



# INTOSAI

## Performance Audit Subcommittee

### Selecting performance audit topics

#### 1. Introduction

This paper aims to assist Supreme Audit Institutions (SAIs) in selecting audit topics. As SAIs operate differently, the intention is not to prescribe, but rather to share good practices in an effort to develop uniform processes across SAIs based on INTOSAI standards and guidelines.<sup>1</sup>

This document provides an overview of the strategic and annual planning processes for performance auditing. It suggests criteria to be used during the selection of audit topics and assists with the prioritisation of the identified audit topics. The proposed scoring matrix is an analytical tool and should assist the performance auditor in the selection of an audit topic; however, it should not discourage the auditor from using professional judgement to make the final decision on an audit topic.

#### 1.1 Overview

The first step in the performance audit process is deciding what to audit from the myriad of government activities. Performance auditing should be directed towards areas where an external, independent audit may support the oversight function in promoting accountability, economy, efficiency and effectiveness in the use of public resources.

The aim is to select audit topics that are significant, auditable and reflect the SAI's mandate. Ideally, a performance audit should provide knowledge that would lead to important benefits for public finance and administration, the audited entity, and the general public.

Aside from legally mandated audits, performance audit topics should be selected based on the risk assessment and significance (financial, social and/or political significance) of the topic, focusing on the results of applying public policies. The selection process should aim to maximise the impact of the audit while considering audit capacities.

Performance audit topics should be chosen without outside pressure. The SAI must maintain its political neutrality. The SAI's independence does not preclude the executive's proposing matters for audit. Nevertheless, to maintain its independence the SAI must be able to decline any such request.

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<sup>1</sup> Some of the content in this paper is derived from ISSAI 3000 and ISSAI 3100 as well as from the Auditor-General of South Africa's Performance Audit Manual, 2008.

## 2. Strategic planning

A strategic plan documents the main direction of the SAI's performance auditing. It covers several years and involves the selection of topics, programmes or themes to guide the audit. The surrounding environment should be monitored as it is essential for the meaningful planning of future activities. Since conditions constantly change, management will have to review its priorities periodically to ensure that it stays relevant.

### 2.1 The strategic orientation and prioritised topics

Strategic planning is a useful tool for deciding the long-term priorities and general orientation of performance auditing. It helps select main topics for auditing (audit themes). The selection criteria are typically the audit's primary contribution to the assessment and improvement of the functioning of government and its entities. Some other general selection criteria are:

- **Added value:** When the prospect of a useful audit of good quality is high and the policy field or subjects have not significantly been covered by earlier audits, the audit provides greater added value. Adding value is to provide new knowledge and perspectives.
- **Material problems (problem areas):** Where the risk of negative consequences in terms of economy, efficiency and effectiveness or public trust is greater, the problems tend to be more important. For instance, a problem may be judged important or material if knowledge about it would be likely to influence the user of the performance audit report.
- **Risks or uncertainties:** The following factors may indicate a high risk and thus higher potential impact:
  - Substantial financial or budgetary amounts or significant changes in the amounts (the monetary aspect is representative - it must not be the main factor in selecting the performance audit topic)
  - Areas traditionally prone to risk, such as procurement or health
  - New or urgent activities or changes in conditions
  - Complex management structures and confusion about responsibilities
  - Lack of reliable, independent and updated information on the efficiency or effectiveness of a government programme.
- **Materiality/political actuality or other strategic considerations:** Some SAIs may choose topics based on strategic choices rather than selection criteria (including the type of performance audit, policy spheres, relationship with reforms within the public sector). Sometimes these strategic choices reflect constitutional and legal conditions and established traditions. They may also reflect 'political realities' (certain topics are not expected to be subject to auditing).

## **2.2 The strategic planning process**

The significance of wider performance audit areas incorporating government's overall and primary objectives will be established by analysing and understanding government's policies, strategies, budgets and statements to identify critical aspects of policy implementation.

A proper consultation process forms the basis of understanding government's policies and priorities. This can involve appropriate stakeholders in government such as relevant ministers, portfolio committees (national assembly bodies that process legislation and have oversight of the departments mentioned in the title of the committee, such as health, education, housing, etc.), accounting officers, external experts and others. This consultation process should inform the decision on appropriate strategic and cross-cutting/transversal performance audit topics. Desk research of various kinds is also needed.

The strategic planning process will be achieved by:

- Environmental scanning relevant to performance audits
- Constantly reviewing the wider performance audit areas for relevance
- Facilitating a wider consultation process to obtain inputs from relevant stakeholders in government
- Maintaining planning methodology for risk analysis and reporting
- Identifying internal and external subject matter experts.

## **3. Annual planning**

The annual plan has a more operational character than the strategic plan. It involves selecting topics to be initiated or audited during the coming year and is based mainly on monitoring and strategic planning. This plan deals with resource allocation, decisions on pre-studies and other issues related to planning individual audits.

The process of selecting audit topics is crucial. The impact of the audit depends largely on the audit topic, so great effort should be put into this process.

### **3.1 Identification of audit topics**

The performance auditor should consider the entire audit sphere to identify several possible performance audit topics and select the most important. The following should be done to identify topics:

- The public sector environment should be scanned each year and relevant sources of information should be inspected, for example:
  - Standing Committee on Public Accounts' resolutions
    - Parliament's Standing Committee on Public Accounts refers to a ministerial committee providing oversight of government departments' accounts and performance.
  - The President's State of the Nation Address

- A speech from the president that marks the opening of the parliamentary year, usually attended by important political and governmental figures (also referred to as State of the Union Address, State Opening of Parliament, etc).
  - The Millennium Development Goals
    - United Nations' Millennium Development Goals are the eight international developmental goals.
  - National budgets and guidelines
  - Other related policy documents
  - Global developments such as the themes identified by INTOSAI
  - Media, including news, articles, concerns raised by the public in other fora.
- Internal discussions to debate and assess the risks associated with possible topics should take place within the SAI. The performance auditor should engage with other performance, regularity, financial and compliance auditors within the SAI to identify possible audit topics.
  - External stakeholders should be consulted. Relationships should be built with external stakeholders and frequent interaction should take place to identify and discuss possible audit topics. Inputs on topics may be obtained from relevant role players in government, subject experts and the departments' internal auditors.

### 3.2 Criteria for the evaluation of possible audit topics

Audit topics should be evaluated against qualitative aspects to determine whether the topics are significant. The following criteria are examples of aspects that should be considered when identifying topics. The relative importance of each criterion will depend on the unique circumstances in each country.

**Table 1: Selection criteria**

	Criteria	Factors
1.	Materiality	Is the topic important to government/the public/the audited entity (national priority) and does it involve a critical area?
2.	Public accountability	Will responsibility be taken/is the topic capable of being explained?
3.	Possible impact	Will the topic have a powerful effect on enhancing the economy, efficiency and effectiveness of government undertakings?
4.	Improvement	Will the audit lead to improvements in government?
5.	Legislative or public interest	Will the topic address a legal concern or be to the advantage of the community?
6.	Risks to the SAI	Will the topic present a risk (strategic or reputational) to the SAI?
7.	Departmental issues	Will subjects of departmental concern be addressed by the topic?

	Criteria	Factors
8.	Relevance	Does the topic have some bearing on, or importance for, real world issues, present day events or the current state of society?
9.	Auditability	Can the topic be audited/is it practical to audit? Does it fall within the legal mandate of the SAI?
10.	Timeliness	Is this the right or appropriate time to audit the topic?
11.	Previous audit work	Has the topic been audited in the past?
12.	Other major work planned or in progress	Is other work being planned or done on the topic?
13.	Developments likely to affect assessment	Are there any events or processes of change that would probably affect the assessment (refers to the assessment as described below)?
14.	Request for performance audits	Have any special requests been made for performance audits to be done? Consideration should be given to the source of the request to determine the importance thereof, e.g. requests from parliament versus request from a department.
15.	High political sensitivity	Does the topic involve a delicate subject that is of governmental concern?

### 3.3 Prioritising audit topics

After identifying various audit topics, the performance auditor needs to select specific topics for performance auditing. The audit topics can be prioritised using an assessment in the form of a scoring matrix. The following questions can be asked and scored to obtain an overall score on each topic.

**Table 2: Scoring matrix**

	Area	Question	Description
1.1	Internal assessment	Are there areas of such high risk nature/great importance that it needs to be audited frequently?	Identify areas where frequent audits are necessary due to the high risk nature/great importance of the topic and determine the potential improvement that the audit could have on the government and, as a result, on the general public.
1.2		Has this specific topic, area or entity been recently performance audited?	Determine whether the topic or the entity to be audited has featured in earlier audit reports. The longer the period since the topic/entity was last addressed in an audit, the higher the potential impact.

1.3		Is internal evidence indicating deficiencies at the entity available to the performance auditor?	To substantiate the relevance of the topic, determine whether internal evidence, such as findings from previous audit reports and management reports, is available to confirm that shortcomings exist at the entity.
2.1	External assessment	Does the topic have an economic and/or social impact and does it affect a large section of society?	Establish whether the topic has: <ul style="list-style-type: none"> <li>• a positive impact on the reputation/status of the SAI;</li> <li>• a special interest at legislatures;</li> <li>• an impact on a large section of the public;</li> <li>• a social impact;</li> <li>• an economic impact; and/or</li> <li>• stakeholders' interest.</li> </ul>
2.2		Does the topic relate to cross-cutting areas across different spheres of government?	Determine whether the topic shares issues across the different areas and levels of government.
2.3		Does Parliament or the public have a special interest in this topic?	Verify whether information on the topic will be to the advantage of Parliament or the community.
2.4		Are there known problems on this topic or is performance low?	Where working effectiveness is not satisfactory, determine whether there are recognised problems in the area covered by the topic.
3.1	Specific matters	Was or is major public investment or expenditure involved?	Establish whether the community has invested substantially in the topic or whether the topic has entailed considerable cost.
3.2		Has the timing of the audit been considered, including tabling the report in the relevant legislature?	Determine whether the topic will be audited and the final report tabled/presented at a relevant time considering the feasibility and the impact of the audit topic.
3.3		Has the availability of information or auditable data been considered?	Ascertain whether information and data/records will be available for audit.
3.4		Does the topic have stakeholder buy-in?	Without threatening the SAI's independence, establish whether there is support to audit the topic from external stakeholders, such as the entity to be audited and the Standing Committee on Public Accounts (Parliament's oversight committee over departmental accounts and performance).

Each topic identified should be assessed and all factors included in the assessment should be measured/scored in a scoring matrix<sup>2</sup>. The total scores should be indicative of the priority of the performance audit.

<sup>2</sup> Annexure A provides an example of the scoring matrix.