ISSAI Guidelines on Performance Audit

Office of the Comptroller and Auditor General of Bangladesh
The Supreme Audit Institution of Bangladesh has always been striving to keep itself abreast of what is happening in modern auditing. INTOSAI, the global platform of the Auditors General issues guidelines and standards which work as benchmarks for conducting government audit across the nations. After extensive research and hard work put together by member nations, INTOSAI published International Standards of Supreme Audit Institutions, commonly known as ISSAI in 2010.

To meet country specific requirements, SAI Bangladesh has its own audit codes and standards. The ‘Audit Code’, ‘Government Auditing Standards’ and ‘Code of Ethics for Government Auditors’ were published as per the best international practices prevailing at the time of issue. The ISSAI came into audit domain later on. So, Audit Codes and Standards need to be updated in line with ISSAI. The SAI Bangladesh is working in that direction.

Through the project, titled “Strengthening Public Expenditure Management Program” (SPEMP-B) a good number of ISSAI-based financial, compliance and performance audits had been conducted on pilot basis. The audit reports were highly appreciated by the executives and other stakeholders. These audits were administered by respective audit directorates with active cooperation from national and international consultants of SPEMP-B.

The ISSAI-based audits have shown performance excellence which need to be mainstreamed in the Audit Directorates. Formal instructions have been issued to audit directorates to replicate ISSAI-based audit done under the said project. ISSAI-based Audit Manuals are also being finalized which, if made available in handy form to the auditors, would enable them to conduct field audit smoothly and skillfully.

The present compilation of ISSAI is issued as “Performance Audit Guidelines” to be followed by Bengali translation. During application of the ISSAI if any error or omission is noticed, the matter may please be intimated to the Office of the Comptroller and Auditor General of Bangladesh.

Dated, Dhaka 3.11.2015

Masud Ahmed
Comptroller and Auditor General of Bangladesh
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The International Standards of Supreme Audit Institutions, ISSAI, are issued by the International Organization of Supreme Audit Institutions, INTOSAI. For more information visit www.issai.org.
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INTRODUCTION

1. Professional standards and guidelines are essential for the credibility, quality and professionalism of public sector auditing. The International Standards of Supreme Audit Institutions (ISSAI) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aim to promote independent and effective auditing by supreme audit institutions (SAIs).

2. The ISSAI encompass public sector auditing requirements at the organisational (SAI) level, while on the level of individual audits they aim to support the members of INTOSAI in the development of their own professional approach in accordance with their mandates and with national laws and regulations.

3. INTOSAI’s Framework of Professional Standards has four levels. Level 1 contains the framework’s founding principles. Level 2 (ISSAI 10-99) sets out prerequisites for the proper functioning and professional conduct of SAIs in terms of organisational considerations that include independence, transparency and accountability, ethics and quality control, which are relevant for all SAI audits. Levels 3 and 4 address the conduct of individual audits and include generally-recognised professional principles that underpin the effective and independent auditing of public-sector entities.

4. The Fundamental Auditing Principles at level 3 (ISSAI 100-999) draw and elaborate on ISSAI 1 – The Lima Declaration and the ISSAI at level 2 and provide an authoritative international frame of reference defining public sector auditing.

5. Level 4 translates the Fundamental Auditing Principles into more specific and detailed operational guidelines that can be used on a daily basis in the conduct of an audit and as auditing standards when national auditing standards have not been developed. This level comprises General Auditing Guidelines (ISSAI 1000-4999) which set the requirements for financial, performance and compliance auditing.

6. ISSAI 100 – Fundamental Principles of Public Sector Auditing provides detailed information on:

- the purpose and authority of the ISSAI;
- the framework for public sector auditing;
- the elements of public sector auditing;
- the principles to be applied in public sector auditing.

PURPOSE AND AUTHORITY OF THE ISSAI

7. ISSAI 100 establishes fundamental principles which are applicable to all public sector audit engagements, irrespective of their form or context. ISSAI 200, 300 and 400 build on and further develop the principles to be applied in the context of financial, performance and compliance auditing respectively. They should be applied in conjunction with the principles set out in ISSAI 100. The principles in no way override national laws, regulations or mandates or prevent SAIs from carrying out investigations, reviews or other engagements which are not specifically covered by the existing ISSAI.
8. The Fundamental Auditing Principles form the core of the General Auditing Guidelines at level 4 of the ISSAI framework. The principles can be used to establish authoritative standards in three ways:

- as a basis on which SAIs can develop standards;
- as a basis for the adoption of consistent national standards;
- as a basis for adoption of the General Auditing Guidelines as standards.

SAIs may choose to compile a single standard-setting document, a series of such documents or a combination of standard-setting and other authoritative documents.

SAIs should declare which standards they apply when conducting audits, and this declaration should be accessible to users of the SAI’s reports. Where the standards are based on several sources taken together, this should also be stated. SAIs are encouraged to make such declarations part of their audit reports; however, a more general form of communication may be used.

9. An SAI may declare that the standards it has developed or adopted are based on or are consistent with the Fundamental Auditing Principles only if the standards fully comply with all relevant principles.

Audit reports may include a reference to the fact that the standards used were based on or consistent with the ISSAI or ISSAIs relevant to the audit work carried out. Such reference may be made by stating:

...We conducted our audit in accordance with [standards], which are based on [or consistent with] the Fundamental Auditing Principles (ISSAIs 100-999) of the International Standards of Supreme Audit Institutions.

In order to properly adopt or develop auditing standards based on the Fundamental Auditing Principles, an understanding of the entire text of the principles is necessary. To achieve this, it may be helpful to consult the relevant guidance in the General Auditing Guidelines.

10. SAIs may choose to adopt the General Auditing Guidelines as their authoritative standards. In such cases the auditor must comply with all ISSAIs relevant to the audit. Reference to the ISSAIs applied may be made by stating:

... We conducted our audit[s] in accordance with the International Standards of Supreme Audit Institutions.

In order to enhance transparency, the statement may further specify which ISSAI or range of ISSAIs the auditor has considered relevant and applied. This may be done by adding the following phrase:
The audit[s] was [were] based on ISSAI[s] xxx [number and name of the ISSAI or range of ISSAIs].

11. The International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC) are incorporated into the financial audit guidelines (ISSAIs 1000-2999). In financial audits reference may therefore be made either to the ISSAIs or to the ISAs. The ISSAIs provide additional public sector guidance (‘Practice Notes’), but the requirements of the auditor in financial audits are the same. The ISAs constitute an indivisible set of standards and the ISSAIs in which they are incorporated may not be referred to individually. If the ISSAIs or the ISAs have been adopted as the SAI’s standards for financial audits, the auditor’s report should include a reference to those standards. This applies equally to financial audits conducted in combination with other types of audit.

12. Audits may be conducted in accordance with both the General Auditing Guidelines and standards from other sources provided that no contradictions arise. In such cases reference should be made both to such standards and to the ISSAIs.

FRAMEWORK FOR PUBLIC SECTOR AUDITING

Mandate

13. An SAI will exercise its public sector audit function within a specific constitutional arrangement and by virtue of its office and mandate, which ensure sufficient independence and power of discretion in performing its duties. The mandate of an SAI may define its general responsibilities in the field of public sector auditing and provide further prescriptions concerning the audits and other engagements to be performed.

14. SAIs may be mandated to perform many types of engagements on any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public funds and assets. The extent or form of these engagements and the reporting thereon will vary according to the legislated mandate of the SAI concerned.

15. In certain countries, the SAI is a court, composed of judges, with authority over State accountants and other public officials who must render account to it. There exists an important relationship between this jurisdictional authority and the characteristics of public sector auditing. The jurisdictional function requires the SAI to ensure that whoever is charged with dealing with public funds is held accountable and, in this regard, is subject to its jurisdiction.

16. An SAI may make strategic decisions in order to respond to the requirements in its mandate and other legislative requirements. Such decisions may include which auditing standards are applicable, which engagements will be conducted and how they will be prioritised.
Public sector auditing and its objectives

17. The public sector audit environment is that in which governments and other public sector entities exercise responsibility for the use of resources derived from taxation and other sources in the delivery of services to citizens and other recipients. These entities are accountable for their management and performance, and for the use of resources, both to those that provide the resources and to those, including citizens, who depend on the services delivered using those resources. Public sector auditing helps to create suitable conditions and reinforce the expectation that public sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with the applicable laws and regulations.

18. In general public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. Public sector auditing is essential in that it provides legislative and oversight bodies, those charged with governance and the general public with information and independent and objective assessments concerning the stewardship and performance of government policies, programmes or operations.

19. SAIs serve this aim as important pillars of their national democratic systems and governance mechanisms and play an important role in enhancing public sector administration by emphasising the principles of transparency, accountability, governance and performance.

ISSAI 20 – Principles of Transparency and Accountability contain guidance in this regard.

20. All public sector audits start from objectives, which may differ depending on the type of audit being conducted. However, all public sector auditing contributes to good governance by:

- providing the intended users with independent, objective and reliable information, conclusions or opinions based on sufficient and appropriate evidence relating to public entities;
- enhancing accountability and transparency, encouraging continuous improvement and sustained confidence in the appropriate use of public funds and assets and the performance of public administration;
- reinforcing the effectiveness of those bodies within the constitutional arrangement that exercise general monitoring and corrective functions over government, and those responsible for the management of publicly-funded activities;
- creating incentives for change by providing knowledge, comprehensive analysis and well-founded recommendations for improvement.
21. In general, public sector audits can be categorised into one or more of three main types: audits of financial statements, audits of compliance with authorities and performance audits. The objectives of any given audit will determine which standards apply.

**Types of public sector audit**

22. The three main types of public sector audit are defined as follows:

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**Financial audit** focuses on determining whether an entity’s financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.

**Performance audit** focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement.

**Compliance audit** focuses on whether a particular subject matter is in compliance with authorities identified as criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities which govern the audited entity. These authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials.
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23. SAIs may carry out audits or other engagements on any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public resources. These engagements may include reporting on the quantitative outputs and outcomes of the entity’s service delivery activities, sustainability reports, future resource requirements, adherence to internal control standards, real-time audits of projects or other matters. SAIs may also conduct combined audits incorporating financial, performance and/or compliance aspects.

**ELEMENTS OF PUBLIC SECTOR AUDITING**

24. Public sector auditing is indispensable for the public administration, as the management of public resources is a matter of trust. Responsibility for the management of public resources in line with intended purposes is entrusted to an entity or person who acts on behalf of the public. Public sector auditing enhances the
confidence of the intended users by providing information and independent and objective assessments concerning deviations from accepted standards or principles of good governance.

All public sector audits have the same basic elements: the auditor, the responsible party, intended users (the three parties to the audit), criteria for assessing the subject matter and the resulting subject matter information. They can be categorised as two different types of audit engagement: attestation engagements and direct reporting engagements.

The three parties

25. Public sector audits involve at least three separate parties: the auditor, a responsible party and intended users. The relationship between the parties should be viewed within the context of the specific constitutional arrangements for each type of audit.

- **The auditor:** In public sector auditing the role of auditor is fulfilled by the Head of the SAI and by persons to whom the task of conducting the audits is delegated. The overall responsibility for public sector auditing remains as defined by the SAI’s mandate.
- **The responsible party:** In public sector auditing the relevant responsibilities are determined by constitutional or legislative arrangement. The responsible parties may be responsible for the subject matter information, for managing the subject matter or for addressing recommendations, and may be individuals or organisations.
- **Intended users:** The individuals, organisations or classes thereof for whom the auditor prepares the audit report. The intended users may be legislative or oversight bodies, those charged with governance or the general public.

Subject matter, criteria and subject matter information

26. Subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria. It can take many forms and have different characteristics depending on the audit objective. An appropriate subject matter is identifiable and capable of consistent evaluation or measurement against the criteria, such that it can be subjected to procedures for gathering sufficient and appropriate audit evidence to support the audit opinion or conclusion.

27. The criteria are the benchmarks used to evaluate the subject matter. Each audit should have criteria suitable to the circumstances of that audit. In determining the suitability of criteria the auditor considers their relevance and understandability for the intended users, as well as their completeness, reliability and objectivity (neutrality, general acceptance and comparability with the criteria used in similar audits). The criteria used may depend on a range of factors, including the objectives and the type of audit. Criteria can be specific or more general, and may be drawn from various sources, including laws, regulations, standards, sound principles and
best practices. They should be made available to the intended users to enable them to understand how the subject matter has been evaluated or measured.

28. Subject matter information refers to the outcome of evaluating or measuring the subject matter against the criteria. It can take many forms and have different characteristics depending on the audit objective and audit scope.

Types of engagement

29. There are two types of engagement:

- In attestation engagements the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion.
- In direct reporting engagements it is the auditor who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. The outcome of measuring the subject matter against the criteria is presented in the audit report in the form of findings, conclusions, recommendations or an opinion. The audit of the subject matter may also provide new information, analyses or insights.

30. Financial audits are always attestation engagements, as they are based on financial information presented by the responsible party. Performance audits are normally direct reporting engagements. Compliance audits may be attestation or direct reporting engagements, or both at once. The following constitute the subject matter or the subject matter information in the three types of audit covered by the ISSAIs:

- **Financial audit:** The subject matter of a financial audit is the financial position, performance, cash flow or other elements which are recognised, measured and presented in financial statements. The subject matter information is the financial statements.
- **Performance audit:** The subject matter of a performance audit is defined by the audit objectives and audit questions. The subject matter may be specific programmes, entities or funds or certain activities (with their outputs, outcomes and impacts), existing situations (including causes and consequences) as well as non-financial or financial information about any of these elements. The auditor measures or evaluates the subject matter to assess the extent to which the established criteria have or have not been met.
- **Compliance audit:** The subject matter of a compliance audit is defined by the scope of the audit. It may be activities, financial transactions or information. For attestation engagements on compliance it is more relevant to focus on the subject matter information, which may be a statement of compliance in accordance with an established and standardised reporting framework.

Confidence and assurance in public sector auditing

The need for confidence and assurance

31. The intended users will wish to be confident about the reliability and relevance of the information which they use as the basis for taking decisions. Audits therefore provide information based on sufficient and appropriate evidence, and auditors should perform procedures to reduce or manage the risk of reaching inappropriate conclusions. The level of
assurance that can be provided to the intended user should be communicated in a transparent way. Due to inherent limitations, however, audits can never provide absolute assurance.

Forms of providing assurance

32. Depending on the audit and the users’ needs, assurance can be communicated in two ways:

- Through opinions and conclusions which explicitly convey the level of assurance. This applies to all attestation engagements and certain direct reporting engagements.
- In other forms. In some direct reporting engagements the auditor does not give an explicit statement of assurance on the subject matter. In such cases the auditor provides the users with the necessary degree of confidence by explicitly explaining how findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the combinations of findings and criteria result in a certain overall conclusion or recommendation.

Levels of assurance

33. Assurance can be either reasonable or limited.

Reasonable assurance is high but not absolute. The audit conclusion is expressed positively, conveying that, in the auditor's opinion, the subject matter is or is not compliant in all material respects, or, where relevant, that the subject matter information provides a true and fair view, in accordance with the applicable criteria.

When providing limited assurance, the audit conclusion states that, based on the procedures performed, nothing has come to the auditor’s attention to cause the auditor to believe that the subject matter is not in compliance with the applicable criteria. The procedures performed in a limited assurance audit are limited compared with what is necessary to obtain reasonable assurance, but the level of assurance is expected, in the auditor's professional judgment, to be meaningful to the intended users. A limited assurance report conveys the limited nature of the assurance provided.

PRINCIPLES OF PUBLIC SECTOR AUDITING

34. The principles detailed below are fundamental to the conduct of an audit. Auditing is a cumulative and iterative process. However, for the purposes of presentation the fundamental principles are grouped by principles related to the SAI’s organisational requirements, general principles that the auditor should consider prior to commencement and at more than one point during the audit and principles related to specific steps in the audit process.
Areas covered by the principles for public sector auditing

**GENERAL PRINCIPLES**

- Ethics & independence
- Professional judgment, due care and skepticism
- Quality control
- Audit team management & skills
- Audit risk
- Materiality
- Documentation
- Communication

**PRINCIPLES RELATED TO THE AUDIT PROCESS**

**Planning the audit**
- Establish the terms of the audit
- Obtain Understanding
- Conduct risk assessment or problem analysis
- Identify risks of fraud
- Develop an audit plan

**Conducting the audit**
- Perform the planned audit procedures to obtain audit evidence
- Evaluate audit evidence and draw conclusions

**Reporting and follow-up**
- Prepare a report based on the conclusions reached
- Follow-up on reported matters as relevant
Organisational requirements

35. SAIs should establish and maintain appropriate procedures for ethics and quality control

Each SAI should establish and maintain procedures for ethics and quality control on an organisational level that will provide it with reasonable assurance that the SAI and its personnel are complying with professional standards and the applicable ethical, legal and regulatory requirements. ISSAI 30 – Code of Ethics and ISSAI 40 – Quality Control for SAIs contain guidance in this regard. The existence of these procedures at SAI level is a prerequisite for applying or developing national standards based on the Fundamental Auditing Principles.

General principles

Ethics and independence

36. Auditors should comply with the relevant ethical requirements and be independent

Ethical principles should be embodied in an auditor’s professional behaviour. The SAIs should have policies addressing ethical requirements and emphasising the need for compliance by each auditor. Auditors should remain independent so that their reports will be impartial and be seen as such by the intended users.

Auditors can find guidance on independence in the ISSAI 10 – Mexico Declaration on SAI Independence. Guidance on the key ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour are defined in ISSAI 30 – Code of Ethics.

Professional judgment, due care and skepticism

37. Auditors should maintain appropriate professional behaviour by applying professional skepticism, professional judgment and due care throughout the audit

The auditor’s attitude should be characterised by professional skepticism and professional judgment, which are to be applied when forming decisions about the appropriate course of action. Auditors should exercise due care to ensure that their professional behaviour is appropriate.

Professional skepticism means maintaining professional distance and an alert and questioning attitude when assessing the sufficiency and appropriateness of evidence obtained throughout the audit. It also entails remaining open-minded and receptive to all views and arguments.

Professional judgment implies the application of collective knowledge, skills and experience to the audit process. Due care means that the auditor should plan and conduct audits in a diligent manner. Auditors should avoid any conduct that might discredit their work.
Quality control

38. **Auditors should perform the audit in accordance with professional standards on quality control**

An SAI’s quality control policies and procedures should comply with professional standards, the aim being to ensure that audits are conducted at a consistently high level. Quality control procedures should cover matters such as the direction, review and supervision of the audit process and the need for consultation in order to reach decisions on difficult or contentious matters. Auditors can find additional guidance in *ISSAI 40 – Quality Control for SAIs*.

Audit team management and skills

39. **Auditors should possess or have access to the necessary skills**

The individuals in the audit team should collectively possess the knowledge, skills and expertise necessary to successfully complete the audit. This includes an understanding and practical experience of the type of audit being conducted, familiarity with the applicable standards and legislation, an understanding of the entity’s operations and the ability and experience to exercise professional judgment. Common to all audits is the need to recruit personnel with suitable qualifications, offer staff development and training, prepare manuals and other written guidance and instructions concerning the conduct of audits, and assign sufficient audit resources. Auditors should maintain their professional competence through ongoing professional development.

Where relevant or necessary, and in line with the SAI’s mandate and the applicable legislation, the auditor may use the work of internal auditors, other auditors or experts. The auditor’s procedures should provide a sufficient basis for using the work of others, and in all cases the auditor should obtain evidence of other auditors’ or experts’ competence and independence and the quality of the work performed. However, the SAI has sole responsibility for any audit opinion or report it might produce on the subject matter; that responsibility is not reduced by its use of work done by other parties.

The objectives of internal audit are different from those of external audit. However, both internal and external audit promote good governance through contributions to transparency and accountability for the use of public resources, as well as economy, efficiency and effectiveness in public administration. This offers opportunities for coordination and cooperation and the possibility of eliminating duplication of effort.

Some SAIs use the work of other auditors at state, provincial, regional, district or local level, or of public accounting firms that have completed audit work related to the audit objective. Arrangements should be made to ensure that any such work was
carried out in accordance with public sector auditing standards. Audits may require specialised techniques, methods or skills from disciplines not available within the SAI. In such cases experts may be used to provide knowledge or carry out specific tasks or for other purposes.

Audit risk

40. Auditors should manage the risks of providing a report that is inappropriate in the circumstances of the audit

The audit risk is the risk that the audit report may be inappropriate. The auditor performs procedures to reduce or manage the risk of reaching inappropriate conclusions, recognising that the limitations inherent to all audits mean that an audit can never provide absolute certainty of the condition of the subject matter.

When the objective is to provide reasonable assurance, the auditor should reduce audit risk to an acceptably low level given the circumstances of the audit. The audit may also aim to provide limited assurance, in which case the acceptable risk that criteria are not complied with is greater than in a reasonable assurance audit. A limited assurance audit provides a level of assurance that, in the auditor’s professional judgment, will be meaningful to the intended users.

Materiality

41. Auditors should consider materiality throughout the audit process

Materiality is relevant in all audits. A matter can be judged material if knowledge of it would be likely to influence the decisions of the intended users. Determining materiality is a matter of professional judgment and depends on the auditor’s interpretation of the users’ needs. This judgment may relate to an individual item or to a group of items taken together. Materiality is often considered in terms of value, but it also has other quantitative as well as qualitative aspects. The inherent characteristics of an item or group of items may render a matter material by its very nature. A matter may also be material because of the context in which it occurs.

Materiality considerations affect decisions concerning the nature, timing and extent of audit procedures and the evaluation of audit results. Considerations may include stakeholder concerns, public interest, regulatory requirements and consequences for society.

Documentation

42. Auditors should prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and conclusions reached
Audit documentation should include an audit strategy and audit plan. It should record the procedures performed and evidence obtained and support the communicated results of the audit. Documentation should be sufficiently detailed to enable an experienced auditor, with no prior knowledge of the audit, to understand the nature, timing, scope and results of the procedures performed, the evidence obtained in support of the audit conclusions and recommendations, the reasoning behind all significant matters that required the exercise of professional judgment, and the related conclusions.

Communication

43. Auditors should establish effective communication throughout the audit process

It is essential that the audited entity be kept informed of all matters relating to the audit. This is key to developing a constructive working relationship. Communication should include obtaining information relevant to the audit and providing management and those charged with governance with timely observations and findings throughout the engagement. The auditor may also have a responsibility to communicate audit-related matters to other stakeholders, such as legislative and oversight bodies.

Principles related to the audit process

Planning an audit

44. Auditors should ensure that the terms of the audit have been clearly established

Audits may be required by statute, requested by a legislative or oversight body, initiated by the SAI or carried out by simple agreement with the audited entity. In all cases the auditor, the audited entity’s management, those charged with governance and others as applicable should reach a common formal understanding of the terms of the audit and their respective roles and responsibilities. Important information may include the subject, scope and objectives of the audit, access to data, the report that will result from the audit, the audit process, contact persons, and the roles and responsibilities of the different parties to the engagement.

45. Auditors should obtain an understanding of the nature of the entity/programme to be audited

This includes understanding the relevant objectives, operations, regulatory environment, internal controls, financial and other systems and business processes, and researching the potential sources of audit evidence. Knowledge can be obtained from regular interaction with management, those charged with governance and other relevant stakeholders. This may mean consulting experts and examining documents (including earlier studies and other sources) in order to gain a broad understanding of the subject matter to be audited and its context.
46. **Auditors should conduct a risk assessment or problem analysis and revise this as necessary in response to the audit findings**

The nature of the risks identified will vary according to the audit objective. The auditor should consider and assess the risk of different types of deficiencies, deviations or misstatements that may occur in relation to the subject matter. Both general and specific risks should be considered. This can be achieved through procedures that serve to obtain an understanding of the entity or programme and its environment, including the relevant internal controls. The auditor should assess the management’s response to identified risks, including its implementation and design of internal controls to address them. In a problem analysis the auditor should consider actual indications of problems or deviations from what should be or is expected. This process involves examining various problem indicators in order to define the audit objectives. The identification of risks and their impact on the audit should be considered throughout the audit process.

47. **Auditors should identify and assess the risks of fraud relevant to the audit objectives**

Auditors should make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives. They should maintain an attitude of professional skepticism and be alert to the possibility of fraud throughout the audit process.

48. **Auditors should plan their work to ensure that the audit is conducted in an effective and efficient manner**

Planning for a specific audit includes strategic and operational aspects.

**Strategically**, planning should define the audit scope, objectives and approach. The objectives refer to what the audit is intended to accomplish. The scope relates to the subject matter and the criteria which the auditors will use to assess and report on the subject matter, and is directly related to the objectives. The approach will describe the nature and extent of the procedures to be used for gathering audit evidence. The audit should be planned to reduce audit risk to an acceptably low level.

**Operationally**, planning entails setting a timetable for the audit and defining the nature, timing and extent of the audit procedures. During planning, auditors should assign the members of their team as appropriate and identify other resources that may be required, such as subject experts.

Audit planning should be responsive to significant changes in circumstances and conditions. It is an iterative process that takes place throughout the audit.
Conducting an audit

49. Auditors should perform audit procedures that provide sufficient appropriate audit evidence to support the audit report

The auditor’s decisions on the nature, timing and extent of audit procedures will impact on the evidence to be obtained. The choice of procedures will depend on the risk assessment or problem analysis.

Audit evidence is any information used by the auditor to determine whether the subject matter complies with the applicable criteria. Evidence may take many forms, such as electronic and paper records of transactions, written and electronic communication with outsiders, observations by the auditor, and oral or written testimony by the audited entity. Methods of obtaining audit evidence can include inspection, observation, inquiry, confirmation, recalculation, re-performance, analytical procedures and/or other research techniques. Evidence should be both sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) – i.e. relevant, valid and reliable. The auditor’s assessment of the evidence should be objective, fair and balanced. Preliminary findings should be communicated to and discussed with the audited entity to confirm their validity.

The auditor must respect all requirements regarding confidentiality.

50 Auditors should evaluate the audit evidence and draw conclusions

After completing the audit procedures, the auditor will review the audit documentation in order to determine whether the subject matter has been sufficiently and appropriately audited. Before drawing conclusions, the auditor reconsiders the initial assessment of risk and materiality in the light of the evidence collected and determines whether additional audit procedures need to be performed.

The auditor should evaluate the audit evidence with a view to obtaining audit findings. When evaluating the audit evidence and assessing materiality of findings the auditor should take both quantitative and qualitative factors into consideration.

Based on the findings, the auditor should exercise professional judgment to reach a conclusion on the subject matter or subject matter information.

Reporting and follow-up

51. Auditors should prepare a report based on the conclusions reached

The audit process involves preparing a report to communicate the results of the audit to stakeholders, others responsible for governance and the general public. The purpose is also to facilitate follow-up and corrective action. In some SAIs, such as courts of audit with jurisdictional authority, this may include issuing legally binding reports or judicial decisions.
Reports should be easy to understand, free from vagueness or ambiguity and complete. They should be objective and fair, only including information which is supported by sufficient and appropriate audit evidence and ensuring that findings are put into perspective and context.

The form and content of a report will depend on the nature of the audit, the intended users, the applicable standards and legal requirements. The SAI’s mandate and other relevant laws or regulations may specify the layout or wording of reports, which can appear in short form or long form.

*Long-form reports* generally describe in detail the audit scope, audit findings and conclusions, including potential consequences and constructive recommendations to enable remedial action.

*Short-form reports* are more condensed and generally in a more standardised format.

**Attestation engagements**

In attestation engagements the audit report may express an opinion as to whether the subject matter information is, in all material respects, free from misstatement and/or whether the subject matter complies, in all material respects, with the established criteria. In an attestation engagement the report is generally referred to as the Auditor’s Report.

**Direct engagements**

In direct engagements the audit report needs to state the audit objectives and describe how they were addressed in the audit. It includes findings and conclusions on the subject matter and may also include recommendations. Additional information about criteria, methodology and sources of data may also be given, and any limitations to the audit scope should be described.

The audit report should explain how the evidence obtained was used and why the resulting conclusions were drawn. This will enable it to provide the intended users with the necessary degree of confidence.

**Opinion**

When an audit opinion is used to convey the level of assurance, the opinion should be in a standardised format. The opinion may be unmodified or modified. An unmodified opinion is used when either limited or reasonable assurance has been obtained. A modified opinion may be:

- *Qualified (except for)* — where the auditor disagrees with, or is unable to obtain sufficient and appropriate audit evidence about, certain items in the subject matter which
are, or could be, material but not pervasive;

- **Adverse** – where the auditor, having obtained sufficient and appropriate audit evidence, concludes that deviations or misstatements, whether individually or in the aggregate, are both material and pervasive;
- **Disclaimed** – where the auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation which is both material and pervasive.

Where the opinion is modified the reasons should be put in perspective by clearly explaining, with reference to the applicable criteria, the nature and extent of the modification. Depending on the type of audit, recommendations for corrective action and any contributing internal control deficiencies may also be included in the report.

**Follow-up**

SAIs have a role in monitoring action taken by the responsible party in response to the matters raised in an audit report. Follow-up focuses on whether the audited entity has adequately addressed the matters raised, including any wider implications. Insufficient or unsatisfactory action by the audited entity may call for a further report by the SAI.
The International Standards of Supreme Audit Institutions, ISSAI, are issued by the International Organization of Supreme Audit Institutions, INTOSAI. For more information visit www.issai.org.
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INTRODUCTION

1. Professional standards and guidelines are essential for the credibility, quality and professionalism of public sector auditing. The International Standards of Supreme Audit Institutions (ISSAIs) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aim to promote independent and effective auditing and support the members of INTOSAI in the development of their own professional approach in accordance with their mandates and with national laws and regulations.

2. **ISSAI 100 – Fundamental Principles of Public Sector Auditing** provides the fundamental principles for public sector auditing in general and defines the authority of the ISSAIs.

   **ISSAI 300 – Fundamental Principles of Performance Auditing** builds on and further develops the fundamental principles of ISSAI 100 to suit the specific context of performance auditing. ISSAI 300 should be read and understood in conjunction with ISSAI 100, which also applies to performance auditing.

3. **ISSAI 300 – Fundamental Principles of Performance Auditing** consists of three sections.

   - The first section establishes the framework for performance auditing and for reference to the relevant ISSAIs.
   - The second section consists of the general principles for performance audit engagements that the auditor should consider prior to commencement and throughout the audit process.
   - The third section contains principles of relevance to the main stages of the audit process itself. Each principle is followed by a brief explanation.

PURPOSE AND AUTHORITY OF THE FUNDAMENTAL PRINCIPLES OF PERFORMANCE AUDITING

4. This document seeks to establish a common understanding of the nature of performance auditing, including the principles to be applied to achieve a high standard of audit. INTOSAI members are encouraged to develop or adopt authoritative standards consistent with ISSAIs 100 and 300 and to take into account the INTOSAI guidance on performance auditing. The ISSAI 3000 series provides an overall framework for performance auditing, with general guidelines on the conduct of audits, as a basis for assisting SAIs in developing their own national standards.

5. Standards for performance auditing should reflect the need for flexibility in the design of individual engagements, for auditors to be receptive and creative in their work and for professional judgment at all stages of the audit process.

6. INTOSAI recognises that SAIs have contrasting mandates and work under different conditions. Due to the varied situations and structural arrangements of SAIs, not all auditing
standards or guidelines can apply to all aspects of their work. SAIs therefore have the option of developing authoritative standards that are either based on or consistent with the Fundamental Principles of Performance Auditing. If an SAI chooses to base its standards on the Fundamental Principles, those standards should correspond to the Principles in all applicable and relevant respects.

7. Where an SAI’s auditing standards are based on or consistent with the Fundamental Principles of Performance Auditing, these may be referred to by stating:

… We conducted our audit[s] in accordance with [standards], which are based on [or consistent with] the Fundamental Principles of Performance Auditing of the International Standards of Supreme Audit Institutions.

The reference may be included in the audit report or communicated by the SAI in a more general form covering a defined range of engagements.

8. SAIs may choose to adopt the Performance Audit Guidelines (ISSAIs 3000-3999) as the authoritative standards for their work. Where an SAI has chosen so to adopt these guidelines, it must comply with them in all relevant respects. Reference in this case may be made by stating:

… We conducted our [performance] audit[s] in accordance with the International Standards of Supreme Audit Institutions [on performance auditing].

FRAMEWORK FOR PERFORMANCE AUDITING

Definition of performance auditing

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

10. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by:

• providing new analytical insights (broader or deeper analysis or new perspectives);
• making existing information more accessible to various stakeholders;
• providing an independent and authoritative view or conclusion based on audit evidence;
• providing recommendations based on an analysis of audit findings.

Economy, efficiency and effectiveness

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

• The principle of economy means minimising the costs of resources. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price.
The principle of **efficiency** means getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.

The principle of **effectiveness** concerns meeting the objectives set and achieving the intended results.

Performance audits often include an analysis of the conditions that are necessary to ensure that the principles of economy, efficiency and effectiveness can be upheld. These conditions may include good management practices and procedures to ensure the correct and timely delivery of services. Where appropriate, the impact of the regulatory or institutional framework on the performance of the audited entity should also be taken into account.

**Objectives of performance auditing**

12. The main objective of performance auditing is constructively to promote economical, effective and efficient governance. It also contributes to accountability and transparency.

Performance auditing promotes *accountability* by assisting those with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature, but examines whether any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved. Performance auditing focuses on areas in which it can add value for citizens and which have the greatest potential for improvement. It provides constructive incentives for the responsible parties to take appropriate action.

Performance auditing promotes *transparency* by affording parliament, taxpayers and other sources of finance, those targeted by government policies and the media an insight into the management and outcomes of different government activities. It thereby contributes in a direct way to providing useful information to the citizen, while also serving as a basis for learning and improvements. In performance auditing, SAIs are free to decide, within their mandate, what, when and how to audit, and should not be restrained from publishing their findings.

**Applicability of ISSAI 300**

13. The Fundamental Principles of Performance Auditing are provides the basis for the adoption or development of standards by SAIs. They have been formulated with a view to the institutional background of SAIs, including their independence, constitutional mandates and ethical obligations and the requirements of the Prerequisites for the Functioning of SAIs (ISSAIs 10-99).

14. When dealing with overlaps between audit types (or combined audits) the following points should be considered:
• Elements of performance auditing can be part of a more extensive audit that also covers compliance and financial auditing aspects.
• In the event of an overlap, all relevant standards should be observed. This may not be feasible in all cases, as different standards may contain different priorities.
• In such cases, the primary objective of the audit should guide the auditors as to which standards to apply. In determining whether performance considerations form the primary objective of the audit engagement, it should be borne in mind that performance auditing focuses on activity and results rather than reports or accounts, and that its main objective is to promote economy, efficiency and effectiveness rather than report on compliance.

ELEMENTS OF PERFORMANCE AUDITING

15. The elements of a public-sector audit (auditor, responsible party, intended users, subject matter and criteria), as defined in ISSAI 100, may assume distinct characteristics in performance auditing. Auditors should explicitly identify the elements of each audit and understand their implications so that they can conduct the audit accordingly.

The three parties in performance auditing

16. Auditors frequently have considerable discretion in the selection of subject matter and identification of criteria, which in turn influences who the relevant responsible parties and intended users are. While auditors can give recommendations, they need to take care that they do not assume the responsibilities of the responsible parties. Auditors in performance audits typically work in a team offering different and complementary skills.

17. The role of responsible party may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter. Some parties may be responsible for actions that have caused problems. Others may be able to initiate changes to address the recommendations resulting from a performance audit. Others still may be responsible for providing the auditor with information or evidence.

18. The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users. A responsible party may also be an intended user, but it will rarely be the only one.

Subject matter and criteria in performance auditing

19. The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences). Examples might be service delivery by the responsible parties or the effects of government policy and regulations on administration, stakeholders, businesses, citizens and society. The subject matter is determined by the objective and formulated in the audit questions.

20. In performance auditing, the auditor is sometimes involved in developing or selecting the
criteria that are relevant to the audit. Paragraph 27 describes which specific requirements follow from this for the auditor.

**Confidence and assurance in performance auditing**

21. As in all audits, the users of performance audit reports will wish to be confident about the reliability of the information which they use for taking decisions. They will therefore expect reliable reports which set out the SAIs' evidence-based position on the subject examined. Consequently, performance auditors should in all cases provide findings based on sufficient appropriate evidence and actively manage the risk of inappropriate reports. However, performance auditors are not normally expected to provide an overall opinion, comparable to the opinion on financial statements, on the audited entity’s achievement of economy, efficiency and effectiveness. This is therefore not a requirement of the ISSAI framework.

22. The level of assurance provided by a performance audit should be communicated in a transparent way. The degree of economy, efficiency and effectiveness achieved may be conveyed in the performance audit report in different ways:

- either through an overall view on aspects of economy, efficiency and effectiveness, where the audit objective, the subject matter, the evidence obtained and the findings reached allow for such a conclusion;
- or by providing specific information on a range of points including the audit objective, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions.

23. Audit reports should only include findings that are supported by sufficient appropriate evidence. The decisions made in drawing up a balanced report, reaching conclusions and formulating recommendations frequently need to be elaborated upon in order to provide sufficient user information. Performance auditors should specifically describe how their findings have led to a set of conclusions and – if applicable – a single overall conclusion. This means explaining which criteria were developed and used and why, and stating that all relevant viewpoints have been taken into account so that a balanced report can be presented. The principles on reporting give further guidance for this process.

**PRINCIPLES OF PERFORMANCE AUDITING**

**General principles**

24. The general principles set out below give guidance on aspects of performance auditing that are relevant throughout the audit process.

- Some areas to which these principles apply are not covered by ISSAI 100. These are the selection of audit topics, the identification of audit objectives and the definition of an audit approach and criteria.
- In other areas, such as audit risk, communication, skills, professional judgment, quality control, materiality and documentation, the general principles draw on the principles of ISSAI 100 and explain how they specifically apply in performance auditing.
Finally, some areas, such as ethics and independence, are currently addressed by ISSAI 100 and by ISSAIs at level 2.

Audit objective

25. **Auditors should set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness.**

The audit objective determines the approach and design of the engagement. It could simply be to describe the situation. However, normative audit objectives (are things as they ought to be?) and analytical audit objectives (why are things not as they ought to be?) are more likely to add value. In all cases, the auditors need to consider what the audit pertains to, which organisations and bodies are involved and for whom the ultimate recommendations are likely to be relevant. Well-defined audit objectives relate to a single entity or an identifiable group of government undertakings, systems, operations, programmes, activities or organisations.

Many audit objectives can be framed as an overall audit question which can be broken down into more precise sub-questions. They should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit question. All terms employed in the question should be clearly defined. The formulation of audit questions is an iterative process in which the questions are repeatedly specified and refined, account being taken of known relevant information on the subject as well as feasibility.

Instead of defining a single objective or overall audit question, auditors may choose to develop several audit objectives, which need not always be broken down into sub-questions.

Audit approach

26. **Auditors should choose a result-, problem- or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.**

The overall audit approach is a central element of any audit. It determines the nature of the examination to be made. It also defines the necessary knowledge, information and data and the audit procedures needed to obtain and analyse them.

Performance auditing generally follows one of three approaches:

- a system-oriented approach, which examines the proper functioning of management systems, e.g. financial management systems;
- a result-oriented approach, which assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended;
- a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

All three approaches can be pursued from a top-down or bottom-up perspective. Top-down audits concentrate mainly on the requirements, intentions, objectives and expectations of the legislature and central government. A bottom-up perspective focuses on problems of significance to people and the community.
Criteria

27. **Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.**

Criteria are the benchmarks used to evaluate the subject matter. Performance audit criteria are reasonable and audit-specific standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed.

The criteria provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives. They also form an important element in discussions within the audit team and with SAI management and in communication with the audited entities.

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

Diverse sources can be used to identify criteria, including performance measurement frameworks. It should be transparent which sources were used, and the criteria should be relevant and understandable for users as well as complete, reliable and objective in the context of the subject matter and audit objectives.

The criteria should be discussed with the audited entities, but it is ultimately the auditor's responsibility to select suitable criteria. While defining and communicating criteria during the planning phase may enhance their reliability and general acceptance, in audits covering complex issues it is not always possible to set criteria in advance; instead they will be defined during the audit process.

Whereas in some audit types there are unequivocal legislative criteria, this is not typically the case in performance auditing. The audit objectives, question and approach determine the relevance and the type of suitable criteria, and user confidence in the findings and conclusions of a performance audit depends largely on the criteria. Thus it is crucial to select reliable and objective criteria.

In a problem-oriented performance audit, the starting point is a known or suspected deviation from what should or could be. The main objective is therefore not just to verify the problem (the deviation from the criterion and its consequences) but to identify causes. This makes it important to decide how to examine and verify causes during the design phase. Conclusions and recommendations are primarily based on the process of analysing and confirming causes, even though they are always rooted in normative criteria.

Audit risk

28. **Auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.**

Many topics in performance auditing are complex and politically sensitive. While simply avoiding such topics may reduce the risk of inaccuracy or incompleteness, it could also limit
the possibility of adding value.

The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors and, as a consequence, not being able to provide users of the audit report with knowledge or recommendations that would make a real contribution to better performance.

Important aspects of risk may include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to quality information, obtaining inaccurate information (e.g. because of fraud or irregular practices), being unable to put all findings in perspective, and failing to collect or address the most relevant arguments.

Auditors should therefore actively manage risk. Dealing with audit risk is embedded in the whole process and methodology of performance audit. Audit planning documents should state the possible or known risks of the work envisaged and show how these risks will be handled.

Communication

29. **Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.**

There are several reasons why planning communication with the audited entities and stakeholders is of particular importance in performance audit.

- As performance audits are not normally conducted on a regular (e.g. annual) basis on the same audited entities, channels of communication may not already exist. While there may be contacts with the legislature and government bodies, other groups (such as academic and business communities or civil society organisations) may not have been engaged with previously.
- Often there are no predefined criteria (such as a financial reporting framework), and thus an intensive exchange of views with the audited entity is necessary.
- The need for balanced reports requires an active effort to obtain insight into the points of view of the various stakeholders.

Auditors should identify the responsible parties and other key stakeholders and take the initiative in establishing effective two-way communication. With good communication, auditors can improve access to information sources and to data and opinions from the audited entity. Using communication channels to explain the purpose of the performance audit to stakeholders also increases the likelihood that audit recommendations will be implemented. Auditors should therefore seek to maintain good professional relations with all relevant stakeholders, promote a free and frank flow of information in so far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding for the role and responsibilities of each stakeholder. However, care should be taken to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI.

Auditors should notify audited entities of the key aspects of the audit, including the audit objective, audit questions and subject matter. Notification will usually take the form of a written engagement letter and regular communication during the audit. Auditors should maintain communication with audited entities throughout the audit process, by means of constructive interaction as different findings, arguments and perspectives are assessed.

Audited entities should be given an opportunity to comment on the audit findings,
conclusions and recommendations before the SAI issues its audit report. Any disagreements should be analysed and factual errors corrected. The examination of feedback should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented.

At the end of the audit process, stakeholder feedback can also be obtained on the quality of the published audit reports. The audited entities’ perception of audit quality may also be solicited.

Skills

30. Collectively, the audit team should have the necessary professional competence to perform the audit. This would include sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills.

In performance auditing, specific skills may be required, such as knowledge of evaluation techniques and social science methods, and personal abilities such as communication and writing skills, analytical capacity, creativity and receptiveness. Auditors should have a sound knowledge of government organisations, programmes and functions. This will ensure that the right areas are selected for audit and that auditors can effectively undertake reviews of government programmes and activities.

There may also be specific ways of acquiring the necessary skills. For each performance audit the auditors need to have a full understanding of the government measures which are the subject matter of the audit, as well as the relevant background causes and the possible impacts. This knowledge must frequently be acquired or developed specifically for the engagement. Performance audits often involve a learning process and the development of methodology as part of the audit itself. On-the-job learning and training should therefore be available to auditors, who should maintain their professional skills through ongoing professional development. An open attitude to learning and an encouraging management culture are important conditions for enhancing individual auditors’ professional skills.

In specialised areas, external experts can be used to complement the knowledge of the audit team. Auditors should evaluate whether and in what areas external expertise is required, and make the necessary arrangements.

Professional judgment and skepticism

31. Auditors should exercise professional skepticism, but also be receptive and willing to innovate.

It is vital that auditors exercise professional skepticism and adopt a critical approach, maintaining an objective distance from the information provided. Auditors are expected to make rational assessments and discount their own personal preferences and those of others.

At the same time, they should be receptive to views and arguments. This is necessary in order to avoid errors of judgment or cognitive bias. Respect, flexibility, curiosity and a willingness to innovate are equally important. Innovation applies to the audit process itself, but also to the audited processes or activities.
Auditors are expected to consider issues from different perspectives and maintain an open and objective attitude to various views and arguments. If they are not receptive, they may miss important arguments or key evidence. As auditors work to develop new knowledge, they also need to be creative, reflective, flexible, resourceful and practical in their efforts to collect, interpret and analyse data.

A high standard of professional behaviour should be maintained throughout the audit process, from topic selection and audit planning, via the audit proper, to reporting. It is important for auditors to work systematically, with due care and objectivity and under appropriate supervision.

Quality control

32. **Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced and fair reports that add value and answer the audit questions.**

ISSAI 40 - Quality Control for SAIs offers general guidance on the system of quality control established at the organisational level to cover all audits. In the conduct of performance audits the following specific issues need to be addressed:

- Performance audit is a process in which the audit team gathers a large amount of audit-specific information and exercises a high degree of professional judgment and discretion concerning the relevant issues. This must be taken into account in quality control.
- The need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams should be seen as part of quality management. This may entail applying quality control procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received from quality control. If there is a difference of opinion between supervisors and the audit team, appropriate steps should be taken to ensure that the audit team’s perspective is given sufficient consideration and that the SAI’s policy is consistent.
- In performance auditing, even if the report is evidence-based, well-documented and accurate, it might still be inappropriate or insufficient if it fails to give a balanced and unbiased view, includes too few relevant viewpoints or unsatisfactorily addresses the audit questions. These considerations should therefore be an essential part of measures to safeguard quality.
- As audit objectives vary widely between different audit engagements, it is important to define clearly what constitutes a high-quality report in the specific context of an audit engagement. General quality control measures should therefore be complemented by audit-specific measures.

No quality control procedures at the level of the individual audit can guarantee high-quality performance audit reports. It is equally important for auditors to be – and remain – competent and motivated. Control mechanisms should therefore be complemented by support, such as on-the-job training and guidance for the audit team.
Materiality

33. **Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much added value as possible.**

Materiality can be understood as the relative importance of a matter within the context in which it is being considered. The materiality of an audit topic should have regard to the magnitude of its impacts. It will depend on whether the activity is comparatively minor and whether shortcomings in the area concerned could influence other activities within the audited entity. An issue will be considered material where the topic is considered to be of particular importance and where improvements would have a significant impact. It will be less material where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or otherwise minimal.

In performance audit, materiality by monetary value may, but need not, be a primary concern. In defining materiality, the auditor should consider also what is socially or politically significant and bear in mind that this varies over time and depends on the perspective of the relevant users and responsible parties. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation that perspective may vary from one audit to another. Assessing it requires careful judgment on the part of the auditor.

Materiality concerns all aspects of performance audits, such as the selection of topics, definition of criteria, evaluation of evidence and documentation and management of the risks of producing inappropriate or low-impact audit findings or reports.

Documentation

34. **Auditors should document the audit in accordance with the particular circumstances thereof. Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.**

As in all audits, performance auditors should keep an adequate documentary record of the preparation, procedures and findings of each audit. However, the purpose and context of documentation are somewhat specific in performance auditing.

- Frequently the auditor will have acquired specialised knowledge about the audit topic that is not easily reproduced in the SAI. Since the audit methodology and criteria may have been developed specifically for a single engagement, the auditor carries a special responsibility to make his reasoning transparent.
- In performance auditing, as well as containing findings and recommendations the report describes the framework, perspective and analytical structure that were adopted and the process that was followed to arrive at the conclusions. To some extent, the report performs functions that in other types of audits are provided by general standards or audit documentation.
• Documentation should not only confirm the accuracy of facts, but also ensure that the report presents a balanced, fair and complete examination of the audited question or subject matter. Thus, for example, it might be necessary for the documentation to include reference to arguments not accepted in the report, or to describe how different viewpoints were dealt with in the report.

• The purpose of the audit report in performance auditing is frequently to persuade reasonable users by providing new insights rather than a formal statement of assurance. Just as the audit objectives determine the nature of the necessary evidence, they also determine the nature of documentation.

• Maintaining adequate documentation is not only part of safeguarding quality (e.g. by helping to ensure that delegated work has been performed satisfactorily and that the audit objectives have been achieved) but also of the SAI’s and individual auditors’ professional development, as it can shape good practice for similar audits in the future.

**Principles related to the audit process**

35. Performance auditing comprises the following main steps:

- Planning, i.e. selection of topics, pre-study and audit design;
- Conducting, i.e. collecting and analysing data and information;
- Reporting, i.e. presenting the outcome of the audit: answers to the audit questions, findings, conclusions and recommendations to users;
- Follow-up, i.e. determining whether action taken in response to findings and recommendations has resolved the underlying problems and/or weaknesses.

These steps may be iterative. For instance, new insights from the process stage may necessitate changes to the audit plan, and important elements of reporting (e.g. the drawing of conclusions) may be sketched out or even completed during the process stage.
Planning

Selection of topics

36. **Auditors should select audit topics through the SAI’s strategic planning process by analysing potential topics and conducting research to identify risks and problems.**

Determining which audits will be pursued is usually part of the SAI’s strategic planning process. If appropriate, auditors should contribute to this process in their respective fields of expertise. They may share knowledge from previous audits, and information from the strategic planning process may be relevant for the auditor’s subsequent work.

In this process, auditors should consider that audit topics should be sufficiently significant as well as auditable and in keeping with the SAI’s mandate. The topic selection process should aim to maximise the expected impact of the audit while taking account of audit capacities (e.g. human resources and professional skills).

Formal techniques to prepare the strategic planning process, such as risk analysis or problem assessments, can help structure the process but need to be complemented by professional judgment to avoid one-sided assessments.

Designing the audit

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

In planning an audit, it is important to consider:

- the background knowledge and information required for an understanding of the audited entities, so as to allow an assessment of the problem and risk, possible sources of evidence, auditability and the significance of the area considered for audit;
- the audit objectives, questions, criteria, subject matter and methodology (including techniques to be used for gathering evidence and conducting the audit analysis);
- the necessary activities, staffing and skills requirements (including the independence of the audit team, human resources and possible external expertise), the estimated cost of the audit, the key project timeframes and milestones and the main points for control.

To ensure the audit is properly planned, therefore, the auditors need to acquire sufficient knowledge of the subject matter. Performance auditing generally requires that audit-specific, substantive and methodological knowledge be acquired before the audit is launched (“pre-study”).

When planning the audit, the auditor should design the audit procedures to be used for gathering sufficient appropriate audit evidence. This can be approached in several stages: deciding on the overall audit design (which questions to ask, e.g. explanatory/descriptive/evaluative); determining the level of observation (e.g. looking at a process or individual files); methodology (e.g. full analysis or sample); specific data-collection techniques (e.g. interview or focus group). Data-collection methods and
sampling techniques should be carefully chosen. The planning phase should also involve research work aimed at building knowledge, testing various audit designs and checking whether the necessary data are available. This makes it easier to choose the most appropriate audit method.

Senior and operational management and the audit team should be fully cognisant of the overall audit design and what it entails. Decisions on the overall audit design and its consequences in terms of resources will often involve the senior management of the SAI, who can ensure that skills, resources and capacities are in place to address the audit objectives and the audit questions.

Planning should allow for flexibility, so that the auditors can benefit from insights obtained during the course of the audit. The audit methods chosen should be those which best allow audit data to be gathered in an efficient and effective manner. While the auditors should aim to adopt best practices, practical considerations such as the availability of data may restrict the choice of methods. It is therefore advisable to be flexible and pragmatic in this respect. For this reason, performance audit procedures should not be overly standardised. Excessive prescriptiveness may hamper the flexibility, professional judgment and high levels of analytical skills that are required in a performance audit. In certain cases – where, for example, the audit requires data to be gathered in many different regions or areas or the audit is to be conducted by a large number of auditors – there may be a need for a more detailed audit plan in which audit questions and procedures are explicitly defined.

When planning an audit, auditors should assess the risk of fraud. If this is significant within the context of the audit objectives, the auditors should obtain an understanding of the relevant internal control systems and examine whether there are signs of irregularities that hamper performance. They should also determine whether the entities concerned have taken appropriate action to address any recommendations from previous audits or other examinations that are of relevance to the audit objectives. Lastly, the auditors should seek contact with stakeholders, including scientists or other experts in the field, in order to build up proper knowledge regarding, for instance, good or best practices. The overall aim at the planning stage is to decide, by building up knowledge and considering a variety of strategies, how best to conduct the audit.

**Conducting**

**Evidence, findings and conclusions**

38. **Auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations.**

All audit findings and conclusions must be supported by sufficient appropriate evidence. This should be placed in context, and all relevant arguments, pros and cons and different perspectives should be considered before conclusions can be drawn. The nature of the audit evidence required to draw conclusions in performance auditing is determined by the subject matter, the audit objective and the audit questions.

The auditor should evaluate the evidence with a view to obtaining audit findings. Based on the findings, the auditor should exercise professional judgment to reach a conclusion.
Findings and conclusions are the results of analysis in response to the audit objectives. They should provide answers to the audit questions.

Conclusions can be based on quantitative evidence obtained using scientific methods or sampling techniques. Formulating conclusions may require a significant measure of judgment and interpretation in order to answer the audit questions, due to the fact that audit evidence may be persuasive ("points towards the conclusion that ...") rather than conclusive ("right/wrong"). The need for precision should be weighed against what is reasonable, economical and relevant to the purpose. The involvement of senior management is recommended.

Performance auditing involves a series of analytical processes that evolve gradually through mutual interaction, allowing the questions and methods employed to develop in depth and sophistication. This may involve combining and comparing data from different sources, drawing preliminary conclusions and compiling findings in order to build hypotheses that can be tested, if necessary, against additional data. The whole process is closely linked to that of drafting the audit report, which can be seen as an essential part of the analytical process that culminates in answers to the audit questions. It is important for auditors to be goal-oriented and for them to work systematically and with due care and objectivity.

Reporting

Content of the report

39. **Auditors should strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced.**

To be comprehensive, a report should include all the information needed to address the audit objective and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions. To be convincing, it should be logically structured and present a clear relationship between the audit objective, criteria, findings, conclusions and recommendations. All relevant arguments should be addressed.

In a performance audit, the auditors report their findings on the economy and efficiency with which resources are acquired and used and the effectiveness with which objectives are met. Reports may vary considerably in scope and nature, for example assessing whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements.

The report should include information about the audit objective, audit questions and answers to those questions, the subject matter, criteria, methodology, sources of data, any limitations to the data used, and audit findings. It should clearly answer the audit questions or explain why this was not possible. Alternatively, the auditors should consider reformulating the audit questions to fit the evidence obtained and thus arrive at a position where the questions can be answered. The audit findings should be put into perspective, and congruence should be ensured between the audit objective, audit questions, findings and conclusions. The report should explain why and how problems noted in the findings hamper performance in order to encourage the audited entity or report user to initiate corrective action. It should, where
appropriate, include recommendations for improvements to performance.

The report should be as clear and concise as the subject matter permits and phrased in unambiguous language. As a whole it should be constructive, contribute to better knowledge and highlight any necessary improvements.

**Recommendations**

40. **If relevant and allowed by the SAI’s mandate, auditors should seek to provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit.** Recommendations should be well-founded and add value. They should address the causes of problems and/or weaknesses. However, they should be phrased in such a way that avoids truisms or simply inverting the audit conclusions, and they should not encroach on the management’s responsibilities. It should be clear who and what is addressed by each recommendation, who is responsible for taking any initiative and what the recommendations mean – i.e. how they will contribute to better performance. Recommendations should be practical and be addressed to the entities which have responsibility and competence for implementing them.

Recommendations should be clear and presented in a logical and reasoned fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report, they should convince the reader that they are likely to significantly improve the conduct of government operations and programmes, e.g. by lowering costs and simplifying administration, enhancing the quality and volume of services, or improving effectiveness, impact or the benefits to society.

**Distribution of the report**

41. **Auditors should seek to make their reports widely accessible, in accordance with the mandate of the SAI.** Auditors should bear in mind that distributing audit reports widely can promote the credibility of the audit function. Reports should therefore be distributed to the audited entities, the executive and/or the legislature and, where relevant, be made accessible to the general public directly and through the media and to other interested stakeholders.

**Follow-up**

42. **Auditors should follow up previous audit findings and recommendations wherever appropriate. Follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective action.**

Follow-up refers to the auditors’ examination of corrective action taken by the audited entity, or another responsible party, on the basis of the results of a performance audit. It is an independent activity that increases the value of the audit process by strengthening the impact of the audit and laying the basis for improvements to future audit work. It also encourages
the audited entities and other users of reports to take the latter seriously, and provides the auditors with useful lessons and performance indicators. Follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time.

When conducting follow-up of an audit report, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow-up and adopt an unbiased and independent approach. Follow-up results may be reported individually or as a consolidated report, which may in turn include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas. Follow-up can contribute to a better understanding of the value added by performance auditing over a given time period or subject area.
ISSAI 3000

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

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

It is not possible to produce guidelines applicable to all kinds of performance auditing, since comparisons between the practices of performance auditing in different countries show considerable variations in mandate, organisation, and methods used. Guidelines in performance auditing cannot comprehensively embrace all possible approaches, methods and techniques, since in practice that would include everything in the social sciences. Furthermore, performance audits deal with a multitude of topics and perspectives covering the entire government sector, and it would not be possible to develop detailed standards and procedures that work equally well in all these situations. In performance auditing it is not possible to produce a ‘cookbook’ type of manual that can universally be followed for good results.1

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

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1 Audit Director Tony Anglyerd (Sweden) prepared the guidelines, but many INTOSAI members have assisted in the processes. Performance Audit Standards from members and regional working groups have been studied. The ‘Performance Auditing Guidelines’, approved at the 8th ASOSAI Assembly in October 2000, should explicitly be mentioned.
extent the guidelines are to be used in its own audit practices and development work. What has been said above must not be taken as an argument against any standardisation or guidelines, but when it comes to standardisation in performance auditing it is mostly a question of what to do, rather than how to do it. For example, in designing a study one would expect the auditors to make certain considerations and cover particular aspects. How that is done must be decided on a case-by-case basis and with consideration of the fact that methods and techniques have to be applied with the necessary care that is commonly considered to be the best practice in social sciences and auditing.

This document reflects the experience of SAIs with a long tradition and well-established standards of performance auditing. It deals with performance auditing carried out as separate examinations or investigations; i.e. performance auditing as a separate and professional activity that requires specialised skills, separate standards, special planning, special reports, etc. Consequently, this document is aimed mainly at those SAIs that are carrying out – or are planning to carry out – this type of performance auditing. These guidelines consist of five main parts.

*Part 1* sets out the general framework for performance auditing,

*Part 2* defines application of auditing principles to performance auditing,

*Part 3* provides standards and guidance for planning performance audits,

*Part 4* provides standards and guidance for conducting performance audits,

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

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

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

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

4 This would, for instance, to some extent exclude the kind of continuous monitoring exercise that is based on the concept of so-called performance indicators. However, non-regular (in-depth) studies on topics such as whether performance measurement systems in government programs are effective and valid or not are not excluded. (See section 1.7.)
Part 1: **What is performance auditing?**

### 1.1 What is performance auditing according to INTOSAI?

INTOSAI’s Auditing Standards *(AS 1.0.38 and 1.0.40)* state the following: ‘The full scope of government auditing includes regularity and performance audit’, and ‘Performance auditing is concerned with the audit of economy, efficiency and effectiveness and embraces:

- a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
- b) audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities forremedying identified deficiencies; and
- c) audit of the effectiveness of performance in relation to achievement of the objectiveness of the audited entity, and audit of the actual impact of activities compared with the intended impact’.

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

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

### 1.2 What is the special feature of performance auditing?

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

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

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

1.3 What ideas form the basis of performance auditing?

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

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

- One starting point is that it is important to assess the economy, efficiency, and effectiveness in all government activities and, for that purpose, an audit is needed, which examines and evaluate such matters and which may contribute to better government spending, better public services and better public accountability and management.
- Secondly, it is important to have reliable and independent information. An examiner is needed who represents the public interest; who can think and act independently in order to show and question the current situation.

Finally, an overview and insights into government activities and the ability to influence and improve its performance are important. A competent examiner is needed who can fulfill this role, who will promote incentives for learning and change and improved conditions for decision-making.

1.4 **What are the basic questions in performance auditing?**

All government programs or undertakings (and most processes they generate) can, at least in theory, be analysed with the use of a formula that describes how to move from one position to another by certain means in order to achieve specific objectives. In performance auditing, this is often done by trying to answer two basic questions:

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

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

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

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

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

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<td>Action done</td>
<td>Services provided</td>
<td>Objectives met</td>
</tr>
</tbody>
</table>

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

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

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

**Economy – keeping the costs low**

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

Audits of economy may provide answers to questions such as:

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

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

5Standards concerning ‘environmental considerations’ and ‘equity requirements’ are also taken into account in performance auditing. (See Appendix 6.)
**Efficiency – making the most of available resources**

Efficiency is related to economy. Here, too, the central issue concerns the resources deployed. The main question is whether these resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turnaround time could have been achieved with fewer resources. *Are we getting the most output – in terms of quantity and quality – from our inputs and actions?* The question refers to the relationship between the quality and quantity of services provided and the activities and cost of resources used to produce them, in order to achieve results. Clearly, any opinion or finding on efficiency is usually only relative, while occasionally inefficiency is immediately apparent. A finding on efficiency can be formulated by means of a comparison with similar activities, with other periods, or with a standard that has explicitly been adopted. Sometimes standards, such as best practices, are applicable. Assessments of efficiency might also be based on conditions that are not related to specific standards – when matters are so complex that there are no standards. In such cases, assessments must be based on the best available information and arguments and in compliance with the analysis carried out in the audit.

Auditing efficiency embraces aspects such as whether:

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

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

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

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

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

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

**Effectiveness – achieving the stipulated aims or objectives**

Effectiveness is essentially a goal-attainment concept. It is concerned with the relationship between goals or objectives, outputs and impacts.

*Are the stipulated aims being met by the means employed, the outputs produced and the impacts observed? Are the impacts observed really the result of the policy rather than other circumstances?*

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

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*That is, the extent to which a program or entity is achieving its goals and objectives.*
measurement before and after the introduction of the policy and a measurement involving a control group, which has not been subject to the policy.\footnote{The term policy covers both government policy and agency policy (see section 2.1 and footnote 25). There are always difficulties involved in conducting performance audits when the policy objectives are vague and abstract. For more information, see Appendix 2}

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

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

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

In auditing effectiveness, performance auditing may, for instance,

- assess whether government programs have been effectively prepared and designed and whether they are clear and consistent;
- assess whether the objectives and the means provided (legal, financial, etc.) for a new or ongoing government program are proper, consistent, suitable, or relevant;
• assess the effectiveness of the organizational structure, decision-making process and management system for program implementation;
• assess whether the program supplements, duplicates, overlaps, or counteracts other related programs;
• assess whether the quality of the public services meets the people’s expectations or the stipulated objectives;
• assess the adequacy of the system for measuring, monitoring and reporting a program’s effectiveness;
• assess the effectiveness of government investments and programs and/or their individual components, i.e. ascertain whether goals and objectives are met;
• assess whether the observed direct or indirect social, economic and environmental impacts of a policy are due to the policy or to other abuses identify factors that inhibit satisfactory performance or goal fulfillment;
• analyse causes of findings and observed problems in identifying ways of making government activities and programs work more effectively; and
• identify the relative utility of alternative approaches to yield better performance or eliminate factors that inhibit program effectiveness.

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

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

One specific aspect is the study of unintentional effects, especially if these effects

8The scope must be limited. The analyses, however, should not be too limited.
were negative. There is a problem of demarcation here, because these effects may spread into areas beyond the competence and powers of the SAI. One way of limiting the scope might be to look at those unintentional effects that are being combated in other programs, environmental side effects of an economic stimulation program, for example.9

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

1.6 How does public management affect performance auditing?

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

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

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

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

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

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

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

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

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

Performance measurement

Performance measurement normally means the ongoing process of monitoring and reporting on program accomplishments, particularly progress towards pre-established goals. Performance measures may address the type or level of program activities conducted (process), the direct products and services delivered by a program (outputs),

\(^{10}\)In recent years, experience of auditing government administration policies and administrative reforms has been frequently discussed by SAIs.
and/or the results of those outputs (outcomes). Performance measurement focuses on whether a program has achieved its objectives or requirements, expressed as measurable performance standards. Performance measurement, because of its ongoing nature, can serve as an early warning system to management and as a vehicle for improving accountability to the public.

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

Program evaluation and performance auditing

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

In recent years, the concept of program evaluation has been a growing subject of discussion amongst SAIs. Whether or not program evaluation is an important task for a

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

12 See, e.g. AS 1.0.27 and 1.0.45
SAI has been discussed. A special group (INTOSAI Working Group on Program Evaluation) has been set up to promote principles and guidance in this area. It is generally accepted that program evaluation has objectives identical or similar to those of performance auditing in that it seeks to analyse the relationship between the objectives, resources, and results of a policy or program. It has also been agreed that program evaluation is an important task for a SAI that has the authority and competence to carry out such studies.

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

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

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

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

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

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

(3) **Impact evaluation**
This assesses the net effect of a program by comparing program outcomes with an estimate of what would have happened in the absence of the program. This form of evaluation is employed when external factors are known to influence the program’s outcomes, in order to isolate the program’s contribution to the achievement of its objectives.

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

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15 Some SAIs may as part of their mandate also include ‘Policy evaluation’ (the effectiveness of the policies set), and a few SAIs conduct what they define as ‘System evaluation’ (the appropriateness of the systems adopted).
In the area of performance measurement both financial and performance auditors might be involved. In some countries, an individual performance audit may include many different kinds of studies and even several program evaluations. In that sense program evaluation may be considered one of many possible ‘tools’ that performance auditing uses. Program evaluation is one type of study that might be executed by the SAI under the general heading of performance auditing. It is an activity of increasing interest and importance.  

1.8 Are there differences in analytical ambitions and approaches?  
The mandate and orientation of performance auditing may, as stated above, vary in different countries. A number of SAIs are not required to execute performance audits or may consider themselves somewhat limited in their capacity and experience in respect of these audits.  

Other SAIs may have a long tradition of carrying out both advanced performance audits and complex program evaluations. One of the characteristics of auditing is the normative perspective where discrepancies between ‘the norms and the reality’ – the actual findings – are expressed explicitly, and assessments and recommendations are provided as ‘normative’. However, as well as being normative, performance auditing is usually descriptive, and may also include analytical elements. (A performance audit may, for instance, ascertain the causes of the difference between the conditions and the criteria.)

The results-oriented and the problem-oriented approaches  
Performance auditing has various traditions and ambitions. Two approaches differ quite significantly, although each is based on national standards for performance auditing. They are called the results-oriented and the problem-oriented approaches. The results-oriented approach deals mainly with questions such as: ‘What is the performance or what results have been achieved, and have the requirements or the objectives been met?’ In this approach, the auditor studies performance (concerning economy, efficiency, and effectiveness) and relates observations to the given norms (goals, objectives, regulations, etc.) or the audit criteria (more or less precisely defined before the main study begins). If the criteria are difficult to determine, the auditor may need to work with experts in the field to develop credible criteria that, when applied, are objective, relevant, reasonable and attainable. The audit criteria make

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16Other areas of increasing interest are performance audits of activities with an environmental perspective and performance auditing concerning information technology. (See Appendices 5 and 6.)
it possible to provide assessments on the findings. In this approach, shortcomings are likely to be defined as deviations from norms or criteria. Recommendations, if presented, are often aimed at eliminating such deviations. The perspective is in that sense basically normative.

The problem-oriented approach, on the other hand, deals primarily with problem verification and problem analysis, normally without reference to predefined audit criteria. In this approach, shortcomings and problems – or at least indications of problems – are the starting point of an audit, not the conclusion. A major task in the audit is to verify the existence of stated problems and to analyse their causes from different perspectives (problems related to economy, efficiency, and effectiveness of government undertakings or programs). The problem-oriented approach deals with questions such as: ‘Do the stated problems really exist and, if so, how can they be understood and what are the causes?’ Hypotheses about possible causes and consequences are formulated and tested. The perspective is analytical and instrumental; the aim is to deliver updated information on the stated problems and how to deal with them. The auditors are not restricted in their analyses. All possible material causes are considered (only general goals are taken for granted), so proposals to amend laws, regulations, and structural design of government undertakings are not excluded, if is shown that the existing structure give rise to severe and verified problems.

Thus, assessment in these two performance audit approaches might be derived normatively (based on deviations from norms or criteria) or analytically (based on analyses of the specific causes of problems). In fact, it is the independent analysis that characterizes the problem-oriented approach, while the results-oriented approach is mainly characterized by its impartial assessment of whether given norms or criteria have

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

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

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

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

21 For more information on the problem-oriented approach, see for instance Handbook on Performance Auditing, RRV (Sweden), 1998.
been met (even though it may involve analytical elements as well). On the one hand, the results-oriented and the problem-oriented approaches represent different audit traditions. On the other, the approaches may also serve to illustrate the fact that performance auditing includes various types of practical methods.

**Top-down and bottom-up perspectives**

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

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

**Focus on accountability or causes to the problems**

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

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22 They can be said to represent different levels of ambition.
23 The two methodological approaches can also been seen as linked to each other in terms of different steps in an audit. Even if the problem-oriented approach by nature goes wider and deeper in its analytical ambition, the results-oriented approach may in its advanced form also allow for sophisticated analyses.
emphasis on economy, efficiency and effectiveness – primarily concerns itself with the subject matter of the audit causes of problems observed. (Even if the main area of focus is not accountability, recommendations arising from the audit as a rule encompass the question of division of responsibility.)

Accountability auditing has the advantage that it is often easier to carry out and that it corresponds to the conventional picture of auditing. The problem, however, is that efficiency and effectiveness are complex issues which demand more comprehensive analyses (of conditions and circumstances outside the control of the auditees).

Accountability auditing also involves risks – the perspective and scope must be limited, which in turn unduly limits the possibility of making an independent analysis. If, on the other hand, focus is placed on problems observed and possible causes, this facilitates audits covering the areas of responsibility of several different parties. Conditions are thereby created for comprehensive analyses. It must be stated, however, that this approach makes greater demands in terms of the skills of auditors.

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

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

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

1.9 Summary

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

- Performance auditing is not a regular audit with formalized opinions. It is an examination made on an ad hoc basis. It is an audit that focuses on performance, rather than expenditure and accounting. It has its roots in the requirements for independent analyses of the economy, efficiency, and effectiveness of government programs and organizations. The special feature of performance auditing is partly due to the variety and complexity of questions related to its work.

- All government activities can be analysed with the use of a formula that describes how to move from one position to another by certain means in order to achieve specific objectives. In performance auditing, this is often done by trying to answer two basic questions: Are things being done in the right way? Are the right things being done?

- The ongoing process of ensuring that a government program or body has met the targets set is a matter of internal management and control. However, in the area of performance measurement, both financial and performance auditors might be involved.

- Apart from examining the impact of outputs, program evaluation may include issues such as whether the objectives are consistent with the policy or with the options given for changing the policy in order to achieve outcomes that are more effective. In some countries, performance audits may include many kinds of studies and even several program evaluations. In that sense program evaluation may be considered one of many possible ‘tools’ that performance auditing uses.

- Performance auditing has various traditions. Two approaches differ quite significantly. The results-oriented approach deals mainly with questions such as: ‘What is the performance or what results have been achieved, and have the requirements or the objectives been met?’ The problem-oriented approach deals
primarily with questions such as: ‘Do the stated problems really exist and what causes them?’ Auditing is usually associated with accountability, but in performance auditing this does not always have to be the case.

- Performance auditing should not be streamlined. It is investigatory work that requires flexibility, imagination and analytical skill. Stream-lined and detailed procedures, methods and standards may in fact hamper the functioning of performance auditing.
Part 2: Government auditing principles applied to performance Auditing

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

2.1 How do the auditing principles apply to performance auditing?

The audit mandate and the general goals should be properly defined

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

If possible, the mandate should cover the whole state budget, including all relevant executive bodies and all corresponding government programs or public services. Without sufficient legal support, it might even be considered illegal to publish justified criticism of the efficiency and effectiveness of government programs, at least in respect to issues that are politically sensitive. To avoid this situation – and suspicion of self-censorship – the mandate needs to be both politically and publicly supported (AS 2.2.18-20 and 2.2.23).

The audit objects (those that might be subjected to performance audits by the SAI according to the mandate) can be described as policy’, ‘programs’, ‘organization’ and ‘management’. ‘Policy’ is usually defined as an effort to achieve certain aims with

24 For more information see these INTOSAI-documents: The Lima Declaration, The Code of Ethics and Auditing Standards, and Independence of Supreme Audit Institutions.
certain resources and perhaps within a certain time. A ‘program’ can be described as a set of inter-related means – legal, financial, etc. – to implement a given government or agency policy. Organization’ can be defined in different ways, but mostly it is taken to mean the aggregate of people, structures, and processes that have the aim of achieving particular objectives. ‘Management’ is generally taken to mean all the decisions, actions, and rules for the steering, accounting and deployment of human, financial, and material resources. Management is often related to the internal operations of an organization. Policies and programs – decided by the legislature, the executive or executive officials – may also have an internal focus, relating to a specific organization (and its internal activities and performance). But mostly their focus is wider and more external and relates to activities of even non-governmental organizations (NGOs) (and the impacts of the policies and programs in society, etc.).

In many countries, the constitution or legislation gives the SAI the explicit right to undertake some form of performance auditing. Some SAIs may carry out examinations of the efficiency and effectiveness of complex government policies or undertakings, perhaps by indepth analyses of stated problems. Others are more limited in their approach. As part of the explanation of standards, the Auditing Standards (AS1.0.42) state: ‘In many countries, the mandate of performance auditing will stop short of review of the policy bases of government programs.’ In these cases, performance auditing does not question the merits of policy objectives but rather involves examinations of actions taken to design, implement, or evaluate the results of these policies, and may imply an examination of the adequacy of information leading to policy decisions. Even in countries where the constitution or legislation does not require the SAI to carry out audits of economy, efficiency, and effectiveness, current practice shows a tendency to include this sort of work as part of financial or regularity audits (AS 1.0.13, 1.0.42-43).

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

1. To provide the legislature with independent examination of the economical, efficient, or effective implementation practices of government policies or programs.

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

To provide the legislature with independent, ad hoc analyses of the validity and reliability of performance measurement systems, or statements or self-evaluations about performance that are published by executive entities.

To provide the legislature with independent analyses of problems of economy, efficiency, and effectiveness in government activities and thus contribute to improvements.

To provide the legislature with independent assessments of the intended and unintended direct or indirect impact of government and agency programs and whether, and to what extent, stated aims or objectives have been met or why they have not been met.

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

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

According to the Auditing Standards (AS 2.2.10-19), a SAI must be free to determine the areas covered by its performance audits. AS 2.2.8 states: ‘The SAI may give members of legislature factual briefings on audit reports, but it is important that the SAI maintain its independence from political influence, in order to preserve an impartial approach to its audit responsibilities. This implies that the SAI should not be responsive, nor give the appearance of being responsive, to the wishes of particular political interest.’ In paragraph 2.2.10 it is stated:

‘In some countries the audit of the executive’s financial management is the prerogative of the Parliament or elected Assembly; this may also apply to the audit of expenditure and receipts at a regional level, where external audit is the responsibility of a legislative assembly. In these cases audits are conducted on behalf of that body and it is appropriate

27 Most SAIs provide recommendations in their performance audit reports. It has been claimed that such a policy has inherent disadvantages. It could compromise the SAI’s independence and make further examinations difficult. However, a SAI cannot be hold accountable for its recommendations, and performance auditors can never claim to have found the only rational solutions (even if the recommendations put forward are both logical and well founded, there are always other options). A SAI’s recommendation can only be based on an assessment of what appeared at the time to be a rational, or possibly the most rational, solution. Moreover, performance auditing is by nature a non-recurrent activity. It is therefore unlikely that a subject will be audited in the same way twice. For more information, see Performance Auditing at the Swedish National Audit Bureau, 1993, pp 51.
for the SAI to take account of its requests for specific investigations in programming audit tasks. It is nevertheless important that the SAI remains free to determine the manner in which it conducts all its work, including those tasks requested by the Parliament.’ It is also important ‘that there be no power of direction by the executive in relation to the SAIs performance of its mandate’ (AS 2.2.14).

**Performance audits should in general be ex post audits**

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

**General aims of legislature should be taken for granted**

Political decisions and goals established by the legislature are in general the frame of reference, which form the basis of the audit criteria used in performance auditing. It is not the role of a SAI to question these decisions and goals. However, a SAI may, as a result of its findings, make critical comments on the goals, for example if they are inconsistent or if it proves impossible to follow up the extent to which they have been achieved. Consequently, a performance audit report may in fact question the merits of existing policies or decisions. The goals or objectives may be too vague, in conflict with other objectives, or based on insufficient information. The policy may be inefficient and ineffective, and changes might be required if existing shortcomings are to be overcome. On the other hand, it is definitely the role of performance auditing to assess the economy, efficiency and effectiveness of more specific objectives and regulations established, for example, by government agencies. (See AS 2.2.5 and 2.2.9).

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

High professional quality of work should be promoted and secured

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

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

According to INTOSAI, quality issues must be integrated in the execution process. Even in the early planning stages, systems of quality assurance might prove indispensable to ensure that the problems to be addressed are material and well defined. The objectives, problems, audit questions, and selected areas largely determine the quality of the audit. The process of planning, and the various stages that make up the decision-making process, ensure that quality is regularly assessed, since certain conditions must be met before the audit can move forward. Meticulous preparations are important to define the audit questions, the information needed, and the audit design (AS 2.1.27 and 3.1.1). For more information, see Appendices 3 and 4.
The mandate of performance auditing should cover the state budget and all corresponding government programs. The auditor must be free to select audit areas within its mandate. Political decisions and goals established by the legislature are the basic frame of reference. A performance audit may, as a result of its findings, question the merits of existing policies. Performance audits are in general ex post audits that deal with current issues. High levels of quality in the work must be promoted and secured.

2.2 What are the general requirements for a performance auditor?

Performance auditors must possess specific professional skill

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

All auditors should possess adequate professional proficiency to perform their tasks (AS 2.2.1 and 2.2.33-38). The SAIs should recruit personnel with suitable qualifications, adopt policies and procedures to develop and train SAI employees to performance their tasks effectively, prepare written guidance concerning the conduct of audits, support the skills and experience available with the SAI and review the internal procedures (AS 2.1.2).

The ability to recruit the right staff is a decisive factor in performance auditing. Each staff member is a unique investment. A performance auditor must be well educated, and in general it is required that the auditor should have a university degree and experience in investigative/evaluation work. Personal qualities are also of considerable importance (analytical ability, creativity, receptiveness, social skills, integrity, judgment, endurance, good oral and writing skills etc.). (AS2.1.4 and 2.1.10)

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

To meet the quality requirements specified in the Auditing Standards (AS 2.2.36-39), the SAI should have a program to ensure that its staff maintains professional proficiency through continuous education and training. A key factor in the development process is learning through practical auditing work (AS 2.1.2, 2.2.37-38 and 2.1.16).

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

Qualifications for staff members who conduct performance audits include:

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

Performance auditing should be a team effort, since the issues involved are complex. Consequently, not all members need to possess every skill mentioned above. Furthermore, it may not always be possible for a SAI to recruit people who meet all the requirements. The required skills may therefore be developed once a person is in service, as long as candidates for appointment have clearly demonstrated the potential and attitude for the kind of work that performance auditing entails.

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

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

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

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

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

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

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

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

Reasonable assurance on the quality of information should be provided

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

The institutions concerned should be properly informed

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

The work performed should be properly supervised

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

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

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

The use of experts requires special care

Experts are often used in performance auditing. Before using experts, the auditor should ensure that the expert has the necessary competence required for the purposes of the audit. An expert, if needed, is a person or firm possessing special skills, knowledge, and experience in a particular field other than auditing. The auditor must ensure that the expert is independent of the activity/program, and the experts should be informed about the conditions and the ethics required. Although the performance auditor may use the work of an expert as evidence, the auditor retains full responsibility for the conclusions in the audit report (AS 2.1.18, 2.2.43-45).

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

2.4 Summary

- The mandate of performance auditing should be defined in the legislation, and special regulations are often needed that specify the conditions for performance auditing. The mandate should cover the whole state budget, including all relevant government undertaking and all relevant public services. The mandate should allow for audits of both individual government institutions and large state-owned enterprises of public interest as well as government-wide programs from different perspectives. The performance auditor must be given the freedom to select audit areas within the performance audit mandate.
- Political decisions and goals established by the legislature should be the starting point for performance auditing. However, a SAI may, as a result of its findings, also make critical comments on them, for example if goals are inconsistent or if it proves impossible to follow up the extent to which they have been achieved.
• Performance audits should in general be ex post audits, but in some countries an audit of policy preparation activities may be carried out before the policy itself is implemented.

• All government auditors should act with integrity, impartiality, objectivity, competence and professionalism but, due to its features, this is of special importance in performance auditing. The performance auditor must be well educated and have experience of investigative/ evaluation work. Personal qualities are also of considerable importance (analytical ability, creativity, receptiveness, social skills, integrity, judgment and patience, as well as having good oral and written skills).

• Performance auditing is a knowledge-based activity, and due to its special features – and its close links to politics – high quality of work is perhaps the most important single factor for recognition. To ensure high quality of work, the SAI should pay particular attention to creating an environment for performance auditing that ensures incentives for good quality and quality improvements. A properly functioning system for quality assurance is one of the important elements in this context.

• Effectiveness, professionalism and care must guide the audit work, and the principles of proper administration should be observed. The auditors should notify the government institutions involved in the audited program of the details of the engagement.

• Before using experts, the auditor should ensure both that this is necessary and that the experts are competent and independent. Although the auditor may use the work of experts as evidence, the auditor retains full responsibility for the conclusions.
Part 3: Field standards and guidance: Initiating and planning the performance audit

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

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

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

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

Follow-up procedures identify and document audit impact and the progress made in implementing audit recommendations. Such processes are vital to provide feedback to the SAI and the legislature. (AS2.2.5-6)

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

3.2 What does strategic planning involve?

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

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

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

1. Determining the potential audit areas from which the strategic choices are to be made. The selection of audit areas involves strategic choices with consequences for the SAI. The number of potential areas is considerable and the SAI’s capacity is limited. This means that choices must be made with care (AS 2.1.21 and 2.2.38).

2. Establishing the selection criteria to be used for these choices. The main selection criterion is probably the audit’s primary contribution to the assessment and improvement of the functioning of central government and the bodies connected with it. (AS 3.0.1.)

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

- **Added value**: The better the prospects of carrying out a useful audit of good quality, and the less the policy field or subject has been covered earlier by audits or other reviews, the greater the added value might be. Adding value is about providing new knowledge and perspectives.

- **Important problems or problem areas**: The greater the risk for consequences in terms of economy, efficiency, and effectiveness or public trust, the more important the problems tend to be. A problem may be judged important or material if knowledge about it would be likely to influence the user of the performance audit report. Active and problem-oriented monitoring makes it easier to identify areas for audits.29
• Risks or uncertainties: The strategic planning may be based on risk analysis, or – less theoretical – analysis of indications of existing or potential problems. The stronger the public interest involved where there is reason to suspect inefficiency, the greater the risks (the less the knowledge), and the greater the uncertainty. The accumulation of such indicators or factors linked to an entity or a government program may represent an important signal to SAIs and should induce them to plan audits whose range and scope will depend on the indices detected. Factors that may indicate higher risk (or uncertainty) could be the following:
  - The financial or budgetary amounts involved are substantial, or there have been significant changes in the amounts involved.
  - Areas traditionally prone to risk (procurement, technology, environment issues, health, etc, or areas of unacceptable risk) are involved.
  - New or urgent activities or changes in conditions (requirements, demands) are involved.
  - Management structures are complex, and there might be some confusion about responsibilities.
  - There is no reliable, independent, and updated information on the efficiency or the effectiveness of a government program.

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

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

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29For further discussion on the selection of problems, see Handbook in Performance Auditing RRV (Sweden), 1999, and Picking the winners, NAO (United Kingdom) 1997.
may also serve as an instrument for strategic policy decisions on the future direction of the audit. As an illustration, a SAI might outline the following options for its future audit orientation.

**Focus on compliance with laws and regulations to secure implementation**

- Focus on individual organizational units
- Focus on government undertakings/programs

**Focus on effectiveness to contribute to change and renewal**

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

In a changing society, it is quite natural that public activities are regularly reviewed to see whether they fulfill the goals and solve the problems for which they were created. As time proceeds, new demands replace old. Since demands and conditions constantly change, performance auditing will have to be prepared to monitor and follow developments and trends, review priorities, and use new approaches and methods. If a SAI is defined – or defines itself – as an instrument for change, it is important that its priorities for performance auditing reflect the need for improvement in the public sector. For example, in a situation with a large budget deficit or old-fashioned management style, performance auditing may provide contributions to savings, better use of resources, or modernization of management. If, on the other hand, problems concerning unemployment, environment, equity, transparency, services to the clients, etc. are in focus in the public debate, performance auditing may prefer to give priority to such issues. In other words, strategic planning may aim to do more than produce viable subjects for audits. Ideally it should integrate audit topics – or audit themes – in an overall perspective.³⁰ Some SAIs conduct special studies to build up knowledge or skills – either within a single area of government or in an area defined by an audit theme – to assist the strategic planning process.³¹

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³⁰ Auditing work on a particular theme has become more common in recent years. This is longer-term work, which usually produces a number of interrelated audit reports.
The strategic planning exercise normally results in a coherent and cogent audit program for the SAI. The program lists the audit areas and provides a brief account of the provisional problems, questions, and other arguments supporting each one of them. Ideally, the program then serves as a basis for operational planning and resource allocation.

3.3 What does planning of individual performance audits involve?

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

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

Three important steps

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

31 For an example, see Strategy for Performance Audits in the Chemical Sector, Swedish National Office, 2002.
32 Some SAIs use the term ‘preliminary study’.
• Defining the specific issue to be studied and the audit objectives,
• Developing the scope and the design of the audit,
• Determining the quality assurance, the timetable, and the resources.

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

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

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

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

- **What?** What is the audit question or the problem to be studied?
- **Why?** What are the audit objectives?

The wording of the basic audit question is an aspect in the examination process that is of great importance: it is a decisive factor for the results of the audit. It can be thought of as the fundamental research question into a government program that the auditors seek the answer to. Consequently, it is important that it is based on rational and objective considerations. In general, a SAI must apply a holistic perspective that best favours the public interest and the general mission for its performance auditing. Audit objectives relate to the reasons for conducting the audit and should be established early in the execution process to assist in identifying the matters to be audited and reported on. In determining objectives, the audit team must take into account the roles and responsibilities of the SAI and the expected net impact of the audit as defined in the strategic audit plan. The audit objectives and scope are interrelated and should be considered together. It is good management practice to discuss the scope of the audit with the audited entities at the earliest opportunity. When defining the audit

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33For more information, see, e.g. *Handbook on Performance Auditing*, RRV, 1999
34In some cases it may also prove useful to explicitly clarify what is not going to be audited in the actual study (what
objectives, one criterion might be to optimise the contribution made by the audit. A possible tool in determining this contribution is to outline the expected conclusions. If an audit takes place on request, the audit objectives might be more or less determined or obvious \((AS 3.1.3)\).

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

2. **Defining the scope and the design of the audit**

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

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

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

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

*What?* What specific questions or hypotheses are to be examined?

*What kind of study seems to be appropriate?*\(^{38}\)

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

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

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

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

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

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

\(^{38}\) The study design (goal-attainment study, time-management study etc.). See Appendix 1.
Having defined the motives and the objectives for the study as well as the general audit question or the problems to be considered, it is important to define the specific questions to be answered or the hypotheses to be examined (the plausible causes of the problem). In practice, they will form the basis for the selection of data collection methods. The auditor must also define the character of the study: what kind of study is needed to highlight the questions? (Some common methods in performance auditing are presented in appendix 1.)

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

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

**Understanding the program**

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

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

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

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

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

\(^{39}\)Some SAIs may, if required, conduct stakeholder analyses at this stage in order to get a clear picture of the actual situation from different perspectives.
• inquiries or previous reviews by the legislature;
• information held by coordinating agencies or government committees;
• work undertaken by other governments; and press coverage.

**Defining the audit criteria**

The audit criteria are intended to give direction to the assessment (helping the auditor to answer questions such as ‘On what grounds is it possible to assess actual behavior?’ ‘What is required or expected?’ ‘What results are to be achieved – and how?’ by program?) Audit criteria are standards used to determine whether a program meets or exceeds expectations.\(^{40}\)

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

Thus, in performance auditing, the general concepts of economy, efficiency, and effectiveness need to be interpreted in relation to the subject matter, and the resulting criteria will vary from one audit to another. In defining audit criteria, auditors must ensure that they are relevant, reasonable, and attainable. Finally, every criterion is elaborated in the form of questions. These questions are factual in character and intended to describe or measure the practical situation to be audited.

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

• laws and regulations governing the operation of the audited entity;
• decisions made by the legislature or the executive;
• references to historical comparisons or comparisons with best practice;
• professional standards, experiences, and values;
• key performance indicators set by the auditee or the government
• independent expert advice and know-how;

\(^{40}\)Audit criteria should be reliable, objective, useful, complete and accepted.

\(^{41}\)For information on how to define audit problems, and how to formulate and test hypotheses, see e.g. *Handbook in Performance Auditing: Theory and practice*, The Swedish National Audit Office, 1999
• new or established scientific knowledge and other reliable information,
• criteria used previously in similar audits or by other SAIs;
• organizations (inside or outside the country) carrying out similar activities or having similar programs;
• performance standards or previous inquiries by the legislature; and
• general management and subject-matter literature.

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

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

Methodological planning
Methodological planning involves many different activities. For instance, it is important to distinguish between the audit program (the type of investigation that is needed for the data collection) and the data-collection techniques. Performance audits can draw upon a large variety of data-gathering techniques that are commonly used in the social sciences, such as surveys, interviews, observations, and studying written documents.43 The aim is to adopt best practices, but practical reasons such as

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

43 This implies that the performance auditors should take an active interest in, and be given time for, continuous improvement of their methodological skills, and follow methodological developments in various research institutions, etc. This could, for instance, be done by arranging in-house seminars with external professionals, and
availability of data may restrict the choice of methods, i.e. the auditors may often have to settle for the second-best solution. As a general rule, it is advisable to be flexible and pragmatic in the choice of methods. Practical considerations will also have to influence the audit program. Sampling methods and surveys might allow general conclusions to be drawn and case studies provide an opportunity for indepth studies.

Even though the nature of performance audits requires careful choices and combinations of methodologies for examining variables, it is important to have an open mind during the execution process. The selection of sources must not be rigid at this stage (AS 3.0.3, 3.1.1-4, 3.5.2-4, and 4.0.4). For more information, see Appendix 1.

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

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

3. Determining quality assurance, timetable, and resources

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

Quality assurance

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

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44 The reasons for being pragmatic in the choice of methods are elaborated in Designing Evaluations GAO (USA), 1991, chapter 2.
46 For designing performance audits, see Handbook in Performance Auditing, RRV (Sweden) and Designing VFM studies, a guide, NAO (United Kingdom), 1997.
47 For a further discussion, see e.g. The Research Method Knowledge Base, Trochim, 2002.
A distinction might be made between ex ante (ongoing quality arrangements while work is in progress for example through peer review, ‘co-readers’, use of expert panels, special committees and specialists or experts in the field concerned, and techniques such as issue analysis) and ex post arrangements (such as independent reviews of published reports to identify lessons learned and how reports are received by key stakeholders and the benefits they drive from them). Some SAIs have engaged individual scientists or scientific institutions to conduct ex post assessments. Both ex ante, intermediate and ex post arrangements have to be planned.\textsuperscript{48}

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

\textbf{Administrative planning}

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

\textbf{Compliance with laws and regulations}

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

\textsuperscript{48}Building quality into the performance audit examinations requires many considerations. See for instance \textit{Value for money handbook: a guide for building quality into VFM examinations}, NAO, United Kingdom, 2003.
The result of the pre-study – the main study proposal

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

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

3.4 Summary

- The performance audit cycle involves strategic planning, preparation work, main study and follow-up activities. Strategic planning is the basis for the selection of audit topics or audits themes to be executed. It may also serve as an instrument for strategic decisions concerning the direction of the audit. Planning might be carried out in these steps: determining potential audit areas, establishing the selection criteria, and identifying the main sources of information for the potential audits.

- Before starting the main study in performance auditing, it is important to define the audit objectives, the scope, and the methodology to achieve the objectives. This is done in form of a pre-study. The purpose of a pre-study is to establish whether the conditions for a main study exist and, if they exist, to produce an audit proposal with a work plan.

- In planning performance audits, auditors should observe the following:

- Consider the significance and the needs of potential users of the audit report as well as other interested parties.

- Obtain an understanding of the entity to be audited and of the problems to be scrutinized, including the context of the activities in question.

- Identify significant findings from previous audits and other investigations and reports that could affect the audit objectives (even ongoing studies).

- Consider political objectives and the legal and regulatory environments.
-Define the topics or the problems to be studied, the entity to be audited and the audit objectives, i.e. the expected effect of the audit.

-Define the basic audit questions – as well as the more specific questions – to be answered or the hypothesis to be tested.

-Establish the audit criteria. The audit criteria represent the normative standards against which the audit evidence is judged. The criteria will vary according to the specific audit subject and objectives, the legislation governing the undertaking or the audited entity, the stated objectives, and the specific conditions that the SAI deems relevant and important for the case.

-Determine the audit evidence that will answer the audit question: the relevance, reliability and sufficiency of any data available within the audited entities should be evaluated. The possibility of collecting the required evidence (data) should be tested.

-Identify potential sources of information that should be used in order to verify hypotheses, gain better knowledge of the subject, or obtain answers to audit questions, i.e., information that may be used as evidence.

-Consider, if needed, help from experts (consultants, other auditors) concerning how to secure quality in the audit. It is important to evaluate the professional knowledge and skills required by the audit team to carry out the audit.

-Provide sufficient staff and other resources to perform the audit and prepare a written plan. Select a suitable audit team. Decide upon a budget for the resources needed to carry out the examination and the timetable.

-Consider the possible conclusions and impacts of the examination. The proposed outcome should be judged in terms of ‘usefulness’ and ‘feasibility’. The auditor should consider the views and interests of the stakeholders.
Part 4: Field standards and guidance: Conducting the performance audit

4.1 What characterizes the main study process?

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

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

An open and constructive dialogue is the ideal, but an audit may provoke negative reactions. The auditor may face varying situations, from openness and willingness to cooperate, to evasiveness and secrecy. It is therefore important that the auditors inform the auditee of the audit’s objectives and methods. This does not mean that the audit object should dictate conditions or in any other way control the execution process. Instead, it involves establishing a constructive process of interaction. As a rule, the assistance of individuals from the auditee is essential to an effective audit. An active dialogue during the audit with the auditee, experts and others makes it easier, for instance, to make continuous checks of preliminary findings (AS 2.2.25-26).

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

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

\(^{50}\)For more information, see for instance Performance Auditing at the Swedish National Audit Bureau, RRV, (Sweden), 1994.
4.2 What has to be considered in the data collection process?

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

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

Data, information, and knowledge are, broadly speaking, similar, linked concepts. Data is the primary tool. Data, which has been compiled, is transformed into information. Information, which is analysed and understood, will become knowledge. Both qualitative and quantitative data may be collected for different purposes during an audit, whether as part of the learning process, or in order to describe and analyse an outcome or a problem.\(^{52}\)

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

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

\(^{51}\)For more information see Government Auditing Standards, GAO (USA), 2002.

\(^{52}\)See Handbook on Performance Auditing, RRV (Sweden), 1998.
• Quantitative and qualitative analysis, applied to the data collected (for deeper analysis of the information collected).

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

It is vital that the auditors adopt a critical approach and maintain an objective distance to the information put forward. At the same time, they must be receptive to views and arguments. The auditors must be able to see things from different perspectives and maintain an open and objective attitude to various views and arguments. If they are not receptive, the auditors may miss the best arguments. This also under-scores the importance of making rational assessments, in that the auditors discount their own personal preferences and those of others. It is therefore important for the auditor’s involvement to be expressed in a process of reflection and objective analysis rather than in a conviction that certain standpoints are correct (*AS 2.2.40, 3.5.1 and 4.0.24*).

Where computer-processed data are significant to the findings of the audit, it may be wise to take extra precautions in order to obtain sufficient, competent, and relevant evidence that the data are valid and reliable. Additionally, when assessment of the reliability of an information system is the primary objective of the audit, the auditors should review the system’s general and application controls. Adding to this, during a main study the auditors may obtain sensitive information (such as opinions on management or politics). Consequently, they should guarantee anonymity and not divulge people’s opinions (*AS2.2.37, 2.2.46 and 3.3.4*).

The results of the fieldwork and analysis, along with the audit planning paperwork,

[^53]: As the saying goes: ‘It is better to be vaguely right than exactly wrong’.
need to be documented, filed, and cross-referenced to permit audit managers to review the work done and validate the conclusions reached. A record of the work should be retained in the form of working papers. Sufficient, competent, and relevant evidence should be obtained to afford a reasonable basis for the findings and the conclusions (AS 3.2.1 and 3.5.5-7).

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

4.3 What characterizes the audit evidence and the audit findings?
Evidence may be categorized as physical, documentary, testimonial, or analytical. A direct inspection or observation of people, property, or events obtains physical evidence. Documentary evidence consists of information such as letters, contracts, accounting records, invoices, and management information on performance. Testimonial evidence is obtained through interviews or questionnaires. Analytical evidence includes computation, comparisons, separation of information into components, and rational arguments. Evidence should be sufficient, competent, and relevant. It is sufficient if there is enough of it to support the audit finding. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding. It is competent if it is consistent with facts (AS 3.4.5 and 3.5.1).

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

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54 For more information, see Government Auditing Standards, GAO (USA), 2002.
55 See section 1.8.
Once an audit finding has been identified, two complementary forms of assessment take place: the assessment of the significance of the findings and the determination of the causes (of increased performance or of the lack of performance where performance is below that expected).

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

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

4.4 How should a changeable and conflicting environment be handled?

A performance audit may run for a long time, and there may be changes in knowledge

56For more information, see Performance Auditing Guidelines, ASOSAI, 2000.
and reality from the point in time when it started. In performance auditing it is often
difficult to make a choice between the directions set out in the work plan and the
description of the audit’s structure on the one hand, and the interest in studying
questions that arise at a later date on the other. To avoid getting caught up in details and
a flood of data, detailed assessments of the need for information must be made both
before and during the audit. Based on experience, this makes it easier to eliminate
extraneous detail and irrelevant approaches, and to sort or structure the information
gathered. Again, however, the auditors must not be rigid and avoid all unplanned data
gathering.

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

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

There are limits to how far a performance audit can go to corroborate statements and
verify findings. It is, generally speaking, impossible to avoid criticism, even when the
most sophisticated scientific methods are used. The advantages of verifying an issue
must, therefore, be weighed against time constraints and resource consumption. At the
same time, the basic data must be of good quality (AS 3.1.1, 3.5.1,4.0.23 and 2.1.26).
A well-designed work plan may help the auditors avoid getting caught up in details and a flood of data. To avoid unnecessary conflicts, auditors should try to understand the particular nature of the activity under audit. If conflicts occur, efforts should be made to air contradictory opinions with a view to making the final picture as true and fair as possible.

4.5 What is important when analysing data and drawing conclusions?

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

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

If possible, all the main arguments that can be envisioned should be covered, so that no entirely new and possibly decisive arguments – or facts – may be introduced at the final stage of the audit. In a properly conducted performance audit, the arguments put forward are balanced against the best possible counter arguments, and the various contrasting views are weighed against each other. Experienced colleagues and contracted external advisors etc. can assist in this process. The conclusions should be

57If the analyses are based on scientific knowledge and well-established theories, they will probably be more solid and interesting. It is also often easier to interpret observations in the light of a well-known theory. ('There is nothing so practical as a good theory. ')
based on objectives, rationality and project-specific criteria (AS 2.2.36, 2.2.39-40, 3.2.4, 3.5.2, 3.5.7 and 4.0.24).

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

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

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

4.6 Summary

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

• Execute the work plan with integrity and care in a timely manner, and in accordance with international and national standards for performance auditing. Planning should continue throughout the audit. Activities should be reviewed and modified as the execution process evolves.

• The project should be properly introduced to the auditee. An active, open and constructive dialogue should be maintained with the auditee and other interested
parties during the audit. The auditee (or the main executive entities involved in the undertaking to be scrutinized) should be involved in the process.

- Implement the audit scope with care. Quality in data collection, analysis, and documentation is vital.

- Gather the best possible or most suitable information – facts as well as opinions, arguments and reflections – from different sources and seek requisite knowledge and expertise. See that the work is characterized by objectivity, impartiality, and sensitivity. Critically evaluate information obtained and arguments put forward. All relevant facts and arguments must be collected.

- Protect the integrity of persons providing information, ensure that working papers are not disseminated incorrectly and, in all other ways, observe high ethical standards.

- Recommendations, if provided, should be directed to remedy root causes of problems. The results of the fieldwork need to be documented, filed, and cross-referenced. Evidence should be sufficient, competent, and relevant.

- Undertake adequate quantitative and qualitative analyses. Discuss the analyses with senior auditors, stakeholders and experts in the field. Make analyses and assessments of observations on the basis of political intentions, rational considerations, and criteria specific to the audit. The findings should form the basis for recommendations.

- Ensure that the factual basis of descriptions, analyses and recommendations is accurate and that they are fair and well founded, balanced and correctly communicated to the auditee. The auditor should ensure that the recommendations, if provided, address the objectives of the audit.
Part 5: Reporting standards and guidance: Presenting the audit result

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

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

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

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

5.2 What is required to make the reports reliable?

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

Being complete requires, for instance, that the report contains all information and

58 The report could, for instance, include comparisons with audit criteria, and contain an analysis of differences between what is observed and the audit criteria, including the causes and effects of the differences.
arguments needed to satisfy the audit objectives, promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements.\(^5\) It is vital that the starting points of the audit and the methods used, as well as important source material and conclusions, are described in the final audit report. The relationship between audit objectives, criteria, findings and conclusions needs to be verifiable, complete and clearly expressed. If recommendations are to be provided, there needs to be a clear link between the analysis or conclusions and the recommendations. Auditors should, within the audit objectives, report all significant instances of non-compliance and significant instances of abuse that were found during or in connection with the audit (*AS 4.0.87*-8, *4.0.22*).

**Accuracy** requires that the evidence presented should be true and comprehensive and that all findings are correctly portrayed. The need for accuracy is based on the need to assure readers that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report. In addition, inaccurate reports can damage the credibility of the SAI. In other words, a high standard of accuracy requires an effective system of quality assurance. Reported evidence should demonstrate the correctness and reasonableness of the matters reported. Correct portrayal means accurately describing the audit scope and methodology, and presenting findings and conclusions in a manner consistent with the scope of audit work (*AS 4.0.23*-24).

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

Being **convincing** requires that the audit results should be responsive to the audit objectives, the findings presented persuasively, and the conclusions and

\(^5\)Certain information may be prohibited from general disclosure by law or regulation. Such information may be provided on a ‘need-to-know basis’ only to persons authorized by law to receive it. However, it may be possible to include confidential or sensitive material in a separate, unpublished report (*AS 4.0.8*).
recommendations follow logically or analytically from the facts and arguments presented. Facts should be presented separately from opinions. The language used should not be tendentious or suggestive, and the information presented sufficient to convince the readers to recognize the validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations. Different opinions and arguments should be represented (AS 4.0.7 and 4.0.24).

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

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

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

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

5.3 What characterises a good and usable performance audit report?

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

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

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

**Materiality, relevance and objectivity**

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

**Reliability, validity and consistency**

Users should be able to trust the reliability and validity of reported results. The data

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

\textsuperscript{61}One possible structure of performance reports is the following: (1) Executive summary, (2) Introduction and audit design (including background, motives for the study, objectives, scope, methods), (3) Description of the audit object, (4) Findings and analyses, (5) Conclusion and assessments, and (6) Recommendation and Appendix.
collection methods should be valid and reliable. The audit design should be such that conclusions arise from the findings and the analysis, based on verified facts and other information from various sources. All the documents in the process must be well balanced in their perspectives and judgments (AS 2.2.36, 2.2.39, 3.2.3, 3.4.5, 3.5.2, 4.0.8, and 4.0.22-25).

Transparency, usability and timeliness

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

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

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

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

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

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

5.5 What purposes do follow-up processes serve?

A follow-up process will facilitate the effective implementation of report recommendations and provide feedback to the SAI, the legislature and the government on performance audit effectiveness.

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

Following up on SAI recommendations may serve four main purposes:

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

When a performance audit is completed, there are various opportunities for obtaining information on how it has been received, for instance by observing reactions from

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62 It is recognized that isolating the impact of an audit report in the context of other significant changes is difficult. The key factor remains whether the audit recommendations have been carried out, and this may often be the only measurable indicator of impact.
audited bodies, parliament and in the media. Internal and external conferences can be arranged to help summarize experience and promote learning. Internal audit reviews and evaluations may also be useful. In addition, external critics (scientists, experts, and others) could be asked to scrutinize performance audit reports or to give their opinions on the quality of the work (AS 2.1.26-30).

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

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

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

- The results should be documented and the reporting should be timely.
- The audit report should be well communicated to the auditee and provide well-founded, objective and complete information, analyses and assessments that add value for decision-makers and other stakeholders.
- The report should be objective, well written, well structured, comprehensive, reliable, and contain relevant and usable conclusions.
- The report should be published and followed up in an objective manner.
ISSAI 3000A

Appendices to ISSAI 3000

The International Standards of Supreme Audit Institutions, ISSAI, are issued by the International Organization of Supreme Audit Institutions, INTOSAI. For more information visit www.issai.org
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Appendices
Performance Audit Methodology

Introduction – performance auditing and the data collecting process

Performance auditors may deal with a multitude of topics and perspectives covering the entire government sector. Performance auditors may also use and combine a large variety of methods for collecting and processing information, and data may be collected for different purposes during an audit.

Information and data are usually collected to make it possible to understand and describe the audit object, assess and measure output, identify shortcomings, describe and analyze cause and effect relationships, test hypotheses and explain performance, and test arguments and proposals. Data collection may also be an important part of the learning process where the auditor tries to understand the studied area and its problems.

It is not possible to describe all approaches, models and methods used by performance auditors. The approaches vary and the restrictions are few. A short description is provided below of the most commonly used approaches and methods. Some of them aim to build knowledge and better understanding, while others are used to verify and extract basic facts.63

Performance audits involve a number of different steps in the data collection process, such as:

- **Planning** (the process of defining issues or problems to be studied)
- **Audit questions** (the questions to be answered)
- **Study design** (the information needed and the study to be done)
- **Audit program** (the type of investigations to be conducted)
- **Data collection** (the techniques for data collection to be used)
- **Analyses** (the explanations and the relationships to be explored)

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63 The ambition here is to provide a general description of methods used in performance auditing. For practical implementation there is a need for more detailed information that would include the presentation of audit practices. Whether such guidance should be provided by INTOSAI is a question for the future. Much information is available on web-sides.
Even though these steps constitute the performance audit methodology, it must be stated that a performance audit must also always be based on such things as individual insight, experience, imagination and creativity, in other word processes or events that cannot be ‘mechanically followed or applied’.

1. Planning the audit

Data collection starts in the planning phase, when possible topics for audits are monitored and selected. The search is more specific during the feasibility study, when the main study is prepared. Studies of documents and interviews with different stakeholders are probably the most common data-gathering techniques in this stage. There are several methods used by SAIs to assist the planning process, such as:

- risk analysis;
- SWOT analysis;
- and problem analysis.64

2. Formulating the audit question or defining the audit problem

Having decided the subjects and the objectives of the audit, the questions to be answered by the study have to be defined. A few examples of general audit questions common to performance auditing are the following:

- Do the means chosen represent economical use of public funds?
- What causes the rapid increases in costs?
- Are the services provided of good quality and client-oriented?
- Why are the services not delivered on time?
- Are government programs implemented efficiently?
- Are the goals and objectives of the government program met? What is the reason for the poor impact of the government program?

In formulating the audit question, performance auditors must rely on the information collected and their own skills and experience. Techniques such as mind-mapping, brainstorming etc. are sometimes used in this stage.65

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64 Risk Analysis is common in all forms of auditing, especially financial auditing. It has always been an important tool in internal auditing. SWOT Analysis (analysis of Strengths, Weaknesses, Opportunities and Threats) is perhaps less common in government auditing, but some SAIs apply it in their planning processes. Problem Analysis is mainly a tool for SAIs that have adopted a more problem-oriented approach. For more information, see for instance: Auditing: A Risk Analysis Approach. 5th Ed. Konrath, Larry. F. Thomson Learning. 2002; Dynamic SWOT Analysis – the Developer’s guide. Richard et al., IPC, UK, 1994; and Handbook in Performance Auditing, RRV, 1998.

discussions within the audit team (and with senior auditors and managers) as well as meetings with experts and stakeholders. After having formulated the general audit question, the auditors have to break it down into specific and testable sub-questions to be answered by the study, i.e. the more specific questions concerning what is or why is it? This is an iterative process.

In the problem-oriented approach, emphasis has to be put on how to define the problem properly. Usually the audit begins with problem indicators of some kind (shortcomings in service, complaints, rising costs etc.). At the next stage, the auditors try to relate and link the different problems to each other, and will then attempt to define the problem to be audited as precisely as possible. They will also formulate testable hypotheses regarding possible causes of the problem.\footnote{For practical information on how to define problems and formulate hypotheses etc., see Handbook in Performance Auditing, Theory and practice. RRV. 1999.}

### 3. Defining the study design

The next step is to decide what kind of information is needed to answer the questions. To be able to choose an approach that reflects reality and matches the questions set, a wide range of issues has to be considered. Some common approaches in performance auditing are the following:

   
   *Basic question: Are the programs achieving their overall goals?*

   These studies assess the extent to which a program achieves its out-come-oriented – and client-oriented – goals or objectives. They focus on outputs and outcomes (including side effects and unintended effects) in order to judge program effectiveness, but may also put emphasis on quality issues and client perspectives. Common questions include: How were the program goals established? What is the status of the program’s progress? Will the goals be achieved within the times specified? The general steps in goal attainment or outcome-based studies include: defining the major outputs and outcomes to be studied, specifying the measures to be observed that will suggest that the key outcomes for the targeted clients are being achieved, and identifying what information is needed to demonstrate this.

   Studies of goal attainment are common in performance auditing. They are mainly used to examine whether set goals are reached and to establish, through a general
assessment, whether there are any short-comings in the work that has been done. Any deviations can be established by relating outcome and effects to the stated goals and demands. The performance auditor uses such studies primarily when the goals are clearly defined and are used as a management instrument, when there is only limited knowledge of the effects, and when more general assessments may be needed.

Examination of outcomes against objectives formulated in general terms may give an idea of the way these objectives have been met. However, this kind of information does not usually produce satisfactory guidelines for a more detailed assessment of the entities in question, or what is needed to improve the outcome. Under certain circumstances, studies of goal attainment may, however, provide a basis on which to assess what changes are needed. This is the case, for example, where the objectives are few, compatible, concrete, and directly related to a specific means of control or single activity (a regulation, an information campaign etc.).

Occasionally, the goal-means analysis is used, to illuminate certain shortcomings between resources committed and goals attained. A goal-means analysis may also be used when there is reason to believe that an audited entity has not acted efficiently.

A program logic model (or a policy intervention theory) may help the auditor to conduct goal attainment studies (and other studies). The model depicts the structure or logic of the program being audited. It shows the program hierarchy in terms of objectives and responsibilities. Starting with the highest-level program objectives and desired effects, the program logic model moves down through subprograms, subprogram components, and specific activities, with each lower level element being logically related to one at a higher level. A program logic model can help the auditor to obtain an understanding of the performance audit issues as it focuses attention on the relationship between the program’s objectives and sub-objectives and the outputs and outcomes (impacts and effects) that result from the program. It can help the auditor to identify and seek answers to questions such as:

- Do the objectives provide a clear understanding of the rationale behind the program, of the products and services that are being provided, and of the recipients of these goods and services?
- Do the objectives allow the identification of measurable outcomes?
- Are the causal linkages between the hierarchical levels plausible?
In the planning phase, program logic models help the auditor to understand the audited entity and to identify key program results and the systems and operations that produce them. A program logic model is mainly applicable when reality is simple and rational. The drawback with the model is that reality seldom corresponds with these assumptions.

2. Process-based studies

*Basic question: How does the program work?*

Process-based studies are geared to permit full understanding of how a government program works: how does it produce the results that is? Typical questions to be addressed are: What are the steps and procedures in the working process? Are the resources managed and utilized economically and efficiently? What is the general process that clients go through with the program? What are the common complaints? What do clients and staff considers being the strengths and the weakness of the program? On what basis are the services needed? These kinds of studies are common, and they are especially useful if programs are long-standing and have changed over the years, and if signs of short-comings are reported. The process-based approach involves many kinds of investigations (such as time management-, resource-utilization-, stakeholder-studies etc).

3. Impact studies

*Basic question: What are the net effects of the government program?*

Impact studies assess the net effect of a program by comparing program outcomes with an estimate of what would have happened in the absence of the program. This type of study is used when external factors are known to influence the program’s outcomes, in order to isolate the program’s contribution to the achievement of its objectives.

4. Cost-benefit studies and cost-effectiveness studies

*Basic questions: Do the program benefits exceed the costs, and are the

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objectives met at the lowest possible costs?

Cost-benefit studies are investigations of the relationship between the costs and benefits of government projects or programs expressed in monetary terms. For example, a cost-benefit study might be used to audit the efficiency of investment projects (for instance road-building projects). The purpose of such a study is to determine whether the benefits of an entity, program or project exceed its costs. Cost-benefit studies may be used:

- To obtain assurance that an analysis by the audit entity is reliable;
- To compare costs and benefits when both are known or can reasonably be estimated;
- To compare costs of alternatives when benefits can be assumed constant.

A cost-benefit study should normally consider not only the tangible (and relatively easily measurable) costs and benefits, but also the intangible (and difficult to estimate) costs and benefits.

Cost-effectiveness studies are studies of the relationship between project costs and outcomes expressed as cost per unit of outcome achieved. While a cost effectiveness study allows auditors to compare the economic efficiency of program alternatives, cost-effectiveness studies are concerned with finding the cheapest means of accomplishing a defined objective or the maximum value from a given expenditure. In contrast to the economists’ version of cost-benefit studies, in cost-effectiveness studies the benefits may be expressed in physical rather than monetary units: the effectiveness of a program in reaching given substantive goals is related to the monetary value of the resources going into the program or activity.

5. Benchmarking studies

Basic question: Are things being done in accordance with best practices?

Benchmarking is a process for comparing an organization’s (a program’s) methods, processes, procedures, products, and services against those of organizations (programs) that consistently distinguish themselves in the same categories. Benchmarking may be used to:

- stimulate an objective review of processes, practices, and systems;
- develop criteria and identify potentially better ways of operating; and
- lend more credibility to audit recommendations.

6. Meta-evaluation studies

**Basic question: Is the quality of the conducted evaluation acceptable?**

The purposes of meta-evaluations are to judge the quality of evaluations, to improve the quality of evaluations, and to promote the actual use of evaluation research in the management process. The role of the SAI is to examine the actual quality of evaluations undertaken and the adequacy of, and procedural conditions for, evaluation. The criteria for meta-evaluations will concern the quality of the evaluation research undertaken and the way the evaluation function has been integrated into the management process. Broadly speaking, there are two possible criteria:

*The scientific and epistemological quality of evaluation research*: theoretical, methodological, and technical criteria, which reflect the state-of-the-art. The theoretical requirements concern, among other things, the formulation of the problem, the definition of the concepts, the hypotheses, and the cohesion of the theory as a whole. The methodological requirements imposed on evaluation research involve, among others, the validity and reliability of the research results. The requirements concern, among others, the operationalization of the evaluation criteria, based on a determination of whether the situation in the policy field satisfies the evaluation standards.

*Criteria of usefulness of the research for policy/management practice*: this means that an audit report should provide information that is important for an effective, efficient, and legitimate approach to a certain policy problem. In practical terms, the report should contain explicit references to the need for information to be satisfied by the research, to a problem in policy practice, to the research objectives associated with policy practice, etc.

7. Other common types of studies

Both approaches and grounds for assessment must be adapted to the multiple types of issues performance auditing deals with. One may even say that the nature of performance auditing, to a large extent, has helped to shape and define

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audit topics and to select and design models and methods to be applied in each audit. The performance auditor must maintain an extensive network of contacts, which include contacts in the field of social science. The special nature of the work requires performance auditors to monitor new research findings and acquire new knowledge, for example, keeping abreast of developments and maintaining awareness of innovative approaches.

Some examples of such other common approaches are the following:

- Organizational studies: Studies of whether organizational structures, processes and programs, etc., correspond to best practice.
- Specific service- and quality-management studies: Studies of service-capacity and quality-assurance systems.

4. **Defining the audit program**

Investigations of large numbers of people are seldom carried out in performance auditing. Sampling and case studies are, however, common. When case studies are included in an audit, the interest does not focus on individual cases, but on the possible conclusions that may be drawn from them. Some of the usual investigation designs are the following:

1. **Comparative investigation**

   Comparative investigations are mainly used to examine development trends and alternative conditions. Comparisons may be made over time and between different outcomes or alternatives. Comparisons can be made between subjects that work well and those that work less well, between one or more subjects and a general picture, and between similar areas in different countries.

2. **Before and after investigation**

   In a ‘before and after’ investigation, the situation before the program was started is compared with that after program implementation. A simple ‘before and after’ study is one in which one set of measurements is taken before program participation and a second set is taken on the same set of participants after sufficiently long participation. Impact is estimated by comparing the two sets of measurements. The main drawback to this design is that the differences between before and after measures cannot be confidently ascribed to the program.

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3. Sampling investigation

The audit findings, conclusions, and recommendations must be based on evidence. Since auditors seldom have the opportunity to consider all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen (AS 153).

The auditor must make a judgment as to whether sampling is an appropriate way of obtaining some of the audit evidence required. Among the factors that must be considered are:

- the number and relative sizes of the items in the population;
- the complexity of the questions to be answered in the sample, and
- the relevance and reliability of evidence produced with alternative tests and procedures, and the relative cost and time involved in each.

As the auditor seeks to draw conclusions about a whole population by testing a sample of items selected from it, it is essential that the sample is representative of the population from which it is drawn. A sample may be statistical or non-statistical; both require the use of professional judgment.

The first stage in planning the sample is to make an exact definition of the population. For statistical samples, it is important that it is homogenous. It is also essential that the auditor clearly defines the specific audit objective that testing with the aid of the sample is designed to achieve.

Moreover, the sample size must be determined. Throughout the selection procedure, the auditor should regularly review whether the sample selected is likely to adequately represent the population. As far as possible, testing should follow a pre-determined questionnaire. As errors or exceptions are found, it is necessary to consider their cause and nature. The results must be evaluated and documented.

Sampling is often used to obtain evidence in performance audits. While the objectives of the sampling exercise may be different, the underlying principles are the same. In performance auditing, sampling techniques are mostly used when essential facts cannot be obtained in other ways and when there are demands for structured comparison and well-founded generalizations. Due to

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limited resources, the samples are seldom very large, and it is usually necessary to limit the number of questions to be answered. To obtain more in-depth knowledge, the selection methods may be supplemented with other information-gathering techniques, such as case studies.

4. Case study investigation

Case studies may be used to demonstrate that the assumed problems exist and that they are not merely marginal problems. Case studies can also be used to make in-depth analyses and comparisons. However, it is difficult to make statements based on case studies regarding the frequency and extent of problems, even if the cases are selected to illustrate general problems and are representative. However, in combination with other methods, case studies may allow some general conclusions to be drawn. Since such studies are preferable to large investigations, they are often used in performance audits.

Among other things, case studies are used to:

- make a comprehensive in-depth analysis of complex problems;
- obtain illustrative examples to discuss and check against other information; and
- in combination with general statistics, to illustrate and confirm the results of broader studies.

In choosing the number of cases to be studied, a balance must be struck between the breadth and depth of the examination. The selection of case studies may include both difficult and successful cases, so that comparisons may be made to identify underlying factors. Another type of case study is carried out to supplement more general information obtained from the in-depth examination of an individual case.

Once a number of case studies have been compiled, the auditors may circulate the findings to the audited entities involved to obtain their views on the extent to which the studies give a general picture of the problems. The results of the case studies may also be discussed with scientists, experts, and specialists in seminars and elsewhere. By combining general statistics with the in-depth case studies—and verifying them—the auditors may gain sufficient acceptance of their findings to allow them to form the basis for some generalizations.

5. Quasi-experimental investigation

The essential feature of true experiments is the random assignment of subjects to treated and untreated groups constituting the experimental and control groups, respectively. A control group is a group of un-treated subjects that is compared with experimental groups in terms of outcomes. An experimental group is a group of subjects to whom an intervention is delivered and whose outcome measures are compared with those of control groups.

A quasi-experiment is a research design in which ‘experimental’ and ‘control’ groups are formed non-randomly. The use of the experimental method on practical and political problems has led to increases in ‘quasi-experimental’ methods, which attempt to eliminate as much as possible the extraneous effects that make assessment of impact difficult, though without the full scientific rigor that a properly-conducted experiment would.

The two common types of quasi-experimental designs involve constructing control or comparison groups in an attempt to approximate random assignment. This is done by matching participating and non-participating targets or by statistical adjustment of participants and non-participants so they are as equivalent as possible in respect of relevant characteristics.

5. Selecting techniques for gathering information

Data collection may be performed once or through ongoing measurements (time series design, longitudinal analysis). Information may be gathered on the basis of physical evidence, documents (including written statements), oral testimonies (interviews), or by other means depending on the objectives of the audit. It will often be necessary to collect both quantitative and qualitative data. The types of data to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance, and reasonableness. Performance auditing may produce primary data (its own source material) with the aid of questionnaires, surveys, and direct observation. However, a great deal of secondary data (material produced by others) is also often used. This includes official statistics, which are extracted and processed, and the audited bodies’ own statistics are also often used, if considered relevant and reliable.

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Both quantitative and qualitative information and data are used (and combined). Quantitative data are measurable or numerical and may be used to illustrate or back up a statement. Qualitative information and data may, for instance, refer to opinions and attitudes or general observations, but it may refer to knowledge that is more profound. In general, qualitative information of some kind is always needed in order to give an analysis breadth and depth in performance auditing. Some of the methods used for data gathering are the following.

1. File examination
Documents provide an efficient way of collecting data, and file examination is likely to form the basis of many performance audits. Files contain a wide range of types of evidence, such as the decisions of officials, the ‘case records’ of program beneficiaries, and the records of government programs. It is important to establish the nature, location, and availability of files at the outset of a performance audit so that they can be examined cost effectively.

2. Secondary analysis and literature search
Secondary analysis may relate to the review of general research reports, books and papers in the subject area of the program, or to studies that are more specific and statistics in the area, including both historical material and current publications. It is important to examine different kinds of documents from the audited entity as well as past audits and evaluations carried out by the SAI, or others as these may update and enlarge the auditor’s working knowledge of a particular subject. Studies of documentation can give the performance auditor access to useful material, but it is important to assess the reliability of the content of the documents – whether the information they contain gives an objective or subjective picture, whether they give a multi-faceted picture, etc.

3. Surveys or questionnaires
A survey is a systematic collection of information from a defined population, usually by means of interviews or questionnaires administered to a sample of units in the population. Surveys are used to gather detailed and specific information from a group of people or organizations. They are particularly useful when one needs to quantify information from a large number of individuals on a specific issue or topic. Questionnaires are mainly used to collect facts that are not available in any other way and that are important as a reference to substantiate a
viewpoint. Questionnaires are thus used when comprehensive knowledge is needed. Case studies and other in-depth methods are often used to supplement questionnaires. A wide range of survey techniques is available. The most commonly used are postal, Internet, telephone, and in-person interviews. Questionnaires often require computer processing and also assume a good knowledge of the area in question. Properly used, the questionnaire technique is effective, though it can be difficult and time-consuming to design questions and to process the answers obtained. As a result, experts are often needed.

4. Interviews
An interview is basically a question and answer session to elicit specific information. A great deal of performance audit work is based on interviews, and different kinds of interviews are carried out at different stages of the audit. The entire spectrum of interviews is used, from fact-finding conversations and discussions, through unstructured interviews (that is, with ‘open-ended’ questions), to structured interviews that follow a list of closed questions:

- preparatory and inventory interviews;
- interviews to collect material and information;
- interviews to chart attitudes and arguments, and
- interviews to generate and assess ideas and suggestions

Interviews may be used both in the planning phase and in the examination itself, to obtain documents, opinions and ideas that relate to the audit’s objectives, to confirm facts and corroborate data from other sources, or to explore potential recommendations. Various kinds of techniques are used, one or more people may be interviewed at the same time, and the interviews may be over the telephone or in the form of personal visits. They may be in-depth or more in the nature of checking information.

To obtain the broadest possible view of reality, it is important to interview people with different positions, perspectives and insights (staff at both central and local levels, staff from different interested parties or stakeholders, experts in the field in question etc.).

Interviews are a way of gathering facts and information and gaining support for a variety of arguments, but one cannot rely solely on interviews. Although many of the details and statements obtained in an interview will have to be checked before they can be used, in many contexts interviews are still a useful
way of collecting facts. The results of the interviews must then be compiled and documented in a way that facilitates analysis and quality assurance, for example by separate grouping of the factual material; the problems, causes, consequences, and proposals put forward (conditions, criteria, causes, effects, and potential recommendations).

5. Seminars and hearings
Seminars are often used in the different phases of a performance audit, not least when preliminary observations and conclusions are to be discussed.

Seminars might be used for instance to:
• acquire knowledge of a specialist area;
• discuss problems, observations, and possible measures; and
• air arguments for and against different views and perspectives.

Seminars have the advantage of bringing together a large number of people representing a wide range of knowledge and perspectives. This gives better knowledge of the area in question. Arranging and running seminars and hearings, which are similar to seminars, is demanding.

However, the purpose of hearings is mostly to invite or call for interested parties and experts to give their views on the area to be audited.

6. Focus groups, focal groups, reference groups and experts

Focus groups are a selection of individuals brought together to discuss specific topics and issues. They are primarily used to collect qualitative data – information that can provide insights into the values and opinions of those individuals in the process or activity being audited. Focal group techniques are used to obtain information on the implementation and impacts of government programs based on the perspectives of the beneficiaries and other stakeholders.

The pattern of the views could be expressed in a stakeholder model. A stakeholder study could be used in the planning of the audit in order to identify the main groups interested in a certain action developed by government.

Reference groups may be composed of people drawn from within or outside the SAI and are usually made up of experts and specialists. They are sometimes used both in initiating an audit and during the course of the audit as a source of viewpoints. Some experts are consultants or short-term employees. The reference groups may include experts employed directly by the SAI, consultants employed
by the audited entity or experts operating on an independent basis (e.g. academic researchers). The purpose of using experts is, to make technical knowledge or skills that are essential for the achievement of the audit objectives available to the audit team. This kind of expert assistance has the advantage of allowing relevant information to be acquired quickly. One drawback, however, is that it may be difficult to judge the competence of experts, to obtain the appropriate expertise, to check their work, or to evaluate the results produced by the experts.

7. Direct observations

Direct observations are not common in performance auditing. This method is mainly used to gain insight into, and understanding of, the way an operation is run; to obtain the views of staff in the field, and discuss and test ideas, and to add to, or make comparisons with, other information.

The following table presents some of the methods mentioned for collecting data during audits/evaluations (source: Carter McNamara, 1998).

<table>
<thead>
<tr>
<th>Method</th>
<th>Overall Purpose</th>
<th>Advantages</th>
<th>Challenges</th>
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</table>
| Questionnaires, surveys, checklists | When there is a need to get, quickly and/or easily, a great deal of information from people in a non-threatening way | - Can be done anonymously  
- inexpensive to administer  
- easy to compare and analyze administer to many people  
- can obtain large amounts of data  
- many sample questionnaires already exist | - Might not get careful feedback wording can bias client’s responses  
- are impersonal  
- insurveys, may needed sampling expert do not give full story |
<table>
<thead>
<tr>
<th>Method</th>
<th>Description</th>
<th>Advantages</th>
<th>Disadvantages</th>
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</table>
| Interviews | When one wants to fully understand someone's impressions or experience, or learn more about their answers to questionnaires | - Obtain full range and depth of information  
- Develop relationship with client  
- Can be flexible with client | - Can take a long time  
- Can be hard to analyze and compare  
- Can be costly  
- Interviewer can bias client’s responses |
| Documentation review | When one wants an impression of how the program operates without interrupting the program; from a review of applications, finances, memos, minutes, etc. | Gives comprehensive and historical information  
Does not interrupt program or client’s routine in program  
Information already exists  
Few biases about information | Often takes much time  
Info may be incomplete  
One needs to be quite clear about what one is looking for  
Not flexible means to obtain data; data restricted that which already exists |
| Observation | To gather accurate information about how a program actually operates, particularly about processes | View operations of a program as they are actually occurring  
Can adapt to events as they occur | Can be difficult to interpret behavior  
Can be complex to categorize observations  
Can influence behavior of program participants  
Can be expensive |
Focus groups

Explore a topic in depth through group discussion, e.g. about reactions to an experience or suggestion, understanding common complaints, etc.; useful in evaluation and marketing

- Quickly and reliably obtain common impressions
- Can be efficient way to get range and depth of information in short time
- Can convey key information about programs
- Can be hard to analyze responses
- Need a good facilitator for security and closure
- Difficult to schedule 6-8 people together

6. Analyzing and interpreting information

Analyzing quantitative and qualitative data is an important step in all performance audits. When analyzing data (whether from questionnaires, interviews, focus groups, etc.), the auditors should start by reviewing the audit objectives and the audit question. This will help the auditors to organize their data and focus their analysis. In interpreting the information, the auditors should attempt to put the information in perspective, by comparing the results to audit criteria or to what is generally expected.

It is important to study the information both in-depth and extensively. A performance audit analysis must always be based on a good understanding of the activity under audit and its working conditions. However, no analysis can consider everything. Each analysis must be built on common sense and a realistic view of what can, may, and must be put forward.

When analyzing information or data from interviews, the main problem is to allocate what has been said into different categories or topics. In interviews the auditor is looking for common threads of information, things that fit together, or examples of the same underlying problem, issue, or concept. In this sense, qualitative (non-numerical) analysis may be used to assess and explain auditee performance. By reading documents, the auditors are able both to collect descriptive information and to systematically analyze the text and look for anything that is relevant.
Information analysis is an intellectual, creative, and iterative process, which includes both rational and irrational elements. It always involves reflections and discussions, brainstorming, and mostly non-quantitative techniques such as content analysis, comparative analysis, analysis with the aid of expert panels etc.\textsuperscript{78}

Two examples of quantitative techniques are mentioned below.\textsuperscript{79}

1. Descriptive statistics to understand data distribution

Data distribution may often be expressed in the form of a graph (bar chart or curve) that shows all the values of a variable. The statistics that describe data distribution can be powerful tools for audit analysis and reporting.

There are three basic dimensions of data distribution that may be important to an auditor:

- the “central tendency” of the distribution (mode, median, mean, quartile level, etc.);
- the spread (variability or dispersion) of the data (minimum and maximum values, tails, etc.); and
- the shape of the data (standard deviation, normal distribution, flat distribution, bi-modal distribution, etc.).

Data distributions may be used:

- to identify the level, spread, or shape of the data when this is more important than a single ‘average’ number;
- to decide whether variable performance meets an audit criterion or not;
- to interpret probability distribution to assess risk; and
- to assess whether sample data are representative of the population.

2. Regression analysis

Regression analysis is a technique for assessing the degree to which variables are associated (correlated). Regression analysis may be used:

- to test a relationship that is supposed to hold true;
- to identify relationships among variables that may be causally related that


might explain outcomes;
- to identify unusual cases that stand out among expected values; and to make predictions about values in the future.
Appendix 2

Performance Audit Criteria

Audit criteria are reasonable and attainable standards of performance against which the economy, efficiency, and effectiveness of activities can be assessed. They reflect a normative (i.e. ideal) model for the subject matter under review. They represent best or good practice, a reasonable and informed person’s expectation of “what should be.”

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 could be made.

Some characteristics of suitable criteria include the following.

**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 of the entity being audited.

**Completeness:** Completeness refers to the development of all significant criteria appropriate to assessing performance.

**Acceptability:** Acceptable criteria are those that independent experts in the field, audited entities, legislature, media, and general public are generally agreeable to.

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

- forming a common basis for communication within the audit team and with SAI management concerning the nature of the audit;
- forming a basis for communication with the auditee’s management;
- forming a basis for the data collection phase by providing a basis on which to build procedures for the collection of audit evidence; and
- providing the basis for audit findings and helping to add form and structure to observations.
Their level of detail and the form they take often determines the degree to which criteria are successful in serving these uses.

It is unrealistic to expect that those activities, systems, or levels of performance in economy, efficiency, and effectiveness areas 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 auditee circumstances.

The audit criteria must be set objectively. The process requires rational consideration and sound judgment. The auditors must for instance:

- have a general understanding of the area to be audited, and be familiar with relevant legal and other documents as well as recent studies and audits in the area;
- have good knowledge of the motives and the legal basis of the government program or activity to be audited and the goals and objectives set by the legislature or the government;
- have a reasonable good understanding of the expectations of the major stakeholders, and be aware of basic expert knowledge; and
- have a general knowledge of practices and experience in other relevant or similar government programs or activities.

Moreover, it is often useful to obtain the input of auditee(s) management to the development of criteria. Disagreement about criteria can then be identified, discussed, and, perhaps, resolved at an early stage. However, the facts and arguments presented by the auditee(s) must be weighed against other relevant facts and arguments (from other sources, experts etc.).

Goals set by the legislature or the executive branches are sometimes vague or conflicting. Under such conditions, the auditors might have to interpret the goals to make them more operational or measurable. One possibility is to get experts and stakeholders in the field to answer questions such as: How should the goals and objectives best be interpreted and measured? What should be the expected results under the given conditions? What is the best-known comparable practice? goals are conflicting, one option – if other alternatives seem inappropriate – is to divide the audit project into several sequential studies, covering one goal at the time. In cases of vague or long-term goals it might sometimes be possible to narrow the scope somewhat and look for short-term perspectives and direct criteria.(There are of course also other options.)
Appendix 3

Evidence and Documentation

1. Audit evidence
Audit evidence is information collected and used to support audit findings. The conclusions and recommendations in the audit report stand or fall on the basis of such evidence. Consequently, performance auditors must give careful thought to the nature and amount of evidence they collect. All fieldwork should be planned from the perspective of acquiring evidence intended to support the findings appearing in the final report.

The INTOSAI auditing standards state: *Competent, relevant and reasonable evidence should be obtained to support the auditor’s judgment and conclusions regarding the organization, program, activity or function under audit’ (AS 3.5.1).*

1.1 Competence of evidence
Evidence is competent (valid and reliable) if it actually represents what it purports to represent. Considering the following matters can assist when assessments are made of the reliability of evidence:

- Corroboration of evidence is a powerful technique for increasing reliability. This means that the auditor looks for different types of evidence from different sources.
- Sources of evidence from outside the audited entity are – rightly or wrongly – often viewed as more reliable than information generated within the auditee.
- Documentary evidence is usually considered to be more reliable than oral evidence.
- Evidence generated through direct auditor observation or analysis is more reliable than evidence obtained indirectly.
- The reliability of auditee-generated information will partly be a function of the reliability of the auditee’s management/internal control systems.
- Oral evidence that is corroborated in writing is more reliable than oral evidence alone.
- Original documents are more reliable than photocopies.

1.2 Relevance of evidence
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,

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80The INTOSAI’s *Code of Ethics and Auditing Standards*, glossary.
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**
The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit report. Sufficiency is a measure of quantity of audit evidence. Appropriateness is a measure of quality of audit evidence, its relevance to particular criteria, and its reliability.

Evidence is sufficient when there is enough relevant and reliable evidence 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 the status of the document.

The factors that dictate the strength of evidence required to support an observation in performance auditing include:
- the level of materiality or significance of the observation;
- the degree of risk associated with arriving at an incorrect conclusion;
- experience gained in previous audit examinations – or other investigations – on the degree of reliability of the auditee’s records and representations:
- known auditee sensitivity to an issue; and
- the cost of obtaining the evidence relative to the benefits in terms of supporting the observation.

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

When planning the audit, the auditor should 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.

2. **Characteristics of performance audit evidence**
Auditors need to be aware of potential problems or weaknesses with performance audit evidence. Potential problems include:
- evidence based on a single source (reliability, validity, sufficiency);
- oral evidence not supported by documentation or observation (reliability);
- evidence that is not time-sensitive, i.e. too old and does not reflect changes (relevance);
Evidence can be categorized as to its type - physical, oral, documentary, or analytical.

2.1 Physical evidence
Observing people and events or examining property are ways to obtain physical evidence. The evidence can take the form of photographs, charts, maps, graphs or other pictorial representations. A photograph of an unsafe condition is far more compelling than a written description.

When the observation of a 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 auditee.

2.2 Oral evidence
Oral evidence takes the form of statements that are usually made 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 auditee, 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. Corroboration of oral evidence is needed if it is to be used as evidence rather than mere background information.

Corroboration of oral evidence could be obtained:
- by written confirmation from the interviewee;
- by weight of multiple independent sources revealing the same facts; or
- by checking records later.

In assessing the reliability and relevance of oral evidence, the auditor needs to assess the credibility of the interviewee; that is, the position, knowledge, expertise and forthrightness of the person being inter-viewed.
2.3 Documentary evidence

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

The reliability and relevance of documentary evidence needs to 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.

Documents that are the output of management control systems (e.g. the accounting system) will need to be assessed in 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.

2.4 Analytical evidence

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 auditee or other relevant sources. Comparisons can also be drawn with prescribed standards or industry benchmarks. Analysis is usually numerical, and considers, for example, ratios of output to resources, or the proportion of the budget that is spent. It can also be non-numerical in nature; for example, observing a consistent trend in the nature of complaints made about an auditee.

3. The evidential process

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

• examine the characteristics of data required;
• collect data relevant to achieve the audit objectives; collect data outlined in the audit work plan;
• collect data that 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’.

Sources of evidence are discussed below.

3.1 Policy statements and legislation
Auditors should gather policy documents, operating guidelines, manuals, ministerial directives, decisions on delegation, 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, such as, submissions, press clippings, complaints, case histories and speeches.

3.2 Published program performance data
Published auditee budget statements provide evidence on the objectives and performance of agencies. They include an auditee overview and provide financial and performance information.

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

3.4 File examination
Information obtained from files provides strong evidence to support recommendations. A list of files should be obtained from auditee 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.
File evidence can provide strong support for findings. File examination is time intensive and it is usually not possible to examine all files. Judgment must be exercised concerning 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 studied.

3.5 Management reports and reviews
Agencies usually generate a number of internal reports or reviews that summarize for senior management the issues at the time, or propose courses for action. Auditors should locate and analyze such reports.

Ways of identifying reports include interviews and examination of minutes of management meetings.

3.6 Databases
Most agencies have one form or another of management information system that collects relevant information for conducting operations. These systems can be important sources of evidence, especially in quantifying various matters.

3.7 External sources
Larger agencies may have sophisticated specialist libraries relevant to their areas of responsibility. Literature searches on relevant topics and key words can be particularly useful.

3.8 SAI sources
The auditor should not overlook evidence that has been collected in previous audits or through information collected to support strategic planning for the auditee.

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

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.
This type of evidence can be regarded as ‘soft’ unless corroborated. Photographs and video recordings increase the value of direct observation. Written detailed descriptions of the results of the observations are recommended.

4. Documentation

INTOSAI auditing standards 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* (AS3.5.5). It is also stated that: ‘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 auditee 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’ (AS 3.5.6).

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; and the results and the conclusions drawn from the audit evidence obtained. Working papers should therefore contain at least three sections: planning, execution and reporting.

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 the recommendations in the report. Working papers assist organization, 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 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.
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. It is better to be vaguely right than exactly wrong

It is seldom possible for performance auditors to get all information they need. Available data might be inaccurate, incomplete or conflicting. Thus, auditors have to be creative in trying to find data that at least reasonably well describes what they are after. It may be possible to obtain well-founded estimations, or there might be other ways to find data that ought to be useful for practical analysis and overall assessment. Less-precise data – combined with logical deduction and other information – might sometimes be sufficient; for instance if the purpose is to describe tendencies. Another possibility is to get the auditees and other stakeholders to confirm that the less-precise data being collected provides a reasonable and fair picture of reality, i.e. the information collected can be used as evidence of one type or another and as a basis for further analysis and general conclusions.

Data collection is always a compromise between the ideal (the best solution) and the reality (the second or the third best solution). Over-estimated ambitions in trying to find complete, accurate and exact data may hamper the effectiveness of any performance audit. Efforts to be exact may easily be in conflict with ambitions to make an intelligent analysis. The need to be exact must therefore always be weighed against what is reasonable economical, and relevant for the purpose of the data-collection.

Consequently, performance auditors should always try to be practical in their efforts to collect, interpret and analyze data. It is important, however, that the reader of the audit report is informed about the quality of all information that has been collected and how it was gathered. This is even more essential when it comes to data that are less precise. The auditors should not draw any other conclusion than that permitted by the quality of the data.
Communication and Quality Assurance

External relations and relations with auditees

The development of good and proper external relations is often a key factor in achieving effective and efficient audits of government programs. The progress and outcome of the audit will be enhanced if the audit team can obtain good contact and foster confidence by maintaining a fully professional approach during the course of the audit.

SAI staff should seek to maintain good relationships with all stakeholders involved, 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 ongoing operational responsibilities. The SAI should endeavor to give the audited entities reasonable notice of its intention to commence an audit and should discuss the general scope of the study with relevant officers.

Relations with the auditees

The audit manager in charge of the study – or the project leader – normally makes the initial contact with the auditee(s) in order to advise them on matters such as:

- the objectives, timing, duration, and type of audit to be conducted;
- the intended offices or regions to be visited; and
- names, titles, phone numbers, etc. of the audit staff and an official contact person at the SAI for the audit.

The objectives of the meetings or conferences in the initial process are to:

- establish suitable liaison arrangements at both the management and working levels, including arrangements for progressive reporting of tentative findings;
- ensure that the auditee(s) clearly understands the audit objectives and processes, including a description of access powers and safeguards on confidentiality;
- outline the auditee’s responsibilities and clarify any queries or misunderstandings the auditee may have; and
- make administrative arrangements for the audit team, such as access to buildings, personnel, files, systems, and data.

At the conclusion of each audit, an exit meeting with the managers at the auditee(s) ought to be arranged, for example in order to:
• discuss provisional audit findings, conclusions and recommendations with auditee management and obtain management’s comments on them;
• afford the auditee the opportunity to correct misunderstandings and question the audit conclusions and findings.

Quality assurance and quality control systems

INTOSAI auditing standards state that the SAI should establish systems to confirm that integral quality assurance processes have operated satisfactorily; ensure the quality of the audit report; and to secure quality improvements and avoid repetition of weaknesses. Quality assurance refers to policies, systems, and procedures established by SAIs to maintain a high standard of audit activity. It also refers to the requirements applicable to the day-to-day management of audit assignments. Quality control, on the other hand, refers to reviews conducted to assess the quality assurance system or the executed audit projects.

SAI quality assurance activities

As part of the SAI’s professional obligations it must establish and support adequate systems of quality assurance activities. The systems comprise structures, policies, and procedures designed to provide the SAI with adequate assurance that the work undertaken by the SAI meets professional requirements and standards. Quality assurance activities include:

• Securing the quality of the planning; the planning of selected tasks should be reviewed to ensure that adequate consideration has been given to all matters considered essential.
• Securing the quality of the ongoing work; the ongoing work should be subject to continual review. This review is essential to maintain the quality of audit work and to promote learning and feedback.
• Securing the quality of the finalized audit; all completed tasks should be reviewed prior to signing any reports.

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

• professional competence and integrity;
• supervision and assignment of personnel to engagements; guidance and assistance;

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• client evaluation; and
• allocation of administrative and technical responsibilities.

The SAI’s general quality assurance 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. Events and elements in the audit work that require special attention by the audit managers and the SAI managers are considered below. Systems for quality assurance – especially systems which focus on the final stages of the audit process – are often time consuming and costly. The ideal is a fully integrated system.

**Planning and budgeting and the use of consultants**

The audit manager needs to take into account factors such as quality, resources, and timing in planning the audit. The budgets consist of allocations for salaries, travel, consultants, and any other direct costs. If the SAI seeks advice from external experts, the standards for exercise of due care and confidentiality of information will apply to such arrangements.

**Monitoring and executing the audit**

The managers should ensure that the audits are completed within budget and on time, extending the budget if justified. The audit manager must be aware of risks to timely audit completion and ensure audit work is relevant to the objectives and scope of the audit. The development of the data-gathering process and the analytical work has to be monitored. The audit manager should ensure that the audit teams are able to maintain good and proper relations with auditee(s) and other stakeholders.

**Progress reporting and audit reporting**

The audit manager should inform the SAI management on the progress of the audit, with recommendations for corrective action if needed. The manager must also ensure that the audit reports meet the reporting standards.

**Quality assurance review program – external and internal reviews**

A quality assurance review program is a series of external and internal reviews of activities undertaken by the SAI – it assesses the overall quality of the work performed and covers various issues and perspectives. Consequently, the program has to be
flexible. The results of the program should be reported to the SAI management at least annually (with a high volume of performance audits). A quality assurance review may examine adherence to policy and procedures and identify areas where there is any opportunity for improvements in these policies and procedures, or it may assess the quality of work performed to meet specified objectives or specific stakeholders’ perspectives. Quality assurance reviews will generally address both adherence to specified processes and the quality of the work performed. The report on the quality assurance review program should summarize the results of all the reviews including the tasks selected (number and type), the findings, and any recommendations.

Quality assurance and quality development

It is important that all quality assurance/control activities have a high degree of legitimacy among the auditors and that the procedures and systems are not too sophisticated. Besides quality assurance and control activities, perhaps the most effective way to promote quality in audit work is to recruit competent staff and to create working conditions that:

• stimulate quality development;
• promote openness, delegation and mutual trust within the organization; and
• Encourage the auditor’s own sense of responsibility.

In an information-based and professional activity such as performance auditing, it is generally more important to support the audit teams in their efforts to achieve a good level of quality in their work, than to supervise them in the traditional sense of the term.
Performance Auditing and Information Technology

Introduction

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 unauthorized 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. Earlier, it was common in performance auditing to focus on issues such as planning, development and maintenance of individual IT systems. Today, the perspective is broader. IT systems are primarily seen as important components in all government programs (e-government). The shift in perspective has consequences for performance auditing in the area of information technology.

The value of good IT systems is that they can improve the economy, efficiency and effectiveness of existing programs and contribute to better public services. IT systems can be an efficient and effective program delivery mechanism. They have the potential to deliver existing services at reduced cost and to provide a range of additional services, including program performance information, with greater efficiency, security, and control than is available in manual systems. However, IT systems also have the potential to result in major systemic errors with a resultant greater impact on agency performance than would be possible if manual systems are used.

This appendix highlights a range of important considerations for performance auditing in an IT environment and is not intended to replace detailed guidelines that SAIs may need to develop in order to evaluate their auditees’ IT environment.

The approach to performance auditing in an IT environment should involve the

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81This appendix is based on documents from INTOSAI’s IT-Committee and the guidelines for performance auditing provided by ASOSAI. The experience of individual SAIs has also been considered.
following interrelated processes:

• obtain an understanding of the auditees’ IT systems and determine their significance for the performance audit objective;

• identify the extent of IT systems auditing required to achieve the performance audit objective (e.g. audit of IT-investment processes and their links to business strategies, audit of systems development; audit of environment and applications controls) and employ specialist information system/IT auditors to undertake the task; and

• develop and use, when appropriate, computer-assisted audit techniques to facilitate the audit.

A performance audit in an IT environment should:

• assess whether the IT systems enhance the economy, efficiency, and effectiveness of the program’s objectives and its management, especially in relation to program planning, execution, monitoring, and feedback;

• determine whether system outputs meet established quality, service and cost delivery parameters;

• identify any deficiencies in information systems and IT controls and the resultant effect on the efficiency, economy, and effectiveness of performance;

• compare the IT system development and maintenance practices of the auditee to leading practices and standards; and

• compare the IT strategic planning, risk management, and project management practices of the auditee to leading practices and standards including corporate governance practices.

A high level model for auditing IT use

In auditing the use of IT in business programs, the auditor needs to focus on certain aspects. Broadly speaking, it is possible to identify the following components in a high-level model for auditing IT issues:

• The government’s requirements and other demands concerning the use of IT for public administration services.

• The government’s IT-based business improvement strategies and decision processes concerning IT-based business improvement investment projects (implementation of IT).
• The government’s development projects, running and maintenance of IT-based business/programs, IT systems and IT infrastructure including aspects of security, integrity, control etc.

• The clients’ use of IT systems including aspects of usability and the interaction between users and IT systems.

• The long-term effectiveness of IT systems and IT support in business programs (value for money in using IT).

• The support from different actors in IT-related issues given to agencies in the public administration including issues such as IT standards, IT technology etc.

• The main factors influencing government and agencies in IT-related issues such as IT trends, IT knowledge etc.

Performance aspects of auditing in an IT environment

In many cases the most important issue of the audit is to establish whether the IT system has enhanced the efficiency with which the auditee manages its programs and whether the IT system has beneficial results for the stakeholders.

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

• The IT investment process – especially the auditee’s innovation system for creating, processing and deciding on IT investment proposals – linkage to business strategy, management and planning processes.

• IT should support the objectives and business strategy of the auditee and, therefore, is an integral part of its operations.

• IT operations require highly qualified staff.

• The contribution of IT to operations is measured in operational efficiency terms.

• The benefits of IT may not be realized without appropriate changes.

• Normal value for money measures may be more difficult to apply.

In addition to assessing whether the auditee’s IT systems represent value for money, the performance auditor may also be expected to measure if the IT environment has contributed to transparency, accountability, and good governance.
The audit may also contain more specialized IT issues, i.e. IT system development and operational management.

**Performance auditing involving IT system development**

A performance audit involving IT systems development should determine if the audited entity:

- has the appropriate executive approval for the development of the IT system, i.e., that IT management fits in the corporate governance of the auditee;
- has appropriate project management processes in place to manage the project;
- has met required targets of time, cost, system function, and value for money using an appropriate system development methodology; and
- has processes in place, including the involvement of internal auditors, to ensure that the new system includes all the necessary controls and audit trails, and is likely to meet the requirements of the auditee and its stakeholders.

**Performance auditing involving operational IT systems**

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 entity being audited:

- the strategic and operational management of IT, including assurance that IT is included in the overall corporate governance of the auditee;
- IT project management, including the auditee’s record in meeting legislative and other deadlines;
- risk management practices 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 computer-assisted audit techniques);
- access controls and the physical and logical security of networks and computers, including Internet firewalls;
controls as a safeguard against illegal software;
performance management and measurement; and
other issues that arise during the audit. In making the assessment the auditor may:
- review files and other documents relevant to the development and operation of the IT systems;
- use an appropriate software package to test the central and net-worked computing system controls;
- test a sample of transactions (potential for using computer-assisted audit techniques) to validate the systems and relevant controls; and
- interview the Auditor General and key staff members.

Planning
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 auditee in adopting/introducing IT systems and should include audit concerns relating to value for money, controls and security. The planning phase should also identify the IT systems and their roles in programs, computer systems and software packages being used by the auditee. During this phase, auditors also need to identify the major potential risks and exposures of IT systems.

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

Computer-assisted audit techniques
Auditors are increasingly using computer-assisted audit techniques. These techniques utilize custom developed software programs to assist in the execution of the audit. They can be used for both sampling system transaction data and for testing the system as a whole. Computer-assisted audit technique tools can be developed to:

- access and extract information from auditee databases;
• total, summarize, 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;
• facilitate audit planning and control, such as electronic audit working papers that support effective indexing, review and reporting; conduct surveys through web questionnaires, and
• increase the analysis of audit evidence and findings.

Computer-assisted audit techniques can be used to collect data, validate the processes in the program or to analyze the data. The auditors should develop these techniques and provide training for the staff of the auditee. These automated audit tools should be developed/modified, bearing in mind the IT environment in the auditee and the audit objectives. Computer-assisted audit techniques can also be utilized in performance audits of both IT and non-IT environments.

**Reporting**

The performance audit report should be drafted to minimize the use of technical terminology with a view to making it easily understandable to management, members of the legislature and the public. When the use of technical terms is inescapable, they should be explained. Audit report should be published on SAI’s websites or on CD in order to give the report a wide distribution.
Performance Audits of Activities with an Environmental Perspective

1. Introduction

Over the past 20 years, global awareness of environmental issues has grown rapidly, with particular emphasis on matters such as ozone depletion, the destruction of rain forests and global warming. The greatly increased knowledge and experience of environmental issues acquired during this period has led to a rethinking of the role and responsibilities of both governments (at national and local level and their associated agencies) and industries. Some of the crucial changes that have taken place are:

- The expansion of environmental regulation by state and local authorities.
- The increasing cost of environmental protection for both the private and public sectors. The resources spent by both sectors on pollution control have increased, and both businesses and government bodies are looking for more cost-effective ways of dealing with these issues. Environmental awareness among financial institutions, both national and international. The pressure and scrutiny brought to bear by these institutions provide governments and businesses with the impetus to give environmental issues closer consideration.
- Following the United Nations Conference on the Environment in Rio de Janeiro, governments and corporations around the world have shown more concern about sustainable development.

The increasing concern that organizations which affect the environment in a negative way should be accountable for their actions has led to requirements for the consequences of those actions to be reported. In turn, expectations have grown that the representations made in environmental reports should be subject to independent audit. As a result of the implications of these expectations for SAIs, the subject was taken up by INTOSAI.

At the XVth INCOSAI in Cairo 1995, it was decided that, using the INTOSAI Auditing Standards as a basis, the INTOSAI Working Group on Environmental Auditing should develop a guide containing guidelines and methodologies for the conduct of audits with an environmental perspective. The result of the work, “Guidance on Conducting Audits of Activities with an Environmental Perspective”, was approved at
the XVIIth INCOSAI in Seoul 2001. The purpose of the guide is to provide SAIs with a basis for understanding the nature of such auditing as it has so far developed in the governmental sphere. This basis is intended to provide a starting point from which to create an approach to the satisfactory discharge of environmental auditing responsibilities within the context of each SAI’s jurisdiction.

The term ‘environmental auditing’ is a convenient label generally used to describe one of a plethora of activities such as management audits, product certification, governmental control measures and many other activities, which bear little or no relation to an external audit. SAIs also often carries out activities that, by definition, do not qualify as audits, but which contribute to better government. In this appendix the term “environmental auditing” is used solely in the context of the independent external audit.

At XV INCOSAI (Cairo), it was agreed that environmental auditing is, in principle, not different from the audit approach as practiced by SAIs and that it could encompass all types of audit. In this context, audit attention may be devoted to, for example, the disclosure of environmental assets and liabilities, compliance with legislation and conventions – both national and international – as well as to measures instituted by the audited entity to promote economy, efficiency and effectiveness. Consequently, it is sometimes easier to talk about performance auditing with an environmental perspective.

2. Applying INTOSAI Code of Ethics and Auditing Standards

The INTOSAI Code of Ethics and Auditing Standards reflect a consensus of best practices among SAIs. Thus, it is clear that the standards codify generally accepted professional practices, which are applied in carrying out independent external audits and which may also encompass the audit of activities with an environmental perspective. It follows that a SAI should – to the full extent appropriate – take the INTOSAI Auditing Standards into account when planning, conducting, and reporting on an environmental audit.

2.1 Basic postulate of relevance and its consequences for performance auditing with an environmental perspective.

The SAI should consider compliance with the INTOSAI Code of Ethics and auditing standards in all matters that are defined as material. Each SAI should establish a policy to ensure that environmental audits are of high quality. The SAI should recognize the

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82 This short presentation is to a large extent based on that guide and other documents and reports from INTOSAI’s Working Group on Environmental Auditing. The experience of individual SAIs has also been considered.
global nature of environmental matters and promote performance audits with an environmental perspective.

Government programs or entities that have an impact on the environment may be categorized into the following three groups:

- Programs or entities whose operations directly or indirectly affect the environment.
- Programs or entities whose operations directly or indirectly may influence environmental policy formulation and regulation, whether internationally, nationally or locally.
- Programs or entities whose tasks involve power to monitor and control the environmental actions of others.

The government is responsible for determining what information it needs to ascertain whether its environmental objectives are being realized. In addition, the executive authorities (the government agencies) and their managers are directly responsible for the correctness and sufficiency of information on the entity’s impact on the environment, be it with regard to financial performance, assets or liabilities, compliance with legislation, or other prescriptions for its performance.

Situations are likely to arise in practice, however, where there is a lack of legislation providing for the disclosure of relevant environmental information or where there is a lack of disclosure for some other reason. In such situations, the SAI should report the shortcoming and may also have to consider the possible effects on its audit report.

The full scope of government auditing, regularity (financial and compliance) and performance auditing, also applies to environmental auditing. Performance auditing of environmental activities may for instance assess:

- whether environmental programs are properly prepared;
- whether environmental policies and programs are conducted in an economical, efficient and effective manner;
- whether environmental programs are properly monitored and evaluated; and
- whether environmental programs are effective.

Environmental auditing adds a special challenge to the expanding role of auditors and their responsibility for improving and developing new techniques and methodologies to assess whether the reasonably and valid performance measures are used by the audited entity.
2.2 General auditing standards of relevance and their consequences

The auditor and the SAI must be, and must be seen to be, independent and objective in carrying out environmental audits. The auditor and the SAI must also possess the required competence. The wider the SAI’s mandate and the more discretionary it is in nature, the more complex the task becomes of ensuring quality of performance across the mandate. This applies directly to environmental auditing and may often be addressed by making use of teams or by obtaining assistance from experts in the field. If the SAI employs external environmental experts, it must exercise due care to assure itself of their competence.

SAIs and their auditors and others who carry out environmental audits should demonstrate adequate knowledge of both environmental matters and performance auditing/program evaluation.

2.3 Field and reporting standards

The auditor should plan the audit in a manner that ensures an audit of high quality and collect relevant and reliable information on the audited program or entity. This should, where applicable, include relevant environmental information on:

- laws and regulations of relevance;
- goals and objectives set by the parliament or the government;
- the policies, objectives and practices established by the entities to be audited; and
- the existence of environmental assets and liabilities and any changes that may have occurred in them during the period under review.

The objective and scope of the environmental audit should be clearly defined. The specific needs of environmental auditing may require additional procedures to be carried out. It may be advisable to make use of specialists in the SAI to carry out review of the planning and fieldwork from an environmental perspective.

3. Developing methods and practices

A SAI may undertake environmental audits under its mandate to carry out performance audits. For performance audits, there are at least five different types of environmental focus such as:

- audits of government monitoring of compliance with environmental laws;
- audits of the performance of government environmental programs;
• audits of the environmental impact of other government programs;
• audits of environmental management systems; and
• evaluations of proposed environmental policies and programs.

Since the SAI may not be able to audit every program or entity involved, it will need to carefully design a methodology that will allow it to draw supportable conclusions on how a given function or activity is implemented nationally. Some of the tools it may consider using are field visits, questionnaires, and statistical sampling.

3.1 Auditing government monitoring
In many countries, a lead environmental ministry and department (or other agency of the executive government) is charged with ensuring that environmental laws and objectives are properly implemented by public and/or private entities. These laws may charge the environmental department with such activities as:
• issuing permits that limit the quantity or concentration of pollutants discharged;
• monitoring compliance with such permits;
• monitoring environmental conditions to help identify other potential non-compliance with regulation;
• helping in the interpretation of regulations, and providing other assistance to regulated entities to assist them in their compliance work; and
• taking enforcement action when violations occur.

In some cases, the federal (national) government, state, or other levels of government may delegate these environmental regularity responsibilities. In addition, other types of executive government departments, such as transport or agriculture, may also exercise certain environmental regulatory responsibilities. The SAI is often charged with examining how well these other departments exercise their environmental responsibilities.

The data needed to support findings and conclusions may be centrally located and readily available. More usually, important information may need to be collected from diverse locations and from numerous governmental and non-governmental entities. A SAI should be aware that environmental regulatory compliance data has proven to be particularly susceptible to error in many countries. The absence of reliable environmental data may itself become a central message of the SAI’s report.

3.2 Auditing the performance
A government may be enabled by statute or other authority to carry out (or fund other entities to carry out) a range of other programs or activities to protect or improve the
environment. A program or activity of this type:

- may be the responsibility of a government ministry, a government department or one or several government agencies with particular interest in the environment; or

- may be the responsibility of, for example, a department or a government agency for agriculture, through a program for assisting farmers to adopt practices that minimize pollution.

A SAI may find it useful to identify the international agreements on environmental matters to which its government has agreed and then identify which programs have been established to achieve them. Care should be taken in selecting and scoping an audit of a governmental environmental program. A SAI may also consider whether to focus its attention on one main policy instrument or on many different policy instruments. In selecting a performance audit, the SAI should pay particular attention to the availability of sufficient, relevant and reliable data. When planning its audit, the SAI should examine the risks and materiality of government programs or activities, taking into account the resources involved, the importance of the environmental problem to be addressed, and the magnitude of the intended effect. The auditors should also consider whether there are indications of problems of efficiency and effectiveness in the area to be studied.

Consideration of the scope and methodology of the audit should address the availability of audit criteria, particularly when the program is not subject to statutory requirements. The SAI may identify ways of comparing the program’s arrangements to best management practices or to practices used for similar environmental programs in the same country or elsewhere. The SAI may also report the program’s achievements over time, against the program’s own targets, or targets or benchmarks set by experts.

The auditor should bear in mind that environmental programs may be aiming for impacts which:

- are individually small-scale but cumulatively large-scale; take a long time to have a noticeable effect; and

- are affected by significant external factors (weather conditions, etc.).

3.3 Auditing the environmental impacts of other government programs

In addition to programs whose principal aim is to protect or improve the environment,
all activities affect the environment in one way or another through their use of resources or consequences of their other actions. Some government programs have significant effects, which may be positive or negative, intended or unintended. The environmental effects of the activities can be highlighted as part of a wide-ranging performance audit – of the economy efficiency, and effectiveness of a government activity, or as a narrowly defined study focusing solely on the environmental impacts.

The SAI may review the adequacy of:

- the description of the program or activity, its environment, and the baseline conditions;
- the completeness of the range of key impacts identified;
- the data used to assess the likelihood of the impacts and their expected scale; and
- any proposals for measures to counter the impacts.

The SAI may wish to test for itself what impacts a government activity may have on the environment, its likely scale, and any values that can be placed on its costs and benefits. Discussions with experts and searches of literature can identify commonly used evaluation methodologies. It may also be helpful to identify and seek the views of key stakeholders (e.g. residents in the area affected by the activity, key environmental interest groups, and nongovernmental organizations in the field) as well as academics specializing in relevant evaluation methodologies.

From the outset, the government may identify measures that counter or reduce environmental impacts. The SAI’s audit may address whether these measures:

- have been put in place and are in accordance with leading practices or best available information or technology and not entailing excessive cost; and
- have had the preventive effect intended, and, if not, what actions the government has taken instead.

In some cases, the counter measure may need to be suitable for preventing or dealing with low-risk, major-impact occurrences, such as unintended releases of radioactive substances. Accident and incident procedures may be rarely used, but they need to be operable in case of need. When such procedures are important, an audit may review:

- the procedures;
- the training of any staff involved;
• the frequency of testing the procedures; and
• Whether any arrangements required with third parties (suppliers, emergency services, etc.) are up-to-date.

3.4 Auditing environmental management systems
Organizations are introducing environmental management systems to ensure that they are systematically setting policies for continual improvement in environmental performance and are achieving the policy objectives effectively. In considering whether to undertake an audit of environmental management systems or not, a SAI should identify existing government policy on establishing them. The SAI may decide to audit complete environmental management systems for individual government departments. Alternatively, the audit may focus on one or more elements across a range of departments, agencies, or other organizations within the SAI’s remit. The latter approach can be helpful for dealing with relatively small-scale matters and nonetheless offer scope for significant improvements across the government.

A SAI may consider whether it should audit and report on an actual performance target set by the government. For an audit of this type, the SAI could usefully investigate how the government compares with practices elsewhere and with the government’s commitments and practices to international agreements. A SAI may also consider whether government monitoring of departments’ environmental management systems and reporting of environmental performance makes them sufficiently accountable to the legislature and the public for meeting key performance targets. The SAI could undertake an audit to identify the level of performance and reasons for non-achievement of targets.

3.5 Evaluating proposed policies and programs
Some SAIs may be called upon to provide analyses or information on proposed policies or programs to their legislatures. This may occur, for example, when a national legislature refocuses its attention from the question, ‘Is the program operating well in conformance with its statutory requirements?’ to the more basic question, ‘Do the underlying statutory requirements themselves need modification to make them more cost-effective or to improve them in other ways?’ Under these circumstances, it may request the SAI to analyze alternative proposals being considered.

Generally, such work poses both challenges and risks. In particular, analyses of
proposed policies or programs may sometimes require special skills (specially-trained staff, consultants, expert panels, etc.). Even with these added skills, the nature of such analyses involves risks for the SAI, particularly if it is viewed as taking sides in debates over matters of policy. The SAI may consider the following alternatives to minimize such a risk:

- Provide factual information rather than judgments.
- Identify consensus among experts.
- Evaluate and comment on analysis of other organizations.
- Decline the request.

4. Establishing audit criteria

One concern for SAIs in carrying out environmental audits is determining the criteria against which the audited program or entities will be assessed. It is important to ensure that the chosen criteria – if used – will be generally accepted as relevant, complete and understandable.

A performance audit may need to be based on criteria from, in a formal sense, both ‘authoritative’ sources (based on laws, documented policies and goals, generally accepted standards, etc.) and ‘non-authoritative’ sources (academic literature, experts, indicators, or measures used by similar entities or other entities engaged in similar activities, etc.). See appendix 2.

The special risk that a SAI faces in conducting an environmental audit is that the criteria it has used may be inapplicable, inappropriate or biased. The greatest risk for the SAI will come from using non-authoritative sources of criteria. On the other hand, such sources are often both necessary and fruitful when deeper or broader analysis is required. The ultimate test of the chosen criteria is that (like all audit criteria), they are objective rather than subjective. The criteria should also ensure the completeness of the performance indicators used (and the performance indicators should be relevant, understandable and reliable).

In the problem-oriented approach, however, the use of audit criteria will play a less important role. Instead, the formulation of well-founded hypothesis is of great importance.83

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Towards a system-oriented approach in performance auditing: A theoretical framework

1. The system-oriented approach of effectiveness auditing

Public services are complex, and the growing complexity of government programs increases the incidence of conflicting goals and unintentional side effects, caused by overlapping or coinciding functions. Further, most central decisions on public programs must be made without being completely sure that they will attain the stated objectives, at least not at the first attempt.

It is not an easy task to turn political goals into government programs and to design and implement measures that will obtain desired results. It may even prove difficult to find suitable methods to assess the results and the effectiveness of government interventions. There is a growing insight that there often is a large gap between what has been decided politically and what will later be implemented and finally achieved.

It is therefore essential to develop models to help performance auditors in their efforts to analyze and evaluate the implementation and effectiveness of government interventions. One common approach in performance auditing is the so-called goal-means (aims and methods) model. In this model implementation is seen as a process where general goals are broken down into sub-goals or means by ministries and executive authorities; authorities later being held accountable for how they manage and produce the services.

The system-oriented approach to effectiveness auditing, presented below, has its roots in the goal-means model. It is also based on ideas and concepts from ‘system theory’, where government undertakings or programs are seen as systems of interacting and functional inter-dependent elements. Regulations, resources, government bodies etc. are all examples of elements that constitute a system of this type of a government undertaking.

Defining a government undertaking as a system means that the performance auditors have to apply a holistic perspective. In auditing effectiveness of such

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systems, less emphasis is put on the accountability of individual agencies. The focus is on the effectiveness of the systems themselves.

2. The system-model and government undertakings
The system-model is presented below, step by step.
2.1 Production – the first component in the model
Production is the core of the system-model. In all production of services, production and consumption occur simultaneously. Consequently, clients, staff, working methods and resources are all part of the production system. This is shown in the figure below.

The aim of production is to deliver services to society efficiently. This might, for instance: require motivated and competent staff; rational use of resources; good practices; participating and well-in-formed clients etc.

2.2 Administration – the second component in the model
The operation of the production system takes place within the frame-work of an administration, involving perhaps several ministries and many departments and agencies, as well as regional offices and local authorities.

The function of the administrative systems – to allocate resources, to plan and implement activities, to monitor and evaluate progress etc. – is basically to make it easier to coordinate and control the operations of government undertakings. The administrative systems should contribute to effective implementation of the undertakings.
2.3 Structural design – the third component in the model

This structural design forms another framework (around the production and administrative systems). The societal undertaking and the concomitant political goals are not the only matters that parliaments and governments decide upon. Other important issues are the structure of the executive organization, budget frameworks and regulations that direct operations in production systems. This is shown in the figure below.

![Diagram showing structural design between production and administration]

2.4 The environment and the complete system model

Finally, it must be noted that forces in the environment have a bearing on the way a societal undertaking is implemented. Therefore, the complete system model is

![Diagram showing the complete system model with environmental factors]

The system model shows that the actions of government bodies or authorities (departments or agencies) form one of many links in a larger chain of events. A government body must therefore be assessed in the light of other control factors in the
form of rules, resources, the organization set up to carry out certain activities, and the social environment in which the individual unit or organization operates.

The systems model allows for a wide concept of effectiveness auditing and questions such as: Is the government undertaking well structured? Audits of such issues may involve assessments regarding the regulatory approach, the distribution of responsibilities, or the granting of appropriations etc.

3. Effectiveness auditing – some conclusions
In its effectiveness auditing, the SAI examines the effectiveness of government and government-financed activities. By that we mean that an examination is made of whether the results are those that parliament and the government intended to achieve when they allocated resources, established agencies, and passed legislation to implement a societal undertaking.

The model presented above illustrates that this type of effectiveness assessment requires a systems approach. All factors that have a tangible effect on the degree to which the goals are attained must be considered. Otherwise there is considerable risk that in the assessment, for example, the importance of a single agency is magnified. The instruments at the disposal of the agencies may in fact be rather feeble compared to the forces at work in society.

An important part of all effectiveness auditing is the assessment of actions and decision-making. Therefore, a simple explanation of possible reasons for failing to attain the established goals is often not enough. The factors that can be influenced must also be identified. The systems model shows that there are two types of factors that can be influenced:

• The agency’s actions – do the agencies involved perform their tasks in the most appropriate way, seen in relation to the undertaking to be carried out?
• Structural design – is the body of rules, the appropriation of resources and the organization of agencies appropriate for its purpose in relation to the undertaking to be carried out?

The systems approach to effectiveness auditing works on the basis of a dual auditing issue. Both the activities of the agency and the structural design are considered in assessing whether or not the operation is effective.

Effectiveness auditing may always run a certain risk of gazing blindly at the internal
workings of the agency under audit. One does not always notice that a possibly needed tightening up of routines and planning procedures can be of lesser importance in terms of the impact on real effectiveness. Strong criticism may sometimes be leveled, without noting that the agency’s activities are limited by the fact that its resources are far too meager or that it has a weak position in the government administration. By placing the agency in a wider context, the systems approach to auditing counteracts the risk of adopting a narrow view.

The intention of the model that has been developed is to clarify the aims of a system-oriented audit. The next question is how to attain that level of ambition. On the basis of the agency’s experience of the systems approach gained in concrete projects, three requirements regarding methods can be discerned:

1. In system-oriented auditing, the operations in a certain area of society are the point of departure. This is expressed by allowing a particular undertaking to form the basis of both the study and the final assessment.

2. In system-oriented auditing, the scope of the analysis is defined in terms of the ‘system’ that is formed by the undertaking itself and the forces/actors that affect the realization of this undertaking.

3. In system-oriented auditing, data on outcome are always included in the basis for analyses and assessments.

The purpose of this model is to provide a theoretical framework for effectiveness auditing that takes the government undertaking, i.e., the ultimate effects that the public program/agency is intended to bring about, as its point of departure.
ISSAI 3100

Performance Audit Guidelines

– Key Principles

The International Standards of Supreme Audit Institutions, ISSAI, are issued by the International Organization of Supreme Audit Institutions, INTOSAI. For more information visit www.issai.org
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1. **INTRODUCTION**

1. INTOSAI’s fundamental auditing principles recognise that due to the differing approaches and structures of Supreme Audit Institutions (SAIs), not all auditing standards apply to all aspects of their work\(^{85}\). Furthermore, on the basis of the terms of the audit mandate with which SAIs are empowered, any auditing standards external to the SAI cannot be prescriptive, nor have a mandatory application to the work of the SAI\(^{86}\). However, in order to promote high quality work across its members, INTOSAI advocates that each SAI should establish a policy which has regard to INTOSAI standards, and other specific professional standards, which should be followed in carrying out various types of work that the organisation conducts. This audit guideline of key principles outlines a common understanding of what defines high quality work in performance auditing.

2. Comparisons between the practices of performance auditing in different countries show considerable variations depending on the mandate, organisation and methods used by the SAIs. The legal, administrative and economic environment can have a bearing on the nature of performance audits conducted and how they are carried out. The maturity of public sector administration also impacts on the extent and nature of performance audits that can be performed.

3. Performance auditing generally follows one of three approaches in examining the performance of audited entity. The audit may take a result-oriented approach, which assesses whether pre-defined objectives have been achieved as intended, a problem-oriented approach, which verifies and analyses the causes of a particular problem(s), or a system-oriented approach which examines the proper functioning of management systems: or a combination of the three approaches.

4. Performance audit may also adopt one of two perspectives for the audit: a top-down perspective, which focuses on the requirements, intentions, objectives and expectations of the Legislature, Executive and/or regulatory body, or a bottom-up perspective, that focuses on the effects of the activity on the audited entity and the

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\(^{85}\) ISSAI 100/13  
\(^{86}\) ISSAI 100/17
larger community. In the case of the former performance audit does not question the intentions and decisions of the legislature, but instead examines whether possible shortcomings in the laws and regulations have affected those intentions being met. Depending on their mandate, SAIs may audit the assumptions on which policy decisions were based and the impact of such policy decisions. The audit provides an objective assessment to inform the legislature on such issues as how to enhance policy target achievement and/or how to accomplish objectives more efficiently and effectively.

5. Whichever approach or perspective is adopted, performance audit aims mainly towards examining the economy, efficiency and effectiveness of the audited entity in the performance of its functions and activities, not excluding the verification of the audited entity’s compliance with established legislation and regulations. Where appropriate, the impact of the regulatory or institutional framework on the performance of the entity should also be taken into account. Performance audit often achieves this by attempting to answer two basic questions: are the right things being done, and are things being done in the right way?

6. As performance auditing can deal with all facets of the public sector, it would not be possible or appropriate to propose detailed common auditing standards to cover all situations. Accordingly, auditors are required to apply their own professional judgments and applicable professional standards to the diverse situations that arise in the course of performance auditing. This document is largely based upon the concepts contained in ISSAI 3000 – Implementation guidelines for Performance Auditing, to which auditors should refer for additional guidance.

2. **KEY PRINCIPLES OF PERFORMANCE AUDITING**

2.1 **Definitions**

7. **Performance auditing** is an independent and objective examination of government undertakings, systems, programmes or organisations, with regard to one or more of the three aspects of economy, efficiency and effectiveness, aiming to lead to improvements.

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87ISSAI 3000/1.8/ page 27
88ISSAI 4000-series
89ISSAI 3000/1.1.
8. The performance audit task is a separately identifiable piece of audit work, typically resulting in the issuing of a statement, or report. It should have clearly identifiable objectives and pertain to a single or clearly identifiable group of activities, systems, programmes or bodies known as the “audited entity”.

2.2 Performance audit objective

9. According to ISSAI 100\textsuperscript{90}, an individual performance audit should have the objective of examining one or more of these three assertions:

(a) the economy of activities in accordance with sound administrative principles and practices, and management policies;
(b) the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
(c) the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and the actual impact of activities compared with the intended impact.

10. The audit objectives are usually expressed in the form of one overall audit question and a limited number of subsidiary questions that the audit will answer and conclude against. Such questions are thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall question. The audit questions addressed by performance audit do not have to be exclusively based on a retrospective audit approach. In a performance audit, SAI\textsubscript{S} can take an early initiative and furnish proactive audit findings, and/or recommendations, where appropriate, if this is explicitly allowed by their legal mandate. Furthermore, financial and compliance audit aspects\textsuperscript{91}, including environmental considerations in the context of sustainable development, can also be included in a performance audit. Finally, the perspective of the citizen that is related to the performance of the audited entity should be taken into account where appropriate.

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\textsuperscript{90}ISSAI 100/40.
\textsuperscript{91}ISSAI 4000-series
2.3 Selecting audit topics

11. Auditors should select audit topics that are significant, auditable, and reflect the SAI’s mandate\textsuperscript{92}. The audit should lead to important benefits for public finance and administration, the audited entity, or the general public. Where there is an overlap between other types of audit and performance auditing, classification of the audit engagement will be determined by the primary purpose of that audit\textsuperscript{93}. Aside from audits carried out under legal mandate at the request of the Parliament or other empowered entity, performance audit topics should be selected on the basis of problem and/or risk assessment and materiality or significance (not only financial significance, but also social and/or political significance), focusing on the results obtained through the application of public policies. The selection process for audit topics should aim to maximise the expected impact from the audit while taking account of audit capacities. The processes of strategic planning\textsuperscript{94} and establishing the annual audit programme, are useful tools for setting priorities.

2.4 The audit process

2.4.1 Planning an audit

12. The auditor should plan the audit in a manner which ensures that it is of high quality and is carried out in an economic, efficient and effective way and in a timely manner\textsuperscript{95}. The audit planning documents should contain:

a) background knowledge and information needed to understand the entity to be audited, to allow an assessment of the problem and risk, possible sources of evidence, auditability, and the materiality or significance of the area considered for audit\textsuperscript{96};

b) the audit objective, questions or hypotheses, criteria, scope and period to be covered by the audit, and methodology (including techniques to be used for gathering evidence and conducting the audit analysis);

c) an overall activity plan which includes staffing requirements, i.e. sufficient competencies (including the independence of engagement staff), human

\textsuperscript{92}ISSAI 100/34.
\textsuperscript{93}ISSAI 100/41.
\textsuperscript{94}ISSAI 3000/3.
\textsuperscript{95}ISSAI 300/1.1.
\textsuperscript{96}ISSAI 300/1.3-1.4.
resources, and possible external expertise required for the audit, an indication of the sound knowledge of the auditors in the subject matter to be audited; d) the estimated cost of the audit, the key project timeframes and milestones, and the main control points of the audit.

13. Performance audits should have suitable audit criteria that focus the audit and provide a basis for developing audit findings. The audit criteria, which can be of a qualitative or quantitative nature, should be reliable, objective, useful, and complete. It should be possible to identify the source of the audit criteria used.

14. The audit scope should clearly define the extent, timing and nature of the audit to be carried out. When laws, regulations, and other compliance requirements pertaining to the audit entity have the potential to significantly impact on the audit questions, then the audit should be designed to address these issues in order to conclude on the audit questions.

15. In determining the extent and scope of the audit, auditors often need to assess the reliability of internal controls that assist in conducting the business of the audited entity. The extent of that assessment depends on the objectives of the audit. Moreover, they should be alert to situations or transactions that could be indicative of illegal acts or abuse and should determine the extent to which such acts affect the audit findings.

16. When designing audit procedures, the auditor should determine the means for gathering sufficient appropriate audit evidence to conclude against the objectives, answer the audit questions, or confirm the hypotheses. Since auditors seldom have the opportunity to consider all information about the audited entity, data collection methods and sampling techniques should be carefully chosen. The planning phase should always involve certain research efforts, with the aim of building knowledge, testing various audit designs; and checking whether data needed is available. This makes it easier to choose the most appropriate audit method.

17. Performance audits can draw upon a large variety of data-gathering and analysis

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97 ISSAI 3000/2.2, page 38.
98 ISSAI 4000 series
99 ISSAI 300/3.1.
100 ISSAI 300/0.3(d).
techniques, such as surveys, interviews, focus groups, observations, documentary analysis, transaction testing, as well as the analysis of economic, financial and performance data. Audit methods should be chosen which best allow the gathering of audit data in an efficient and effective manner. While the aim of auditors should be to adopt best practices, practical reasons such as availability of data may restrict the choice of methods. Therefore, as a general rule, it is advisable to be flexible and pragmatic in the choice of methods. For this reason, performance audit procedures should not be standardised in all their terms, as being too prescriptive may hamper the flexibility, professional judgment, and high levels of analytical skills required, in a performance audit. ¹⁰¹

18. Auditees should be notified of the key aspects of the audit, including the audit objective, questions, criteria, and scope, before the start of the data collection phase ¹⁰² or after the completion of the audit planning.

2.4.2 Conducting the Performance Audit

19. Audit examination work takes place on the basis of audit planning already undertaken, and the planning documents thereby developed. Audits should be performed with due care, with an objective state of mind, and with appropriate supervision. The audit team should collectively possess adequate knowledge of the subject matter and audit techniques.

20. The auditor should obtain sufficient and appropriate audit evidence to satisfy the audit objective and questions, to be able to draw conclusions and, if appropriate, to issue recommendations. The nature of the audit evidence required in performance audit is determined by the subject matter, the audit objective, and the audit questions. Under normal circumstances, performance audits require significant judgment and interpretation in concluding against the audit questions, due to the fact that audit evidence is more persuasive ("points towards the conclusion that...") than conclusive ("right/wrong") in nature ¹⁰³.

21. Evidence may be categorized as physical, documentary, testimonial, or analytical. The types of evidence to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance, and reasonableness. Audit evidence should be competent, relevant and reasonable in

¹⁰¹ ISSAI 3000/1.8, page 29.
¹⁰² ISSAI 300/1.4(g).
¹⁰³ ISSAI 3000/4.2.
order to support the auditor’s judgment and conclusion regarding the audit questions\textsuperscript{104}. All audit findings and conclusions must be supported by audit evidence.

22. Performance auditors should be resourceful, flexible and systematic in their search for sufficient evidence. They must also be receptive to alternative views and arguments and seek data from different sources and stakeholders\textsuperscript{105}. Auditors should always try to be practical in their efforts to collect, interpret and analyze data. While primary or own source data is usually the most reliable, secondary data which is collected and/or analysed by others (e.g. performance evaluation reports, internal audit reports, etc.), can be an important source of information in performance audits. It is important, that the reader of the audit report is informed about the source and quality of the data, particularly when it contains estimations\textsuperscript{106}.

23. The analysis of data involves combining and comparing data from different sources. It is important that the auditor works systematically and carefully in interpreting the data and arguments collected\textsuperscript{107}. The audit team should document all matters which in its professional judgment are important in providing evidence to support the audit findings and the conclusions to be expressed in the audit report.

24. The auditor needs to produce audit documentation to fully record the preparation, conduct, contents and findings of the audit in a meaningful way. They should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was performed in support of the audit findings, conclusions, and recommendations\textsuperscript{108}. In general, the organisation of the audit should also satisfy the requirements of good project management.

25. The development of good and proper external relations is a key factor in achieving effective and efficient performance audit results. Auditors should seek to maintain good professional relationships with all stakeholders involved,

\textsuperscript{104} ISSAI 300/5.4.
\textsuperscript{105} ISSAI 3000/4.2.
\textsuperscript{106} ISSAI 3000/appendix 3/5
\textsuperscript{107} ISSAI 3000/4.5.
\textsuperscript{108} ISSAI 300/5.7
promote a free and frank flow of information in so far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding of the respective role and responsibilities of each stakeholder. The communication process between the auditor and auditee begins at the planning stage of the audit and continues throughout the audit process, by a constructive process of interaction, as different findings, arguments and perspectives are assessed. Where important audit findings are made during an audit these should be communicated to those charged with corporate governance in a timely manner.

26. Auditors should not communicate to third parties, neither in writing nor orally any information they obtain in the course of audit work, except where doing so is necessary to discharge the statutory or otherwise prescribed responsibilities of the SAI in question. Any such communication of information should be governed by the statutory or other rules of procedure in force for the respective SAI\textsuperscript{109}. Auditors however, may exchange information regarding management deficiencies with internal auditors, should this information not be of a data security or other confidential nature, for the purposes of ensuring that any identified shortcomings are addressed. Auditors should also report any financial irregularities to the authorities concerned, where appropriate.

\subsection*{2.4.3 Reporting}

27. In a performance audit, the auditor reports on the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are met. Such reports may vary considerably in scope and nature, for example covering whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements\textsuperscript{110}.

28. For all audit assignments any limitations to the audit, such as restrictive regulations, or limitations concerning access to information or reporting requirements, should be disclosed to users of the audit report. The report should also disclose the standards that were followed and audit criteria applied in carrying out the performance audit.

\textsuperscript{109}ISSAI 200/2.46.
\textsuperscript{110}ISSAI 400/4.
29. The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. Where the nature of the audit allows this to be done in relation to specific areas of an entity’s activities, the auditor is expected to provide a report which describes the circumstances and context to arrive at a specific conclusion rather than a standardised statement.

30. The audit report should include information about the audit objective, audit questions, audit scope; audit criteria, methodology, sources of data, any limitations to the data used, and audit findings. The findings should clearly conclude against the audit questions, or explain why this was not possible. The audit findings should be put into perspective and congruence should be ensured between the audit objective, audit questions, findings and conclusions. The report should, where appropriate, include recommendations.

31. The report should be timely, complete, accurate, objective, convincing, constructive, and as clear and concise as the subject-matter permits. It should also be reader-friendly, well structured, and contain unambiguous language. Overall, it should contribute to better knowledge and highlight improvements needed. The audit findings and conclusions should be based on evidence and should be clearly distinguishable in the report. All relevant viewpoints should be considered in the report and the report should be balanced and fair.

32. Recommendations, where provided, should be presented in a logical, knowledge-based and rational fashion, and be based on competent and relevant audit findings. They should be practicable, add value and address the audit objective and questions. They should be addressed to the entity (ies) having responsibility and competence for their implementation.

33. Auditors should refer to all significant instances of non-compliance and significant instances of abuse that were found during or in connection with the audit.

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111 ISSAI 400/23
112 ISSAI 400/7(a).
113 ISSAI 3000/5.3
114 ISSAI 400/7.
115 ISSAI 400/24.
116 ISSAI 3000/4.5.
117 ISSAI 1240/P6, “Abuse involves behavior that is deficient or improper when compared with behavior that a
Where such instances are not pertinent to the audit questions, it is envisaged that they would nevertheless be communicated to the auditee preferably in writing at the appropriate level.

34. Unless prohibited by legislation or regulations, before publishing a performance audit report, the SAI should always give the auditee(s) the opportunity to comment on the audit findings; conclusions, and recommendations. Where disagreements occur they should be analysed and factual errors corrected. The examination of feedback received should be recorded in working papers so that any changes to the draft audit report, or reasons for not making changes, are documented.

35. Distributing audit reports widely can support the credibility of the audit function. SAIs should decide about the method of distribution in conformity with their respective mandates. The reports should be distributed to the auditee, the Executive and/or the Legislature, and where relevant, made accessible to the general public directly and through the media and to other interested stakeholders, unless prohibited by legislation or regulations.

2.4.4 Follow-up

36. Follow-up of the audit report should be part of the audit process as it is an important tool used to strengthen the impact of the audit and improve future audit work. The priority of follow-up tasks should be assessed as part of the overall audit strategy of the SAI. Sufficient time should be allowed for the audited entity to implement appropriate action.

37. When conducting follow-up of audit reports, the auditor should adopt an unbiased and independent approach. The focus should be to determine whether actions taken on findings and recommendations remedy the underlying conditions. The results of the follow-up should be reported appropriately in order to provide feedback to the legislature, together if possible, with the conclusions and impacts of the corrective actions taken where relevant.

prudent person would consider reasonable…”.

118 ISSAI 400/7.
119 ISSAI 3000/4.5.
120 ISSAI 3000/5.4.
121 ISSAI 3000/5.5.
122 ISSAI 400/26.
2.5 **Quality system**

38. Performance audits should be subject to a system of quality control, incorporating processes for supervision and monitoring of quality, quality assurance, and external quality and peer reviews, in order to provide reasonable assurance that the audit has been conducted in accordance with professional standards and regulatory and legal requirements, and that the reports are appropriate. In this regard SAIs should apply the provisions of ISSAI 40 which provides a framework in relation to establishing and maintaining an appropriate system of quality control which covers all audit assurance and other work performed by SAIs. For performance audit, the following issues are important to ensure the quality of audit work:

(a) to the extent possible and needed, performance audits should be carried out by teams since, as a rule, they address complex questions. All audit team members should understand the audit questions, the terms of reference of the work assigned to them, and the nature of responsibilities required of them by auditing standards;

(b) experts participating in an audit should have the necessary competence required for the purposes of the audit. The audit team should ensure that the expert is independent of the activity/programme, and that (s)he is informed about the conditions and the ethics required;

(c) decisions should be properly documented regarding the audit objective and questions, and criteria of the audit, resources to be applied to the audit in terms of skills and qualifications, arrangements for reviews of progress at appropriate points, and the dates by which fieldwork is to be completed and a report on the audit is to be provided.

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123 ISSAI 40
124 ISSAI 3000/2.2.
125 ISSAI 200/1.18 and 2.43-44.
126 ISSAI 200/1.24 and 1.26.
ISSAI 5110

Guidance on Conducting Audit Activities with an Environmental Perspective
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1. APPLYING INTOSAI AUDITING STANDARDS

Introduction

101. The INTOSAI Auditing Standards reflect a consensus of best practices among SAIs. As such, it is clear that the standards codify generally accepted professional practices which are applied in carrying out an independent external audit, which may also encompass the audit of activities with an environmental perspective.

102. It follows from what was agreed at XV INCOSAI that an SAI should – to the full extent appropriate – take the INTOSAI Auditing Standards into account when planning, conducting, and reporting on an environmental audit.

103. In order to explain how the INTOSAI Auditing Standards might apply to environmental auditing, and to identify relevant issues or risks resulting from their application, this section of the guide sets out:

- A summary of the essential requirements of each basic postulate and auditing standard.
- Particular issues or risks to be addressed.
- Possible strategies or responses to these issues or risks.

104. This guide does not constitute an INTOSAI Auditing Standard. As its title suggests, it has been prepared to provide guidance on conducting audits of activities with an environmental perspective.

Basic Postulates

The SAI should consider compliance with the INTOSAI auditing standards in all matters that are defined material.128

105. A matter may be judged material if knowledge of it would be likely to influence a stakeholder or other user of the statement or audit report in which it is contained. Materiality is often considered in terms of value, but the inherent nature or characteristics of an item or group of items may also render the matter material. For example, compliance with national and international agreements, as well as certain aspects of

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128Auditing Standards, paragraphs 8-11.
performance auditing, may have a significance to users or stakeholders that is quite different from its materiality by value.

106. Furthermore, the importance attributed to the environment and sustainable development by nations often increases significantly over time. Matters which were not significant originally may well become significant.

107. Each SAI should establish a policy on which postulates and standards should be followed in carrying out environmental auditing to ensure that the work and products are of high quality.

The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing.\textsuperscript{129}

108. The terms of the audit mandate of the SAI override any accounting or auditing conventions with which they are in conflict. However, the SAI should recognise the global nature of environmental matters and seek the removal of incompatibilities in its own circumstances, where these may inhibit the adoption of desirable standards.

109. The nature of environmental audits may also necessitate increased cooperation between auditors. Concurrent, co-ordinated, or joint audits of specific matters may need to be undertaken. Situations may also arise where the country which is the subject of the audit is not a signatory of the relevant international accord. While this may be a sensitive issue, it is suggested that the SAI consider stating this fact in its report.

\textit{With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a greater need for the accountability process to be in place and operating effectively.}\textsuperscript{130}

110. This postulate concerns all entities that have an impact on the environment.

\textsuperscript{129} Auditing Standards, paragraphs 15-19
\textsuperscript{130} Auditing Standards, paragraphs 20-22
Entities whose operations directly or indirectly affect the environment, whether that be positive or negative – such as by rehabilitation or (conversely) pollution and utilisation.

- Entities with powers to make or influence environmental policy formulation and regulation – whether internationally, nationally or locally.
- Entities which have the power to monitor and control the environmental actions of others.

111. These different impacts may complicate the accountability arrangements and SAIs should be aware of the need to also consider the holistic impact on the environment and address the accountability process itself where necessary. Each SAI should consider the most appropriate approach bearing in mind its own mandate.

**Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process.**

*Management is responsible for the correctness and sufficiency of the form and content of the financial reports and other information.*

112. At the highest level, the government is responsible for determining what information it needs to ascertain whether its environmental objectives are being realised, how the achievement of its objectives is to be measured, and how often it wants the information.

113. The entity and its management are directly responsible for the correctness and sufficiency of information on the entity’s impact on the environment, be it with regard to financial performance, assets or liabilities, compliance with legislation, or other prescriptions for its performance. This obligation applies to entities in all three groups listed in paragraph 110.

114. Situations are likely to arise in practice, however, where there is a lack of relevant legislation providing for the disclosure of relevant

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environmental information, or where there is a lack of disclosure for some other reason. In such situations the SAI should report the shortcoming and may also have to consider the possible effects on its audit opinion.

115. The SAI may also need to give some attention to the fact that environmental damage or restoration can imply real costs for the organisation concerned. With the growth of environmental regulation this will increasingly be likely.

116. When SAIs promote improvements to legislation or other prescriptions, they should encourage audited entities to report impartially on their own environmental performance, albeit a violation or lack thereof.

**Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of government, and audited entities should develop specific and measurable objectives and performance targets.**

117. Much developmental work is still required before acceptable accounting standards for financial reporting and disclosure are likely to be in place for environmental matters. For example, it may not be achievable at present to place a value on virgin forest or a well-stocked fishing ground. Similarly, the liability associated with the restoration of environmental damage may not be easily quantifiable or may be dependent on unreliable and inaccurate estimates.

118. SAIs should work with accounting standards setting organisations to help ensure that proper accounting standards are developed, while the audited entities should also be encouraged to set measurable and clearly stated environmental objectives. However, an SAI should avoid the possibility of appearing to have a conflict of interest as a result of both setting the standards and auditing against them.

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Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations.\textsuperscript{133}

119. Consistent application of accounting standards and of disclosure for environmental matters, particularly when reviewing several accounting periods, will have to be phased in as new standards which relate to the environment are set. This is likely to be an on-going process for some time and SAIs should pay particular attention to the achievement of fair presentation.

120. Audit issues related to financial statement items affected by environmental matters, particularly liabilities, contingencies, commitments or asset impairment provisions, are often complex. Environmental costs, liabilities (including contingent liabilities) and assets should be recognised, valued and reported on in accordance with generally accepted accounting practice.

The existence of an adequate system of internal control minimises the risk of errors or irregularities.\textsuperscript{134}

121. Adequate internal control is equally of critical importance in the context of environmental auditing. Internal control is, in the first instance, the responsibility of the audited entity, although the auditor should submit proposals where controls are found to be inadequate or non-existent. This is more likely to be the case with regard to environment-related matters than with many others and the SAI should be prepared for this.

122. It is important to recognise that, in order to encourage audited entities to institute effective systems of internal environmental control, the SAI should avoid using the findings and conclusions on their internal environmental controls to put the entities in a negative light.

\textsuperscript{133}Auditing Standards, paragraphs 28-29.
\textsuperscript{134}Auditing Standards, paragraphs 30-31.
Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.\(^\text{135}\)

123. Where this is compatible with the mandate of the SAI, it may be necessary to review the provisions and requirements which apply to its responsibilities in respect of maintaining and gaining access to relevant environmental data and information. Where this is not the case, the SAI should report the fact and endeavour to rectify the situation.

*All audit activities should be within the SAI’s audit mandate.*\(^\text{136}\)

124. The full scope of government auditing – regularity (financial and compliance) and performance – also applies to environmental auditing.

125. During an audit of financial statements, environmental issues may include the following:

- Initiatives to prevent, abate or remedy damage to the environment.
- The conservation of renewable and non-renewable resources.
- The consequences of violating environmental laws and regulations.
- The consequences of vicarious liability imposed by the state.

126. Compliance auditing with regard to environmental issues may relate to providing assurance that governmental activities are conducted in accordance with relevant environmental laws, standards and policies, both at national and (where relevant) international levels.

127. Performance auditing of environmental activities may include:

- Ensuring that indicators of environment-related performance (where contained in public accountability reports) fairly reflect the performance of the audited entity.
- Ensuring that environmental programmes are conducted in an economical, efficient and effective manner.

\(^{135}\text{Auditing Standards, paragraphs 32-33.}\)

\(^{136}\text{Auditing Standards, paragraphs 34-44.}\)
SAIs should work towards improving techniques for auditing the validity of performance measures.  

128. Environmental auditing adds a special challenge to the expanding role of auditors and their responsibility to improve and develop new techniques and methodologies to assess whether reasonable and valid environmental performance measures are used by the audited entity. This is a good example of where auditors should avail themselves of techniques and methodologies of relevant other disciplines.

SAIs should avoid a conflict of interest between the auditor and the entity under audit.  

129. The SAI needs to maintain both the fact and perception of its independence and objectivity in carrying out and reporting the results of environmental audits.

General Standards

130. The general auditing standards include standards which apply both to the auditors and to the SAIs and include the aspects of independence, competence and due care.

The auditor and the SAI must be independent.  

131. The auditor and the SAI must be, and must be seen to be, independent and objective in carrying out environmental audits. They should be fair in their evaluations and in reporting on the outcome of audits.

132. The auditor and the SAI should therefore not become involved in (for example) the actual calculation of environmental costs and benefits. They should restrict themselves to auditing the calculations and reporting on the fairness, or otherwise, of the financial statements as a whole.

The auditor and the SAI must possess the required competence.  

133. The wider the SAI’s mandate and the more discretionary in nature, the more complex becomes the task of ensuring quality of performance

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137. Auditing Standards, paragraphs 45-46
138. Auditing Standards, paragraphs 47-49
139. Auditing Standards, paragraphs 53-81
140. Auditing Standards, paragraphs 82-87
across the whole mandate. This applies directly to environmental auditing and may often be addressed by making use of teams or by obtaining special expertise from experts in the field.

134. SAIs and their auditors and others who carry out environmental audits should demonstrate at least the following level of expertise and attributes:
    ♦ Adequate knowledge in all respects of auditing and capability of performing financial, compliance and performance audits.
    ♦ Adequate knowledge of environmental auditing acquired by training and practical experience.
    ♦ An independent and unbiased approach.
    ♦ Adequate human relations and communication skills.

135. Specialists may be involved in various stages of developing accounting estimates to assist management, which may include the following:
    ♦ Identifying situations where estimates are required.
    ♦ Gathering the necessary data on which to base estimates.
    ♦ Developing assumptions as to the most likely outcome.
    ♦ Determining the amount of an estimate (which may include, for example, determining the costs of remedial action planned by the entity) and considering the financial statement disclosure.

136. If the SAI employs external experts, it must exercise due care to assure itself of their competence and ability for the particular tasks involved. The SAI remains responsible for ensuring that the auditing standards are applied. Obtaining advice from an external expert does not relieve the SAI of responsibility for the opinions formed or conclusions reached on the audit.

137. Because environmental expertise is an emerging speciality involving individuals with diverse educational and professional backgrounds and experience, it may be particularly difficult for the auditor to obtain reasonable assurance about the expert’s reputation of competence and to be satisfied that the expert’s work is appropriate for audit purposes. The auditor should therefore at least consider the following:
    ♦ The educational background of the expert.
138. The auditor will need to carry out appropriate procedures to be satisfied that the work carried out by an expert is satisfactory for the purposes for which it is intended and to gain an understanding of the following matters:

- The nature and purpose of the expert’s report.
- The assumptions and methods used.
- The expert’s objectivity and the risk that this may be impaired.

The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.¹⁴¹

139. This standard applies equally to environmental auditing and may present particular difficulties in establishing standards for acceptable audit evidence on which to base findings, conclusions and recommendations.

140. Other general standards which are applicable in an environmental auditing context, are the following¹⁴²:

(a) The SAI should adopt policies and procedures to recruit personnel with suitable qualifications.

(b) The SAI should adopt policies and procedures to develop and train SAI employees to enable them to perform their task effectively and to define the basis for the advancement of auditors and other staff.

(c) The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits.

(d) The SAI should adopt policies and procedures to support the skills

¹⁴¹ Auditing Standards, paragraphs 88-95
¹⁴² Auditing Standards, paragraphs 96-128.
and experience available within the SAI and identify those skills which are absent; provide a good distribution of skills to auditing tasks and 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.

(e) The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI’s internal standards and procedures.

Field Standards

141. The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow. These steps and actions represent the rules of research that the auditor, as a seeker of audit evidence, implements to achieve a specific result.

The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.\textsuperscript{143}

142. The auditor should collect information about the audited entity. This should, where applicable, also include relevant environmental information such as:

- The legal mandate of the entity.
- The entity’s approach to environmental issues, including its policy and objectives and the existence of an environmental management system.
- Laws and regulations governing the entity’s environmental responsibilities or its role in determining those of others. This aspect would include identifying legal requirements imposed on the entity – or those which it imposes on others – such as reporting requirements, emission limitations arising from its

\textsuperscript{143}Auditing Standards, paragraphs 132-134.
activities, or responsibilities to restore degradation which it has caused.

♦ The existence of environmental assets and liabilities and any changes which may have occurred in them during the financial period under review. Examples of such liabilities are the costs of decommissioning a refuse disposal site operated by a local authority, or to providing for such costs during the useful life of the site.

143. The objective and scope of the environmental audit should be clearly defined. In addition to the financial, compliance and performance aspects usually encountered, there may be an expectation (whether explicit or implicit) of the provision of additional environment-related audit assurance. For instance, the SAI may be expected specifically to attest to the entity’s assertions about the effectiveness of its environmental management systems or its environmental disclosures.

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. 144

144. The specific needs of environmental auditing may require additional procedures to be carried out. For the assurance required it may also be advisable to make use of a specialist in the SAI to carry out a review of the planning and field work from an environmental perspective.

The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control. 145

145. In order to address environmental issues in a structured manner, management should ideally design and document the key elements of its environmental management system. This may embrace the following aspects, amongst others:

♦ Identifying applicable legislative and regulatory requirements.

144 Auditing Standards, paragraphs 136-140.
145 Auditing Standards, paragraphs 141-144.
♦ Establishing and maintaining policies and procedures to provide reasonable assurance that the entity complies with those requirements.

♦ Evaluating and monitoring the entity’s compliance with external requirements, environmental policies and procedures.

♦ Specifying reports that satisfy legal, regulatory or other requirements.

146. The auditor should study and evaluate the internal control measures instituted by management for environmental matters and determine the extent of reliance that can be placed on them. The extent of the study depends on the objectives of the audit and the degree of reliance intended.

In conducting audits a test should be made of compliance with applicable laws and regulations. Audit steps and procedures should provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statements.  

147. The subject-matter for an environmental compliance audit is normally management’s assertion that it has complied with all relevant rules. This assertion may be given explicitly or implicitly – i.e. simply by default.

148. Non-compliance with applicable laws and regulations is often tested with two perspectives in mind. On the one hand, the entity may (for example) be undertaking activities which are not in terms of its mandate. While the financial statements may fairly present the state of affairs and the results of these operations, the SAI may be expected nevertheless to report on such a deviation in the interests of public accountability.

149. On the other hand, there may be a high risk of a material misstatement in the financial statements, such as through the omission of a provision or liability in respect of future expenditure to restore environmental damage and/or to provide for a penalty for non-compliance.

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146 Auditing Standards, paragraphs 145-151.
Competent, relevant and reasonable evidence should be obtained to support the auditor’s judgment and conclusions regarding the organisation, programme, activity or function under audit.  

150. Material misstatements in the financial statements of an environmental nature are more likely to be of omission or understatement, rather than of overstatement. Most of the related evidence available to the auditor is therefore likely to be persuasive rather than conclusive. Audit evidence is likely to be obtained as a result of enquiry, audit procedures or management representations other than those directed specifically at account balances or to classes of transactions.

151. The audit evidence sought would therefore need to focus on matters of the following nature:

- Liabilities that are not based on contractual obligations.
- Accounting estimates that do not have an established historical pattern.
- Recent or evolving environmental laws and regulations.

152. In addition, where environmental liabilities are quantified, they will often be based on estimates. This will consequently affect the procedures that the auditor is likely to apply in obtaining adequate audit evidence. The approach applied should comply with that used when auditing other accounting estimates – including assessing the reasonableness of the assumptions, recalculating and evaluating the method followed, and reviewing the qualifications and experience of the person responsible for preparing the estimate.

Auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with.

153. Given the nature of likely environmental misstatements in the financial statements, the auditor should analyse the statements from an environmental perspective to identify areas which should be followed

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147 Auditing Standards, paragraphs 152-158.
148 Auditing Standards, paragraphs 159-162.
up. Of particular importance is likely to be the appropriateness of accounting policies and the existence and disclosure of contingent liabilities.

**Reporting Standards**

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154. Written audit reports should be submitted to the management of the audited entity as well as to its governing body, with reference to the particular circumstances of the SAI. Depending on the nature of the audit, the report may include an opinion on the financial information or on various other matters – such as compliance with the mandate of the audited entity, performance or (the subject of this guide) environment-related activities.

155. It may be necessary to pay particular attention to the wording in reports on the completeness of environmental assets and liabilities as well as on the audit assurance given about accounting estimates.

*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.*

*With regard to regularity audits, the auditor should prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations. The report should contain a statement of positive assurance on those items tested for compliance and negative assurance on those items not tested.*

*It is for the SAI to which the auditor belongs to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditor.*

*With regard to performance audits, the report should include all significant instances of non-compliance that are pertinent to the audit objectives.*

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149 *Auditing Standards,* paragraphs 163-191.
2. DEVELOPING METHODS AND PRACTICES

Introduction

201. An SAI may undertake environmental audits under its mandate to carry out regularity (financial and compliance) audits or performance audits as defined in the INTOSAI Auditing Standards:

♦ Paragraphs 202-208 set out how environmental issues may be addressed within regularity audits, and how professional financial accounting and auditing standards may apply\(^{150}\).

♦ For performance audits, paragraphs 209-266 identify and discuss five different types of environmental focus.

Taking Account of Environmental Issues in a Regularity Audit

202. Governments are increasingly recognising that the costs arising from environmental policies and obligations – such as the cost of pollution abatement equipment or the cost of decontamination of land – may be significant. These policies and obligations may also introduce material liabilities, or contingent liabilities where the costs depend on the possible occurrence of a future event. Environmental impacts can also significantly affect the valuation of land, buildings, plant and equipment.

203. These environmental costs, liabilities and impacts on asset values affect both the preparation and audit of financial statements. Some Governments will have made specific commitments about their disclosure. The difficulty can be that the audited entity might not distinguish environmental costs from expenditure associated with its ongoing activities.

204. The regularity auditor will need to assess the completeness and accuracy of the figures reported. To do so, the auditor will need a sound understanding of the environmental issues, operations and activities

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\(^{150}\) The INTOSAI environmental working group is currently preparing a discussion paper about the specific issues of addressing environmental audit within the context of this mandate.
which could affect the audited entity’s financial position, in the long as well as the short term.

205. Established professional national and international accounting and auditing standards set out the principles underlying the treatment of costs, assets and liabilities in financial statements which would apply to the treatment of environmental costs and liabilities. The SAI can apply these standards in judging the need for disclosing environmental impacts on costs, liabilities and assets in Government financial statements.

206. The SAI may need to audit estimates of the extent of such costs and liabilities\(^{151}\). The auditor:
- Should consider both the actual and potential costs and impacts of environmental issues.
- Will need to confirm existing and likely changes to the legislative or other requirements, the technology to be applied, and the costings used in the estimates.
- Will need to reach a judgment on the reliability of the assumptions used for predicting future costs, liabilities and asset values, and the accuracy of the calculations.

207. The SAI may also place emphasis on ensuring the full disclosure of all assumptions used.

208. Many of the values placed on environmental impacts require highly complex calculations – such as the likely future costs of decontaminating nuclear sites. The SAI may seek to rely on the work of third parties in making these audit judgments, in which case it will need to take particular care to satisfy itself of the qualifications and independence of the experts involved. (See also paragraphs 138-140.)

**Performance Auditing and the Environment**

209. Performance audit, in the context of an audited entity’s performance in carrying out Government environmental programmes and activities, may where applicable, be concerned with:

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\(^{151}\)The INTOSAI environmental auditing group is currently preparing a paper that considers the issues of conducting environmental audit on a more “restricted” or traditional financial/regulatory mandate.
the economy of administrative practices;  
the efficiency of utilisation of human, financial and other resources employed on the programme or activity; and  
the effectiveness of the programme or activity in achieving its objectives and its intended impact.152

210. A performance audit with an environmental focus can often be classified as one of five specific types:

i. audits of Government monitoring of compliance with environmental laws;
ii. audits of the performance of Government environmental programmes;
iii. audits of the environmental impact of other Government programmes;
iv. audits of environmental management systems; and  
v. Evaluations of proposed environmental policies and programmes.

211. Since the SAI may not be able to audit every entity involved, it will need to carefully design a methodology that will allow it to draw supportable conclusions about how a given function or activity is implemented nationally. All the available audit techniques like interviews; document/file searches etc may be a necessary part of the approach. It may also consider using some or all of the following:

♦ Field Visit

- Staff may need to visit a variety of national, regional and local government agencies and possibly non-federal organisations to ascertain how Government funds have been spent; how well environmental regulatory activities are working; and where improvements can be made.
- This technique is particularly useful if the SAI needs to obtain a detailed understanding of how an activity is working in a limited number of locations.

152 Auditing Standards, paragraph 40.
♦ **Standardised Questionnaire**
- A questionnaire that is carefully prepared, tested, and applied consistently may be useful if a large number of entities must be contacted.
- Where lower-level governmental entities are given delegated environmental regulatory responsibilities, the SAI may develop a questionnaire to ascertain their progress in implementing a given activity; the problems that may be impeding their efforts; and recommended actions that would help to improve their performance.

♦ **Statistical Sampling**
- In certain instances, the SAI may need to examine environmental issues concerning hundreds, or even thousands, of entities such as toxic waste sites, chemical storage facilities, and drinking water supply systems.
- The necessary information about these entities may not exist in a database or other usable form. In that event, one of the SAI’s alternatives may be to gather the information from a statistically valid sample of the entities in question, and then use the information to draw conclusions about the characteristics of the overall population.

###See Example No. 1###

(i) **Auditing Government Monitoring of Compliance With Environmental Laws**

212. In many countries, a lead environmental department (or other agency of the executive government) is charged with ensuring that environmental laws are properly implemented by public and/or private entities. These laws may charge the environmental department with such activities as:
- issuing permits that limit the quantity or concentration of pollutants discharged;
- monitoring dischargers’ compliance with such permits;
monitoring environmental conditions to help identify other potential breaches of regulations;

- helping in the interpretation of regulations, and providing other assistance to regulated entities to assist in their compliance efforts; and
- taking enforcement actions when violations occur.

213. In some cases, these environmental regulatory responsibilities may be delegated by the federal (national) government to lower levels of government. In addition, other types of executive government departments (such as transportation or agriculture) may also exercise certain environmental regulatory responsibilities. The SAI is often charged with examining how well these other departments exercise their environmental responsibilities.

## See Example No. 2 ##

214. Audits of systems for monitoring compliance with environmental laws typically begin with clear and explicit audit criteria, which are often contained in specific statutory requirements or in the lead environmental department’s regulations implementing those statutory requirements. The SAI then develops a methodology that assesses the performance of the department (or other pertinent parties) against the established criteria.

## See Example Nos. 3 & 4 ##

215. The data needed to support findings and conclusions may be centrally located and readily available. More usually, important information may need to be collected from diverse locations and (perhaps) from numerous governmental and non-governmental entities.

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153 Other possible criteria may include technically developed standards or norms, expert opinions, and performance of similar entities.
216. The latter is frequently the case in countries with federal systems, where the national government provides funding and delegates responsibility to agencies of their state/provincial governments. These agencies may be responsible for writing permits for dischargers, taking enforcement action when violations occur, and performing other day-to-day regulatory responsibilities.

217. Whatever the method or methods used, the SAI may usefully obtain agreement on its methodology from the lead department being audited and (perhaps) from at least some of the other audited entities. Obtaining agreement would be particularly worthwhile in relatively complex audits that require a major resource commitment. Agreement would also greatly reduce the risk that the audit results will be criticized as “unrepresentative” when they are presented.

218. The SAI may be able to use information from a centralised database in assessing compliance with statutory or regulatory requirements, or in evaluating the effectiveness of corrective measures. Such data can be an efficient primary source of information for audit findings — reducing the time and resources needed to perform data collection and analysis, and alleviating the need for expensive field visits to diverse locations.

##See Example No. 5##

219. The conclusions drawn from database information are only as good as the quality of the information itself. The audited entity has primary responsibility for ensuring that it has management information systems in place to collect data on its operations and performance. But an SAI should be aware that environmental regulatory compliance data has proven to be particularly susceptible to error in many countries, given the relative newness of regulatory efforts in this area.

220. For example, some SAI audits have detected major flaws in the databases used to track environmental compliance. It is therefore essential to understand and, if possible, to establish the reliability of the data used for testing compliance. In relying on such databases, some
SAIs routinely disclose in their reports the extent to which the databases’ accuracy has been independently verified.

221. The quality and completeness of environmental data characterising environmental conditions (e.g. pollutant levels of bodies of water; trends in fish populations) may be even more problematic than data on environmental regulatory compliance. While gathering data on environmental conditions is typically the responsibility of the audited entity and not the SAI, the SAI may nonetheless need the information to understand the extent of the problem and the effectiveness of measures to control it.

222. Unfortunately, in most countries, such data is often incomplete or of poor quality. However, these constraints need not necessarily preclude the SAI from providing useful analysis and information.

## See Example Nos. 6 & 7##

223. Frequently, the absence of reliable environmental data may itself become a central message of the SAI’s report. In such cases, the SAI may recommend that more complete data be obtained to help the lead environmental department ensure that limited funds are targeted to address the most pressing problems.

224. Some audit reports, for example, have recommended that the lead environmental department:

   ♦ develop better data on the health effects of pollutants;
   ♦ take certain steps to better manage the limited data that is available; and
   ♦ develop the technical information (“environmental indicators”) needed to judge whether its regulatory activities are adequately protecting the environment.

(ii) Auditing the Performance of Government Environmental Programmes

225. A Government may be enabled by statute or other authority to carry out
(or fund other entities to carry out) a range of other programmes or activities to achieve objectives whose principal aim is to protect or improve the environment. Such a programme or activity:

♦ May be the responsibility of a government department with a particular interest in the environment – such as a Department for the Environment having a programme to conserve sites of particular ecological importance.

♦ May be the responsibility of, for example, a Department for Agriculture through a programme for assisting farmers to adopt practices which minimise pollution.

226. Environmental programmes can typically be identified from Government plans and annual reports. Sometimes, a Government assembles its environmental programmes in a single Environmental Plan and Report. Where such a plan does not exist, the SAI can assist accountability through reporting the various Government policies and programmes that do exist. To do this, the SAI may consider the major environmental concerns affecting its country and then identify and list the programmes established by the Government to address them.

227. An SAI may find it useful to identify the international agreements on environmental matters to which the Government has agreed, and then identify what programmes have been established to achieve them.

## See Example No. 8##

228. An SAI should take care in selecting and scoping an audit of Government environmental programme, taking account of the performance risks that the audit would address, their materiality, and their auditability. For this purpose the auditor will need to have a firm grasp of the programme’s objectives and the instruments used to address them.

229. An SAI may also consider whether to focus its attention on one main policy instrument or on many different policy instruments. A practical difficulty of the latter is in judging how far the results of the various
instruments can be combined to identify the total impact of the audited entity.

##See Example No. 9##

230. When planning its audit, the SAI should consider:

♦ The risks and materiality of the Government programme or activity, taking account of the resources involved, the importance of the environmental problem to be addressed, and the magnitude of the intended effect.

♦ The intended and achieved overall results of the programme or activity.

231. Where few resources are involved but the potential impact of the programme or activity is significant, the scope of the audit may be better directed to the effectiveness of the programme or activity in achieving that impact than to the economy of the administrative practices employed or the efficiency of utilisation of the resources involved. The SAI may also be able to narrow the scope of its audit to areas where there is evidence that the planned targets are not being met.

## See Example No. 10##

232. The auditor will also need to confirm the management arrangements for the programme, in order to identify who is to be held accountable and to identify any limitations on the audit where matters are beyond the control of the audited entity.

233. Consideration of the scope and methodology of the audit should address the availability of audit criteria, particularly where the programme is not subject to statutory requirements. The SAI may identify ways to compare the programme’s arrangements to best management practice or against practices used for similar environmental programmes in the same country or elsewhere. The SAI may also report the programme’s achievements over time – against the programme’s own targets, or targets or benchmarks set by experts.
234. In selecting an audit the SAI should give particular attention to the availability of sufficient, relevant and reliable data. To arrive at firm conclusions on the effectiveness of a programme, the SAI may well need good quality data going back over long periods.

235. The auditor should bear in mind that environmental programmes may be aiming for impacts which:
   ♦ are individually small-scale but cumulatively large-scale;
   ♦ take a long time to have a noticeable effect; and
   ♦ are affected by significant external factors – such as weather conditions and other activities that also have an impact on the same environment.

(iii) Auditing the Environmental Impacts of Other Government Programmes

236. In addition to programmes whose principal aim is to protect or improve the environment, all activities affect the environment in some way through their use of resources or their consequences for the area in which they are conducted. Government activities are no exception.

237. Some Government programmes have significant impacts which may be both positive and negative, intended and unintended. For example, the primary objective of road building is to facilitate movement of people or goods. But building a road has a secondary and direct impact through its land use and its effect on the ecology of the area and the landscape, whilst use of the road also has an impact on air and noise pollution.

238. Similarly, the purpose of military activities is to maintain the capability required to defend national territory and contribute to wider security interests and the promotion of peace. However, military activities have a range of environmental impacts, from use of significant quantities of non-renewable resources, to pollution from use or storage of military hardware and consumables.

239. The environmental impacts of the activities can be highlighted as part of a wide-ranging performance audit – of the economy, efficiency and

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154 Refer section 3 of this guide; INTOSAI – How SAIs May Co-operate on the Audit of International Environmental Accords; and INTOSAI – database on environmental audit work.
effectiveness of a Government activity – or as a narrowly defined study focusing solely on the environmental impacts.

240. As a starting point for identifying the impacts of Government activities on the environment, an SAI can usefully familiarise itself with any commitments the Government has made to identifying these impacts for itself and taking them into account in its policy appraisal. Best practice suggests that organisations should embrace environmental concerns in their strategic policy objectives, and in their appraisal of new and existing activities. Some Governments have adopted such an approach and have also ensured that Government activities are subject to the same environmental laws and regulations as non-governmental activities.

241. The SAI’s audit should start with the Government’s own assessment (if any) of the likely environmental impacts. The SAI may review the adequacy of:

- the description of the programme or activity, its environment and the baseline conditions;
- the completeness of the range of key impacts identified;
- the data used to assess the likelihood of the impacts and their expected scale; and
- any proposals for measures to counter the impacts.

## See Example No. 11##

242. The SAI may wish to test for itself what impacts a Government activity may have on the environment, their likely scale, and any values that can be placed on their costs and benefits. Discussions with experts and literature searches can identify commonly used evaluation methodologies. Where evaluation is not possible – such as putting a value on the loss of a landscape or particular environmental feature – it may be helpful to identify and seek the views of key stakeholders (e.g. residents groups in the area affected by the activity, key environmental interest groups, and non-governmental organisations in the field) and academics specialising in relevant evaluation methodologies.
243. The SAI must consider at the outset what data will be available for measuring the impact of a Government activity. Where the Government has carried out an environmental impact assessment, it should identify the data available when the assessment was prepared and any plans to collect further data. Where it has not been identified, the SAI will need to consider the availability of sufficient, relevant and reliable information.

244. Environmental regulations may apply to Government activities which have secondary impacts on the environment. In these cases the Government department or agency charged with monitoring compliance with the regulations will have primary responsibility for testing compliance, not the SAI. However, the SAI may consider it appropriate to audit compliance against the regulations in agreement with the regulator.

245. Where the regulations do not strictly apply to the activity concerned the SAI may consider using them as an appropriate benchmark, although the validity of this approach should be considered carefully.

246. From the outset the Government may identify measures which counter or reduce environmental impacts. The SAI’s audit may address whether these measures:

♦ have been put in place and are in accordance with best practice or best available technology not entailing excessive cost (BATNEEC); and
♦ have had the preventive effect intended, and, if not, what actions the Government has taken instead.

## See Example No. 13##

247. In some cases the counter-measures may need to be suitable for preventing or dealing with low-risk but major-impact occurrences, such as
unintended releases of radioactive substances. Accident and incident procedures may be rarely used, but they need to be kept operable, in case of need. Where such procedures are important, an SAI’s audit may review:

- the procedures;
- the training of any staff involved;
- the frequency of testing the procedures; and
- whether any arrangements required with third parties (suppliers, emergency services, etc) are up-to-date.

248. When undertaking a narrowly defined study focusing solely on environmental impacts, the SAI will need to consider carefully how to provide a fair reflection of the impacts against the costs and benefits of the programme’s primary objective.

(iv) Auditing Environmental Management Systems

249. Organisations are introducing environmental management systems to ensure that they are systematically setting policies for continual improvement in environmental performance and are achieving the policy objectives. Voluntary accreditation schemes have been introduced nationally, regionally, and internationally to enable organisations to obtain external confirmation of the adequacy of their environmental management systems and recognition that they are operating such systems.

250. The International Standard for Environmental Management Systems, ISO 14001, identifies the following features of best practice:

- Setting an environmental policy.
- Planning— taking account of environmental aspects and legal and other requirements; and setting objectives and targets and introducing environmental management programmes.
- Implementing and operating— establishing structures and responsibilities, training staff and communicating the main requirements; documenting the environmental management systems; operating the systems; and preparing emergency plans.
- Checking and taking corrective action— monitoring and measurement;
identifying non-compliance and taking action; and auditing the environmental management system.

♦ Management review of all aspects of the system.

251. In Europe it is expected that ISO 14001 will become accepted as a route to achieving accreditation under the European Union’s Eco-Management and Audit Scheme. Supporting International Standards ISO 14010-14012 have been set for those seeking to act as accreditors.

252. Typically, the accreditation schemes have been established for commercial and industrial organisations. Nevertheless, the management systems involved are also applicable to Governments.

253. At XV INCOSAI it was agreed that for SAIs to seek to become accredited verifiers under these voluntary schemes was inappropriate. However, if an SAI has a sufficient performance audit mandate it may choose to audit Government environmental management systems.

254. In considering whether to undertake an audit of environmental management systems an SAI should identify existing Government policy towards establishing them. In some countries introduction of environmental management systems throughout the Government is required by law. In such cases a Government mechanism for ensuring compliance with the requirement may already be established, and the SAI should take this into account when planning its audit.

## See Example No. 14##

255. In countries where there is no requirement to introduce Government-wide environmental management systems the SAI may consider working either with the Government or independently to:

♦ Establish how far the systems have been introduced piecemeal;
♦ Identify the most appropriate models for such systems; and
♦ Evaluate the benefits to be gained from establishing them.
The SAI may decide to audit complete environmental management systems for individual Government departments. Alternatively, the audit may focus on one or more elements across a range of departments, agencies or other organisations within the SAI’s remit. The latter approach can be helpful for dealing with relatively small-scale matters where there is nonetheless scope for significant improvements across the Government. The audit can identify different practices from which to draw practical recommendations.

An important consideration for the SAI in deciding on the scope of its audit is the scale of the likely impact that the environmental management system(s) is(are) expected to cope with. Some Government departments may be largely administrative, and their key impacts may be limited to relatively low-level uses of resources such as energy and water; paper and other office consumables, and transport; and to recycling and disposal of office waste. Other Government departments or agencies may undertake industrial processes which have a significant impact on the environment through pollution.

Best-practice environmental management systems require organisations to set themselves targets for continuous improvement in performance and to monitor achievements. The systems themselves do not establish what appropriate standards of performance are, nor do they always require full auditing and reporting of performance. These are matters for the entities’ management.

An SAI may consider whether it should audit and report on the actual performance targets set by the Government. For such an audit the SAI could usefully how the Government’s targets compare with practices elsewhere and with the Government’s commitments to international agreements.
An SAI may also consider whether Government monitoring of departments’ environmental management systems and reporting of environmental performance make them sufficiently accountable to the legislature and the public for meeting key performance targets. The SAI could undertake an audit to identify the level of performance and reasons for non-achievement of targets.

(v) Evaluating Proposed Policies and Programmes

According to the Netherlands Court of Audit’s 1995 survey of SAIs, few conduct evaluations of proposed environmental policies or programmes. In its subsequent discussion paper presented at XV INCOSAI, the Court of Audit added that SAIs were generally reluctant to have their role extended into this area. This reluctance is understandable because in such situations – where the audit criteria themselves (i.e. environmental statutory requirements) may become the subject of the evaluation – risks may be posed to the SAI if its conclusions are not perceived to be based on fact, or if they appear to reflect a particular ideology.

Nonetheless, in certain situations it could occur that SAIs may be called upon to provide information on proposed policies or programmes to their legislatures. This may occur, for example, where a national legislature re-focuses its attention from the question, “Is the programme operating in conformance with its statutory requirements?” to the more basic question, “Do the underlying statutory requirements themselves need modification to make the programme more cost-effective or to improve it in other ways?” Under these circumstances, it may request the SAI to analyse alternative proposals under consideration.
263. Generally, such work poses both challenges and risks. In particular, analyses of proposed policies or programmes may sometimes require skills outside those normally associated with auditing disciplines. For example, assessments of the cost and benefits of proposed environmental regulations often require the skills of an economist. In such situations, the SAI may need to hire individuals with the requisite skills, or it may find it more cost-efficient to seek the services of an outside consultant.

264. A third alternative may be to convene a panel of experts. Such panels, which may include experts from industry, government, and environmental organisations, have been used by some SAIs to help in identifying environmental audit priorities, developing audit approaches on specific issues, and collecting information.

265. Even with these added skills, the nature of such analyses does carry additional risks to the SAI, particularly if it is viewed as taking sides in debates over matters of policy. The SAI may consider the following alternatives to minimise such risks if it is asked to provide information on alternative policy directions:

- **Provide factual information rather than judgments**
  It is less controversial, and more in line with the traditional roles of SAIs, to provide factual and analytical information on the impacts of alternative policy directions rather than recommend a specific alternative action.

- **Identify consensus among experts**
  A consensus of expert opinion on a complex or controversial proposal can provide valuable support for an SAI’s conclusions and recommendations.

- **Evaluate and comment on analysis of other organisations**
  It is often risky for the SAI to evaluate proposed policy alternatives if its analyses involve speculative assumptions about such matters as future rates of economic growth, or about technical factors such as how ecosystems
respond to various pollution-related stresses. However, other organisations often perform these analyses, and typically report their methodologies and underlying assumptions along with their findings. Rather than having to defend its own assumptions (and potentially leaving itself open to the criticism that its assumptions were made subjectively), the SAI may find it more useful to evaluate these other studies’ assumptions, findings, and conclusions.

♦ **Decline the request**

In unusual circumstances, the SAI may find it necessary to decline the request if the risk is viewed as unacceptable. As a practical matter, however, the SAI can usually find ways to at least partially satisfy the information need without undue risk.
3. ESTABLISHING TECHNICAL CRITERIA

Introduction

301. A key concern for SAIs in carrying out environmental audits is determining the technical criteria against which the audited entities’ disclosures or performance will be assessed. An SAI faces significant risk if it uses criteria which are wrong or considered to be biased. It therefore needs to take care to ensure that the chosen criteria will be generally accepted as relevant, complete, and understandable.

302. This section sets out some of the factors that an SAI should consider when deciding on the technical criteria for an environmental audit. It suggests potential sources of criteria for each type of audit and how the SAI might minimise the risk of adopting inappropriate criteria.

Framework Approach

303. Consistent with the framework approach adopted at XV INCOSAI to defining “environmental auditing”, a framework basis is considered to be the best way to guide an SAI in establishing the technical criteria needed to carry out an environmental audit. The essential elements of the framework are summarised in Annex 2.

304. The two axes of the establishment framework are:
   ♦ The type of audit to be performed.
   ♦ The purpose and sources of the criteria.

305. The types of audit are (as already identified):
   ♦ Regularity Audit, comprising:
     • Financial Audit; and
     • Compliance Audit.
   ♦ Performance Audit.

306. The purpose and sources of the criteria are determined by the type of audit and, hence, the broad audit objective. So far as authoritative
sources of criteria are available they should be used in preference to non-authoritative sources.

307. While different types of audit are recognised they do not necessarily have to be carried out separately. A compliance audit in particular could form part of either a financial audit or a performance audit.

308. Sources of criteria are of two kinds:

♦ **Authoritative** – which gives the auditor certainty as to the acceptability of the criteria as a sound basis for an audit.

♦ **Non-authoritative** – which gives rise to a risk for the auditor about the acceptability of the criteria as a sound basis for an audit (see paragraphs 325-329).

309. A financial or performance audit may need to be based on criteria from both authoritative and non-authoritative sources. A compliance audit ought not to be based on criteria from a non-authoritative source on the assumption that the audited entity is not obliged to comply with them.

**Financial Audits**

**Purpose of the Criteria**

310. The purpose of the criteria for the environmental aspects of a financial audit is to enable the auditor to establish whether the reporting entity has appropriately recognised, valued and reported environmental costs, liabilities (including contingent liabilities), and assets.

**Authoritative Sources of Criteria**

311. An authoritative source of criteria is one which falls within the meaning of “generally accepted accounting practice” (or its equivalent term) in the jurisdiction in which the entity is reporting.

312. Sources could include:

♦ Mandatory standards issued by an authoritative standard-setting body.
Non-authoritative Sources of Criteria

313. Subject to an assessment of the risk, a non-authoritative source of criteria can be any source that the auditor considers appropriate for the purpose.

314. Such a source could include:
   - Guidance issued by a relevant professional body.
   - Academic literature.

Compliance Audits

Purpose of the Criteria

315. The purpose of the criteria for an environmental compliance audit is to enable the auditor to establish whether the entity has conducted the environmental activity in compliance with all applicable obligations.

Authoritative Sources of Criteria

316. The term “obligation” for this purpose has its ordinary meaning of something with which the audited entity must comply. It may be a direct legal obligation or an obligation arising from a duty to comply with the policy of a superior executive authority.

317. Authoritative sources could therefore include:
   - National laws – Acts of the legislature and any regulations, rules, orders etc made under an Act and having the force of law.
   - Supranational laws – such as legislation enacted by organs of the European Union.
   - International agreements – such as treaties with other jurisdictions and United Nations Conventions.
   - Binding standards (including techniques, procedures, and qualitative criteria).
   - Contracts.
   - Policy directives.
Performance Audits

Purpose of the Criteria

318. The purpose of the criteria for an environmental performance audit is to enable the auditor to form an opinion on either or both of:

- The validity of the performance indicators used by the entity when publicly reporting its performance in conducting the environmental activity.
- Whether the entity has conducted the environmental activity in an effective, efficient, and economical manner consistent with-
  - the applicable governmental policy; and
  - any other factors affecting the conduct of the activity over which the entity had no control.

Authoritative Sources of Criteria

319. In what is still a developing field of management and audit, authoritative sources of criteria may be few or non-existent. Possible sources could include:

- Performance indicators of effectiveness, efficiency, or economy that are –
  - prescribed by law; or
  - specified in the official governmental policy for the activity; or
  - otherwise mandatory on the entity.
- Generally accepted standards issued by a recognised body.
- Codes of professional practice issued by a recognised body.

Non-authoritative Sources of Criteria

320. As with a financial audit, subject to an assessment of the risk, a non-authoritative source of criteria can be any source that the auditor considers appropriate for the purpose.

321. Such a source could include:
Performance indicators or measures used by similar entities or other entities engaged in similar activities.

- Academic literature.
- Outside experts.
- The SAI itself.

Minimising the Risk to the SAI

322. The special risk that an SAI faces in conducting an environmental audit is that the criteria it has used are:

- inapplicable; or
- inappropriate; or
- biased.

323. Criticism of the SAI on any of those grounds could come from a number of directions – the most likely of which are the audited entity and bodies or persons having a professional interest in the subject of the audit.

324. The best defence to criticism from the audited entity is, of course, to obtain the entity’s agreement to the criteria before the audit is begun. However, in seeking agreement the SAI must take care to ensure that its independence is not compromised as a result of omitting or modifying criteria against its better judgment. If the entity refuses to agree to any criteria, the SAI has to be especially certain that the criteria it is using are defensible.

325. The greatest area of risk for the SAI will come from using non-authoritative sources of criteria. For example, when drawing on academic literature, the auditor should take all reasonable steps to search out everything that is available and verify the credentials of the authors.

326. The same approach should be applied to outside experts. If practicable, a panel of expert advice is better than advice from one person. In addition, expert advisers should be seen to be free of possible conflict of interest with the audited entity. Conflict could be perceived as a result of, for
example, a past unsatisfactory association with entity, publicly expressed views that are contrary to those of the entity, or association (past or present) with a ‘competing’ entity. (See also paragraphs 138-140.)

327. The final test for the chosen criteria is that (like all audit criteria), they are objective rather than subjective. Matters for subjective judgment are the preserve of those who have ‘political’ responsibility for the outcome.

328. The auditor’s judgment should be exercised so as to match the criteria chosen for the audit with the objective characteristics that the performance indicators being used by the audited entity should have:

Relevance

♦ A performance indicator is relevant when it:
  • Reflects a statutory or other performance obligation, or a performance objective agreed between the entity and its stakeholder(s). That is, the indicator relates to achieving a particular function or task or output or outcome that the entity is expected to achieve
  • Provides information about achieving a particular function or task or output or outcome that meets the needs of someone who can reasonably be expected to use it – a stakeholder in the entity (such as the responsible minister, members of the legislature, taxpayers and others who contribute to the entity’s resources); an analyst; a representative of the news media.

Understandability

♦ A performance indicator is understandable when it is clearly expressed so that:
  • Its meaning is unmistakable.
  • Its rationale is recognisable.
Reliability

♦ A performance indicator is reliable when it:
  ▪ Faithfully represents a measurable characteristic of performing the function or task or output or outcome.
  ▪ Is made up of information that can be independently verified against appropriate evidence.
  ▪ When necessary, is capable of consistently producing results that are comparable over time.

329. Not every performance indicator has to be relevant to, or understood by, every user.

330. The audit criteria should ensure the completeness of the performance indicators used. When an entity is managing and reporting on its performance, it should use as many performance indicators as are required to reflect (as appropriate):
  ♦ All of its significant activities.
  ♦ All material aspects of each significant activity.
  ♦ All of its statutory or other performance obligations and agreed performance objectives.
ANNEX 1
EXAMPLES FROM PERFORMANCE AUDITS

AUDITING GOVERNMENTAL MONITORING OF COMPLIANCE WITH ENVIRONMENTAL LAWS

Example No. 1

In some cases, the SAI may need to use a combination of methods to obtain the required information. In the United States in 1993, in an audit entitled Drinking Water: Key Quality Assurance Programme Is Flawed and Underfunded (GAO/RCED-93-97), GAO staff used a written survey to gather basic information from all 50 states, such as the frequency in which inspections of drinking water supply systems were conducted, and the kind of information sought by inspectors.

However, to gather more detailed information about states’ performance, and about the underlying causes of performance problems, GAO staff selected four states for detailed review. In each of the four states, GAO first interviewed key state and water system staff. GAO then examined 50 randomly-selected inspection reports contained in the states’ files to obtain first-hand information concerning the safety and reliability of the water systems.

Example No. 2

In 1990, the United States General Accounting Office (GAO) undertook an audit of a programme, authorised by statute, which aims to ensure the safety of public drinking water supplies. The GAO performed a detailed examination of how the Environmental Protection Agency (EPA) and a sample of six states were implementing key programme requirements. These requirements addressed:

- whether public water systems adequately monitor their supplies to ensure they are free of contamination;
- whether state regulatory agencies detect and report to EPA violations of water quality standards;
- whether these state agencies enact fines or other penalties against violators;
- how effectively EPA oversees the entire programme.
GAO made a series of recommendations to ensure that water system operators are properly trained and certified; to improve states’ ability to detect violations; and to ensure that states and EPA impose fines or other penalties against violators when required by regulations.

**Example No. 3**

Estonia’s State Audit Office (SAO) audited the Ministry of Environment’s adherence to the Law on Sustainable Development. This law requires long-term programmers to be established to deal with environmentally sensitive issues so that economic activities are balanced against environmental and social concerns. After examining the programme plans prepared by the Department, the SAO concluded that the main objectives of these programmers were not always sufficiently specified; budgets covering the programmers as a whole had not been prepared; financing schedules and sources were not specified; and issues relating to the progress and effectiveness of the programmers were not sufficiently elaborated. The SAO recommended that the Ministry establish more precise objectives, as well as corresponding time schedules and sources of financing. The SAO also recommended that the Ministry of Finance should accelerate the development of rules for drafting, approving and financing state programmers. *The activities of the Ministry of Environment in drafting and implementing programmers on environmental protection. (No. 10-12/31).*

**Example No. 4**

In 1997, the European Court of Auditors examined the implementation, by the Commission and the Member States, of the Community’s urban waste water treatment Directive. This Directive aims amongst other things, for the progressive reduction and control of urban generated water pollution to commonly accepted levels for all European countries. The Court has audited in the same context the grants paid to the Member States which were used to finance related programmers and projects. Within this context, approximately
40,000 sewage stations have to be constructed or improved to meet the new quality standards imposed by this legislation.

**Example No. 5**

In its report entitled *Superfund: Backlog of Unevaluated Federal Facilities Slows Cleanup Efforts* (GAO/RCED-93-119), the GAO used data from the Environmental Protection Agency’s (EPA) Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) to provide comprehensive information on the status of hundreds of federal hazardous waste facilities. Based on this information, GAO concluded that EPA had completed only 500 of 823 required evaluations of potential contaminated facilities, and that the clean-up of potentially dangerous sites had become seriously backlogged.

**Example No. 6**

In its report *Water Pollution: Greater Environmental Protection Agency (EPA) Leadership Needed to Reduce Non-point Source Pollution* (GAO/RCED-91-10), the GAO found that monitoring data on the extent of pollution from agricultural run-off and other diffuse sources, while incomplete, was nonetheless sufficient to derive meaningful conclusions and budgetary recommendations.

The GAO found that the limited EPA data that was available – coupled with a strong scientific consensus – supported the conclusion that non-point source water pollution accounted for the largest share of remaining water quality problems in the United States. GAO relied on this finding – together with findings that:

♦ little progress had been made in addressing non-point source pollution nationwide, and

♦ a very small share of the federal resources devoted to water quality problems was targeted toward non-point source pollution.

The GAO was able to recommend that the Congress re-orient the EPA’s water quality budget to provide greater emphasis on controlling non-point source water pollution.
Example No. 7

In similar fashion, the United Kingdom National Audit Office (NAO) sought to bring together and analyses data on river water quality from regional offices of the National Rivers Authority. This was very difficult due to differences in the bases for the regions’ data. However, it did bring out the finding that there was scope for improvement of water quality on a quarter of river lengths, which strengthened other findings regarding the need for maintaining the level of prevention work of the Authority and targeting it at the highest risks. (*National Rivers Authority: River Pollution from Farms in England*, HC 235, 1994-95)

AUDITING THE PERFORMANCE OF GOVERNMENT ENVIRONMENTAL PROGRAMMES

Example No. 8

In 1997, an audit by Canada’s Office of the Auditor General (OAG) examined the effectiveness of the regime established by the federal government to control the import and export of hazardous waste shipments. The focus of the audit was on the extent to which Canada has implemented the requirements of the Basel Convention, to which it was a signatory in 1992. (*Control of the Trans boundary Movement of Hazardous Wastes – October 1997*)

Example No. 9

The United Kingdom NAO examined several policy instruments used by the Department of the Environment to reduce the environmental impact of office and domestic buildings. These included the setting of regulations to be met by the construction industry, grants to householders to help them improve the insulation of their homes, and guidance and assistance to other government departments on how to reduce energy consumption and use more environmentally preferred materials in their buildings. In this case no attempt was made to assess the overall effect of the many instruments examined, although it may have been
possible to add up their estimated impact on energy use and CO₂ emissions. (*Buildings and the Environment, HC 365, 1993-94*)

**Example No. 10**

The United Kingdom NAO examined, despite the relatively small amount of public expenditure involved, Government grants which seek to facilitate a transfer of freight from the roads to rail or inland waterway in order to achieve environmental benefits. The grants meet part of industry’s costs of investment in equipment for rail and inland waterway freight. The audit found that the grants were not being fully taken up by industry, and that the quantity of freight carried by rail and inland water continued to decrease. It went on to identify reasons for this and suggested ways in which the grants could be administered with greater flexibility to meet industry’s needs better and achieve the environmental benefits. (*Freight Facilities Grants, HC 632, 1995-96*)

**AUDITING THE IMPACTS OF OTHER GOVERNMENT PROGRAMMES**

**Example No. 11**

The United Kingdom NAO audited how the Department of Transport assessed the environmental impact of road building projects. The Department’s assessments were reviewed against the statutory requirements implementing the European directive on Environmental Impact Assessments (85/337/EEC) and against best practice. The examination identified the need to appraise further the global and cumulative effects of road building; improve assessment of certain impacts; and improve the quantification of the costs of environmental impacts. (*Environmental Factors in Road Planning and Design, HC 389, 1993-94*)

**Example No. 12**

As part of an audit of the use of land by the military, the United Kingdom NAO contacted conservation and environmental bodies to identify their views of the environmental impact of the Ministry of Defence’s use of army training lands.
and the measures they take to protect the environment. The examination set out
the nature of the competing claims on the use of the land. (Management and
Control of Army Training Land, HC 218, 1991-92)

Example No. 13

In its examination of the impact of road building the United Kingdom NAO
assessed the Government’s approach to incorporating measures to alleviate
environmental damage in the design of new roads. It showed that more research
was required on the effectiveness and cost of the range of measures available.
(Environmental Factors in Road Planning and Design, HC 389, 1993-94)

AUDITING ENVIRONMENTAL MANAGEMENT SYSTEMS

Example No. 14

In Canada, the OAG looked at a variety of private sector and federal
organisations, and developed a questionnaire for assessing Government
environmental management systems. (Environmental Management Systems: A
Principle-based Approach, Volume 2, Chapter 11, 1995)

Example No. 15

An audit in 1996 undertaken by the Austrian Court of Audit identified a need to
survey the environmental risks associated with the activities of the country’s
Federal Railway Company. The audit also indicated a need to identify corrective
measures; to establish priorities among these measures; and to identify their
associated costs. (Austrian Federal Railway Environmental Strategy (especially
in the area of noise reduction) 1996)

Example No. 16

In the United States the GAO has undertaken work to examine the benefits from
undertaking systematic and comprehensive environmental performance reviews
and the potential for Government to benefit more from this approach.
(Environmental Auditing: A useful tool that can improve environmental
performance and reduce costs, (GAO/RCED-95-37), April 1995)

Example No. 17
The United Kingdom NAO examined the performance of several Government departments in maintaining and conserving buildings in current use but which were also of historic interest. The examination drew attention to the need for the Government to play its part in maintaining buildings which are part of the nation’s heritage. The examination underlined the importance of undertaking full condition surveys, keeping up-to-date databases on the state of repair of the buildings, and carrying out maintenance to prevent deterioration.
(Upkeep of Historic Buildings on the Civic Estate, HC 37, 1991-92)

Example No. 18
In the United Kingdom the Government has set targets for energy efficiency for all government departments and agencies. The NAO reported early performance against these as part of a wider study. More recently the Government has itself reported performance against the targets so no further follow-up work has been required. (Buildings and the Environment, HC 365, 1993-94)

EVALUATING PROPOSED POLICIES AND PROGRAMMES

Example No. 19
In the United States, the GAO has in recent years has been asked to provide analysis and suggestions on how resources can be better focused on those environmental problems which pose the greatest risk to human health and the environment. One example is its report Environmental Protection: Meeting Public Expectations With Limited Resources (GAO/RCED - 91-97), which concluded that the goals of the nation’s most important environmental programmers were being largely unmet; and that a major reason was that available funds were not being targeted effectively to address the most serious problems.

The report cited a consensus among nationally recognised environmental experts from business, government, and other groups, obtained at a GAO-sponsored
symposium that the Environmental Protection Agency’s (EPA) funding priorities were based more on public misperceptions about the risks posed by different environmental problems than on scientific assessments of these risks. Among other things, the report recommended that the Congress and EPA work together to:
- identify opportunities to shift resources from problems of less severe risk to problems whose risks are greater; and
- initiate activities to educate the public about relative environmental risks.

**Example No. 20**

In 1997, South Africa’s Office of the Auditor General completed an audit of the central government’s role regarding sea fisheries, which addressed financial reporting, compliance, performance and environmental management systems. The audit team concluded that, especially in the case of financial and performance reporting, national legislation and policies needed to be improved.
### ESTABLISHING TECHNICAL CRITERIA FOR ENVIRONMENTAL AUDITS

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<thead>
<tr>
<th>Type of Audit</th>
<th>Financial</th>
<th>Compliance</th>
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<tbody>
<tr>
<td><strong>Purpose of the criteria</strong></td>
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<td><strong>Sources of the criteria</strong></td>
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<td><strong>Authoritative (=&quot;certainty&quot;)</strong></td>
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<td>i. Any source falling within the meaning of &quot;generally accepted accounting practice&quot; (or its equivalent term) in the jurisdiction in which the entity is reporting. Sources could include:</td>
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<td>♦ Standards issued by some other recognized body.</td>
<td>♦ Laws.</td>
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<td>♦ International standards issued by a recognized body.</td>
<td>♦ Official government policies.</td>
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<td></td>
<td>♦ Agreements (such as treaties with other jurisdictions and united Nations Conventions).</td>
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SPEMP-B : Strengthening the Office of the Comptroller and Auditor General