INTOSAI
Performance Audit Subcommittee - PAS

Safeguarding quality in the performance audit process

1.   Introduction

The credibility and effectiveness of Supreme Audit Institutions (SAIs) is highly influenced by the extent an SAI can establish and maintain a high level of quality in its audit products. INTOSAI has therefore issued ISSAI 40 'Quality Control for SAIs' in September 2010. ISSAI 3000 'Implementation guidelines for Performance auditing' and ISSAI 3100 'Performance audit guidelines; key principles' also offer SAIs guidance as to ensure quality in performance auditing. This document builds upon those standards and makes them concrete by sharing good practices.

The INTOSAI Standards state that the SAI should establish systems and procedures to ensure that audits are conducted in accordance with relevant policies. The head of the SAI is responsible for the set and functioning of the overall quality framework (from recruitment, to planning, reporting and ex post control). The audit manager is responsible for the day-to-day management of the audit and the quality of the audit work. In this paper we describe both the organisational aspects of ensuring quality: i.e. the quality framework in place, and quality control at engagement level.

2.   Quality framework

The ISSAI 40 outlines the elements of a system of quality to be leadership, relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance and monitoring.

Leadership

Important to the quality system is that top management of the SAI develops and communicates a vision on quality of performance audit work and describes how it ensures that the organisation operates according to that vision. Top management should strive to achieve a culture that recognises and rewards high quality work.

Ethical requirements

Fundamental principles of professional ethics are integrity, independence, objectivity and impartiality, professional secrecy and competence. The quality framework should cover how the organisation ensures that the employees comply with those (and other) ethical requirements:

- Employees may receive a booklet that contains the Code of Ethics and sign an annual *Statement of Independence* stating that they have no personal or external impairments.
- Financial interests can be identified by filing an annual *Financial Disclosure report*
- Employees may be obliged to report to their Manager when seeking employment at the entity being audited or have to obtain his or her approval to engage in outside activities
- New employees may have to take an oath or a pledge in which they declare to act according to the fundamental principles of professional ethics.

Acceptance and continuance of client relationships and specific engagements

Key element is that SAIs should only carry out audits where the SAI is competent to perform the work, has the capabilities, can comply with relevant ethical requirements, and has considered how to treat the risks to quality that might arise. SAIs addresses these issues in the audit proposal.

Human resources

Of the most importance is sufficient resources and ability to engage staff with the right competence and profile, including having an audit manager experienced in coaching performance audit teams. To be effective recruitment and training call for a clear understanding of the desired knowledge and skills needed. For performance auditing one has to be familiar with methods in social science; more specifically methods with regard to effectiveness and efficiency. Other skills are also valuable, for instance reporting and presentation skills. Many SAIs have an introduction-training programme. SAIs must assure that all employees keep their professional skills up to date. If human resources and/or financial availability are not enough, the quality of the audit process might be compromised.

Engagement performance

An SAI should establish policies and procedures to safe guard that its performance audits are carried out in accordance with standards and good practices. In section 3 examples are listed.

Monitoring, inspection and reviews

One cannot take a quality system for granted. Describing procedures and policies is step one. Checking whether procedures and policies are working effectively is an indispensible next step. SAIs set up different kinds of arrangements: At the engagement level several SAIs have arranged that audit products in different stages of the audit require a signature of certain officials before the next stage of the audit can begin. Some SAIs have 'case managers' allocated to each audit; performance audit experts that provide support to audit teams during the whole audit. At the organizational level several SAIs have a separate unit checking the quality of systems, procedures

and reports. It's also common that *SAIs* have (a sample of) their audit reports reviewed after publication. This could for instance be done through Peer reviews, where other SAIs review the work, or by scientific expert panels.

3. Quality at the engagement level

Many steps and measures are possible to make sure that individual audits are of high quality. In this section the aim is to highlight some important steps in the pre study and the main study that may help to improve the quality of the performance audit work.

3.1 Pre Study and Work Plan

A comprehensive research is needed

Proper research is a key issue at the planning stage. It's often fruitful to achieve both historical and global knowledge. The idea is to look for "red lights" or indication of problems and to explore and learn and to examine whether, when and how to conduct an audit. This is obtained by seeking and examining information from varying sources: from auditee, evaluators, scientists and other experts. Internet is also a useful source. The auditor may have to check a broad spectrum of effectiveness and efficiency issues and examine them from various perspectives in order to define the objectives. A common practice is for instance to whether the systems for internal control at the authorities concerned are reliable and operating well. It may help safeguarding the quality of the audit process.

Various perspectives and approaches have to be examined

Various perspectives and approaches have to be examined, to see whether for instance the issue is of efficiency or effectiveness kind, and whether a result or a problem oriented approach ought to be applied. By talking to stakeholders and experts, by reflecting and brainstorming, applying various models and techniques, the audit team should find ways to define the audit objective and the scope.

Scientists and experts have to be consulted and perhaps engaged

As performance auditors are no experts in the specific audit area it is important to have assistance from independent persons with proper knowledge in the audit area. It might often be scientists or other experts. Also earlier employed managers by the institutions concerned may provide valuable insights. Experts may be engaged as reference persons and support the audit team.

Safeguard that work plan proposals are critically examined

After discussion of the written draft – with team members, colleagues, selected second partners and the audit manager – the draft need to be adjusted in accordance with provided comments.

Some criteria or check list might be of help in this process before the proposed work plan is sent to the decision maker (often the Auditor General) for a final discussion and approval.

Some vital check up issues before the final approval of the Work Plan

- Context and motive: Are there indications of material efficiency or effectiveness problems? Is relevant information examined, are experts consulted, and experiences of stakeholders considered? Is it an auditable topic and in accordance with mandate, policy and priorities?
- Design: Is the problem defined and put in context? Are objectives, audit questions, scope and methods adequate and in accordance with the standards; will the design provide objective and reliable answers to the audit questions and a proper analysis of the problem? Will the audit report and its potential recommendations add value?
- Competence and planning: Is the Audit Office able to conduct the audit; Is sufficient competence at hand and are reliable data and resources accessible? Are quality assurance issues considered? Is the activity plan realistic in terms of time, budget and other resources?

3.2 Main study

Provide auditees with a proper introduction

A good communication with the auditees throughout the audit process is of great importance for the quality and impact of the audit. It starts with an introduction where purpose, methods and process of the audit and required information are presented and discussed.

Involve the auditees and find arguments from various stakeholders

It is important to keep contact persons and management from the auditees well informed. It helps getting things right. Meet various stakeholders and experts and try to understand their perspectives, knowledge, experience and arguments. Follow up on hints and to get statements and arguments reasonable verified. Encourage them to go through your notes, if that might add value.

Be creative in finding evidence

The quality and reliability of data must be checked, but it's seldom possible to get fully reliable and precise information or data needed. It requires analytical thinking and flexibility to find smart solutions in such cases. Overestimated ambitions in trying to find precise data may hamper the quality of any performance audit. It may prove enough with less precise figures or estimations to make a point. However, one must not draw any other conclusion than what is permitted by the data.

A well functioning supervision and well informed management

A continuous communication with the internal management is of vital importance for a proper completion of a qualified report. A schedule for regular meetings should be included in the decision of a work plan and activity plan, not just for checking of budget and time table but also for various issues concerning performance and completion of the audit. An early raised discussion of assumable conclusions and possible recommendations is decisive for agreements on properly conducted analysis before top management decides on the audit report.

Check up issues for supervisor and the management during the audit process

- Does the team follow the activity plan and the adopted methodology in a timely manner?
- Has the team put into practice the correct tools, and are the problems with the data collection?
- Are all relevant perspectives/viewpoints addressed, and are the analyses sufficiently done?
- Do significant disagreements require management engagement?
- Have indications for required change of the audit design appeared?

Carry out focus group meetings

An important part of the analysis is to check findings and preliminary conclusions with representatives from auditee and other stakeholders. This is gained by focus group meetings before any decisions are taken. Focus groups will provide the team with confirmation on collected data or requirement of additional data. Focus groups are also a suitable way for the management to get proper information about the quality of the audit performance.

Use experienced colleagues and second partners within the office

Just as for preparation of work plans a proper use of experiences within the PA function is of vital importance for improvement of drafted reports. This might very well be conducted with given issues for assessment, like methodological issues, reader based issues or logical issues.

Get external examination by scientists and experts

A critical examination by external experts will provide the team with assessment of whether the drafted report is reliable and convincing. This kind of examination might also provide the team with objections and critical arguments that have to be met with as well as assessment of added value of the audit. This examination should be done before the clearance process with the auditee.

Conduct a proper clearance process

Of vital importance for a reliable report – and for impact of the audit – is that there is no arguing from the auditee against collected and compiled findings in the report. This has to be checked by

the audit team in a proper clearance process with the auditee. If there are frequent or extended changes of the report draft, the clearance process might have to be conducted more than once. The audit team should then analyse and discuss the comments from the auditee with the PA manager and conduct adjustments of the draft in accordance with these discussions.

Submit a properly processed report draft to top management

After processing of the drafted report – internally and externally – the audit team submits the draft to top management at the audit office for final examination and decision.

Write a solid and reader based report

The audit report is the product on which the audit function will be judged by external actors. A reliable and balanced report that adds value to the auditee and other stakeholders is vital. The purpose, scope and approach should be clear. Findings should be based on evidence and put in context. All relevant aspects and arguments need to be addressed. The report should be well-founded, complete, accurate, objective, convincing and as clear and concise as possible. The report should be reader friendly, i.e. available for the interested but uninformed reader.

Consider an exit conference and then go through the report again

A proper discussion with the auditee before publishing the report provides an opportunity to discuss and clarify various issues. This may prevent misunderstanding and unnecessary conflicts. It may also facilitate the impact of the audit.

Check up issues for the management before publishing the report

- Is the report understandable and the main messages objective and convincing?
- Are findings reliable, put in context and supported by solid and fair evidence?
- Does the executive summary reflect the tone and the findings?
- Do the conclusions flow logically from the analyses and the findings?
- Are disagreements with auditees or experts or inconsistencies regarding facts analyzed?
- Are the recommendations evidence based, clear and adding value?