



Fifth ASOSAI Research Project

**Performance Auditing
Guidelines**

October 2000

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Foreword

In 1997, at its 6th International Seminar, held in Jakarta, the Asian Organization of Supreme Audit Institutions (ASOSAI) Assembly approved the Jakarta Declaration of Guidelines on Promoting Efficient and Effective Public Administration through Performance Auditing. The Declaration resolved that broad guidelines for performance auditing be developed. In September 1998 the 26th ASOSAI Governing Board meeting, held in Beijing, approved that the 5th ASOSAI Research Project would be on the topic of performance auditing guidelines.

The general framework for the development of ASOSAI performance auditing guidelines has been deduced from the Jakarta Declaration. These guidelines are not a detailed instruction manual and do not replace the need for management and staff to use their professional judgement to ensure the delivery of a quality audit product.

The team for the research project comprised: Mr. Peter Robinson (Team leader—Australia), Messrs. I. P. Singh and A. K. Thakur (India), Mr. Ab. Rahman bin Mohammed and Ms. Azizah Arshad (Malaysia) and Mr. John Oldroyd (New Zealand).

The research team developed a draft of the performance auditing guidelines that was circulated to ASOSAI members for review and comment in November 1999. Comments from ASOSAI members were taken into account in developing the final draft of the guidelines. The team wishes to express its appreciation for the contributions made by member Supreme Audit Institutions. In October 2000, at the 8th ASOSAI Assembly held in Chiang Mai, Thailand, the ASOSAI Governing Board approved the performance auditing guidelines.

Preface

Performance auditing is essentially a process that uses available evidence to form an opinion on the extent to which an agency utilises its resources in an economic, efficient and effective manner. Although performance auditing involves the use of professional judgement, a robust methodology can provide an objective framework for this judgement. Performance auditing offers considerable scope for adding real value to public administration. It also aims to ensure that individuals and agencies managing public resources remain accountable for their actions.

To be effective, performance auditors must have a clear understanding of the objectives and priorities of any area subject to audit. They must also have an understanding of the policies for the planning and conduct of audits, audit standards, audit methodology and processes of the particular Supreme Audit Institution (hereinafter referred to as SAI).

These guidelines provide a methodology and a broad framework for the conduct of the performance auditing process and also provide the basis by which the quality of the audit product can be judged. The guidelines will assist performance auditors:

- to be attuned to the needs, expectations and priorities of clients, which in the case of SAIs are the legislature, government institutions and those entrusted with the task of managing public affairs;
- to add value to agencies through performance auditing services;
- to provide an environment that enables performance auditors to enhance their skills and achieve their full potential;
- to achieve audit excellence; and
- to manage performance audit operations efficiently and effectively.

The guidelines take into account relevant INTOSAI Auditing Standards and are based on generally accepted principles of performance auditing distilled from the experience of ASOSAI members. They therefore comprise contemporary performance auditing methodology and reflect a 'best practice' consensus for the current environment, among the member SAIs. The guidelines are a 'living document', which will need to be updated as the environment changes and as performance auditing methodology and practice develop.

1. Introduction

Performance auditing guidelines

1.1 These guidelines provide a framework for identifying, collecting and analysing information and provide practical guidance to:

- assist SAI performance auditors to manage and conduct performance audits;
- promote consistent, economical, efficient and effective performance audit practice;
- establish a basis for further development of performance audit methodology and professional development; and
- set out a basic framework within which professional judgement may be exercised on analysing performance and reporting conclusions.

1.2 These guidelines are designed for use by SAI auditors and consultants who are involved in planning, carrying out, reporting and managing a performance audit. As such, the guideline chapters have been structured in line with the major stages of the performance audit process. The guidelines will help auditors to deal with the complex demands of performance auditing.

1.3 The greater use of information technology by agencies, including the Internet, has meant that performance audits will be increasingly undertaken in information technology environments. As SAIs may be called upon to develop detailed guidelines for performance auditing in an information technology environment, some of the more important considerations have been outlined in Appendix A.

1.4 Performance auditors can be faced with considerable variety and ambiguity in their work. They need skills in analysing organisational activities and management practices. They can be faced with the need to become familiar with a wide range of organisational contexts and subject matters. They need the ability to write reports dealing with complex issues in a logical and thoroughly supported fashion. The guidelines can provide some assistance in these areas, but it is largely incumbent on performance auditors to develop their skills in these areas by other means.

Definition and scope of performance auditing

1.5 The **INTOSAI Auditing Standards**¹ define a performance audit as *‘an audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities’*.²

1.6 **Economy** is *‘minimising the cost of resources used for an activity, having regard to the appropriate quality’*.³ Economy issues focus on the cost of the inputs and processes. Economy occurs where equal-quality resources are acquired at lower prices.

1.7 **Efficiency** is *‘the relationship between the output, in terms of goods, services or other results, and the resources used to produce them’*.⁴ Efficiency exists where the use of financial, human, physical and information resources is such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

1.8 **Effectiveness** is *‘the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity’*.⁵ Effectiveness addresses the issue of whether the program/activity has achieved its objectives. When focusing on effectiveness, it is important to distinguish between the immediate outputs (or products) and the ultimate impacts (or outcomes). Effectiveness is achieved, for instance, where there is improved achievement of a program’s objectives. Outcomes are important to the effectiveness of programs/activities but may be more difficult to measure and assess than the inputs and outputs. Outcomes will often be influenced by external factors and may require long-term rather than short-term assessment.

1.9 Performance auditing, also referred to as ‘Value For Money’ auditing, shares similar approaches and methodologies to program evaluation but does not generally extend to assessing policy effectiveness or policy alternatives. Apart from examining the impact of outputs, an evaluation could include issues such as whether agency planning reflected the program objectives, whether the objectives were consistent with policy and options for changing the policy to achieve more effective outcomes.

¹ Auditing Standards, Auditing Standards Committee, International Organization of Supreme Audit Institutions, June 1992, p. 69.

² Refer to Appendix B for examples of potential impacts of performance auditing.

³ Auditing Standards, Auditing Standards Committee, INTOSAI, June 1992, p. 66

⁴ Ibid, p. 67

⁵ Ibid, p. 67

1.10 Performance auditing promotes public accountability and is an aid to good corporate governance. It also encompasses the concept of traditional financial, compliance and propriety audits. Compliance audits deal with regularity and legality aspects. Propriety refers to the concept of the best practice in public management of programs/activities—public funds should not be misused by the managers for personal benefit and expenditure on programs should not exceed what the occasion demands. Performance auditors should utilise these requirements in the course of their audit, wherever applicable.

1.11 The performance auditor will also be expected to address concerns relating to equity and ethics while assessing the effectiveness of a program/activity. Equity in the context of program management relates to fairness and impartiality in use of public funds. Ethics in managing public expenditure enjoins the qualities of honesty and integrity in personal conduct and devotion to the duty as manager of public funds. The SAI performance auditor should be conscious of equity and ethics issues.

1.12 Performance audits may examine and report on:

- the quality of information and advice available to Government for the formulation of policy;
- the existence and effectiveness of administrative machinery in place to inform the Government whether program objectives and targets have been determined with a view to fulfilling policy objectives;
- whether, and to what extent, stated program objectives have been met;
- the economy, efficiency, effectiveness and ethics of the means used to implement a program/activity; and
- the intended and unintended direct and indirect impacts of programs/activities; for example, the environmental impact of government activity.

1.13 Auditors should not confine the audit to ‘what has been done’ but should also examine ‘what has not been done’ to meet the policy objectives. Given the size, complexity and diversity of agency operations, it is generally impracticable to attempt to assess the overall performance of departments or agencies. Consequently, performance audits are usually directed towards specific functions, activities, programs or operations of the agency.

Performance auditing mandate and objective

1.14 The audit mandate is generally set out in statute and dictates the extent to which an SAI can audit public sector agencies. Where the mandate is derived out of a broad interpretation of the term ‘audit’ or has been accepted by convention, auditors should be guided by their best judgement in the context of any such convention. The performance audit mandate ordinarily specifies the minimum audit and reporting requirements; indicates what is required of the auditor; and provides the auditor with authority to carry out the work and report the results. Accordingly, the auditor should be guided by the audit mandate when planning the audit. In most countries performance audits are excluded from commenting on Government policy.

1.15 Performance auditing has the objective of improving public sector administration and accountability by adding value through an effective program of performance audits and related products such as better practice guides. One of the main objectives of performance auditing is to assist the people’s representatives in exercising effective legislative control and oversight.

1.16 Performance audits have a dual role. They provide clients with information and assurance about the quality of management of public resources and they also assist public sector managers by identifying and promoting better management practices. Performance auditing may therefore lead to better accountability, improved economy and efficiency in the acquisition of resources, improved effectiveness in achieving public sector program objectives, a higher quality in public sector service delivery and improved management planning and control. The emphasis placed on the assurance role of performance auditing over the role of public sector improvement will vary between SAIs.

Performance audit process

1.17 The first stage in performance auditing is strategic planning, which requires the development and maintenance of information on the agency that will assist in identifying potential areas for audit. Potential topics can then be analysed and ranked to form annual audit strategy documents for each agency. Chapter 2 of these guidelines deals further with strategic planning.

1.18 Once a topic has been selected for performance audit, the audit is initiated by the development of a plan detailing the conduct of the audit. A preliminary study may be undertaken to gather information on the topic and to identify significant issues for audit. Chapter 3 of these guidelines deals with initiating the performance audit.

1.19 The implementation stage of a performance audit is dealt with in particular in Chapters 4 and 5 of these guidelines and involves:

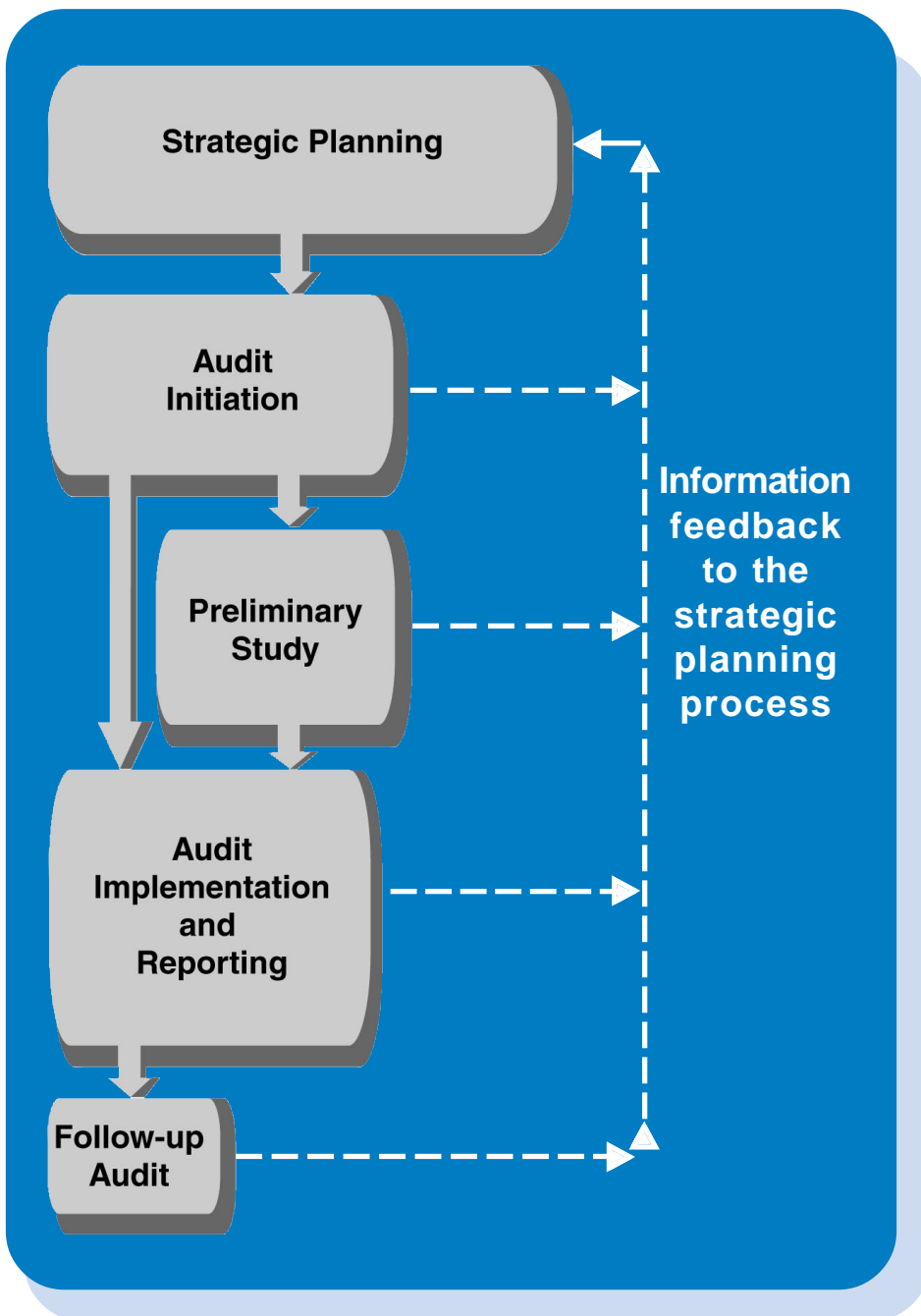
- development and execution of an audit program of procedures;
- collection and documentation of sufficient relevant and reliable evidence, including quantitative and qualitative analysis;
- formulation of audit findings, conclusions and recommendations; and
- development of discussion papers and confirmation of audit findings at an exit conference.

1.20 A report on the audit may then be drafted for consideration by the government, the legislature, the agency and the public. Throughout each stage of the performance audit the emphasis should be on the production of a final report that is balanced and has value added impact. The report-writing process should be viewed as a continuous one of formulating, testing and revising conclusions, if necessary, about the audit topic. Therefore, issues such as the expected impact and value of the audit, the likely improvements and savings resulting from the audit and methods of communicating audit conclusions should be considered throughout the audit. Chapter 6 of these guidelines deals further with reporting.

1.21 Follow-up procedures should identify and document audit impact and the progress of the agency in implementing audit recommendations. The conduct of follow-up audits is vital to the follow-up process to provide feedback to the SAI, the legislature and the government on performance audit effectiveness in producing improvements in public sector management. Follow-up processes are dealt with in Chapter 7 of these guidelines.

1.22 The key stages in the performance audit cycle are outlined in Figure 1.

Figure 1
Key Stages in the Performance Audit Cycle



General principles of performance auditing

Auditing standards

1.23 In conducting a performance audit the auditor should follow **INTOSAI Auditing Standards** as well as relevant SAI standards applicable to performance audits.

1.24 The **INTOSAI general auditing standards** common to auditors and SAIs are:

- (a) *The auditor and the SAI must be independent;*
- (b) *The auditor and the SAI must possess the required competence; and*
- (c) *The auditor and the SAI must exercise due care and concern in complying with the INTOSAI Auditing Standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.*⁶

1.25 The performance auditor and SAI must be, and be seen to be, independent and objective in the conduct of audits. That is, the SAI must have freedom *'to act in accordance with its audit mandate without external direction or interference of any kind'*.⁷

1.26 The **INTOSAI general auditing standards** also note that SAIs should:

- (a) *Recruit personnel with suitable qualifications;*
- (b) *Develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff;*
- (c) *Prepare manuals and other written guidance and instructions concerning the conduct of audits;*
- (d) *Support the skills and experience available within the SAI and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern; and*
- (e) *Review the efficiency and effectiveness of the SAI's internal standards and procedures.*⁸

⁶ Ibid, p. 23

⁷ Ibid, pp. 24, 68

⁸ Ibid, p. 23

Professional behaviour

1.27 The auditor should comply with ethical principles and codes of conduct governing the auditor's professional behaviour and responsibilities, which include:

- integrity;
- objectivity and fairness;
- confidentiality; and
- technical standards.

1.28 Although these guidelines set out a coherent basis for conducting a performance audit, professional judgement (albeit largely applied on the basis of relevant rules and procedures) remains the most important ingredient in performance audit work.

1.29 The performance auditor should adopt an attitude of professional scepticism throughout the audit, recognising that circumstances may exist that could cause the information relating to performance to be materially mis-stated.

Reasonable assurance

1.30 A performance audit conducted in accordance with applicable auditing standards provides reasonable assurance as to whether the information relating to performance is free from material mis-statement. Reasonable assurance relates to the accumulation of audit evidence necessary for the auditor to conclude whether there are any material mis-statements in the information relating to performance.

1.31 What is 'reasonable' is dependent on the facts of that situation and is to be determined by what evidence could reasonably be expected to be gathered and what conclusions could reasonably be expected to be drawn in the particular situation.

Terms of the engagement

1.32 The SAI should formally notify the auditee⁹ of the details of the engagement, preferably before the commencement of the audit, to help in avoiding any misunderstandings. With some engagements, the objective and scope of the audit and the auditor's obligations are established by law. Even in those situations identifying the terms of engagement may still be informative for the agency.

⁹ 'Auditee' refers to the agency being audited.

Work performed by assistants

1.33 INTOSAI Auditing Standards¹⁰ 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’*. When work is delegated to members of the audit team, the auditor should carefully direct, supervise and review the work delegated.

1.34 When multi-disciplinary audit teams are used, adequate direction, supervision and review are necessary to ensure that team members’ different perspectives, experience and specialties are appropriately used in the audit. All team members should understand the objectives of the audit, the terms of reference of work assigned to them and the nature of obligations imposed on them by applicable auditing standards. Adequate direction, supervision and review will assist in such an understanding.

Using the work of an expert

1.35 When using the work performed by an expert, the auditor should obtain sufficient appropriate audit evidence to ensure that such work is adequate for the purposes of the audit.

1.36 An expert is a person or firm possessing special skill, knowledge and experience in a particular field other than auditing. Because of the diverse range of activities subject to performance auditing, the auditor may need to obtain audit evidence in the form of reports, opinions, valuations and statements of an expert. Although the auditor may use the work of an expert as audit evidence, the auditor retains full responsibility for the conclusions in the audit report.

¹⁰ Auditing Standards, Auditing Standards Committee, INTOSAI, June 1992, p. 45

2. Strategic Planning

Introduction

2.1 The SAI needs to select and schedule audit tasks that help achieve its role and corporate objectives. Audit topics should be ranked, for example using a risk-based approach to topic selection, in order to make the best use of limited SAI resources. For this purpose the SAI may prepare a program model which identifies the programs, projects and activities undertaken by an agency, along with other factors such as program objectives, expected outputs, outcomes and performance indicators. The selection of topics for performance audit can be based on a combination of relevant risk and materiality factors.

2.2 A well-structured strategic planning process, based on a sound rationale, is necessary to ensure that the resources of the SAI are used in the most efficient and effective manner. The objectives of strategic audit planning are to:

- provide a firm basis for the SAI management to give strategic direction for future audit coverage;
- identify and select audits with the potential to improve public sector accountability and administration;
- provide a platform for communication with agencies and the legislature on SAI audit strategies;
- produce a work program that can be achieved with expected available resources;
- understand agency risks and take them into account in audit selection; and
- provide a basis for SAI accountability.

2.3 The key deliverable of the strategic planning process is a document which is prepared for the SAI management to enable it to critically assess the proposed planning strategy for overall consistency with the SAI's corporate objectives. It will also assist management to make appropriate resource allocations and an assessment of the strategic planning process.

2.4 The strategic plan should be supported by working papers that include:

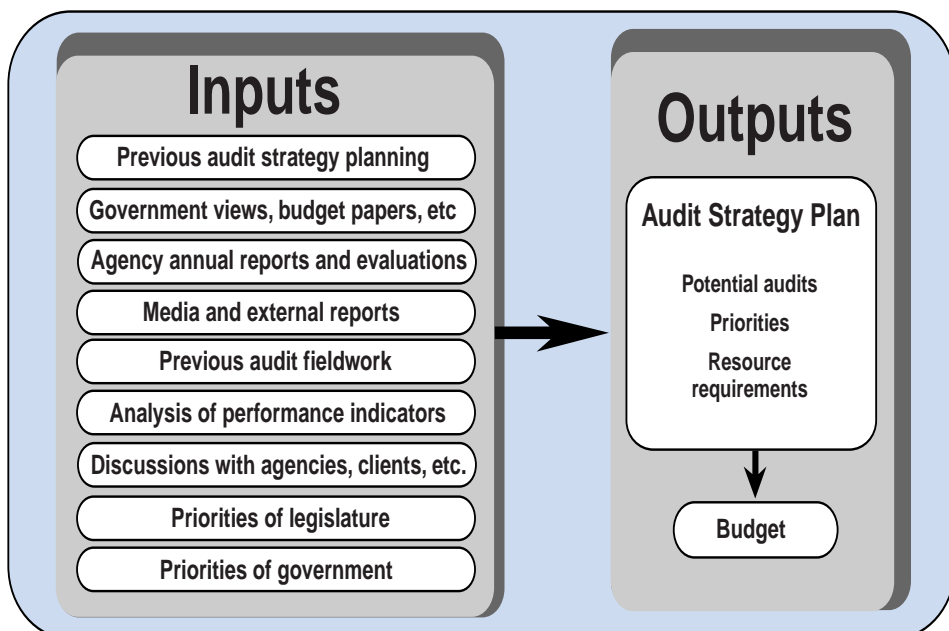
- a description of the agency and its environment;
- an assessment of the risks to good performance of the agency's programs and activities;
- a summary of the long-term strategic view of SAI performance audit directions in each agency;
- recent SAI audits, recent and proposed inquiries by the legislature, and agency evaluations and internal audits;
- a list of potential areas for performance audit; and
- a list of audits proposed for the next two or three years, the basis for their selection and indicative timing where possible. This list should reflect resource availability and should also distinguish between new performance audit topics, cross-agency audits and follow-up audits.

Selecting audit topics

2.5 Audit topics are generally selected on two grounds: firstly, to focus on audits expected to add maximum value in terms of improved accountability, economy, efficiency and effectiveness; secondly, to ensure appropriate coverage of program operations within the limitations of audit resources available. The strategic planning process is outlined in Figure 2.

Figure 2

The Strategic Planning Process



2.6 The analysis of risks of poor performance or, expressed another way, risks of inadequate economy, efficiency and effectiveness will lead to a list of potential audit topics. It can be useful to rank the topics subjectively against the following criteria:

- overall estimated audit impact;
- financial materiality;
- risk to good management;
- significance of the program to the activities of the agency;
- visibility of the program/activity as reflected in its political sensitivity and national importance; and
- lack of recent audit coverage and other internal and external review of the program/activity.

Overall estimated audit impact

2.7 Of major importance in the final selection of topics is the added value expected from the audit. A preliminary assessment of the audit's likely benefits should be made at this strategic planning stage.

2.8 Appendix B lists some of the potential impacts of performance auditing and classifies the benefits by reference to: economy; efficiency; effectiveness; quality of service; planning, control and management; and accountability. Quantification is desirable but unlikely to be feasible at the strategic planning stage.

Financial materiality

2.9 This criterion is based on an assessment of the total value of assets, liabilities, annual expenditure and annual revenue of the selected audit area. The more material an area is, the higher is its priority for selection as an audit topic.

Risks to good management

2.10 Assessment of risks to good performance in the agency requires the SAI to assess whether the management of the activity to be audited is likely to be deficient in economy, efficiency and effectiveness.

2.11 Evidence of risk to good management includes:

- management inaction in response to identified weaknesses;
- adverse comment by the legislature or media;
- non-achievement of stated objectives such as revenue raised or clients assisted;
- high staff turnover;

- identified weaknesses in internal control;
- significant underspending or overspending;
- sudden program expansion or contraction; and
- overlapping or blurred accountability relationships.

2.12 An agency program or activity that is more complex to manage and operates in an uncertain environment is more likely to have problems associated with performance. Some possible indicators of high complexity and uncertainty are:

- highly decentralised operations with devolved management decision-making responsibilities;
- a multiplicity of interested parties;
- use of rapidly changing and sophisticated technology;
- a dynamic and competitive environment; and
- controversial social and political debate surrounding the issue.

2.13 The stage of the agency's program development should also be kept in mind when assessing management performance. For example, in the development stages it will be particularly important for the agency management to set measurable, operational objectives, which clearly identify how the program will contribute to the agency's objectives. During program implementation it will be important to ascertain whether appropriate performance measures are maintained and analysed to assess performance, and whether there is a clear identification of roles and responsibilities for each level of the program/activity. If the program has been in place for some time it will be important to assess whether a formal evaluation has been undertaken to ascertain whether the program is continuing to meet relevant needs and the extent to which those needs still exist or are being met by other programs.

Significance

2.14 The significance of an audit topic should have regard to the magnitude of its organisational impacts. It will depend on whether the activity is comparatively minor and whether shortcomings in the area concerned could flow on to other activities within the agency.

2.15 Significance will rate highly where the topic is considered to be of particular importance to the agency and where improvement would have a significant impact on the operations of the agency. A low ranking in relation to 'significance' would be expected where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or be likely to have minimal impact.

2.16 Cross-agency audits are more likely to rank highly on significance.

Visibility

2.17 This criterion is similar to significance but is more concerned with the external impact of the program. It is related to the social, economic and environmental aspects of the activity and the importance of its operations to the government and the public. In considering this criterion some weight would be attached to the impact of an error or irregularity on public accountability. It would also have regard to the degree of interest by the legislature and public in the outcome of the audit. Subjects that have been identified as current themes for the SAI would generally warrant a high ranking in terms of 'visibility'.

Coverage

2.18 Coverage refers not only to previous SAI coverage but also to other independent reviews of the activity. Such reviews may have been conducted by internal audit, external consultants or government committees or the activity could have been subject to program evaluation. As a general rule, a low ranking would occur when there has been a substantial review of the activity within the past two years. A higher ranking would be warranted where a review has been requested by the legislature or the previous review indicated that such a follow-up should occur.

2.19 The materiality, risk, significance and visibility of an activity will also influence the ranking for coverage. If an activity has ranked highly on all or most of these elements, it would be expected that the audit coverage would be more frequent than for a lower ranked topic. The frequency of audit coverage would also depend on the SAI strategic audit plan and on the availability of resources.

Cross-agency and theme audits

2.20 SAI audit managers should consider appropriate themes in proposing audits. Audits that cross several agencies, addressing themes which are of relevance to the entire public sector or addressing significant national concerns, can have very high impact. Potential theme and cross-agency audits can be evaluated in the same way as other audits for inclusion in the audit program. That is, specific topics which rank more highly in terms of risk, impact and materiality should receive priority.

3. Initiating the Performance Audit

Introduction

3.1 This chapter outlines the steps involved with initiating the performance audit: the approach to be followed in planning individual audits, the requirement to understand the auditee's business and environment and the development of audit criteria.

Planning individual audits

3.2 INTOSAI Auditing Standards¹¹ identify that the following are the planning steps ordinarily included in an audit:

- (a) collect information about the audited agency and its organisation in order to assess risk and to determine materiality;*
- (b) define the objective and scope of the audit;*
- (c) undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;*
- (d) highlight special problems foreseen when planning the audit;*
- (e) prepare a budget and a schedule for the audit;*
- (f) identify staff requirements and a team for the audit; and*
- (g) discuss with the audited agency the scope, objectives and the assessment criteria of the audit.*

3.3 Planning consists of developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The audit plan is a key document for controlling and monitoring audits in the SAI. The auditor should develop and document an audit plan describing the expected scope and conduct of the audit and should plan to have the audit work performed in an efficient, effective and timely manner. In addition to the planning steps outlined above, the auditor should also consider:

- determining the suitability of audit criteria;
- determining an efficient and effective approach to conducting the audit;

¹¹ Ibid, p. 44

- planning to use the work of an expert;
- relevant accountability relationships;
- remaining mindful of the users of audit reports;
- reviewing the auditee’s internal audit system;
- reviewing relevant previous audit findings/recommendations; and
- documenting the audit plan.

3.4 Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problems are identified and that the work is completed expeditiously. Planning also assists in proper assignment of work to team members and in coordination of work performed by other auditors and experts. Audit planning should lead to the development of a detailed audit program that identifies the specific audit tasks to be undertaken.

Determining the objectives of a performance audit

3.5 Audit objectives relate to the reasons for conducting the audit and should be established early in the audit process to assist in identifying the matters to be audited and reported. For example, an audit objective may be to assess whether an agency uses appropriate processes to identify the human resources it needs to achieve its objectives.

3.6 The audit objectives should address the concerns of accountability and good governance and should facilitate financial control as well as improving the economy, efficiency and effectiveness of program management.

3.7 The audit objectives should be conditioned by the need to maximise the net benefits and impacts from the audit. In setting objectives the audit team should 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 and, since changes in one usually affect the other, they need to be considered together. It is good management practice for audit objectives and scope to be discussed with the agency management.

The audit program

3.8 The auditor should develop and document an audit program.¹² An audit program outlines the requirements and procedures necessary

¹² Refer to Chapter 4 for more details on developing the audit program.

to implement the audit objectives and to make assessments against audit criteria. The main objectives of an audit program are to:

- establish a clear relationship between audit objectives, audit methodology, and the anticipated field work to be carried out;
- identify and document the procedures to be performed; and
- facilitate supervision and review.

3.9 An audit program should set out and specify the following:

- audit objectives and sub-objectives concerning the efficient, economical or effective operations of the area or agency being audited;
- audit criteria to be applied;
- the specific tasks to be performed during the fieldwork to determine the extent to which agency operations meet the requirements outlined in audit criteria;
- evidence to be collected, including details of audit sampling and the timeframe of the activity to be covered;
- procedures/techniques for collecting the evidence;
- the allocation and timing of tasks to be performed by audit team members; and
- any necessary special instructions.

3.10 Progress against the planned audit program should be monitored and regular briefings provided to SAI management. The audit program should be revised as necessary during the course of the audit.

Understanding the business of an auditee

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

- the mandate of the agency and the areas being audited within the agency;
- objectives of the agency and relevant programs;
- programs and performance goals of the agency;
- organisational and accountability relationships within the agency;
- the internal and external environment of the agency and the stakeholders;
- external constraints affecting program delivery;

- agency management processes and operations; and
- resources of the agency.

Appendix C details a range of key features, of the auditee and its environment, that need to be understood by the auditor.

3.12 Obtaining the required knowledge of the business 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 up the costs of obtaining information and the additional value of the information to the audit outcomes, to ensure that maximum value is being obtained from the audit resources expended.

3.13 Sources of information to assist in understanding the agency include:

- enabling legislation and legislative speeches;
- ministerial statements, government submissions and decisions;
- recent audit reports, reviews, evaluations and inquiries into the agency;
- the agency's strategic and corporate plans, mission statement and annual report;
- budget statements;
- agency policy files, management committee and executive board minutes;
- agency organisation charts, internal guidelines and operating manuals;
- the agency's program evaluation and internal audit plans and reports;
- conference reports and minutes;
- discussions with agency management and key stakeholders; and
- management information systems.

3.14 Past audits and other reviews can provide an extremely 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. There is, however, no substitute for discussions with senior agency management to gain an overall program perspective against the background of the above information.

3.15 Performance monitoring, accountability and evaluation processes within the public sector are generally agency-based. However, there could also be a range of information, which crosses agencies, which may also assist in the information-gathering stage, such as:

- studies by industry, professional or special interest groups;
- inquiries or previous reviews by the legislature;
- information held by coordinating agencies or by interdepartmental committees;
- research by academics;
- work undertaken by other governments overseas; and
- media coverage.

Role of preliminary study

3.16 Once a topic has been selected for audit, the audit team may conduct a preliminary study to further understand the activity under audit and identify fundamental issues. The preliminary study aims to provide sufficient justification to proceed to a performance audit or else to conclude any further work and report findings. At the end of the preliminary study there will normally be a report to senior SAI management that summarises the findings of the study and recommends future action.

3.17 If a performance audit is recommended, the preliminary study report should identify the major issues to be pursued, define the audit objectives, scope and focus, estimate potential impacts and develop a timetable and resource budget to conclude a timely and defensible audit report.

3.18 If a performance audit is not recommended, the preliminary study report should summarise the study conclusions. To finalise the preliminary study fieldwork, an exit conference should be held with the agency management.

Audit criteria

3.19 Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of activities can be assessed. They reflect a normative (ie. desirable) control model for the subject matter under review. They represent good practice—a reasonable and informed person’s expectation of ‘what should be’.

3.20 When criteria are compared with what actually exists, audit findings are generated. Meeting or exceeding the criteria might indicate ‘best practice’, but failing to meet criteria would indicate that improvements can be made.

3.21 Typically, an audit will commence, following its identification by the SAI planning process, with one or more issues to be explored. To explore these issues then requires the formulation of criteria, followed by development of test programs to assess whether the criteria have been met. But, in preparing these programs and carrying them out, auditors may realise that the issues previously defined may need to be extended or modified.

3.22 The auditor should be satisfied that suitable criteria have been identified to enable the auditor to assess the activities subject to audit and to achieve the audit objectives. Some characteristics of suitable criteria include:

- **Reliability:** Reliable criteria result in consistent conclusions when used by another auditor in the same circumstances.
- **Objectivity:** Objective criteria are free from any bias of the auditor or management.
- **Usefulness:** Useful criteria result in findings and conclusions that meet users’ information needs.
- **Understandability:** Understandable criteria are clearly stated and are not subject to significantly different interpretations.
- **Comparability:** Comparable criteria are consistent with those used in performance audits of other similar agencies or activities and with those used in previous performance audits within the agency.
- **Completeness:** Completeness refers to the development of all significant criteria appropriate to assessing performance in the circumstances.
- **Acceptability:** Acceptable criteria are those to which the audited agency, legislature, media and general public are generally agreeable. The higher the degree of acceptance of the criteria, the more effective the performance audit.

3.23 Criteria can perform a series of important roles to assist the conduct of a performance audit as they can:

- form a common basis for communication within the audit team and with SAI management concerning the nature of the audit;

- form a basis for communication with the agency management in that the audit team will often solicit agency management understanding of, and concurrence with the criteria and eventual acceptance of audit findings in light of those criteria;
- link the objectives to the audit test programs carried out during the implementation phase;
- form a basis for the data collection phase of the audit, providing a basis on which to build procedures for the collection of audit evidence; and
- provide the basis for audit findings, helping to add form and structure to audit observations.

3.24 The degree to which criteria are successful in serving these uses is often determined by their level of detail and the form they take. General audit criteria are developed during the preliminary study. As the preliminary study progresses these criteria are usually expanded and made more specific. By the end of the preliminary study, the criteria should be sufficiently detailed to give clear guidance for the implementation stage of the audit, particularly in the development of specific audit programs to test the criteria.

3.25 It is unrealistic to expect that activities, systems or levels of performance relating to economy, efficiency and effectiveness will always fully meet the criteria. It is important to appreciate that satisfactory performance does not mean perfect performance but is based on what a reasonable person would expect, taking into account agency circumstances. The general aim would, however, be high level performance within resource constraints.

3.26 SAIs should note the implications for performance auditing of the emerging shift in the role of many governments from a 'provider of services' to a 'facilitator and regulator' and the increasing use of private operators by the public sector. The performance audit focus, on the economy, efficiency and effectiveness of public sector activity, may have to be modified to take account of the increasing privatisation and liberalisation of public sector operations in many countries. SAIs will be called upon to devise new approaches, techniques and criteria for the performance audit of programs that may not be directly funded by governments, but may affect the public at large by way of quality of service, cost and equity of access. In this environment, performance auditing needs to take into account the shift from a 'government-centred' to a more 'people-oriented' approach.

3.27 It is generally useful to obtain agency management input to the development of criteria. Audit criteria would typically be exposed to the agency at the start of the main performance audit. Any disagreement with agency management about criteria can then be identified, discussed and, if possible, resolved at an early stage without impacting adversely on audit independence.

Sources of audit criteria

3.28 Each SAI will need to develop audit criteria that are valid for the nature of the activity under review. These may include quantitative and/or qualitative measures.

3.29 To avoid the necessity to create criteria from first principles for each audit, the audit team should investigate the following sources of existing criteria:

- criteria used previously in similar audits;
- criteria published by other SAIs;
- performance standards used by the agency, or previous inquiries by the legislature;
- agencies carrying out similar activities;
- professional organisations and standard-setting bodies; and
- general management and subject matter literature.

3.30 These sources provide a basis for the development of suitable criteria for the audit, but may require interpretation and modification to ensure their relevance to the agency.

3.31 Criteria must be realistic and take into account the context of the agency. Some key criteria relate directly to the agency itself, for example:

- enabling and related legislation;
- agency operating and procedures manuals; and
- central agency policies, standards, directives and guidelines.

Agency performance information

3.32 Information about the performance of an agency underpins performance auditing. Performance information, either quantitative measures or qualitative assessments, is fundamental to evaluating economy, efficiency and effectiveness. Criteria relating to satisfactory performance can be derived from the agency's own objectives or from accepted industry and/or government standards of performance.

3.33 In examining performance information, auditors should:

- consider whether the agency has sufficient and reliable procedures in place to measure and report on performance;
- ascertain whether the performance measures in place are complete, relevant and justified on a cost-benefit basis;
- examine procedures to determine if they relate to the agency's corporate goals; and
- consider whether the performance measures are incorporated into the management decision-making processes; that is, are they reported and used within the agency.

3.34 These issues draw the performance auditor into a consideration of quantitative and qualitative performance information. Such consideration should be an essential element in all performance audits.

3.35 Appendix D contains a list of important issues that can be considered in a performance audit of any government program or activity. As such they serve as a useful checklist for performance auditors at the start of a performance audit. The questions are designed to help identify potential issues and problems that can be explored in more detail.

4. Implementing the Performance Audit

Introduction

4.1 The audit objectives and criteria will normally be tested by an audit program of procedures that include:

- observing, interviewing and documenting;
- testing and checking; and
- analysing.

Developing the audit program

4.2 In developing the audit program, it is important that the criteria:

- relate to the audit objectives; that is, enable relevant evidence to be collected on issues which will maximise the impact of the audit;
- are clearly stated and include sufficient detail to enable them to be readily understood by those carrying out the audit;
- are organised in a logical manner so that the audit examination can be conducted as efficiently as possible;
- form an efficient method of gathering sufficient evidence without superfluous testing; and
- take account of any earlier related audit work and/or published research on the topic.

4.3 Performance audit programs need to be customised for each audit. Further factors to be considered when developing the programs include:

- size—audit programs generally increase in size and complexity (more detailed procedures, questionnaires and checklists) with increases in the scope of the audit;
- geographic dispersion—the dispersion and location of sites to be visited can markedly affect the audit program. Detailed procedures may be required to ensure consistency when different personnel are carrying out the same audit at different locations;
- audit environment—management receptiveness to being audited and the sensitivity of the area in the agency will affect the way in which procedures are developed and applied;

- the components of the program/activity or the system to be audited, eg. its inputs, processing activities, outputs and outcomes; and
- whether broad issues only have been identified, or specific criteria are available for audit examination.

4.4 Audit managers should ensure that means of collecting appropriate evidence are listed against each audit criterion. The audit manager should also consider the costs *vis-a-vis* the benefits of collecting evidence.

4.5 In some cases, a criterion that appears reasonable may not be able to be tested at all. For example, a criterion that '*appropriate priority be given to the development of an information system*' could not be assessed without knowing all other priorities and their justifications. Thus the criterion should be revised. Criteria must also be reviewed for consistency with the legislation, for practicality and for comprehension by field staff.

4.6 Furthermore, once preliminary research/fieldwork is under way, new issues may arise that warrant reconsideration and revision of the initial criteria. However, before adding new issues, the likely impact on the audit budget and timetable must be considered.

4.7 In developing an audit program it will not be possible to anticipate all contingencies. In the early stages of an audit, there is a need to retain flexibility and to review the audit program for appropriateness. It is preferable to start with a program outlining the approach to the audit issues and revise and extend it as the audit develops.

4.8 One approach to developing an audit program is an iterative process such as the one outlined in Figure 3:

Figure 3

The Audit Program Revision Cycle



4.9 In light of observations on the outcomes of this process, planning for the next stage of the audit program can be modified i.e. the interpretations/conclusions arising from one stage of the audit program can be used to review and modify the next stage.

Audit approaches

4.10 There are a number of analytical approaches to undertaking an audit program and making assessments against criteria. These approaches include:

- analysis of procedures;
- use of existing data or evidence provided by the agency;
- analysis of results;
- case studies;
- surveys; and
- quantitative analysis.

Analysis of procedures

4.11 An analysis of procedures is often a starting point for audit analysis. The auditor would review systems in place for planning, conducting, checking and monitoring the activity being audited. This would involve interviews of managers and examination of documents such as budgets, financial reports, program guidelines, annual or other plans, procedures manuals, delegations and reporting requirements. Procedures would be tested against established criteria or a desirable control model. This would typically mean that procedures would be checked, among other things, for completeness, relevance against the legislation, internal consistency and practicability.

Use of existing data

4.12 It is important for audit staff to investigate the data held by agency management and by other relevant sources. This may include the management information systems used to manage agency programs/activities and/or the data collected on individual programs.

Analysis of results

4.13 Analysis of results from examining a number of instances of agency activity in a particular area will help decide whether agency performance in that area conforms to audit criteria and is generally satisfactory.

Case studies

4.14 The case study is a method for learning about a complex issue, based on a comprehensive understanding of the particular instance. The case study involves an extensive description and analysis of the particular issue within the context of the whole area under review.

Surveys

4.15 Another method of obtaining insight into an agency's activities is by the conduct of a survey. This is a method of collecting information from members of a population (such as the agency's staff, suppliers or clients) to assess the incidence, distribution, and interrelation of events and conditions.

Quantitative analysis

4.16 Where practicable, an entire population should be analysed. Where this is not feasible, due to cost and time constraints, sampling techniques should be used. The nature of the population should be examined to decide the most appropriate sampling methodology. When using either a statistical or a non-statistical sampling approach, the auditor should select an appropriate audit sample, perform audit procedures on the sample and evaluate sample results so as to provide sufficient audit evidence.

4.17 When selecting an audit sample, the auditor should consider the specific audit objectives and the attributes of the population from which the auditor wishes to draw the sample. In determining the sample size, the auditor should consider whether sampling risk will be reduced to an acceptably low level. The auditor should select sample items so as to have a reasonable expectation that all sampling units in the population have an equal chance of selection.

4.18 To each item selected the auditor should apply audit procedures appropriate to the particular audit objective. The auditor should consider what conditions would constitute an anomaly or error by reference to the audit objectives. The auditor should consider the nature and cause of any errors identified and their possible effect on the particular audit objective and on other areas of the audit.

4.19 Errors found in the sample should be projected to the population. The auditor should consider the effect of the projected error on the particular audit objective and on other areas of the audit.

Refining the audit program

4.20 The initial audit program should be refined by developing 'action lists' that reorganise the program by audit activity. For example, for the audit activity 'interviews', an auditor would list all criteria/issues that are to be addressed in this way. At the same time, questions for the interviews can be developed from the criteria/issues. Similarly, a list of audit steps should be established against other activities such as file searches.

4.21 The result of this process is that for every criterion there is at least one audit step (sometimes several will be necessary; for example, interviews alone rarely provide adequate evidence). As well, for every audit step there is a relevant issue related to the criterion.

4.22 It is also likely that the initial audit program will require revision to take account of external factors. For example, the precise nature of the data held (whether in databases or on files) may not be known, nor the likely difficulty of access. A decision is then necessary on whether to abandon the test, make an interim finding of lack of satisfactory record-keeping, or pursue an alternative means of gathering evidence.

4.23 In carrying out planned audit steps additional relevant information, not explicitly covered by the audit program, may come to light. In this case, the auditor should identify the issues highlighted by the new information.

4.24 One of the purposes of the preliminary study is to refine the audit program. It is also advisable to review the program early in the fieldwork stage of the main audit to ensure it remains appropriate. However, revisions at this stage may lead to incompatibility of results from the beginning to the end of the audit. This will need to be considered by the audit manager against the advantages of improving the program.

4.25 The level of detail of the final audit program will depend on a number of factors:

- the complexity of the audit issues to be tested;
- the extent of the audit; for example, a large audit carried out in several locations would need a detailed program to ensure consistency; and
- the level of the staff carrying out the audit; where junior staff have responsibility for carrying out fieldwork, a more detailed program would normally be appropriate.

4.26 For multiple-agency audits, the main issue in the program is whether each audit step needs to be carried out in each agency. Different requirements for sample sizes may lead to some audit steps being carried out in only certain agencies.

4.27 For single-agency audits, the auditor needs to be careful that the instances chosen for analysis can be extrapolated to form a fair picture of the agency or program under review as a whole. In the case of cross-agency audits, there is a similar concern that agencies chosen for examination are sufficiently representative or that the results can be reasonably inferred across the public sector.

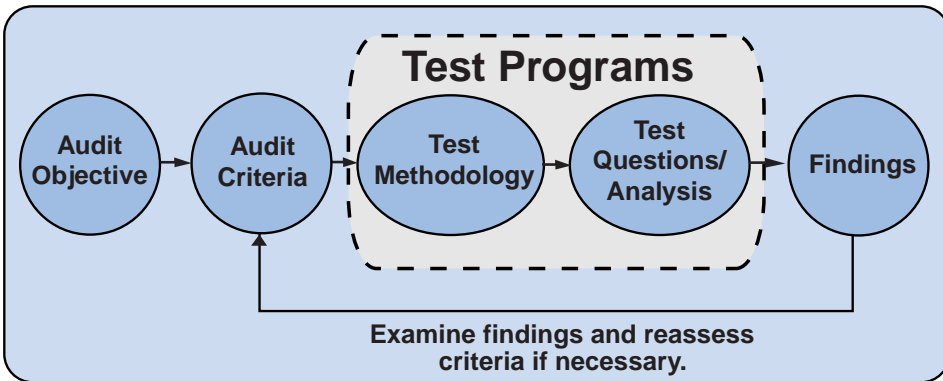
Audit test programs

4.28 Audit test programs form an integral part of the audit program. An audit test program refines audit criteria into a series of procedures and/or activities (tests) to obtain relevant and reliable evidence upon which conclusions may be drawn.

4.29 Audit test programs are the key link between the development of audit objectives/criteria and the conduct of an audit leading to credible and defensible findings. This is illustrated in Figure 4.

Figure 4

The Development of Audit Test Programs



4.30 Test programs should not be prescriptive but should have the following characteristics:

- **Clear purpose:** The purpose of the test program should be clearly defined from the outset to show relevance to the audit topic and to effectively focus the audit.
- **Easily understood:** The test program should be easy to understand, with any jargon and acronyms explained.
- **Sound logic:** A logical link should exist between the objectives of the audit, the audit criteria and the audit test program.
- **Good layout/design:** Page layout and design should be kept simple, preferably in a working paper style format for easy referencing.
- **Good co-ordination:** An audit test program should be used to clearly define the roles of each team member to avoid duplication of work.
- **Flexibility:** Test programs should remain flexible to allow for the introduction of new evidence/criteria, and the exclusion of outdated or irrelevant evidence/criteria.
- **Cost effectiveness:** Test programs must ultimately be cost effective; that is, the time and resources used on a test program must not outweigh the likely benefit such a program will produce.

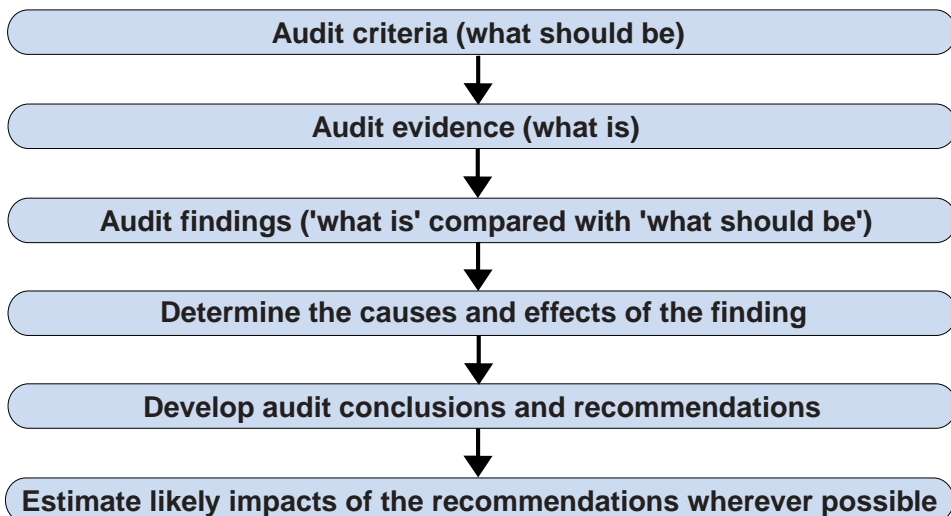
Developing findings and recommendations

4.31 Audit findings are identified by relating audit observations to audit criteria. Audit observations are based on the analysis of information collected during the audit. Audit findings should be developed and evaluated throughout the various phases of a performance audit. Potential findings identified in the planning stage or during the preliminary study should be followed up in the detailed examination phase of the audit.

4.32 Instances where agency performance exceeds the expected performance (as inferred from the audit criteria) are good practice findings, provided the targets/benchmarks are realistically determined, and should also be reported. The process of analysing evidence, developing findings and producing recommendations to resolve identified areas of poor practice is summarised in Figure 5.

Figure 5

The Process of Developing Recommendations



4.33 The detailed evaluation of audit findings is generally completed during the preparation of discussion papers for distinct segments of the audit or near the conclusion of the audit fieldwork. However, some evaluation may extend into the reporting phase, as findings are challenged and further evidence is obtained. It is at this latter stage that a final decision is reached on the findings and recommendations that will be reported. Once an audit finding has been identified, two complementary forms of assessment take place; an assessment of the significance of the finding and the determination of the causes of good performance or under-performance (where it is below that expected).

4.34 The effect of a finding may be quantifiable in many cases. For example, the cost of expensive processes, expensive inputs or unproductive facilities can usually be estimated. Additionally, the effect of inefficient processes, for example idle resources or poor management, may become apparent in terms of time delays or wasted physical and other resources. Qualitative effects, as evidenced by a lack of control, poor decisions or lack of concern for service, may also be significant. The identified effect should demonstrate the need for corrective action. The effect can also have occurred in the past, be occurring now or may possibly occur in the future. If the effect occurred in the past the audit finding will stand only if the situation has not already been remedied to prevent it from recurring.

4.35 The auditor should identify the underlying cause of a finding, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings. The cause may be outside the control of the agency under audit, in which case the recommendation should direct attention outside the agency. However, the agency concerned should be provided with the relevant part of the report for comment. This factor should also be taken into consideration while developing the timeline for reporting.

4.36 The auditor may identify a cause-and-effect chain and have the option of reporting the findings at different points in the chain. In this situation the auditor should highlight the most critical deficiency in the chain.

4.37 Findings may be presented in discussion papers for comment by agency management. Agency responses can then be documented and analysed. Where the agency disagrees with the audit findings and recommendations, the reasons for such disagreement should be fully analysed.

4.38 The recommendations made by the SAI regarding performance audits have to be argued in a logical manner. Recommendations should indicate broadly what issues might be examined by management when seeking solutions and should focus on the more significant issues requiring attention. The less significant issues should be referred to agency management for action.

4.39 Recommendations require careful review to ensure that they are practical and add value. The auditor should ensure, for example, that the recommendation addresses the objectives of the audit; ie. economy, efficiency, effectiveness or accountability as appropriate. A good test for the auditor is to consider how the recommendation would be followed up; how the implementation of the recommendation could be tested; and what specific actions the agency can undertake to implement the recommendation.

5. Evidence and Documentation

Audit evidence

5.1 Audit evidence is information collected and used to support audit findings. The conclusions and recommendations in the audit report stand on the basis of such evidence. Consequently, performance auditors must give careful thought to the nature, quality and amount of evidence they collect.

5.2 All fieldwork should be planned from the perspective of acquiring evidence intended to support the findings appearing in the final report. The plan for conducting fieldwork is the audit program which, in turn, is based on the audit objectives and on criteria where they have been developed.

Competence, relevance and sufficiency of evidence

5.3 The **INTOSAI Auditing Standards**¹³ state *‘Competent, relevant and reasonable evidence should be obtained to support the auditor’s judgement and conclusions regarding the organisation, program, activity or function under audit.’*

Competence of evidence

5.4 Evidence is competent (valid and reliable) if it actually represents what it purports to represent. The reliability of evidence can be ensured and assessed by considering the following:

- corroboration of evidence is a powerful technique for increasing reliability. This involves the auditor looking for different types of evidence from different sources;
- evidence sourced from outside the agency is normally viewed as more reliable for audit purposes than information generated within the agency;
- documentary evidence is usually considered to be more reliable than oral evidence;
- evidence generated through direct auditor observation or analysis is more reliable than indirectly obtained evidence;
- the reliability of agency-generated information will be a function of the reliability of the agency’s internal control systems;

¹³ Auditing Standards, Auditing Standards Committee, INTOSAI, June 1992, pp. 50, 42

- oral evidence that is corroborated in writing is more reliable than oral evidence alone; and
- original documents are more reliable than photocopies (if originals are photocopied the auditor should note the source of original and the date copied). Photocopies of evidence regarded as being of significant importance to an audit should, whenever possible, be certified by relevant authorities.

Relevance of evidence

5.5 Relevance requires that the evidence bear a clear and logical relationship to the audit objectives and to the criteria. One approach to planning for data collection is to list, for each issue and criterion, the nature and location of evidence that is needed, as well as the audit procedure that is to be implemented.

Sufficiency of evidence

5.6 The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit report. Sufficiency is the measure of quantity of audit evidence. Appropriateness is the measure of quality of audit evidence, its relevance to particular criteria and its reliability.

5.7 Evidence is sufficient when there is enough relevant and reliable information to persuade a reasonable person that the performance audit findings, conclusions and recommendations are warranted and supported. In determining whether documentary evidence is sufficient, the auditor must take account of the status of the document; eg. draft internal agency documents may have little status in terms of the agency's intentions and decisions.

5.8 The factors that dictate the strength of evidence required to support an observation in performance auditing include:

- level of materiality or significance of the observation;
- degree of risk associated with coming to an incorrect conclusion;
- experience gained in previous audit examinations on the degree of reliability of the agency's records and representations;
- known agency sensitivity to an issue; and
- cost of obtaining the evidence relative to the benefits in terms of supporting the observation.

5.9 Evidence gathered during a performance audit may be predominantly qualitative in nature and requires extensive use of professional judgement. Accordingly the auditor would ordinarily seek corroborating evidence from different sources or of a different nature in making assessments and forming conclusions.

5.10 When planning the audit, the auditor would identify the probable nature, sources and availability of audit evidence required. The auditor should consider such factors as the availability of other audit reports or studies and the cost of obtaining the audit evidence.

Characteristics of performance audit evidence

5.11 In performance audit terms, audit evidence is the facts or information used:

- to conclude whether an agency's management and employees have accepted and carried out appropriate actions to conform to operational principles, policies or standards for using resources effectively, efficiently and economically; and
- to demonstrate to a third party that the auditor's findings are credible and defensible.

5.12 Auditors need to be aware of potential problems or weaknesses with performance audit evidence. Potential problems include:

- evidence based on a single source (this may impact on reliability, validity and sufficiency);
- oral evidence not supportable by documentation or observation (reliability);
- evidence is not time-sensitive, ie. outdated and does not reflect changes (relevance);
- evidence too expensive to obtain relative to benefits (relevance and sufficiency);
- source of evidence has a vested interest in outcome (reliability);
- samples collected are not representative (relevance, validity, sufficiency);
- evidence may be related to an isolated occurrence (validity, sufficiency);
- evidence is incomplete, ie. does not demonstrate a cause or effect (reliability, sufficiency); and
- evidence is conflicting (reliability).

5.13 Evidence can be categorised as to its type—physical, oral, documentary or analytical.

Physical evidence

5.14 Physical evidence is obtained by observing people and events or examining property. The evidence can take the form of photographs, charts, maps, graphs or other pictorial representations. A picture of an unsafe condition is far more compelling than a written description.

5.15 When the observation of physical condition is critical to achieving the audit objectives it should be corroborated. This may be achieved by having two or more auditors make the observation, if possible accompanied by representatives of the agency.

Oral evidence

5.16 Oral evidence takes the form of statements that are usually in response to inquiries or interviews. These statements can provide important leads not always obtainable through other forms of audit work. They can be made by employees of the agency, beneficiaries and clients of the program being audited, experts and consultants contacted to provide corroborating evidence in relation to an audit, and by members of the general public.

5.17 Corroboration of oral evidence is needed if it is to be used as evidence rather than simply as background. This could be:

- by written confirmation by the interviewee;
- by weight of multiple independent sources revealing the same facts;
or
- by checking records later.

5.18 In assessing the reliability and relevance of oral evidence the auditor needs to have regard to the credibility of the interviewee; that is, the position, knowledge, expertise and forthrightness of the person being interviewed.

Documentary evidence

5.19 Documentary evidence in physical or electronic form is the most common form of audit evidence. It may be external or internal to the agency. External documentary evidence may include letters or memoranda received by the agency, suppliers' invoices, leases, contracts, external and internal audits and other reports, and third-party confirmations. Internal documentary evidence originates within the audited agency. It includes items such as accounting records, copies of outgoing correspondence, job descriptions, plans, budgets, internal reports and memoranda, statistics summarising performance and internal policies and procedures.

5.20 The reliability and relevance of documentary evidence should be assessed in relation to the objectives of the audit. For example, the existence of a procedures manual is not evidence that the manual is put into practice. As with oral evidence, the position, knowledge and expertise of the author or approver of the document may need to be assessed.

5.21 Documents that are the output of management information and control systems (eg. the accounting system) will need to be assessed in the light of the internal controls that operate within that system. Auditors who intend to rely on such evidence should assess the system's internal controls.

Analytical evidence

5.22 Analytical evidence stems from analysis and verification of data. The analysis can involve computations, analysis of ratios, trends and patterns in data obtained from the agency or other relevant sources. Comparisons can also be drawn with prescribed standards or industry benchmarks. Analysis is often numerical; considering for example ratios of output produced to resources consumed. It can also be non-numerical in nature; for example observing a consistent trend in the nature of complaints made about an agency.

The evidential process

5.23 Collecting evidence takes place during both the preliminary study and examination phases of an audit. Work done in the preliminary study phase also constitutes part of the overall evidence. Auditors should:

- examine the characteristics of data required;
- collect data relevant to achievement of the explicit audit objectives;
- collect data based on the audit criteria outlined in the audit work program of the audit plan;
- collect data which is sufficient and persuasive to logically support the analysis, observations, conclusions and recommendations; and
- apply the standard of evidence to build a successful case 'on the balance of probabilities'.

5.24 Sources of evidence are discussed in the following paragraphs.

Policy statements and legislation

5.25 Auditors should gather policy documents, operating guidelines, manuals, ministerial directives, delegations, etc., and examine the background leading to their promulgation. Auditors should also consider

changes to legislation and the document trail leading to the need for change, for example, submissions, press clippings, complaints, case histories and speeches.

Published program performance data

5.26 Published agency budget statements may provide evidence on the objectives and performance of agencies. They include an agency overview and also provide financial and other performance information.

Interviews

5.27 Interviews can be useful, but it is necessary to identify the appropriate people to provide information, and to corroborate the oral information. Solid preparation for the topic is essential and a pre-prepared list of questions is useful; in some cases, it may be effective to supply this list to the interviewee beforehand.

File examination

5.28 Information obtained from files provides strong evidence to support audit findings and recommendations. A listing of files should be obtained from agency registry systems. In addition, file information of relevance to a particular work area may be found in that work area. Audit interviews may also give hints on which files to seek and review. Files which may prove useful for review include those on:

- strategic and operational planning;
- management control;
- executive meeting minutes;
- complaints and disputes; and
- reviews and audits.

5.29 File examination is time-intensive, and it is usually not possible to examine all files. Judgement must be exercised whether to examine a random selection or a selection based on the purpose of the investigation. Usually the latter approach would be adopted but, if time permits, a random sample of other files should be examined.

Management reports and reviews

5.30 Agencies usually generate a number of internal reports or reviews summarising for senior management the issues at the time, or proposing courses for action. Auditors should locate and analyse such reports. Ways of identifying these reports include interviews and examination of minutes of management meetings.

Databases

5.31 Most agencies have some form of management information system that collects relevant information for the conduct of operations. These systems can be important sources of evidence, especially in quantifying relevant audit matters.

External sources

5.32 Larger agencies may have sophisticated, specialist libraries relevant to their areas of responsibility. Literature searching on relevant topics and key words can be particularly useful.

SAI sources

5.33 Evidence collected in previous audits or through the SAI strategic planning process should be used if it is relevant.

Observation

5.34 The value of direct observation should not be overlooked. Observation of the general demeanour of staff can give information about pressure, morale, or lack of work which can then be followed up if thought appropriate.

5.35 However, careful consideration needs to be given to selecting activities or facilities to be physically inspected. These should be representative of the area under examination. Auditors should also be aware that people perform differently when they are being observed.

5.36 This type of evidence can be regarded as ‘soft’ unless corroborated. Photographs and video recordings increase the value of direct observation. Detailed description of the results of the observations in written form is recommended.

Documentation

5.37 The auditor should document evidence to support the audit conclusions and to confirm that the audit was carried out in accordance with relevant SAI and INTOSAI standards applicable to performance audits. This includes the basis and extent of planning, audit methods and procedures, research design, the work performed and the audit results and findings.

5.38 INTOSAI Auditing Standards¹⁴ state that:

Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit...

Adequate documentation is important for several reasons. It will:

- a) confirm and support the auditor's opinions and reports;*
- b) increase the efficiency and effectiveness of the audit;*
- c) serve as a source of information for preparing reports or answering any enquiries from the audited agency or from any other party;*
- d) serve as evidence of the auditor's compliance with auditing standards;*
- e) facilitate planning and supervision;*
- f) help the auditor's professional development;*
- g) help to ensure that delegated work has been satisfactorily performed; and*
- h) provide evidence of work done for future reference.*

5.39 Thorough documentation is a vital aspect of maintaining a professionally acceptable level of auditing, for the following reasons:

- there must be an adequate and defensible basis for the audit opinions expressed in a report;
- it enables auditors to explain audit findings better to the legislature;
- it provides an effective link between successive audits; and
- it provides a basis for quality assurance reviews.

Working papers

5.40 Working papers are all relevant documents collected and generated during a performance audit. They should include documents recording the audit planning, the nature, timing and extent of the audit procedures performed, the results thereof and the conclusions drawn from the audit evidence obtained. Working papers should therefore contain at least three sections: planning; execution; and reporting.

5.41 Working papers serve as the connecting link between the fieldwork and the audit report and should be sufficiently complete and detailed to provide an understanding of the audit. Thus they should contain the evidence accumulated in support of the opinions, conclusions and analysis supporting recommendations in the report.

¹⁴ Ibid, pp. 50,51

5.42 Working papers organise and facilitate access to the evidential documentation and thus:

- assist in the planning and performance of the audit;
- facilitate effective management of individual audits and the total audit task;
- assist in the supervision and review of the audit work; and
- record evidence resulting from audit work performed to support the audit opinion.

5.43 The auditor should adopt appropriate procedures to maintain the confidentiality and safe custody of the working papers and should retain the working papers for a period sufficient to meet the needs of the legal and professional requirements of record retention.

5.44 Set out below are several broad characteristics that working papers should have.

Completeness and accuracy

5.45 Working papers should be complete and accurate. They should provide proper support for findings, conclusions and recommendations, and demonstrate the nature and scope of the examination performed.

Clarity and conciseness

5.46 Working papers should be clear and concise. Without supplementary oral explanations, anyone using the working papers should be able to understand their purpose, the nature and scope of the work done, and the conclusions reached. The working papers should also contain a summary, indexed and cross-referenced to the documents.

Ease of preparation

5.47 Working papers should be easy to prepare. This may be achieved by using agency-produced schedules, pre-printed standard audit stationery and automatically-generated standard working paper formats using databases or word processors.

Legibility and neatness

5.48 Working papers should be neat and legible. If they are not, their use in report preparation will be restricted and they may lose their value as audit evidence.

Relevance

5.49 The information contained in working papers should be restricted to matters which are materially important, pertinent, and useful in relation to the objectives established for the assignment.

Organisation

5.50 Working papers should be organised and exhibit a consistent structure. This is facilitated by a logical and easy-to-follow index. The filing and indexing of working papers as they are prepared promote an efficient cross-referencing system which can help avoid the continual restatement of information throughout the file.

5.51 All supporting documentation should be cross-referenced to related working papers, where necessary, and also to the audit plan. This provides for easy access to all information concerning the audit. It is also important to index and cross-reference the information held on magnetic media relating to the audit.

5.52 Audit managers should explore, where necessary, the use of databases, search facilities in word processing packages, or other software packages, as these can assist in information storage and retrieval.

Ease of review

5.53 Reviewers/supervisors are presented with a less onerous task if working papers exhibit the characteristics discussed above.

5.54 When preparing working papers, their end uses should be kept in mind. The latter include forming the basis for audit findings and recommendations, and facilitating prompt answers to questions posed by the legislature.

6. Reporting

Introduction

6.1 INTOSAI reporting standards state:

*At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.*¹⁵

6.2 Every performance audit will culminate in development of a report that details the findings of the performance audit. Throughout a performance audit, reports, briefings and presentations may be made to the SAI management, the agency and at times the legislature. Reports produced during an audit may include discussion papers, the proposed (draft) report and the final report. The focus of this chapter is on the development of the final report.

6.3 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.

6.4 The following points need to be emphasised in regard to performance audit reports:

- the value of concise and sharply focussed reports which draw out the significant issues of public administration;
- the need for a report to be based on accurate and objective information which is supported by sufficient evidence;
- the need for audit findings to be well developed and soundly based;
- the importance of a timely audit report to ensure that recommendations remain relevant;
- the benefits of sound and well developed audit methodology; and
- the importance of having fewer but meaningful recommendations rather than many related but lower level recommendations that may distract attention from the key issues.

¹⁵ Ibid, pp. 56–58

Reporting process

Discussion papers

6.5 At various stages during an audit there may be a need for discussion papers to identify and discuss major issues that have emerged during the course of the audit. They serve to confirm facts with the agency and to progress the development of audit findings and recommendations. It is better to detect possible weaknesses in audit findings and their supporting evidence or logic at this early stage than when the agency reviews the final proposed audit report.

6.6 A discussion paper brings together findings and conclusions for a specific segment or area of the audit. It is not expected to be formatted with the precision expected in the final report but is intended to be clear, concise, simple and, above all, logical. The development of each discussion paper is generally an iterative process occurring during the fieldwork phase. A discussion paper may be prepared for internal use and/or for comment by the agency.

6.7 When writing a discussion paper it is important to keep the final report in mind. It is desirable that these papers be in the same logical structure as will be used in the development of the exit conference discussion paper.

6.8 Discussion papers are an effective means of:

- ensuring that the facts have been stated correctly;
- ensuring a correct understanding of the program; and
- exploring significant early findings and recommendations with an agency and obtaining its preliminary response or reaction.

6.9 Communication can be improved by this process but, if the findings are not well considered, it may have the reverse effect.

6.10 Discussion papers should be concise and include sufficient information to describe adequately the issues and their effects on agency operations and the agency program. Suggestions for improvement may be included if thought appropriate. This may lead to early implementation of SAI recommendations with an immediate effect on improving public administration. In such a situation, it may be appropriate to mention in the report that, during the audit, the SAI raised a specific issue and the agency subsequently took remedial action. Sources of information used in the discussion paper should be indicated to improve the acceptability of findings.

6.11 When presenting an agency with a discussion paper, it needs to be made clear that it is only a draft for comment. It is not uncommon for agencies to overreact to a discussion paper. Some will treat the discussion paper as they would a formal proposed report. Close liaison with the agency on the purpose of the discussion paper, together with an appropriate introduction, should enable the agency to provide a response appropriate to that stage of report production.

Exit conference/ interview

6.12 A formal exit conference is held at the conclusion of the audit to ensure full understanding of the issues by both parties and assist the agency in providing its comments for consideration in preparing the final report. The exit conference discussion paper may contain the bulk of the information intended for the proposed report and, in fact, may differ only in the extent or nature of the agencies' responses to audit findings and conclusions.

6.13 After the exit conference the SAI will prepare the proposed report taking into account the agency responses. The oral and written responses elicited from the agency by the exit conference discussion paper should be sufficient to complete the preparation of the proposed report.

Proposed/ draft report

6.14 The proposed/draft report provides the first opportunity for the agency to see the full context of audit findings and conclusions in written form. The purpose of this stage is to seek the formal responses of the agency additional to the officer-level responses obtained in discussions during the audit. Where agency 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.

6.15 The proposed report represents the culmination of the audit fieldwork and associated analysis and consideration, and should represent the SAI's final conclusions and recommendations.

6.16 It is important that the report describes the objectives and scope of the audit so that readers can understand the purposes of the audit and properly interpret the results. The scope of the audit is described by identifying the agency or part thereof subject to audit, identifying the matters examined and describing the time period covered by the audit. The auditor needs to give particular attention to clearly describing the scope and objectives of the audit where the purpose of the audit or the nature of the performance information is highly specialised or the audit opinion or performance information could mislead users if taken out of context. Similarly, the auditor should consider whether there is any

express restriction on the distribution of the audit report or on those who rely on it. If so, this would be mentioned in the audit report.

6.17 Any limitations on the scope of the auditor's work and the reasons thereof should be described in the audit report. A scope limitation occurs, for example, when the auditor is unable to audit key organisational units or systems or to perform necessary audit procedures due to factors beyond the auditor's control. The scope of the audit can also be limited by the inability to identify suitable criteria. The auditor would consider whether it is appropriate to comment in the report on the implications of the lack of suitable criteria for the activity being audited.

6.18 A performance audit report would describe relevant facts and findings sufficiently to allow readers to understand the basis upon which the auditors' opinion has been formed. This would include a discussion of the underlying facts, comparisons with suitable criteria and the analysis of differences between what is observed and the audit criteria, including the causes and effects of the differences. The auditor's opinion in a performance audit may consist of a series of conclusions about the matters subject to audit, where this is appropriate, and may also involve an attestation of management assertions to demonstrate management's regard for economy and/or efficiency and/or effectiveness.

6.19 Where an audit report names specific persons or organisations, procedural fairness requires that comments be sought from those parties whose reputations or interests may be adversely affected by the report. Only relevant parts of the report should be provided to such people and they should be given adequate notice and opportunity to respond to the material in the report.

Final report

6.20 The published final performance audit report is the product on which the SAI performance audit function is judged by the legislature and the public at large. Any material errors, particularly in areas contested by agencies, could be potentially damaging to the credibility of a particular report and to the SAI. It is therefore crucial that a great deal of attention be given to the accuracy, logic and clarity of the report.

6.21 Performance audit reports should also be timely and objective, with issues firmly expressed having regard to the circumstances. Where dealing with significant issues, there should be a logical and compelling exposition of the issue and exposures. To maximise the effect of the report on improving public administration, care must be taken to ensure it is accurate, complete, defensible, understandable and balanced.

6.22 Significant issues and recommendations should be highlighted in a summary of the report.

6.23 The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for preparing the audit report. Performance audit reports vary according to the differences in audit mandates and the scope and complexity of the particular audit and its findings.

6.24 The performance audit mandate, whether established by legislation, by directive from the governing body or by contract, ordinarily specifies the minimum audit and reporting requirements of the performance audit.

Report contents

6.25 INTOSAI reporting standards¹⁶ state: *‘With regard to performance audits, the report should include all significant instances of non-compliance that are pertinent to the audit objectives.’*

6.26 The INTOSAI reporting standards further note that the form and content of all audit reports are founded on the following general principles.

- **Title.** *‘The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.’*
- **Signature and date.** *‘The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date.’*
- **Objectives and scope.** *‘The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.’*
- **Completeness.** *‘Opinions should be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor’s opinions and reports should be presented as prepared by the auditor. In exercising its independence the SAI should be able to include whatever it sees fit, but it may acquire information from time to time which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor retains a responsibility for considering the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.’*

¹⁶ Ibid, pp. 56–58

- **Addressee.** *‘The opinion or report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice. This may be unnecessary where formal procedures exist for its delivery.’*
- **Identification of subject matter.** *‘The opinion or report should identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited agency, the date and period covered by the financial statements and the subject matter that has been audited.’*
- **Legal basis.** *‘Audit opinions and reports should identify the legislation or other authority providing for the audit.’*
- **Compliance with the standards.** *‘Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.’*
- **Timeliness.** *‘The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.’*

6.27 SAIs should determine and prescribe an appropriate performance audit report structure. The structure should include an introduction to the audited activity or theme, audit objectives and scope, audit criteria, observations and findings, conclusions and recommendations and should take into account any auditee management response.

7. Follow-up Processes

Introduction

7.1 A primary objective of the SAI's work is to improve public sector performance and accountability via the implementation of audit recommendations. The effective and timely implementation of report recommendations will be facilitated by a follow-up process. To achieve this the SAI needs to adopt a consistent and systematic approach to the follow-up of audit reports.

7.2 The follow-up of SAI recommendations serves three 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. Knowledge that a report will be followed up should increase the likelihood that agency management will implement those recommendations they say they will implement;
- assisting the legislature—follow-ups may be valuable in guiding the actions of the legislature; and
- evaluation of SAI performance—follow-up activity provides a basis for assessing and evaluating SAI performance. In particular, it provides an opportunity to validate the cost savings and other benefits projected at the time of the audit.

7.3 Follow-up activity should be directed to encouraging the implementation of recommendations, rather than finding examples of lack of action. The auditor should focus on the correction of previously identified weaknesses.

7.4 Follow-up processes will provide feedback to the SAI and the government on performance audit effectiveness in producing improvements in public sector management. They will be especially useful in showing SAI effectiveness in those cases where recommendations were rejected by the agency at the time of the initial report but subsequently implemented. Such self-evaluation also adds to SAI credibility.

7.5 The three main types of performance audit follow-up activity are:

- keeping abreast of agency activity;
- a more detailed review of agency activity, perhaps involving meetings with the agency. This is sometimes referred to as a desk review

because it does not involve extensive fieldwork. This type of activity may be undertaken if the subject is particularly topical, sensitive or high-risk but only a short time has elapsed since the original audit; and

- a follow-up audit which involves fieldwork and the tabling of a report. It could be expected that no more than one follow-up audit would be conducted in a three-year period.

7.6 Depending on the results of the follow-up activity mentioned above, it may be decided that a full follow-up audit is not required. As with any audit, an audit plan should be prepared and the investment in a full follow-up audit would need to be justified.

Planning for follow-up activity

7.7 The priority of follow-up tasks should be considered in the context of the overall audit strategy as determined by the strategic planning process. Follow-up processes would generally be undertaken where the impacts of follow-up activity are expected to outweigh the costs. Such impacts could include both increasing the probability of implementation of original recommendations and deriving new impacts.

7.8 Reasons for not doing follow-up audits might be that the audit was small, or that it referred to a once-only event or to a specific program now abolished. Even in these cases, there may be scope for follow-up activity to test whether general principles recommended in the audit have been implemented by the agency. Smaller audits may also warrant specific follow-up action when they reveal significant issues for further review by the legislature or when audit recommendations are likely to lead to significant benefits.

Assessing and reporting on follow-up activity

7.9 Various sources of information are available to assist SAI staff to follow up on recommendations made. One effective way of commencing this activity is to forward to the agency at the start of a follow-up audit, a request to confirm the status of action on each recommendation. The information provided then forms a useful starting point for conduct of any document examination and interviews. Internal audit reviews and evaluations may also be useful.

7.10 Results from the follow-up of audit recommendations should be recorded according to a 'status of action' category that best describes the actions taken. The reasons for the lack of action or non-completion of action on any recommendations should be documented and further action considered on significant recommendations that have not been acted upon.

7.11 Agency rejection of a recommendation does not mean the recommendation should not be followed up. Assuming the agency has taken no action, the status should be entered as, 'action not initiated'.

7.12 Assessing the action taken on SAI findings and recommendations and assessing the impact of the audit will help to measure the effectiveness of SAI performance audits. Impacts include examples of improved economy, efficiency, effectiveness, quality of service, planning, control and management, and accountability. Where possible the impact from performance audits should be recorded.

7.13 In identifying impacts, offsetting costs which are associated with achieving the impacts should be estimated to show the 'net' benefits. Significant impacts should be validated with the agency or relevant bodies where possible. It is recognised that isolating the impact of an audit report in the context of significant other changes can be very difficult. The key factor remains whether the audit recommendations have been carried out, and this may be the only measurable indicator of impact.

7.14 Conduct of follow-up activity may indicate that there are considerable remaining risks in the audited program or in an allied program. As in any audit activity, auditors should be alert to the prospects for auditable areas capable of yielding valuable results. This information should be fed into the annual planning processes for performance and financial statement audits.

7.15 Deficiencies and improvements identified in the follow-up of audits should be reported to the legislature. Reporting options include stand-alone reports or an omnibus report of a number of follow-up audits. Positive action in responding to audit recommendations should also be reported, as this is to the credit of both the agency and the SAI.

7.16 Stand-alone follow-up reports should follow reporting guidelines for audits. Agencies should be given an opportunity to respond and have their response, or part thereof, included in the report. Such action is important in order to ensure that a balanced report is presented to the legislature.

8. Audit Management—Some Important Issues

Consultation with auditees

8.1 The development of good relations with the agency is a key factor in achieving an effective and efficient audit of an agency's program or function. The progress and outcome of the audit will be enhanced if the audit team can obtain the cooperation of management and foster confidence by maintaining a fully professional approach during the course of the audit. The quality of the audit process will depend significantly on the careful management of consultation with the agency. The SAI should adopt a policy of ongoing communication with the agency during the audit.

8.2 It is important that the audit team take measures to avoid the development of an adversarial attitude by agency management. In order to facilitate good relations with the agency, the auditor:

- should be aware of any other audit activity currently being undertaken within the agency;
- should be able and willing to explain the role and responsibilities of the SAI in conducting performance audits;
- should ensure that discussions with the agency take place at an appropriate and responsible level;
- should prepare fully for all meetings with the agency;
- should emphasise improvement in the future rather than just criticism of the past; and
- should ensure audit issues are discussed in context and recognition is given to external constraints and management-initiated improvements.

8.3 Audit managers should ensure there is regular contact with agency senior management to ensure that program objectives and issues are fully appreciated and potential audit recommendations are tested and properly targeted. Value will also be added to the performance audit if the agency is asked to specify the high-risk areas that they would like the audit to cover.

8.4 If the audit is conducted in a cooperative manner there is much greater likelihood of suggestions for improvement being seriously considered by agency management with a view to their implementation at an early date (even during the audit). A cooperative approach is to be taken but not at the expense of audit independence.

8.5 SAI staff should observe normal professional courtesies, seek to maintain good relationships with agencies, promote the free and frank flow of information and conduct discussions in an atmosphere of mutual respect and understanding. The SAI should use its powers of access to information tactfully and with due regard to the agency's ongoing operational responsibilities as well as to the SAI's statutory responsibilities.

8.6 The SAI should endeavour to give agencies reasonable notice of its intention to commence an audit and should discuss the general scope of the audit with relevant agency officers.

Establishing contact with the auditee

8.7 The initial contact with the auditee is normally made by the audit manager in charge of the audit. The contact should be with appropriate responsible agency management and in accordance with any working relationship agreed between the SAI and the agency.

8.8 The initial contact should advise the agency on matters such as:

- the objectives, timing, duration and type of audit to be conducted;
- the intended offices or regions to be visited during the planning phase; and
- details of audit staff and a contact officer within the SAI.

8.9 The initial contact should also arrange for an opening/entry conference with agency representatives. The objectives of the opening/entry conference are to:

- enable the audit team to meet key agency staff;
- establish suitable liaison arrangements at both the management and working levels, including arrangements for progressive reporting of tentative findings;
- ensure the agency clearly understands the audit objectives and processes, including description of access powers and safeguards on confidentiality;
- outline the agency's responsibilities and clarify any queries or misunderstandings the agency may have; and
- make administrative arrangements for the audit team, such as suitable office accommodation and access to buildings, personnel, files, systems and data.

8.10 Depending on the nature of the audit, careful consideration needs to be given to the level of the SAI and agency representatives at the opening/entry conference. The opening/entry conference must be documented.

8.11 Once a decision is made to proceed with a full performance audit, details of the audit methodology and likely coverage should be provided to the agency.

8.12 At the conclusion of each audit an exit conference is arranged, preferably with the persons with whom the opening/entry conference was held. The exit conference must be documented. The purpose of the exit conference is to:

- present an exit conference discussion paper;
- communicate the audit in a positive light and explain the advantages to the agency;
- discuss provisional audit findings, conclusions and recommendations with agency management and obtain management comment on them;
- draw on management's experience in the assessment of recommendations for improvement; and
- afford the agency the opportunity to correct misunderstandings and question the audit conclusions and findings.

Quality assurance and quality control

Introduction

8.13 INTOSAI Auditing Standards state that:

The SAI should establish systems and procedures to:

- a) *confirm that integral quality assurance processes have operated satisfactorily;*
- b) *ensure the quality of the audit report; and*
- c) *secure improvements and avoid repetition of weaknesses.*¹⁷

8.14 The SAI should implement quality assurance/control policies and procedures. Quality assurance refers to policies, systems and procedures established by SAIs to maintain a high standard of audit activity. Quality control refers to the requirements applicable to the day-to-day management of audit assignments.

Quality assurance processes

8.15 INTOSAI Auditing Standards state that: '*...it is desirable for SAIs to establish their own quality assurance arrangements. That is, planning, conduct and reporting in relation to a sample of audits may be reviewed in depth by suitably qualified SAI personnel not involved in those audits...*'¹⁸

¹⁷ Ibid, p. 39

¹⁸ Ibid, p. 39

8.16 As part of the SAI's legal and professional obligations it must establish and support adequate systems of quality assurance. The systems comprise an organisational structure, policies and procedures designed to provide the SAI with adequate assurance that the work undertaken within the SAI meets professional requirements and standards.

8.17 A system of quality assurance should provide:

- indicators for recruitment and promotion;
- guidance for assignment of administrative and technical aspects of quality control to appropriate staff;
- a basis for communication of quality control policies, procedures and outcomes to all relevant staff; and
- adequate monitoring and review of the quality assurance systems.

8.18 Quality assurance mechanisms include:

- planning reviews—the planning of selected tasks may be reviewed by SAI management independent of the task to ensure adequate consideration has been given to all matters considered essential for the successful completion of the task at the planning stage;
- on-going review—the work on all tasks would be subject to continual review by supervisors and task managers. This review is essential to maintaining the quality of audit tasks and providing staff development through feedback and on-the-job training;
- task reviews—all completed tasks should be reviewed prior to signing any reports required as a result of the audit; and
- annual review program—a well-defined, independent review process of a sample of completed tasks to inform SAI management of any weakness in current methodology and practices of the SAI.

8.19 Planning and task reviews should generally focus on high risk or complex audit tasks. These reviews give added assurance that those tasks have addressed all key areas of the audit prior to signing the report.

Quality assurance review program

8.20 A quality assurance review program is a series of independent peer reviews of activities undertaken within the SAI that assesses the overall quality of the work performed. The results of the program should be reported to the SAI management at least annually. A quality assurance review may examine adherence to policy and procedures and identify areas where there is any scope for improvements in these policies and procedures, or it may assess the quality of work performed to meet specified objectives.

8.21 Quality assurance reviews will generally address both adherence to specified processes and the quality of the work performed on a selected task or group of tasks and may include an annual program of task reviews and ad-hoc reviews of any task undertaken at any time.

8.22 Tasks selected by SAI management should, as far as possible, be representative of the nature of all tasks undertaken by the SAI. The reviews would include a selection of high risk, large and complex tasks and some smaller and less complex tasks.

8.23 The report on the quality assurance review program should summarise the results of all the reviews including the tasks selected (number and type), the findings and any recommendations. The report should not focus on individual audits but be a summary of those findings identified during the review program.

8.24 Quality assurance reviews are generally undertaken using a questionnaire to ensure consistency across the reviewing teams but the approach would allow for the qualitative characteristics of audits to be assessed.

8.25 The quality of performance audits should be assessed against the relevant auditing standards. In short, the quality assurance review process reports whether there is sufficient, appropriate evidence to support the audit report.

8.26 Review team members will be selected by the SAI management on the basis of their knowledge and experience and should generally be at the audit manager level. The team members must be independent of the work they review.

8.27 The quality assurance review reports, in addition to identifying weakness in current methodology and practices, should accentuate positive findings and identify improved practices which may be introduced as office-wide best practice.

8.28 It is the responsibility of all audit managers to address the findings of the quality assurance reviews of their tasks. SAI management should be responsible for ensuring that problems noted or recommendations for improvements are adopted in appropriate changes to SAI methodology and practices.

Quality control

8.29 Quality control procedures should be designed to ensure that all audits are conducted in accordance with relevant auditing standards. The objectives of quality control procedures should incorporate:

- professional competence;

- professional independence;
- supervision and assignment of personnel to engagements;
- guidance and assistance;
- client evaluation; and
- allocation of administrative and technical responsibilities.

8.30 The SAI's general quality control policies and procedures should be communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. Quality control requires a clear understanding of where responsibility lies for particular decisions. It is the responsibility of everyone involved in the audit to fully identify and understand his or her responsibilities.

8.31 The audit manager is responsible for 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. These aspects are covered in more detail below.

Planning the audit

8.32 This includes establishing milestones, allocating resources (including the use of consultants), preparing timelines and generally the use of project management principles as discussed above. The audit manager needs to take into account factors such as quality, resources and timing in planning the audit.

Budgets and monitoring

8.33 Audit plans/programs should contain a financial budget and a timetable for completion of the audit. The budget should consist of allocations for salaries, travel, consultants and any other direct costs that may be associated with the audit. The timetable should be formulated for the purpose of meeting the agreed date for completion of the audit report.

8.34 The budget and timetable should be documented in the working papers. Progress against these targets should be monitored and recorded. The audit manager and SAI management are responsible for ensuring the audit is completed within budget and on time and they should identify potential risks and develop contingency plans to minimise the impact on the audit. These contingency plans could include amending the scope and focus of the audit, swapping resources between sub-allocations within the budget, identifying cost-neutral solutions, or extending the budget where a case for the extension can be justified.

Use of consultants

8.35 The audit manager should ensure that staff with appropriate skills are selected for each audit. It is up to the SAI management to judge, in the particular circumstances, to what extent the SAI's requirements are best met by in-house expertise or employment of outside experts. If the SAI, in the performance of its functions, seeks advice from external experts, the standards for exercise of due care and confidentiality of information will apply to such arrangements.

8.36 Before a final decision is made to engage a consultant to assist with an audit, the agency being audited should be given the opportunity to advise whether, in its opinion, an actual or potential conflict of interest could exist in the event the consultant is engaged by the SAI. It is ultimately a decision of the SAI whether or not to engage a consultant to assist in the conduct of an audit, taking into account the views of the agency and of the consultant.

Executing the audit

8.37 To ensure the smooth and efficient conduct of the audit, the audit manager will need to be aware of risks to timely audit completion, such as lack of familiarity with the audit subject, lack of audit resources, changes occurring to the audited area, and lack of reliable agency data. The audit manager should also ensure audit work is relevant to the objectives and scope of the audit.

8.38 The audit manager is also responsible for identifying issues of importance. Where these issues are outside the original objectives and scope of the audit or have an impact on the team's ability to complete the audit on time and within budget, the audit manager should identify options for dealing with these issues. These options include, but are not limited to:

- adjusting the scope and focus of the audit to take into account a revised outcome while remaining within budget and on time;
- identifying an important issue as forming the basis of a new audit to be conducted later; or
- preparing a case for extending the audit resources or completion date to cover the newly identified issue.

8.39 The audit manager is further responsible for ensuring that:

- the work performed and the results obtained have been adequately documented;
- no significant matters remain unresolved;

- there is adequate evidence to support findings;
- conclusions expressed are consistent with the results of the work performed; and
- the objectives of the audit have been achieved.

8.40 The audit manager is responsible for conducting regular discussions with agency management concerning the audit findings and clarification of issues arising during the audit.

8.41 The audit manager is responsible for supervising the preparation of discussion papers and draft report segments, management letters and the final report.

Supervision

8.42 The audit manager, in conjunction with SAI management, is responsible for the guidance, training and supervision of the audit team members.

8.43 The audit manager, in conjunction with SAI management, is responsible for overall quality control within the audit and should ensure that audit work is reviewed regularly and the results of the review are adequately documented. This review should specifically ensure that there is sufficient evidence to support the findings and recommendations. The reviewer should also provide feedback to the persons responsible for the audit work.

Progress reporting

8.44 The audit manager should prepare regular reports to SAI management on the progress of the audit, with recommendations for corrective action should the audit not be progressing in accordance with the plan.

Monitoring the audit program

8.45 The SAI should develop appropriate performance indicators for its performance audit program (such as audit cost, duration, milestones and results) and monitor the operation of audits against these benchmarks. Maintaining this performance information will enable the SAI to determine the extent to which the objectives of the performance audit program are achieved and will provide a basis for benchmarking performance over time.

8.46 For the more complex audits the SAI may consider appointing a steering committee to guide the audit team and to monitor the progress of the audit.

Appendix A

Important considerations for performance auditing in an Information Technology environment¹⁹

Introduction

1. Information Technology (IT) is being increasingly used for public sector program planning, execution and monitoring. The sharing or integration of information between agencies raises issues such as the risk of security breaches and unauthorised manipulation of information. Auditors should not only be aware of the uses of IT, they should also develop strategies and techniques for providing assurance to stakeholders about value for money from the use of IT, security of the systems, existence of proper process controls and the completeness and accuracy of the outputs.

2. The value of good IT systems is that they can be an efficient and effective program delivery mechanism. They have the potential to deliver existing services cheaper and also to provide a range of additional services, including program performance information, with greater efficiency, security and control than are available from manual systems. However, IT systems also have the potential to result in major systematic errors, with a resulting greater impact on agency performance than would be possible in manual systems.

3. This appendix highlights a range of important considerations for performance auditing in an IT environment and is not intended to substitute for detailed guidelines that SAIs may need to develop to suit their auditees' IT environment.

4. The approach towards performance auditing in an IT environment should involve the following inter-related processes:

- obtain an understanding of the auditees' IT systems and determine their significance to the performance audit objective;
- identify the extent of IT systems auditing required to achieve the performance audit objective (eg. audit of systems development; audit of environment and applications controls) and employ specialist IT auditors to undertake the task; and
- develop and use appropriate Computer Assisted Audit Techniques (CAATs) to facilitate the audit.

¹⁹ Referenced in paragraph 1.3.

5. A performance audit in an IT environment should:

- identify any deficiencies in IT controls and the resulting effect on the efficiency, economy and effectiveness of the performance of the agency;
- examine the IT system development and maintenance practices of the agency, compared to industry better practice;
- compare the IT strategic planning, risk management and project management practices of the agency, with industry better practice and in relation to the corporate governance framework of the agency;
- determine whether system outputs meet agency quality and service delivery parameters; and
- assess whether the IT systems enhance the economy, efficiency and effectiveness of the agency's program management, in particular in relation to program planning, execution, monitoring and feedback.

Planning and resourcing

6. As with any audit, performance auditing in an IT environment needs to be planned. The planning process should frame audit objectives with reference to the objectives of the agency in adopting/introducing IT systems and should include audit concerns relating to security, controls and value for money. The planning phase should also identify the IT systems, computer systems and software packages being used by the agency. Planning will also need to identify the major potential risks and exposures of IT systems in the agency.

7. Performance auditing in an IT environment requires specialist skills and appropriately trained personnel with IT, audit and accountancy skills should be dedicated to the task. The services of consultants may need to be considered for the more specialised technical areas. The SAI will also need to consider acquisition of appropriate hardware and software tools. Personnel will require extensive training to remain abreast of technological developments and IT audit techniques.

Performance auditing involving IT system development

8. A performance audit involving IT systems development should determine if the agency:

- has the appropriate executive approvals for the development of the IT system, ie. that IT management fits within the corporate governance of the agency;
- has appropriate project management processes in place to manage the project;
- has met required targets of time, cost, system function and value for money;

- uses an appropriate system development methodology; and
- has processes in place, including the involvement of Internal Audit, to ensure that the new system includes all the necessary controls and audit trails, and is likely to meet the requirements of the agency and its stakeholders.

Performance auditing involving operational IT systems

9. The following list contains some of the more important concerns that the auditor would be expected to consider and should be modified as required for the specific agency being audited:

- the strategic and operational management of IT within the agency, including assurance that IT is included in the overall corporate governance of the agency;
- IT project management within the agency, including the agency's record in meeting legislative and other deadlines;
- the risk management practices of the agency in relation to IT;
- IT system design, development and maintenance controls;
- compliance with standards, including external standards;
- application controls;
- processing controls, including audit trails;
- business continuity arrangements;
- data integrity, including sampling of data (possibly using CAATs);
- access controls and the physical and logical security of networks and computers, including Internet firewalls;
- controls to safeguard against illegal software;
- performance management and measurement; and
- other issues that arise during the audit.

10. In making the assessment the auditor may:

- review files and other documents relevant to the development and operation of the IT systems;
- use appropriate software packages to test the central and networked computing system controls;
- test a sample of transactions (including the use of CAATs) to validate the systems and relevant controls; and
- interview key staff members.

Performance aspects of auditing in an IT environment

11. The auditor may also examine whether the IT system has enhanced the efficiency with which the agency manages its programs/activities and whether the conversion to an IT system has any beneficial results for the stakeholders in the agency.

12. The auditor may also be expected to assess if the IT systems have facilitated improved program management. Some areas to be considered include:

- IT should support the objectives of the agency and, therefore, is an integrated part of its operations;
- IT operations require highly qualified staff;
- the contribution of IT to operations is measured in operational efficiency terms;
- the gains of IT may not be realised without appropriate organisational changes; and
- normal value for money measures may be more difficult to apply.

13. In addition to assessing whether the agency's IT system represents value for money, the performance auditor may also be expected to assess whether the IT environment has contributed to transparency, accountability and good governance.

Computer Assisted Audit Techniques

14. Auditors are increasingly using Computer Assisted Audit Techniques. CAATs utilise custom developed software programs to aid in the execution of the audit. They can be used for both sampling of system transaction data and for testing the system as a whole. CAATs tools can be developed to:

- access and extract information from auditee databases;
- total, summarise, sort, compare and select from large volumes of data in accordance with specified criteria;
- tabulate, check and perform calculations on the data;
- perform sampling, statistical processing and analysis;
- provide reports designed to meet particular audit needs; and
- facilitate audit planning and control eg. electronic audit working papers that support effective indexing, review and reporting.

15. CAATs can be used to validate the processes in the program or to analyse the data. The auditors should develop Computer Assisted Audit Techniques and provide training to the staff of the agency. CAATs tools should be developed/modified keeping in view the IT environment in the agency and the audit objectives.

16. CAATs can be utilised in performance audits of both IT and non-IT environments.

Internet

17. The Internet is becoming increasingly important as a research, planning, communication and reporting tool. Auditors should be sufficiently familiar with the Internet to be able to use it to facilitate the conduct of performance audits and to understand the implications for performance auditing, of its use by agencies.

Reporting

18. The performance audit report should be drafted so as to minimise the use of technical terminology with a view to making it easily understandable to management, members of the legislature and to the general public. Where the use of technical terms is inescapable, these should be adequately explained.

Appendix B

Potential impacts of performance auditing²⁰

Economy

- reduction in costs through better contracting, bulk buying, etc;
- reduction in costs through economies on usage of personnel or other resources;
- introduction of charges where none were previously imposed, or revision of charges;
- rationalisation of facilities;

Efficiency

- greater outputs from same inputs;
- remedying duplication of effort or lack of coordination;

Effectiveness

- better identification/justification of need;
- clarifying objectives and policies;
- introducing better sub-objectives and targets;
- better achievement of objectives by changing the nature of outputs or improved targeting;

Improved quality of service

- shorter waiting lists;
- reduced response times;
- fairer distribution of benefits;
- better access to information;
- wider range of services and greater choice;
- helping the public, clients, industry, etc;
- improved equity in access to programs;

²⁰ Referenced in paragraphs 1.5 and 2.8.

Improved planning, control and management

- introduction/improvements to corporate planning;
- clearer definitions of priorities and better-defined targets;
- better-targeted incentives;
- better control and management of human resources, assets, projects and resources;
- tighter controls against fraud;
- improved financial accounting systems;
- better financial management information;
- better computer security;

Improved accountability

- improved visibility of procedures and outputs;
- improved accountability for expenditure to the legislature and to the public sector;
- improved forms of account, including commercial formats;
- improved external control and monitoring by departments;
- better and/or more accurate performance indicators;
- better comparison between similar agencies;
- greater information on sectoral performance; and
- clearer and more informative presentation of information.

Appendix C

Key features of the auditee and its environment requiring understanding by the auditor²¹

Agency objectives

1. The objectives of an agency may be expressed in financial terms (for example, in budgets or financial reports) and in non-financial terms (for example, expected outputs and impacts). An understanding of the agency's objectives will assist the auditor in establishing or assessing the appropriateness of the audit scope.
2. The auditor should be alert to any conflicting objectives as these may affect the agency's ability to achieve economy, efficiency or effectiveness.

Accountability relationships

3. There are two types of accountability relationships; internal and external. The most important accountability relationships involve the governing body. The key external relationship is between the governing body and those who have an interest in the performance of the agency; for example, the legislature and the public at large in the public sector, and owners, creditors and employees in the private sector.
4. The governing body delegates to management the authority for acquiring and using the agency's resources. Management is responsible for administering those resources and is accountable to the governing body for meeting the objectives set out in the agency's governing charter.
5. Accountability relationships within an agency depend on the powers that the governing charter grant to management. Within those powers, senior levels of management hold their staff accountable for certain elements of the agency's performance. The auditor should identify how and to whom authority is delegated within the agency, and the degree of decentralisation of that authority.

Resources

6. The auditor needs to understand the relationships between the agency's resources and its objectives and performance goals.

²¹ Referenced in paragraph 3.11.

7. The auditor should identify the resources that management has allocated among the agency's programs, operations and activities and may compare such allocations with those in other similar agencies. These allocations may indicate priorities and the relative significance of specific divisions or branches or of specific programs or operations within an agency.

8. Physical resources include inventories and other assets. The auditor should determine the source, nature and value of the physical resources and how the agency uses its physical resources in its various activities.

9. Financial resources are reflected in the revenue, expenditure, assets and liabilities of the agency. Knowledge of the financial resources enables the auditor to understand the agency's financial magnitude (eg. the amounts of its transactions and balances) and its stakeholders (eg. resource providers).

10. Information resources comprise both internally and externally generated information to which management has access. Access to relevant and reliable information and effective use of it are vital elements of performance for many activities.

11. Human resources include management and other employees of an agency. Human resources are affected by budgetary pressures and constraints on the capability of personnel which may in turn affect the agency's controls and performance.

Management processes

12. The auditor needs a knowledge of the agency's management processes to understand their suitability for the agency's programs and operations and to identify the risks the agency faces.

13. The auditor should identify factors such as the elements of performance assessed by management, the nature and frequency of reporting, the performance criteria, the methods of data collection and analysis and the use of performance information. For example, the auditor should consider:

- (a) the systems and controls in place for safeguarding and controlling the agency's physical, financial, information and human resources; and
- (b) the extent of internal audit involvement in performance auditing. This knowledge will enable the auditor to identify the probable nature, sources and availability of audit evidence.

Performance goals

14. The auditor needs a knowledge of the agency's performance goals to understand such matters as the relevance of the agency's activities to its stakeholders, trade-offs among conflicting objectives, goals and inputs, quality, level of service and stakeholder satisfaction.

15. The auditor should assess the suitability of the audit agency's performance goals. For example, when assessing the suitability of performance goals, the auditor should consider whether those goals are consistent with the governing charter.

Programs and operations

16. A sound understanding of the agency's significant programs and operations enables the auditor to determine whether the agency is operating within its powers and how it achieves its objectives and performance goals. The auditor should obtain information about the agency's organisational structure and the characteristics and intended outputs, outcomes and impacts of the agency's significant programs and operations.

17. The characteristics of programs and operations include the source, nature and amount of resources used in program delivery, the method of program delivery and the pricing or fee structures.

18. Outputs, such as the goods or services provided, may be defined by the objectives set out in the agency's governing charter. Output may be subject to constraints imposed by competition or by regulation regarding service or pricing levels. Outcomes and impacts may be the positive or negative effects of a program or operation and they may be intentional or unintentional.

19. The organisational structure of the agency shows how its programs and operations are organised to fulfil its objectives and meet its performance goals. Understanding the agency's organisational structure involves identifying its significant divisions and branches, and determining their responsibilities and degree of autonomy.

External environment

20. The agency's external environment includes factors over which management has relatively little control, such as economic, political and social influences. The auditor needs to acquire knowledge of the external environment because changes in that environment may significantly affect the agency's objectives, accountability relationships, resources and management processes.

Appendix D

Important issues in the performance audit of government programs/activities²²

- | | |
|-----------------------|---|
| Mandate | <ul style="list-style-type: none"> • Has management obtained the approval of the competent authority (eg. legislature) for the program? |
| Objectives | <ul style="list-style-type: none"> • Has management developed clear objectives? • Have the program objectives been appropriately determined to fulfil the policy objectives? • Are the objectives specific enough to enable outcome measurement? • Has management set specific targets to accomplish the program objectives within the scheduled timeframe? |
| Need | <ul style="list-style-type: none"> • Has management identified and evaluated the nature and extent of the need for the program outputs? • Does the program continue to make sense in the light of the needs that it was originally set up to meet? |
| Implementation | <ul style="list-style-type: none"> • Has management given proper consideration to alternative means of achieving the program objectives? • Are the design of the program and its components, and the level of effort expended, logical in the light of the program's objectives? • Is the implementation timely? |
| Direction | <ul style="list-style-type: none"> • Does the agency have understandable objectives, plans, targets for levels of service and organisational arrangements? • In short, does everyone understand what they are meant to be doing? One indicator of direction is the extent to which employees clearly understand the service priorities and targets of the current year. |

²² Referenced in paragraph 3.35.

Economy and efficiency	<ul style="list-style-type: none"> • Has management used resources economically and efficiently? • What is the relationship between costs, inputs and outputs? • Do systems procedures and practices promote accountability of program managers towards economic and efficient use of resources?
Finances	<ul style="list-style-type: none"> • Has management monitored, reported and controlled its financial performance and position? • Are resources (budgets) commensurate with the targets and how realistic are the budgetary assumptions? • Are the financial and physical performance reports interlinked to enable an appreciation of the cost of delivery against the estimated cost as well as value for money?
Effectiveness	<ul style="list-style-type: none"> • To what extent has the agency achieved intended objectives without any significant unintended adverse impacts? • To what extent have significant intended or unintended, adverse or beneficial consequences occurred?
Acceptance	<ul style="list-style-type: none"> • Is the program outcome meeting the identified needs of its clients or customers? • Has management surveyed its clients to identify client expectations and satisfaction?
Responsiveness	<ul style="list-style-type: none"> • Does the agency have mechanisms which enable it to respond appropriately to changing technology, competition, client demand and other environmental characteristics?
Human resources	<ul style="list-style-type: none"> • Is there an appropriate policy and practice for the development of human resources? • Do human resource practices facilitate development, initiative, commitment, safety and job satisfaction?

- Protection of resources**
- Is there an appropriate policy for the protection of key assets, ie. assets that are crucial to the success and perhaps survival of the agency? Such assets might include key people, sources of supply, intellectual property and machinery.
- Monitoring and reporting**
- Are actual results monitored and reported against objectives and targets?
 - Do reporting formats facilitate effective monitoring of the program management and delivery of outputs?
 - Are the performance reports accurate and free from material misstatements?
 - Is action taken on the basis of the reports?
- Accountability Relationships**
- Does the program framework provide for clear accountability relationships?
 - Is the system of program management/delivery framed to ensure good value for money? Are the controls reliable?
 - Are the systems and procedures as well as the delivery mechanisms transparent?
 - Does the program planning, execution and delivery fulfil the concept of good corporate governance?
- Review**
- Has management established an effective internal audit unit, undertaken appropriate evaluation of programs (including an analysis of unintended impacts) and established procedures for assuring that it is managing with economy, efficiency and effectiveness?
- Equity**
- Are outputs/services made available to intended groups without discrimination? Does everyone have access to the benefits due to them?
 - Has management acted with fairness and impartiality.

Ethics

- Has management established procedures to ensure that public servants utilise public funds honestly?
- Are the highest standards of integrity and devotion to duty ensured through adequate management systems, including a system of review of propriety in program management.
- Are public servants motivated to optimise the outputs and subsequent outcomes of the program for the beneficiaries?

Transparency

- Are the systems and procedures used in the management of public programs transparent and do they promote the concept of accountability and good governance?

Glossary of terms

Asian Organisation of Supreme Audit Institutions (ASOSAI)	An international and independent body which aims at promoting the exchange of ideas and experience between Asian Supreme Audit Institutions in the sphere of public auditing.
Auditee	The agency or area subject to audit by the Supreme Audit Institution (SAI).
Audit evidence	Information that forms the foundation which supports the auditor's or SAI's opinions, conclusions or reports. Competent: Information that is quantitatively sufficient and appropriate to achieve the auditing results; and is qualitatively impartial such as to inspire confidence and reliability. Relevant: Information that is pertinent to the audit objectives. Reasonable: Information that is economical in that the cost of gathering it is commensurate with the result which the auditor or the SAI is trying to achieve.
Audit mandate	The auditing responsibilities, powers, discretions and duties conferred on a SAI under the constitution or other lawful authority of a country.
Audit objective	A precise statement of what the audit intends to accomplish and/or the question the audit will answer. This may include financial, regularity or performance issues.
Audit planning	Defining the objectives, setting policies and determining the nature, scope, extent and timing of the procedures and tests needed to achieve the objectives.
Audit procedures	Tests, instructions and details included in the audit program to be carried out systematically and reasonably.
Audit program	Audit requirements and procedures necessary to implement the audit objective and to make assessments against audit criteria.

Audit sampling	Statistically based techniques that extrapolate from specific cases to make assertions about the population as a whole and are used when it is not feasible to analyse entire populations eg. invoices/ vouchers, elements of internal control systems, agency units.
Audit scope	The framework or limits and subjects of the audit.
Auditing standards	<p>Auditing standards provide minimum guidance for the auditor that helps determine the extent of audit steps and procedures that should be applied to fulfil the audit objective. They are the criteria or yardsticks against which the quality of the audit results is evaluated.</p> <p>The system by which businesses are run, including the responsibility of those directing the business to ensure that it is properly and honestly run.</p>
Discussion paper	A discussion paper is a document that is used to summarise audit findings and conclusions for a specific segment of the audit. An example of a discussion paper is a management letter that contains audit observations for agency comment.
Due care	The appropriate element of care and skill which a trained auditor would be expected to apply having regard to the complexity of the audit task, including careful attention to planning, gathering and evaluating evidence, and forming opinions, conclusions and making recommendations.
Economy	Minimising the cost of resources used for an activity, having regard to the appropriate quality.
Effectiveness	The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.
Efficiency	The relationship between the outputs, in terms of goods, services or other results, and the resources used to produce them.

Findings, conclusions and recommendations	Findings are the specific issues identified by the auditor to satisfy the audit objectives; conclusions are statements deduced by the auditor from those findings; recommendations are courses of action suggested by the auditor relating to the audit objectives.
Independence	The freedom of the SAI in auditing matters to act in accordance with its audit mandate without external direction or interference of any kind. This includes both administrative and financial independence.
International Organisation of Supreme Audit Institutions (INTOSAI)	An international and independent body which aims at promoting the exchange of ideas and experience between Supreme Audit Institutions in the sphere of public auditing.
Legislature	The law making authority of a country, for example a Parliament.
Opinion	The auditor's written conclusions as the result of a performance audit.
Performance audit	An audit of the economy, efficiency and effectiveness with which the auditee uses its resources in carrying out its responsibilities. This is also referred to as a 'Value For Money' audit.
Public accountability	The obligations of persons or entities, including public enterprises and corporations, entrusted with public resources to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those who have conferred these responsibilities on them.
Qualitative audit evidence	Evidence of a non-quantitative nature gathered during a performance audit eg. interview notes or document extracts. Forming conclusions about organisational performance using qualitative information requires the use of professional judgement and accordingly the auditor would ordinarily seek corroborating evidence from different sources or of a different nature.

Quality assurance	Policies, systems and procedures established by SAIs to maintain a high standard of audit activity.
Quality control	The requirements applicable to the day-to-day management of audit assignments.
Regularity audit	Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements; attestation of financial accountability of the government administration as a whole; audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations; audit of internal control and internal audit functions; audit of the probity and propriety of administrative decisions taken within the audited entity; and reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed.
Report	The auditor's written findings, opinion, recommendations and other remarks on completion of a performance audit.
Reporting standards	The framework for the auditor to report the results of the audit, including guidance on the form and content of the auditor's report.
Supervision	An essential requirement in auditing which entails proper leadership, direction and control at all stages to ensure a competent, effective link between the activities, procedures and tests that are carried out and the aims to be achieved.
Supreme Audit Institution (SAI)	The public body of a State which, however designated, constituted or organised, exercises by virtue of law the highest public auditing function of that State.