What purposes do follow-up processes serve?

A follow-up process will facilitate the effective implementation of report recommendations and provide feedback to the SAI, the legislature and the government on performance audit effectiveness. In following up the report, the auditor should maintain objectivity and independence and thus focus on whether identified weaknesses have been corrected rather than on whether specific recommendations have been implemented or not.⁶² The priority of follow-up tasks should be considered in the context of the overall audit strategy as determined by the strategic planning process (AS 4.0.26).

Following up on SAI recommendations may serve four main purposes:

- increasing the effectiveness of audit reports—the prime reason for following up audit reports is to increase the probability that recommendations will be implemented;
- assisting the government and the legislature – following up may be valuable in guiding the actions of the legislature;
- evaluation of SAI performance – following up activity provides a basis for assessing and evaluating SAI performance; and
- creating incentives for learning and development – following up activities may contribute to better knowledge and improved practice.

When a performance audit is completed, there are various opportunities for obtaining information on how it has been received, for instance by observing reactions from audited bodies, parliament and in the media. Internal and external conferences can be arranged to help summarize experience and promote learning. Internal audit reviews and evaluations may also be useful. In addition, external critics (scientists, experts, and others) could be asked to scrutinize performance audit reports or to give their opinions on the quality of the work (AS 2.1.26-30).

Results from the follow-up of audit recommendations should be recorded. Deficiencies and improvements identified in the follow-up of audits should, if needed, be reported to the government or the legislature.

⁶² It is recognized that isolating the impact of an audit report in the context of other significant changes is difficult. The key factor remains whether the audit recommendations have been carried out, and this may often be the only measurable indicator of impact.

A follow-up process will facilitate the effective implementation of report recommendations and provide feedback to the SAI. There are different ways of obtaining such information: internal reviews and evaluations, conferences and seminars, special follow-up audits etc.

5.6 Summary

In brief, some reporting principles to be considered are the following.

- The results should be documented and the reporting should be timely.
- The audit report should be well communicated to the auditee and provide well-founded, objective and complete information, analyses and assessments that add value for decision-makers and other stakeholders.
- The report should be objective, well written, well structured, comprehensive, reliable, and contain relevant and usable conclusions.
- The report should be published and followed up in an objective manner.

