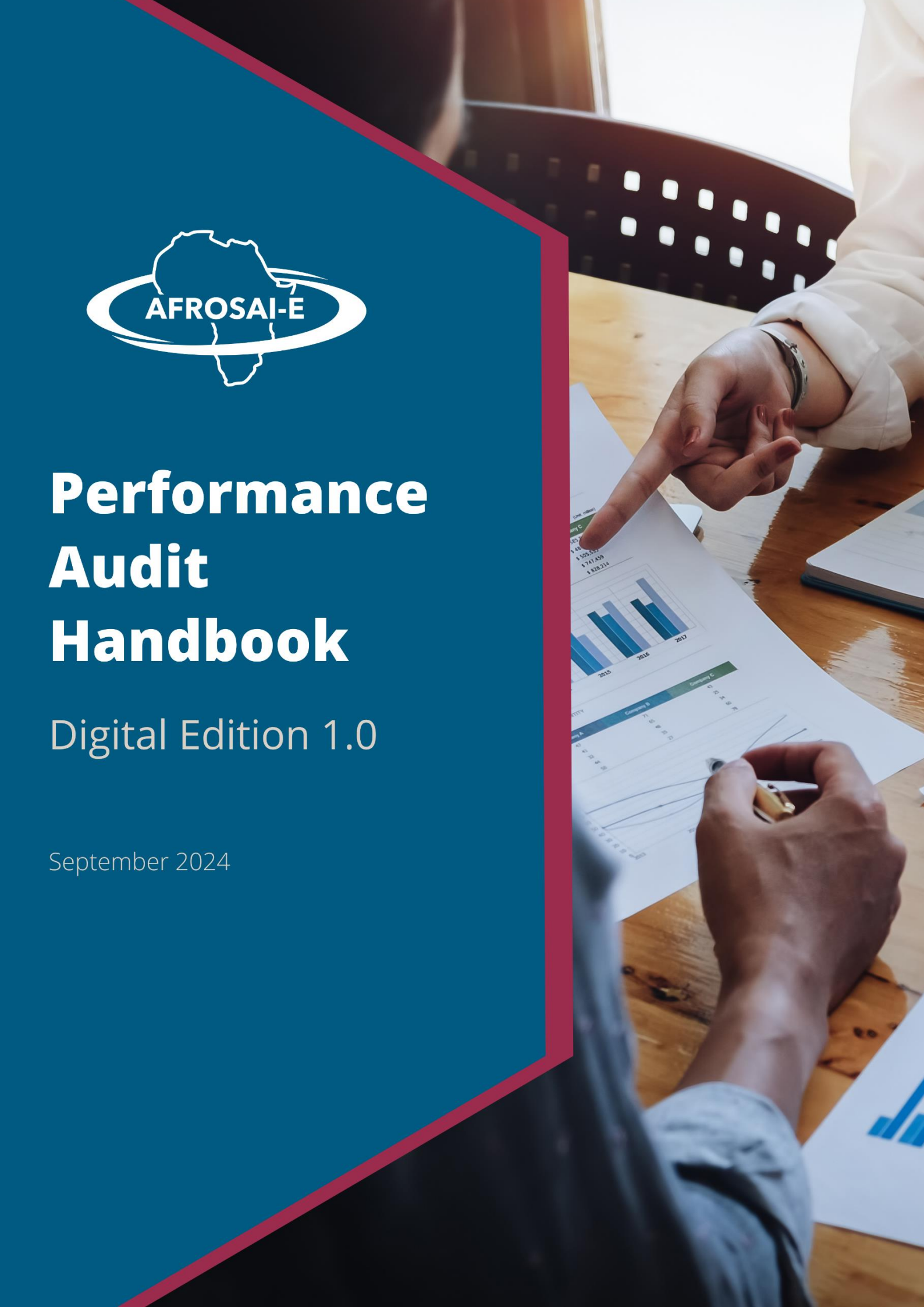

Performance Audit Handbook

Digital Edition 1.0

September 2024

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Preface

It has been more than ten years since the first version of the AFROSAI-E Performance Audit Handbook was issued. There has been a significant development of performance audit in the region during that time. Virtually all Supreme Audit Institutions (SAIs) in the region have now established or are in the process of establishing performance audit functions. Four SAIs are members of the INTOSAI Performance Audit Subcommittee (PAS), in which AFROSAI-E has observer status. Some SAIs in the region have seen a significant increase in performance auditors. AFROSAI-E's view is that performance auditing is now well established in the region, and the time has come to take it to the next level of producing even more impactful performance audit reports that make a difference in the lives of citizens. However, the purpose of this Handbook remains unchanged – to provide a broad learning material for new performance auditors and material that trained performance auditors can consult to refresh their memory on basic performance audit concepts, principles, and methods.

This is the third edition of the Handbook following the exposure draft issued in November 2012. This is called 'Digital edition 1.0', as AFROSAI-E no longer provides a printed version. This also means that rather than updating the Handbook every few years, it can be updated as needed, and a new version can be made available on the AFROSAI-E website. Next time there is a major revision of the Handbook, the new version will be named 'Digital edition 2.0'. If minor updates are made before that, those versions will be named 'Digital edition 1.1', and subsequent minor updates will follow a similar numbering system (1.2, 1.3, etc.). A log with a brief description of each update will be included as an annexe to the Handbook and will be available separately on the AFROSAI-E website. Performance auditors and managers are encouraged to check the log regularly to keep informed about updates.

The Handbook has now been updated to take into account the experiences of using it in the region, the IDI Performance Audit Handbook that was developed in cooperation with PAS, and to modernise its look. The descriptions of SAIs' experiences in the region have also been updated, and a new section on bringing causes into the analysis has been added.

The text has been reworked to clarify some messages, and the flow of information in Chapter 6 has improved. SAIs and individual users are encouraged to submit ideas to the AFROSAI-E Secretariat on further enhancing the Handbook.

The principal author of the first two editions of the Handbook was Mr Lars Florin, former Senior Performance Audit Manager at the AFROSAI-E Secretariat, with contributions from 20 performance audit managers from 16 SAIs in the AFROSAI-E region. This Digital edition has been developed by a core team of current and former performance audit managers at the AFROSAI-E Secretariat, Andrew Kellei (SAI Tanzania) and Lars Florin (SAI Sweden), with inputs from performance auditors from SAIs in the AFROSAI-E region and institutional partners.

MMR Nkau
Chief Executive Officer

Introduction

This Performance Audit Handbook aims to present a holistic perspective on performance auditing in Supreme Audit Institutions (SAIs) in the AFROSAI-E region. It elaborates on the key concepts, approaches and processes in Chapters 1–4. Chapter 5 presents an institutional perspective on establishing and managing a performance audit function in the region. The main body of the Handbook, however, focuses on the main stages in carrying out a performance audit in Chapters 6–9: planning, conducting, reporting, and following up on audits.

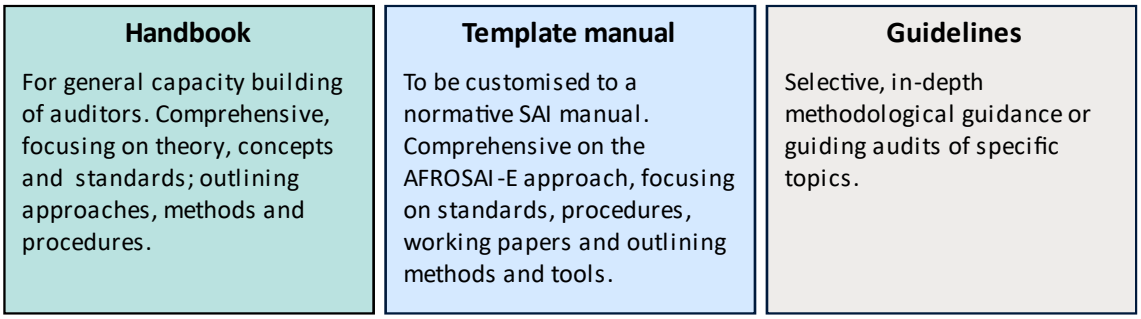
The Handbook is meant to support capacity building and further development of performance auditing in the region. It will be useful as reference material for performance auditors in the AFROSAI-E three-module courses in performance auditing. The intention is that the Handbook shall be easy to read for managers and auditors who have just started to learn about performance auditing. It should also be possible for more experienced managers and auditors to use the Handbook as reference material on the basic concepts, processes and methods used in performance auditing.

Learning to conduct performance audits is like learning how to drive a car: Just as you need knowledge from books on driving principles and traffic regulations, and technical advice from a car manual, you also need to practice driving to truly learn. In the same way, conducting performance audits requires not just theoretical understanding, but also practical application.

This Handbook provides the foundational knowledge of performance auditing as presented at AFROSAI-E courses and commonly practised by most regional SAIs. It does not delve into the social sciences and evaluation theory, the methods used in these disciplines, or the specifics of designing and executing performance audits in different sectors. AFROSAI-E has developed a performance audit template manual detailing the processes and providing guidelines for auditing specific topics or using certain methods. Both the Handbook and the template manual, along with other guidance materials, are available on the AFROSAI-E website.

Conditions for performance auditing vary between SAIs in the region. While the Handbook provides examples of SAIs' experiences in the region, the focus is on general topics. Each SAI must decide how to approach, organise and conduct performance auditing. As illustrated in Figure 1, the Handbook aims to provide understanding and knowledge of a theoretical and practical nature. The template manual has a more normative ambition; it contains principles and procedures that need to be considered or complied with in the audit process. The AFROSAI-E template manual can be customised to a national context, as well as to the national choices, needs and processes of each SAI. AFROSAI-E guidelines contain generally accepted guidance and good practices, and cover performance auditing in different sectors in more detail, or certain methods used in the performance audit process. AFROSAI-E also provides guidance on issues at the institutional level relevant to areas other than performance auditing.

Figure 1. The relation between AFROSAI-E Handbook, template manual and guidelines



1 What is performance auditing?

Definition

According to the *Performance Audit Principles* in the INTOSAI standards[1], performance auditing carried out by SAIs 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. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits provide 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.

The subject matter need not be limited to specific programmes, entities, or funds, but can include activities or situations such as service delivery, the effects of regulations on citizens, and issues that cut across many entities.

The mandate for SAIs varies and may cover the whole public sector or only the central (or federal) government. The mandate may or may not cover parastatals.

Objectives[2]

Performance auditing's main objective is to constructively promote economical, effective, and efficient *governance*. It also contributes to accountability and transparency.

Performance auditing promotes *accountability* by assisting those charged with governance and oversight responsibilities to improve performance. It does not question the intentions and decisions of the legislature but examines whether any shortcomings in the laws and regulations or their implementation have prevented the specific objectives from being achieved. Performance auditing focuses on areas where it can add value for citizens and with the most significant 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 directly 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.

The development of performance auditing in the AFROSAI-E region

Performance auditing was introduced in English-speaking Africa in the late 1980s and early 1990s in countries such as Botswana, Lesotho and Zimbabwe. The Auditors General in the AFROSAI-E region decided to include performance auditing among the audit types listed in the organisation's strategic goals. As a result, AFROSAI-E has taken several steps to promote the development of

[1] ISSAI 300:9–10. See also ISSAI 3000:17-18.

[2] ISSAI 300:12. See also ISSAI 3000:18.

performance auditing within the region. All our member SAIs in the region have established, or are working to establish, performance auditing. The first performance audit 3 module course was presented by AFROSAI-E in 1999 and 2000. Since 2012, these courses have been presented annually, providing basic performance audit training to newly recruited and potential performance auditors. The course is designed as a sandwich training programme with an e-learning module, two training modules presented in person for three weeks and practical work on a performance audit engagement at the home SAI between the modules.

Since 2008, a prize sponsored by SAI Sweden has been awarded annually to the best performance audit report in the AFROSAI-E region, selected by an international jury based on specified criteria. The following SAIs[3] have been awarded the prize:

- Botswana, 2010
- Ghana, 2008, 2021 and 2022
- Kenya, 2012 and 2017
- Mauritius, 2018
- Namibia, 2009
- Rwanda, 2015
- Tanzania, 2010, 2014, 2016 and 2019
- The Gambia, 2020
- Uganda, 2011, 2013, and 2023

Various sectors and topics have been addressed in performance audits in the region. Examples of sectors include:

Defence	Health	Water
Economic development	Immigration	Revenue collection
Education	Infrastructure	Social security
Environment	Public administration	Waste management
Forestry	Public finance	

Performance auditing and other types of auditing

The ISSAIs define three main types of public sector audit:[4]

- Financial audit
- Performance audit
- Compliance audit

[3] For the full name of each SAI, see *Abbreviations and glossary of terms*.

[4] ISSAI 100:22.

THREE MAIN AUDIT TYPES AS DEFINED BY ISSAI 100:22

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 complies 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 that 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.

Financial and compliance auditing are by far the largest audit disciplines in SAIs in the AFROSAI-E region. As accounting, internal control, financial reporting, and financial management improve, SAIs can focus more on performance auditing. At some SAIs in member countries of the Organisation for Economic Co-operation and Development (OECD), 40 to 50% of external audit resources in central government are used for performance auditing.

The requirements in INTOSAI standards are interrelated and together define each main audit type. Financial and performance audits are reasonably well-defined and constitute significantly different types of studies with different purposes. Financial auditing in the public sector is fully based on auditing financial statements in the private sector. The standards for financial audit, developed by the International Auditing and Assurance Standards Board (IAASB), have been incorporated into the ISSAIs. Performance auditing has a different historical background and emerged from broader ideas of evaluation in the public sector, which is expected to lead to improvement of public policy, implementation, and results. Over time, a special type of public sector evaluation has been established in SAIs worldwide, and standards aligned to the role, mandates, and ethics of SAIs have been developed – standards for performance auditing in SAIs.

Compliance auditing, on the other hand, covers a broad spectrum of audits with different characteristics, examining activities, financial transactions or information. The nature of compliance audits can vary from short and quick attestation engagements to in-depth studies in direct reporting engagements. Subsequently, the type of report, the level of assurance provided, and the use of conclusions or audit opinions vary substantially. Besides the generic requirements for public sector auditing, the common denominator for compliance audits is the type of criteria used – the requirements according to laws and regulations and propriety criteria (generally accepted principles governing sound financial management and the conduct of public officials). Thus, compliance auditing is not one distinct type of study. Financial auditors frequently consider aspects of compliance in the annual audit process and performance audits.

Some concepts and requirements are used in all types of public sector auditing, although their meaning may differ. These include the different phases of an audit, concepts such as subject matter, materiality, ethical requirements and standards on quality management, and the right to access information. The table below compares the different dimensions of the three audit types to further describe the fundamental differences between them.

Comparing characteristics for performance, compliance and financial auditing

Aspects	Performance auditing	Compliance auditing	Financial auditing
Purpose	Examine whether government undertakings, organisations, or activities operate in accordance with the principles of economy, efficiency, and effectiveness and whether there is room for improvement.	Assess whether activities, financial transactions, and information are, in all material respects, in compliance with the authorities which govern the audited entity.	Provide assurance on whether an entity's financial information is presented in accordance with the applicable financial reporting framework.
Focus	Analyse relations between results and the undertakings generating them.	Consider and identify whether there is material non-compliance with the used criteria.	Consider and identify whether there are material misstatements in financial statements either due to fraud or error.
Type of engagement	Direct reporting engagement.	Attestation or direct reporting engagement.	Attestation engagement.
Starting point	Stand-alone audits based on indications or risks of perfor-mance weaknesses or problems.	Regular or stand-alone audits based on indications or risks of non-compliance.	Auditing financial statements on an annual basis.
Academic basis and relevant experience	Economics, political science, sociology etc. Experience of professional investigations or evaluations and familiarity with methods applied in social science as well as other relevant methods/skills.	Accountancy, law, and sector-relevant knowledge. Professional audit skills.	Accountancy and law. Professional audit skills.
Methods	A mix of methods designed to achieve the objective of each audit.	Vary depending on the character and subject matter of the audit.	A combination of verifying reliance on internal control and substantive procedures (analytical approach and test of details).
Audit criteria	Significant and reasonable criteria based on professional judgement from an open-ended set of potentially relevant criteria. Unique criteria for each audit, developed from legitimate sources and logical reasoning.	A closed set of absolute criteria for the subject matter based on laws and regulations or propriety (general principles governing sound financial management and conduct of public officials).	Applicable financial reporting and regulatory framework (a closed set of standardised absolute criteria).
Evaluation technique	Use significant and reasonable criteria to assess the design, implementation, and results of activities. The room for improvement defines a performance problem. Deviations from criteria are not sufficient to establish problems.	Gap analysis, in which identified deviations from criteria are sufficient to define them as problems. Professional judgement needed to assess their materiality.	Gap analysis, where identified deviations from criteria are sufficient to define them as problems. Professional judgement needed to assess their materiality.
Form of providing assurance	Explain how findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the findings result in the conclusions.	Standardised statement, applying principles for limited or reasonable assurance.	Standardised statement, applying principles for reasonable assurance

Aspects	Performance auditing	Compliance auditing	Financial auditing
Reports	Special reports published throughout the year. Varying size and content, depending on objectives, but often with similarities in the overall structure.	Vary depending on the character and subject matter of the audit.	Standardised auditor's report combined with other non-standardised reports.
Purpose of documentation	To document the audit process and substantiate the audit evidence presented in the report.	To provide a clear understanding of the work performed, evidence obtained, and conclusions reached	Document design and performance of procedures enabling the auditor to collect evidence to draw conclusions on which to base an audit opinion.
Inspired by paragraph 8 of the appendix to GUID 3910, although significantly elaborated and includes compliance auditing in the comparison.			

There is often confusion about the distinction between performance auditing and compliance auditing, and this is because:

- Performance audits can use legislation and regulations as sources for *criteria for good performance*. Laws and regulations frequently cover the intention and objectives of activities and also stipulate how activities should be carried out to lead to the expected results. In such cases, the focus is not on compliance with the rule, but on whether the expected results are achieved.
- Compliance can also be important in assessing performance, for example, when there are procedural requirements for the purpose of *protecting the rights of stakeholders*. Compliance with such requirements may be of great importance for performance, even when they pose limitations for government entities in trying to achieve the intended results.
- Compliance can be interpreted as one of many *cross-cutting requirements* or objectives in government, making it a possible topic of performance audits to deeper analyse shortcomings in compliance and what causes entities to face such problems – something that would not be required in a compliance audit.
- Some audits are labelled "performance audits" but use the same *evaluation technique* as in compliance and financial audits – performing a gap analysis limited to identifying deviations from the chosen set of criteria. This can lead to reports of a similar nature as direct reporting compliance audits, even if the sources of criteria are not laws and regulations. On the other hand, such audits do not live up to the requirements for performance audits unless, in some way, they also include an analysis of the causes of problems and, if relevant, provide recommendations addressing the causes of problems.[5]

The term 'causes' used in the ISSAIs is important in defining performance auditing as a special audit type. As further elaborated in Section 7.3 on *Bringing causes to problems into the analysis,* we do not interpret standards as requiring rigorous empirical analysis of causal relationships. Instead, our interpretation is that auditors need to look into *what has with reasonable certainty 'led to*', *'contributed to*' or *'what explains'* or what are the *'reasons for'* something described as a performance problem in a particular case of interest. For this reason, we used such wording interchangeably with 'causes' in this Handbook.

[5] See ISSAI 100:22 and for example ISSAI 300:40 and ISSAI 3000:121 and 127.

The ISSAIs mention overlaps between different types of audits and combined audits without elaborating on this in detail. The main rule is to apply the principles or standards relevant to the audit work carried out.[6] However, the standards also acknowledge that this may not always be possible, as different standards may contain different priorities. Therefore, it is a matter of professional judgement which standards to apply depending on the primary objective of the audit.[7]

The Performance Audit Subcommittee (PAS) has observed differences in opinion and perhaps some confusion regarding the concept of "combined audits" and overlaps, not least when performance audits cover aspects of compliance. To help improve clarity on this issue, the committee has produced a discussion paper on different combinations in public sector auditing, with a focus on performance audits and other audits covering aspects of performance.[8]

Under certain conditions, the standards for all three main types of audits enable the auditors to bring up aspects that can also be addressed within another audit type. When this situation does not require additional standards to be applied, such as when financial or compliance aspects are addressed in a performance audit, the combination does not change the nature of the audit. For this reason, the committee suggests the term "combined audits" be used exclusively for situations where different audit standards must be applied within the same audit.

In further discussion, the committee finds it theoretically difficult, if at all possible, to combine a performance audit with an attestation engagement (a financial audit or compliance audit). While it would be theoretically possible to combine a performance audit with a direct reporting compliance audit, it is difficult to see the need to do so, as compliance issues can be addressed as part of a performance audit. For individual SAIs, however, national legislation can lead to situations in which there is a need to also use another set of standards in combination with performance audit standards; for example, some SAIs are mandated to apply sanctions in compliance audits but not in performance audits.

Performance auditing is a resource-intensive type of audit. This may be one of the reasons why some SAIs try to find ways to cover more limited aspects of performance in other types of audits. Each SAI needs to make its own priorities and consider how much resources can be allocated to performance auditing. AFROSAI-E recommend that SAIs in the region limit the use of the term 'performance audit' to audits carried out in line with the principles and standards defined in the INTOSAI standards. A SAI that refers to ISSAI 300 or ISSAI 3000 needs to meet all relevant principles or requirements for the audit. If some principles or requirements cannot be met in a particular audit, the SAI can state that the INTOSAI standards for performance auditing have been used as a point of departure, making the limitations concerning the standards explicit and also explaining their consequences for the purpose of the report. AFROSAI-E recommends SAIs use other labels for audits covering limited aspects of performance, such as audits of pre-determined objectives, audits of performance information, management audits or similar. SAIs are also advised to adopt or develop standards for how to carry out other types of audits to be transparent in relation to the users of audit reports.

[6] See ISSAI 100:9; ISSAI 200:4; ISSAI 300:14 and ISSAI 400:9.

[7] See ISSAI 300:14; ISSAI 3000:16 and ISSAI 400:2.

[8] Blog post 8 Oct 2021 – INTOSAI Performance Audit Subcommittee (www.intosaipas.org).

2 Standards and approaches in the region

This Handbook presents the theories, concepts, standards, and overall working methods that apply to performance auditing based on INTOSAI documents and the experience of performance auditing in the AFROSAI-E region. The ISSAIs aim to promote independent and effective auditing and support the INTOSAI members in developing their professional approach in line with their mandates and national laws and regulations.[9] The most important INTOSAI documents for performance auditing are presented below.

Documents in the INTOSAI Framework for Professional Pronouncements relevant to performance auditing

INTOSAI Principles (INTOSAI-P)

Number	Name	Content
INTOSAI-P 1	The Lima Declaration (1977)	The founding principles call for independent government auditing and establish goals to achieve this.
INTOSAI-P 10	Mexico Declaration on SAI Independence (2007)	Sets out eight core principles of SAI independence that flow from the Lima Declaration.
INTOSAI-P 12	The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens (2013)	Twelve principles based on three objectives for how SAIs make a difference in the lives of citizens: strengthening the accountability, integrity and transparency of government and public sector entities; demonstrating ongoing relevance to citizens, parliament and other stakeholders; being a model organisation through leading by example.
INTOSAI-P 20	Principles of Transparency and Accountability (2013)	Principles about the availability of information about the SAI, transparency in work processes and products, open communication with the media and others and being visible in the public arena.

INTOSAI Standards (ISSAI)

Number	Name	Content
Fundamental principles of public-sector auditing		
ISSAI 100	Fundamental Principles of Public-Sector Auditing (2013)	Sets out fundamental principles for all public sector auditing, covering the purpose of the ISSAIs, the framework for and elements of public sector auditing, organisational requirements relating to quality control and ethics, the objectives of public sector audits, the types of auditing, the roles of the auditor, intended users, suitable criteria and how to refer to the ISSAIs.
SAI Organisational requirements		
ISSAI 130	Code of Ethics (2016)	A statement of the values and principles to guide the daily work of SAIs and auditors; ethical requirements embodied in the key principles: integrity, independence and objectivity, competence, professional behaviour, confidentiality and transparency.

[9] ISSAI 300:1 and ISSAI 3000:1.

Number	Name	Content
ISSAI 140*	Quality Management for SAIs (2023)	Assists SAIs in designing, implementing and operating a system of quality management to provide them with reasonable assurance that the SAI carries out all audits and other work at a consistently high level of quality and in accordance with standards and regulatory requirements.
Principles and standards for performance auditing		
ISSAI 300	Performance Audit Principles (2013)	Provides the framework for performance auditing, general principles for performance audit engagements and principles related to the audit process. Can be used to develop national standards.
ISSAI 3000	Performance Audit Standard (2016)	Covers central concepts as well as the audit process. Can be adopted as a SAI standard for performance auditing.

**This Handbook refers to the new version of ISSAI 140, which comes into force on 1 January 2025, replacing the previous version, Quality Control for SAIs.*

INTOSAI Guidance (GUID)

Number	Name	Content
Guidance for performance auditing		
GUID 3910	Central Concepts for Performance Auditing (2016)	Provides guidelines on central concepts contained in the *Performance Audit Standard* (ISSAI 3000).
GUID 3920	The Performance Auditing Process (2016)	Provides guidelines on the audit process contained in the *Performance Audit Standard* (ISSAI 3000).

International standards for performance auditing define how SAIs can evaluate public sector undertakings as part of their role in the national democratic system and governance mechanisms. The principles, requirements, and explanations in ISSAI 300 and ISSAI 3000 give a reasonably clear description of performance auditing as an in-depth evaluation.

However, the principles and standards in no way override national laws, regulations, or mandates, or prevent SAIs from carrying out investigations, reviews, or studies other than performance audits defined in the ISSAIs.[10] INTOSAI recognises that SAIs have varying mandates and work under different conditions and structural arrangements. While the standards define a certain type of audit, they allow for variation in performance auditing – between SAIs, within the same SAI and over time.

SAIs that refer to ISSAI 300 or ISSAI 3000 need to interpret the standards and how they should be applied in the national context. There is significant variation in performance audit functions among SAIs around the world. This is partly due to differences in history and tradition and the need for SAIs to prioritise and adjust their auditing over time to remain relevant concerning stakeholders' expectations. There are also SAIs that carry out performance auditing and do not refer to the ISSAIs, meaning that there is even greater variation.

In Section 5.4.1, AFROSAI-E recommends the SAIs in the region adopt ISSAI 3000 as their standard or develop national standards based on the principles of ISSAI 300. Many SAIs in the AFROSAI-E region cooperate with other SAIs or organisations in specific audits or establishing or strengthening their performance audit function. It is important to be aware of the potential variations in functions that may exist in such cooperation and materials from different organisations.

[10] ISSAI 100:7.

Performance auditing also varies between SAIs regarding the following aspects:

- Selection of audit topics.
- Structure of objectives and questions.
- Use of generic models to establish criteria (with or without empirically testing their applicability in the specific audit).
- Structure and use of criteria.
- Emphasis on empirical analysis of the reasons for the main performance problems.
- Evaluation technique (evaluation of performance vs gap analysis).
- Emphasis on different mechanisms for change – dissemination of knowledge vs 'shame and blame'.
- Details in the formulation of recommendations.
- Length and writing style of reports.

The INTOSAI principles, standards, and guidance are available on www.issai.org. In addition to the standards and guidance listed above, the website provides subject matter-specific guidance that may be relevant in performance auditing, for example, regarding public procurement, corruption prevention and environmental audits. Guidance relevant to performance auditing is also available on the following websites:

- INTOSAI Performance Audit Subcommittee www.intosaipas.org
- INTOSAI Capacity Building Committee www.intosaicbc.org
- AFROSAI-E www.afrosai-e.org.za
- INTOSAI Development Initiative www.IDI.no
- INTOSAI Working Group on Environmental Audit www.environmental-auditing.org and
- Canadian Audit and Accountability Foundation http://www.caaf-fcar.ca.

Different approaches to performance auditing

According to ISSAI 300:26 and ISSAI 3000:40, auditors should choose a result-, problem- or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design. The different approaches are described as follows:

- 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
- A system-oriented approach, which examines the proper functioning of management systems, e.g. financial management systems.

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.[11]

In our understanding, a problem-oriented performance audit focuses on analysing the relations between activities and results to understand the reasons for performance problems. "Activities" and "systems" are closely related: the parts of government that are responsible for the activities of interest, including management, can be seen as "systems". The problems motivating a problem-

[11] ISSAI 300:26.

oriented audit can be defined in terms of unsatisfactory results or in terms of the perceived malfunctions of systems.

In a result-oriented audit, the auditors check whether the intended results have been achieved. If they have not been achieved, there is a performance problem of some kind. To identify solutions to the described problems, the reasons for the problems need to be brought into the analysis, and recommendations need to be developed to address those reasons. In a system-oriented audit, on the other hand, the auditors check whether the systems function as intended. If this is not the case, it means that there is a performance problem of some kind. To find out what the problem is and whether or not it is material, the relation to the results needs to be brought into the analysis. The reasons the system is malfunctioning must also be included to address them through recommendations.

With this understanding, 'problems', 'systems', and 'results' need to be brought into the analysis regardless of the approach. Our interpretation is that the difference between the approaches is mainly a matter of emphasis and reflects different practices between SAIs regarding selecting audit topics, using criteria, and emphasising empirical analyses of the relation between activities ('systems') and results.

The AFROSAI-E approach to performance auditing

Since its introduction, performance auditing in English-speaking Africa has been influenced by impulses from different SAIs, other organisations, and international standards. This has resulted in a distinct regional approach to performance auditing that has emerged – codified in this Handbook and AFROSAI-E's training materials. SAIs in the region are free to make choices other than those described in this handbook and to consider advice from other sources. When cooperating with partners or using guidance developed by other organisations, SAIs need to be mindful that advice given by these bodies may be based on views and principles different from those decided by the SAI.

Many SAIs select performance audit topics based on risk for, indications, or information on performance problems. In the AFROSAI-E region, the volume of performance audit reports produced by SAIs is usually in the range of 1–10 reports per year, although some SAIs produce more. At the same time, there are many material performance problems in the public sector. Therefore, it is logical to mainly select audit topics where there are reasons to believe that there is a significant performance problem.

The approach to performance auditing presented in AFROSAI-E materials can be described as a *combined approach,* where aspects of *problems*, *systems* and *results* are considered. The *AFROSAI-E approach* is to mainly focus the audits on areas or government undertakings where there is reason to believe that there are material performance problems. During the planning phase, the auditors narrow down the selected topic and recommend an audit problem as the main focus of the audit. The formulation of the audit problem is either derived from *shortcomings in the outputs and results* (from a government or citizen perspective) or *shortcomings in the government systems and processes*. The audit will then verify the problem and analyse factors contributing to it. When well conducted, the audit forms one coherent story in which different findings are interrelated in cause-effect relationships. When too many aspects are included, this is difficult to achieve. Therefore, performance audit reports that present several findings based on separate criteria, without any relation to each other, can also be found in the region.

In the AFROSAI-E approach, *criteria are needed to assess the performance problems motivating the audit*. In addition, *separate criteria* can be defined to assess the performance *of the contributing factors as a complement to relating them to the main performance problems*. This makes the audit

robust and less vulnerable to potential weaknesses relating contributing factors to main performance problems.

Relations between problems, systems, and results need to be considered throughout the audit to ensure coherence and enable the verification and testing of the causal arguments that recommendations rely on. The factors preliminary identified as likely explanations for performance problems are made explicit in the overall audit design to facilitate identification of the crucial factors and how they influence the problems that need to be systematically studied in the main study. The aim is to verify the main performance problems and analyse important factors that contribute to them. Solid analysis of the reasons for identified problems forms the basis for *realistic and practical recommendations addressing the causes* of the problems.

Although most of the Handbook is relevant to all approaches to performance auditing, it focuses on the main AFROSAI-E approach.

SAIs can sometimes identify clear needs or requests for independent and objective information on whether the intended results of government undertakings have been achieved as planned, or whether management or operational systems in government function as intended. Such information can, for example, be requested or needed by parliament or the general public. As *a complement*, this means that the SAI may choose to initiate a performance audit even without any specific reasons to believe that there are material performance problems in a certain area. Such audits are also based on audit criteria. If material performance problems are observed, the SAI needs to consider whether this justifies making a more in-depth analysis of what has contributed to such problems.

Most countries in the region have no strong tradition of evaluating programmes or public sector entities. Performance auditing can play an important role in analysing problems and the reasons for them to produce recommendations for improvement. The problem-oriented approach to performance auditing is challenging as it can be difficult to present sufficient appropriate evidence supporting the relation between main performance problems and the factors contributing to them. The combined AFROSAI-E approach enables performance audits to focus on performance problems and their reasons without entirely depending on solid evidence for the relations between the performance problems and the factors explaining them.

3 Economy, Efficiency and Effectiveness

Economy, efficiency, and effectiveness, known as the 'three Es', form the theoretical platform for the perspectives and the types of problems addressed in performance auditing. INTOSAI defines the principles as follows:[12]

PRINCIPLE	DEFINITION
Economy	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.
Efficiency	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.
Effectiveness	The principle of *effectiveness* concerns meeting the objectives set and achieving the intended results.

Each principle directs the focus on different aspects of government activities and programmes and represents different purposes and perspectives in the audits. Some SAIs use additional Es in their performance audit practice, such as environment (e.g., Canada and the Netherlands) and equity and efficacy[13] (e.g., Brazil). This Handbook uses the three Es presented in the ISSAIs, covering audits addressing environmental topics, equity, or efficacy. The three Es are illustrated in an example of traffic inspections.[14]

Performance audits often include an analysis of the conditions necessary to uphold the principles of economy, efficiency, and effectiveness. 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 considered.[15]

3.1 The input-output model and the three Es

In this section, an input-output model illustrates economy, efficiency, effectiveness, and the relation between these principles.[16] The model also shows that activities take place inside the organisation. On the other hand, the results achieved by the organisation and the consequences of its performance – the economy, efficiency, and effectiveness – are experienced by stakeholders outside the organisation.

Examples of the input-output model

Some background to the example follows. The government uses various measures to reduce the number of road accidents, particularly those with serious or fatal consequences. The Traffic Police is one of several public organisations involved. Ultimately, the government's objective is to reduce

[12] ISSAI 300:11. See also ISSAI 3000:18.

[13] Efficacy refers to the organisation's ability to achieve short-term targets.

[14] The example of traffic inspections was inspired by an audit by SAI Tanzania (2012) and has been adapted for the purpose of the Handbook.

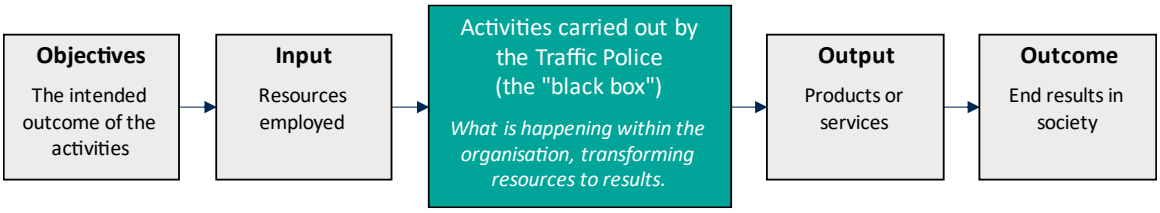
[15] ISSAI 300:11. See also ISSAI 3000:19.

[16] In Section 7.3.2 a general model for the intervention logic for government undertakings illustrates how government undertakings lead to results. The two models have several similarities but are used for different purposes.

the number of road accidents, particularly those with serious or fatal consequences, a goal shared by all public entities involved.[17]

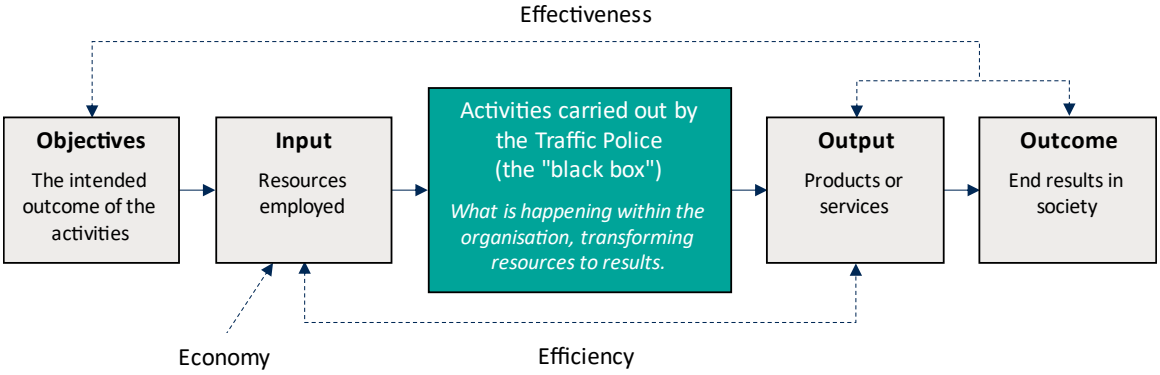
In Figure 2, the work of the Traffic Police ("the black box") is described using an input-output model. In this model, the overall goal of the Traffic Police is to reduce the number of road accidents, particularly those with serious or fatal consequences. This is the main rationale behind the Traffic Police, and the overall goal determines what effects the operations are expected to lead to in society. The goal is intended to guide all operations of the Traffic Police. To carry out any operations, the Traffic Police must acquire and use different types of resources such as staff, vehicles, speed radars, alcohol breath analysers, stationery, and computers (inputs). Input refers to all the resources acquired and used by the Traffic Police.

Figure 2. The input-output model



Economy, in this case, is about not spending more than necessary to acquire the resources needed to produce the traffic inspections, for example, by using the right quantity and quality of vehicles, which are delivered at the right time, at the right place, and at the lowest cost (see Figure 3).

Figure 3. The input-output model and the three Es



Note. GUID 3910, paragraph 37, uses a similar input-output model to illustrate the three Es. That model also includes the concept of 'cost-effectiveness' – relating the outcome to the input – a concept explained in GUID 3910:49 but not used in ISSAI 300 or ISSAI 3000. (See further Section 3.3, The efficiency perspective.)

Efficiency can be described as the relationship between the outputs and the resources used. Usually, measures of efficiency are partial, as it is difficult to include the costs and the different dimensions of the outputs (volume, quality and timeliness) in the same measure. One way to measure efficiency is to relate the produced volume of outputs to the total cost of producing them (cost efficiency). Another way is to relate the produced volume of outputs to the volume of labour used to produce it (labour efficiency).

[17] This example is also used in Section 6.3 on preliminarily identifying problems, Section 6.4 on selecting a focus for the audit, and in Section 6.5.3 on formulating audit questions and sub-questions.

In our example of traffic inspection, efficiency could be measured as:

- *Cost efficiency:* For instance, the number of traffic inspections carried out in relation to the total costs of the inspections (given similar kinds of inspections). The more similar the type of inspection is, the easier it is to measure and compare the cost-efficiency, for instance, between various district offices.
- *Labour efficiency:* For instance, the number of traffic inspections carried out concerning the person-hours spent managing and executing them.

Efficiency can also be measured or described in other ways, for example:

- As a relationship between the existing *"capacities"* and the *"utilisation of available resources"*
- By comparing what is *actually done* with *"doing things right"* (using the right means, conducting the services in the right place, at the right time and using best practices to manage and execute the services)
- By comparing the *actual time* used for each inspection with *best practice*.

The *quality of the traffic inspections* (whether the services provided meet the needs and expectations) could also be measured in various ways. Such measures are also tools to describe efficiency.

THE DISTINCTION BETWEEN OUTPUTS AND OUTCOMES

Examples of outputs, the expected outcomes, and the distinction between them are shown below.

AUDITED ENTITY	OUTPUTS	OUTCOMES (linked to aims)
Agricultural Bank	Loans to farmers	Increased agricultural production
Audit Office	Reports published	Improved accountability, economy, efficiency, and effectiveness in government
Hospital	Treated patients	Patients cured
Information campaign	Information materials and events	Improved knowledge, changed attitude and changed behaviour
Traffic Police	Traffic inspections	Fewer serious road accidents

Effectiveness can also be described or measured in various ways. A more direct approach is to measure whether the Traffic Police have influenced the behaviour of drivers – driving carefully, not over-speeding and not drinking alcohol before driving – to meet the objective of reducing the number of road accidents, particularly accidents with serious or fatal consequences. Audits of effectiveness usually assess only some aspects, since making a comprehensive analysis is often difficult. Although there are challenges in describing and measuring effectiveness, finding some indications of the results is often possible. It may also be possible to compare how different working methods lead to differences in the results, for example, comparing how the results are affected by the use of different methods for traffic inspections like using speed radar and alcohol testers or checking vehicle conditions, insurance, formal permits, and required equipment.

The definition of the audited entity determines the three Es

The concepts of economy, efficiency, and effectiveness are directly related to the definition of the services, programme, organisation, or activities to be audited, "the black box". If the audit entity is defined as the Department of Planning, their output will likely be the delivery of plans to the rest of the Traffic Police, ideally of good quality, so that the plans will guide the Traffic Police properly. The intended outcome of the audited activity will, in other words, be that the plans should

contribute to the efficient functioning of the inspections. If, on the other hand, the audited entity is defined as the Traffic Police as a whole, the plans will be internal products that do not form part of the objectives of the Traffic Police.

This means that the meaning of economy, efficiency, and effectiveness will change if the definition of the organisation is altered. This is illustrated in the AFROSAI-E performance audit guideline on public procurement[18] as follows:

> "The meaning of the three Es depends on how the auditors define the audited entity. For example, in an audit of procurement in the Ministry of Health, the Ministry as a whole can be defined as the entity for audit. Such an audit would allow the auditors to analyse economy aspects of the Ministry as a whole. More common, however, is to define the procurement functions within the Ministry as the entity for audit, which allows the auditors to analyse the efficiency and effectiveness of the procurement function. Of course, the economy of the procurement function itself can also be audited, but usually, this is too limited a perspective for a performance audit."

In another example, the Traffic Police carries out a special programme to reduce costs by ten per cent in its different districts. If this objective is met, the programme is deemed effective. However, cost savings do not tell us anything about the effectiveness of the Traffic Police as an organisation. To determine that, there is a need to look at the outcomes achieved – reduced accidents and deaths caused by road accidents – concerning the intended outcomes according to the objectives.

Measures of efficiency and effectiveness – an illustration

An example of the distinction between efficiency and effectiveness measures is shown in the box below. (See Appendix 1 for discussions on some challenges in defining outputs and measuring efficiency.)

ASSESSING EFFICIENCY AND EFFECTIVENESS

When carrying out an audit of traffic inspections, the auditors were interested in the efficiency of the Traffic Police and their effectiveness in achieving the goals set by parliament to reduce the number of traffic accidents. The auditors collected the following statistics.

	Central Region			South Region		
	2010	2011	2012	2010	2011	2012
No. of inspections per month	400	380	390	600	710	800
No. of inspectors	7	8	7	6	5	7

The auditors calculated the number of traffic inspections per inspector and month as a measure of efficiency.

	Central Region			South Region		
	2010	2011	2012	2010	2011	2012
No. of inspections per inspector and month	57	48	51	100	118	114

The calculations indicated that the South Region is doing better than the Central Region. What is unclear, however, is to what extent the police inspections target drivers' behaviour related to accidents or whether they look into formal matters such as payment of taxes, having a road license, or the absence of a triangle or fire extinguisher. Scientific studies in the country show that it is easier to look at formalities than to address speeding, the use of alcohol, careless driving, and offences related to accidents.

[18] *Performance Audit Guideline Public Procurement*, AFROSAI-E 2011, page 13.

To check this, the auditors used existing statistics on the number of accidents in the two regions and police statistics on the issues addressed in the inspections.

	Central Region			South Region		
	2010	2011	2012	2010	2011	2012
No. of accidents in relation to registered vehicles	0.22%	0.25%	0.28%	0.12%	0.10%	0.08%
Percentage of inspections addressing main factors contributing to accidents	20%	25%	24%	80%	85%	86%

While the auditors could not measure effectiveness directly, they found clear indications that the South Region was more effective. Not only did they address factors related to accidents to a much greater degree in their inspections, but the relative number of accidents also decreased during the period. This makes it likely that the Traffic Police in the South Region is more efficient and effective.

3.2 Reasons for low or varying performance

To analyse the reasons for low performance or differences in performance of the same service (for instance, among local offices), it is important to study what is happening inside the audited entity (the "black box"). The traffic inspections may be based on different principles and planned and carried out differently. Staff may be more or less specialised for certain tasks, the equipment available may be more or less appropriate, and the mixture of different resources may not be appropriate, leaving some resources unused.

For example, if the police officers employed do not have access to functioning vehicles and petrol, or transport organised otherwise, they will not be able to carry out inspections. Different ways of prioritising and organising work procedures may be key factors in explaining the differences in efficiency between regions and organisations.

In the AFROSAI-E approach to performance auditing, the auditors typically choose a main focus for the audit regarding an audit problem related to economy, efficiency, or effectiveness (e.g., high costs, low quality, not achieving goals, inappropriate function of systems). The idea is that the audit should verify the audit problem and address the reasons for it within the government. The box below provides examples of organisational functions that performance auditors commonly address in analysing reasons for performance problems.

EXAMPLES OF FUNCTIONS IN THE "BLACK BOX" THAT MAY CAUSE PROBLEMS

In analysing the reasons for performance problems with economy, efficiency, or effectiveness the audited entities are responsible for, performance auditors may need to examine functions related to:

- Internal organisation, regulations, funding arrangements and budgets (within the framework set by government)
- Strategies, policy, and planning
- Management of staff, financial resources, risks, external relations, monitoring, and evaluation
- Internal control and internal audit
- Design, cost, management, guidelines and implementation of operational procedures and processes (the professional working methods)
- Technical infrastructure, equipment and support (e.g. IT infrastructure and transport)
- Skills and experience of staff and quality of other used resources (economical acquisition of resources)
- Organisational culture
- Management and results in individual cases of operations.

Organisational theory deals with how organisations function and how to build efficient and effective organisations. Such theories may be useful for performance auditors.

The main performance problem, and the reasons for it within the control of the audit entity, are the focus in performance audits. However, it may also be necessary to consider external factors to understand the conditions under which the audited entities operate. External factors are those outside the control of the audited entities (e.g. legislation, funding, and operations by other actors) influencing them.

There may be many reasons why an entity does not meet its objectives. Reasons for low effectiveness can include a poorly designed programme so that it is not possible to meet its objectives; the objectives may be unrealistically high (or low); external factors may have changed and had a negative impact on the outcome; or the entity may not have implemented the programme appropriately. A key purpose of an effectiveness analysis is to enable the auditors to distinguish between such diverse explanations. If another government entity is in control of significant factors affecting the audited programme, they can be incorporated into the audit by changing the definition of the audited entity.

The SAI can examine whether any shortcomings of the laws and regulations or their implementation have prevented the specified objectives from being achieved. However, depending on the SAI´s mandate, it does not question the intentions and decisions of the legislature. Parliament is never an audit entity but can be addressed with recommendations to take initiatives to overcome or reduce performance problems.

When the audit objective is to compare the performance of different offices providing the same services, it is important to examine the underlying conditions to understand if external factors can explain differences in performance. For instance, the volume of traffic, the condition of the roads, the volume and behaviour of pedestrians, and other factors influencing road safety may be different in rural areas compared to larger cities.

3.3 Applying the principles of the three Es in performance auditing

A basic understanding of the principles of economy, efficiency, and effectiveness in public administration forms the foundation of performance auditing. The principles define what can be considered problems or weaknesses that may be addressed. If the audit has focused on aspects of economy, the principles can also help auditors orient themselves and avoid commenting on the effectiveness of government entities. The box below provides examples of different performance audit focuses linked to the three Es.

EXAMPLES OF DIFFERENT FOCUSES OF PERFORMANCE AUDITS			
Sector	**Economy**	**Efficiency**	**Effectiveness**
Procurement	Price of purchased goods of appropriate quantity and quality delivered on time at the right place	How the resources are used in procurement, i.e., managing to deliver appropriate procurement services on time	Whether goods of desired quality and quantity were delivered as intended
Education	– Teachers' competence – Office rent costs – Utilisation of fixed assets (classrooms, IT lab)	– Conducted training courses per teacher and year – The quality of the training according to evaluations	– Share of students who graduate – Students´ skills – Employability
Traffic Police	– The volume of police officers – Cost of vehicles – Maintenance of vehicles	– Inspections per police officer and month – Cost per inspection – Variations of the focus and quality of traffic inspections between districts	– Reduced number of drunk or over-speeding drivers – Reduced serious traffic accidents – Reduced deaths caused by road accidents
Health care	– Waste of procured drugs – Cost of adequate medical equipment – Inappropriate balance between different staff categories, leaving some staff idle	– Number of patients treated with existing resources – Waiting time for treatment	– Number of patients cured – Satisfaction of patients

It is often useful to use specific wording to describe the essence of the performance problems rather than to use the three Es to label them. In addition, it is not always easy to draw a clear line between economy and efficiency, on the one hand, and between efficiency and effectiveness, on the other. This is natural as the concepts are related to each other.

The following box provides examples of typical questions related to the different performance perspectives regarding traffic inspections.

EXAMPLES OF QUESTIONS BASED ON THE ECONOMY PERSPECTIVE ON THE PERFORMANCE OF TRAFFIC INSPECTIONS

In an audit focusing on economy, it is usually important to define and measure the costs of some of the inputs. As with the other Es, however, audits of economy can also be partial; for example, examine whether the audited entities acquire the appropriate quantity and quality of resources. An audit of the Traffic Police based on the economy perspective may deal with questions such as:

- Have the Traffic Police contracted officers with appropriate competence for the tasks that are assigned to them?
- Is the necessary equipment for traffic inspections of the appropriate quantity and quality and procured at the lowest cost?
- Is the mix of different resources appropriate so that the available resources can be used without leaving some of them idle?
- Is expenditure kept within budget?

EXAMPLE OF QUESTIONS BASED ON THE EFFICIENCY PERSPECTIVE ON THE PERFORMANCE OF TRAFFIC INSPECTIONS

When the efficiency perspective is used, the main question is whether the resources deployed have been put to optimal or satisfactory use or whether the same or similar output in quantity, quality, and/or timeliness could have been achieved with fewer resources. The question could be: *Are we getting the most output – in terms of quantity and quality – from our inputs and actions?* Or *could the same output have been achieved with less input?* The questions refer to the relationship between the quality and quantity of services provided, and the activities and cost of resources used to produce them to achieve the results.*

In audits of efficiency, the focus is to study how the audited entities use available resources to produce outputs. In general, it is easier to measure the immediate outputs from an organisation than the outcome. The main immediate output of the Traffic Police is the number of traffic inspections. However, as the objective of the Traffic Police is to reduce the number of accidents and deaths caused by road accidents, not all inspections are equally relevant. The auditors may choose to analyse the inspections based on the issues they address and how they are performed. This can be considered to be the quality dimensions of the produced output.

In general, resource use is important in efficiency analysis, as the main question is whether the resources have been used in the best way to produce output. An organisation is not fully efficient if it can produce more or better quality with the existing resources or if it can produce the current level and quality of output using fewer resources.

The auditors also need to take a step further to understand what it is in the processes the audited entities are in control of that can explain shortcomings in efficiency. Questions that may be used in the efficiency analysis of the traffic inspections affecting road safety are:

- How has the volume of traffic inspections developed over time?
- Are there differences in the volume of inspections with similar use of resources in different regions or districts?
- To what extent do traffic inspections address the main causes of accidents?
- What is the cost per inspection related to road safety?
- Do the Traffic Police have a clear policy and overall inspection plan based on the risks of the accidents?
- Are inspections carried out where and when the risks of accidents are the greatest?
- Do staff members have the necessary equipment to carry out inspections related to dangerous behaviour by drivers?
- What incentives do staff members have to carry out inspections related to dangerous behaviour by drivers, rather than other types of inspections?
- Do the methods used for traffic inspections meet national standards and take into account risk factors for road injuries identified by best practices according to international organisations?
- Do different units cooperate properly to avoid unnecessary bottlenecks?
- Are the inspections cost-effective in our country compared to neighbouring countries?

The concept of cost-effectiveness is sometimes used to refer to the ability or potential of an audited entity, activity, or programme to achieve a certain outcome at a reasonable cost. Cost-effectiveness analyses combine elements of efficiency and effectiveness by studying the relationship between project cost and outcomes, expressed as cost per unit of outcome achieved.**

**GUID 3910:39.*
*** GUID 3910:49.*

EXAMPLE OF QUESTIONS BASED ON THE EFFECTIVENESS PERSPECTIVE ON THE PERFORMANCE OF TRAFFIC INSPECTIONS

Effectiveness concerns whether an organisation, programme, project, or activity is achieving its objectives. It covers whether the objectives have been achieved and whether the outcomes observed result from implementing the government undertaking or other circumstances.

If the auditors focus on effectiveness, they will start by identifying the objectives for the undertaking. If the objectives are too general, they need to be made operational to assess effectiveness. While the assessment is ideally done by comparing the situation before and after introducing the intervention and relating to a control group not subjected to it, this is often impossible. In such cases, the auditors need to choose a less ambitious design. One alternative is to assess the assumptions on which the undertaking is based (see further *Goal-attainment, outcome-oriented studies and impact studies* in Section 6.6.2). The auditors can also identify the target group for the intervention and search for answers to questions such as:

- Does the reduction in accidents and deaths caused by road accidents meet the intentions expressed in the goals and objectives?
- Are the inspections targeting offences known to cause accidents?
- Do sanctions have a deterrent effect, making drivers change their behaviour because of the inspections and the sanctions in case of offence?
- Are the achieved outcomes in terms of the number of accidents and deaths caused by road accidents significantly affected by factors other than the intervention (i.e. better roads)?

As the questions show, the auditors may have to limit themselves to analysing the prerequisites for effectiveness rather than directly measuring outcome and effectiveness. For the audit to add full value, the auditors need to take a step further and analyse the reasons for problems with the effectiveness. Typically, such reasons are linked to the design of the intervention, or how the audited entity has implemented the intervention, that is, the activities inside the organisation. It is also common for shortcomings in cooperation and coordination between public sector entities to lead to problems of effectiveness.

Different perspectives may be used in the same audit

More than one of the perspectives of economy, efficiency and effectiveness may be used in the same audit. In assessing efficiency, the auditors will, for example, often consider whether the resources have been acquired and used economically. Another example is that auditors assessing effectiveness may find it appropriate to ask whether the resources employed have been acquired economically and used efficiently.

On the other hand, analysis of economy, efficiency, and/or effectiveness can rarely be comprehensive. Given the context and their understanding of the problems in the area, the auditors need to choose a focus and cover some of the most important aspects. Thus, performance auditing can rarely provide sufficient evidence for statements on whether an undertaking is economical, efficient, or effective in all respects.

3.4 Considering the risks of fraud and corruption

Since the mid-1990s, and especially in recent years, INTOSAI has focused increasingly on the challenges posed by fraud and corruption and on the roles of individual SAIs in coping with these challenges. The fight against corruption was also one of INTOSAI's five strategic priorities in its Strategic Plan for 2011–2016.

The ISSAIs require performance auditors to make enquiries and perform procedures to identify and respond to fraud risks relevant to the audit objectives. Fraud is defined as an intentional act by one or more individuals among employees, management, those charged with governance, or third parties involving the use of deception to obtain an unjust or illegal advantage such as:

- breach of trust
- collusive awarding of grants and contributions
- collusive bidding or awarding of contracts
- deceit
- dishonest acts
- false representation
- fraudulent concealment
- illegal acts
- intentional misstatements
- irregularities
- kickbacks
- secret commissions, and
- theft.

The primary responsibility for preventing and detecting fraud rests with those charged with governance of the audited entity and with the management of the audited entity. The auditor's responsibilities are to identify and evaluate the risk of fraud where the risk is significant. The auditor also needs to determine audit procedures in response to those risks. When conducting audits, the auditor needs to maintain an awareness of the possibility of fraud related to the subject matter (for example, contracting or grants and contributions). If the auditor suspects or encounters fraud, he/she has to bring the matter to the attention of the supervisor and the relevant authorities for further action.[19]

Corruption is a broader term than fraud, but it is not used in ISSAIs or GUIDs on performance auditing. There is no more elaborated guidance on how performance auditing can be used as a tool to combat or prevent fraud and corruption. The rest of this section elaborates on:

- The many faces of fraud and corruption
- Principles reducing the risk of fraud and corruption in government entities
- How fraud and corruption can be considered in performance auditing
- Some publications on fraud and corruption that may be useful for performance auditors.

Different types of fraud and corruption

The word 'corruption' has many definitions. The working definition of corruption adopted by the World Bank Group is "the abuse of public funds and/or office for private or political gain." Public office is abused for private gain when an official accepts, solicits, or extorts a bribe. It is also abused when private agents actively offer bribes to circumvent public policies and processes for competitive advantage and profit (state capture). Public office can also be abused for personal benefit, even if no bribery occurs, through patronage and nepotism, the theft of state assets, or the diversion of state revenues.

Administrative corruption involves the prescribed implementation of existing laws, rules, and regulations to provide advantages to individuals in or outside government through illicit, non-transparent means. This can take the form of grand corruption or petty corruption.

[19] ISSAI 3000:73–74; GUID 3910:91–93.

Grand corruption is often associated with collusion, which is difficult to detect or foresee since it can occur even in areas where the administrative systems appear to function well. This makes it more difficult to address such corruption with performance auditing.

Petty corruption, on the other hand, involves small sums of money but can directly affect citizens, as they may be required to pay for services such as registration, seeing a doctor, getting medicines, receiving agricultural inputs or bribing the traffic police. It is often easier to detect shortcomings in efficiency and effectiveness linked to petty corruption and to find appropriate measures to make systems more resilient.

More specifically, corruption is associated with different types of wrongdoing. Some of this behaviour is generally illegal, while in some cases, legality varies between jurisdictions. Regardless of the legality, all behaviours listed in the following table hamper performance and, in many instances, may be addressed directly or indirectly in performance audits.

BEHAVIOUR THAT MAY BE ASSOCIATED WITH CORRUPTION*		
Type	**Description**	**Legality**
Bribery	The act of conferring a benefit to improperly influence public officials to act or refrain from acting in accordance with their duties or exercise their functions.	Illegal
Clientelism	Mutual material advantage between a patron and dependants and accomplices.	Varying legality
Cronyism	Showing partiality to long-standing friends, especially by appointing them to positions of authority, regardless of their qualifications.	Varying legality
Extortion	Public officials extract payments from unwilling citizens before providing services they are entitled to.	Illegal
Embezzlement	Theft of property by someone to whom it was entrusted.	Illegal
Fraud**	Using false or misleading information to induce the owner of the property to part with it voluntarily.	Illegal
Favouritism	Giving special treatment to a person or group.	Varying legality
Graft	Unscrupulous use of a politician's authority for personal gain.	Illegal
Nepotism	Favours granted to relatives regardless of merit.	Varying legality
Patronage	Rewarding groups, families, and ethnicities for electoral support using illegal gifts or fraudulently awarded appointments or government contracts.	Varying legality
** Developed from GUID 5270 Guideline for the Audit of Corruption Prevention, pages 9–11.* *** This Handbook uses a different definition of 'fraud' than the ISSAI 2240 on fraud in auditing financial statements. This ISSAI defines fraud as "An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage."*		

Principles for reducing the risk of fraud and corruption in government

Of all government activities, public procurement is the activity that is most vulnerable to waste, fraud, and corruption. The OECD points out the complexity of public procurement, the size of the financial flows it generates and the close interaction between the public and the private sectors as the main reasons for this vulnerability.[20]

[20] OECD Principles for Integrity in Public Procurement, OECD 2009.

Looking at public services in general, the risk for fraud and corruption increases with the following:

- A high complexity
- Financial flows between government and private actors
- Government provision of benefits/obligations to private actors
- Inadequate management
- Inadequate mechanisms of monitoring and prevention of misconduct
- Inadequate accountability and control.

Partly inspired by the principles for enhancing integrity in public procurement produced by the OECD, ten principles can be identified that, in general, reduce the risk of fraud and corruption in the relation between government and citizens or the private sector (see the box below).

PRINCIPLES FOR REDUCING THE RISK OF FRAUD AND CORRUPTION IN GOVERNMENT OPERATIONS

1. Mechanisms are put in place to *prevent risks to integrity* in public operations, including mechanisms to ensure that public officials meet high professional standards of knowledge, skills, and integrity.
2. There are *clear procedures* to follow and *clear criteria* to be used in decisions on benefits or obligations for, or delivering services to, clients.
3. There is a *clear chain of responsibility* and effective supervision and control.
4. As far as possible, there is *no manual handling of cases without registration* and follow-up via IT systems and no cash payments to officers providing services.
5. There is *no unnecessary complexity* in the administrative systems.
6. There is *adequate cooperation between government entities, clients and stakeholders* to maintain high standards of integrity.
7. There are specific *mechanisms to monitor decisions* on obligations or benefits for, or *delivering of services* to, clients, as well as to *detect misconduct* and apply sanctions accordingly.
8. *Complaints* from clients are *handled fairly and timely*, with the possibility of an independent second opinion.
9. There is adequate *transparency* regarding the procedures, criteria, and performance of public services.
10. Clients, civil society organisations, media, and the wider public are *empowered to know their rights and obligations and what services to expect* and are encouraged to scrutinise public services.

Many of the above principles are equally important for, or clearly related to, what is required of public organisations to operate economically, efficiently, and effectively also in other respects than avoiding fraud and corruption. It is also important to have systems for addressing significant violations of regulations and suspicions of fraudulent activities when they occur. The management of government entities have the primary responsibility for assessing the risk of fraud, taking appropriate measures to prevent it, and addressing it when it occurs. The five principles for managing fraud risks are presented in the box below.

THE FIVE PRINCIPLES UNDERPINNING A SOUND FRAUD RISK STRATEGY

Government should:

1. Have a well-developed understanding of the fraud risk inherent in its programmes.
2. Manage fraud risk through clear roles and responsibilities.
3. Have appropriate preventative and deterrence measures in place and regularly monitor their performance.
4. Have appropriate detective, investigative and disciplinary procedures in place and regularly monitor their performance.
5. Have appropriate reporting procedures in place to communicate the results of its fraud risk management activities to its stakeholders.

Source: Guidelines for managing the risk of fraud in government, Office of the Auditor-General of British Columbia, August 2010.

Considering the risk of fraud and corruption in performance auditing

Fraud and corruption can be committed by individuals, but it can also be more broadly prevalent in government systems and entities. In general, the performance of individuals is significantly affected if they are taking bribes or involved in using deception to obtain unjust or illegal advantages, as this distorts the attempts of reaching government objectives. When fraud and corruption are not limited to individual cases, or if they are of a sufficiently large scale, they also seriously threaten the performance of the concerned government systems and entities. The significance of risks of performance problems due to fraud and corruption is affected by the type of government operations and the general prevalence and perception of fraud and corruption in society.

The methodology of performance auditing is highly appropriate for analysing the functioning of administrative and management systems to better prevent fraud and corruption. On the other hand, performance auditing is, on the whole, not well designed to identify and investigate individual cases of fraud and corruption – even if such observations may be made or suspicions arise in performance audits. Performance auditors should usually report any such suspicions to management for consideration on whether to make further investigations or to report the suspicions to the appropriate authorities.

Each audit is governed by its audit objective, and the risk of fraud and corruption should be relevant to this objective. To meet the requirement in ISSAI 3000:73, auditors may consider the questions below in planning their performance audits:

1. In your country, is there a perception that there are more general problems of fraud and corruption in the public sector? (One option is to consider the country's ranking in the World Bank Governance Indicator *Control of Corruption* or Transparency International's *Transparency Perception Index* for this purpose.) [21]

2. Are there inherent risks of fraud and corruption that may significantly affect the performance of the concerned government activities and systems? Features that increase the risk of fraud and corruption are, for example, when the operations:
   a. affect benefits for private actors, such as in the case of procurement, payment of grants, subsidies, permits and licenses
   b. affect obligations for private actors, such as taxation, revenue collection, inspections, investigations, and limitations negatively affecting private actors
   c. involve services that the clients depend on in some way.

[21] See http://info.worldbank.org/governance/wgi/index.aspx#doc and/or http://www.transparency.org/research/cpi/overview).

3. If the risks of fraud and corruption in government in general or in the specific operations are considered to be significant, auditors are advised to perform limited procedures (to interview management and possibly staff and review documents) in the audited entities to collect information on whether management:
    a. have identified the risks of fraud and corruption in their operations
    b. have communicated principles of ethical behaviour to staff
    c. in case of significant risks of fraud and corruption, have put in place appropriate systems to prevent fraud and corruption
    d. have addressed instances of corruption, if and when they occur.

In countries where government entities are required to develop and implement an anti-corruption action plan, collecting initial information on the existence and implementation of such a plan is a natural part of the audit.

If the risk of fraud and corruption is considered significant and management has not taken appropriate action, in our view, the auditors should consider appropriate actions. These may include some of the actions below:

1. If there is a significant risk that fraud and corruption affect government performance, explicitly or implicitly address the risk of fraud and corruption relevant to the audit objective in the performance audit.
2. In a letter, inform management of the audited entities that the auditors have identified preliminary weaknesses in handling the risk of fraud and corruption, but will not be addressed in the planned audit as they are not relevant to the audit objective; the audit entity can also be recommended to further investigate the weaknesses and take appropriate action to overcome them.
3. Inform financial and/or compliance auditors in the SAI about your preliminary observations.
4. Inform those charged with governance of the concerned audit entities about your preliminary observations.
5. Inform the appropriate enforcement or oversight authorities, such as the police or an anti-corruption commission, about your preliminary observations.

Performance audits can focus specifically on systems in which fraud or corruption is known or believed to be significant. The risk of fraud and corruption may also need to be considered in other performance audits, as it may be an important factor of low performance relevant to the audit objective. Some of the many opportunities to consider the risks of fraud and corruption in performance auditing are presented below:

- Select *audit topics* that focus on systems in which fraud and corruption are known or perceived to be significant – for example, systems with a high risk of corruption, like procurement, services where citizens inappropriately may need to pay extra money to get the services delivered or study whether systems for inspection and control focus on major risks in the inspected operations, rather than on compliance with less important regulations.
- Define *audit questions* targeting factors or systems likely to explain performance problems and enable fraud and corruption.
- If relevant to your audit objective, *collect data* providing direct evidence that fraud and corruption likely explain performance problems (for example, by guaranteeing anonymity to selected clients and asking whether they have ever paid bribes).
- *In your analysis, consider* whether fraud and corruption may be the underlying reasons for observed performance problems, even if no direct evidence has been obtained. Although suspicions cannot be presented in the report without evidence, the risks can be explicitly or implicitly considered in the analysis.

- In *developing recommendations*, consider how performance can be improved simultaneously, as the recommended measures are designed to have a preventive effect on fraud and corruption.
- *Separately report observations or suspicions* of fraud and corruption to the relevant authorities or regularity auditors as appropriate, regardless of whether or not the information will be used in developing the performance audit report. In such cases, the need to keep the detailed information confidential should be carefully considered to enable potential forensic investigations.

Publications on fraud and corruption that are useful for performance auditors

In its book *The Many Faces of Corruption,* the World Bank offers an operationally useful framework to help reformers analyse corruption and target reforms at the sector level. Through exploratory applications to several sectors, it shows that combating corruption is fundamentally about improving governance and that operationally useful indicators can be used to track corruption and monitor progress. The following areas are covered.

AREAS COVERED IN *THE MANY FACES OF CORRUPTION* (WORLD BANK 2007)		
Sectors		**Public financial management**
Education – Teacher Absenteeism	Transport	Financial management in general
Energy – Electricity	Water and sanitation	Public procurement
Energy – Petroleum		Revenue administration
Forestry		Customs
Health – Pharmaceuticals		Money laundering

The INTOSAI *Working Group on Environmental Auditing (WGEA)* has prepared guidance material addressing fraud and corruption issues when auditing environmental and natural resource management. The guide provides information on why and how fraud and corruption are considered to be highly present in these sectors. It also provides tips and examples on introducing this risk into the planning and conducting audits of a particular environmental or natural resource topic.[22]

The INTOSAI *Working Group on Fight Against Corruption and Money Laundering* has developed GUID 5270, *Guideline for the Audit of Corruption Prevention.* This guideline is designed to help SAI auditors prepare and conduct audits of operations inside government organisations to prevent corruption and guide audit entities in implementing activities to prevent corruption.

[22] Addressing Fraud and Corruption Issues when Auditing Environmental and Natural Resource Management: Guidance for Supreme Audit Institutions (June 2013).

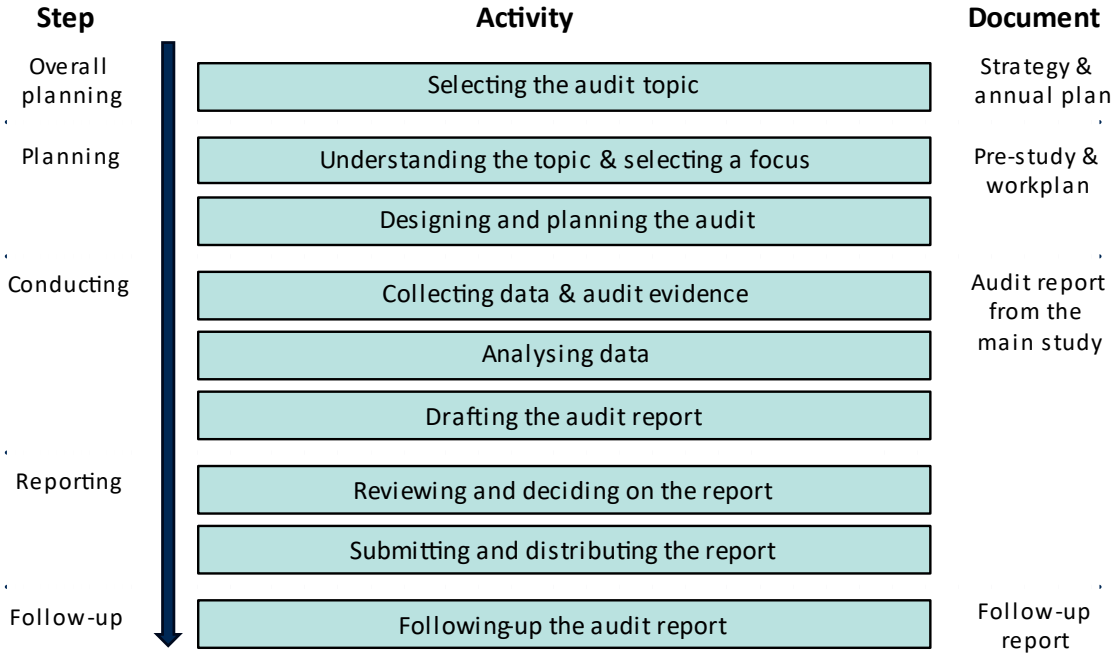
4 Performance auditing – process, logic and training

This chapter outlines the performance audit process and the two different studies that are usually conducted in individual audits in the AFROSAI-E region: the pre-study and the main study. This is followed by the logical relation between different key concepts used and the structure of AFROSAI-E courses.

4.1 Five steps in the performance audit process

The audit process can be divided into five main steps: overall planning, planning, conducting, reporting, and follow-up. Overall planning is described in Section 5.2.4. The other steps are described in Chapters 6–9 in this Handbook. According to ISSAI 300:35, these steps may be iterative. For instance, new insights from the execution stage may necessitate changes to the audit plan, and important elements of reporting (e.g., drawing conclusions) may be sketched out during the planning stage. Figure 4 presents the main activities performed in an audit.

Figure 4. Steps and main activities in performance auditing (partly overlapping)



Some main activities are relevant in several steps of the audit when the auditors carry out different types of studies. Overall planning involves the development of a strategy, annual plans and often the identification of audit topics. Planning of the individual audit engagement is mainly carried out during a pre-study and is documented in a pre-study memorandum and workplan. The audit is then conducted in a main study and results in an audit report. After some time, the auditors may follow up on how the audited entities have addressed observations and recommendations in the audit and report this to parliament.

4.2 Pre-study and main study

A performance audit at an SAI involves selecting a topic, planning the audit, and carrying it out. This results in a performance audit report, which the SAI submits to parliament and the audit entity. The SAI's strategy and overall planning of performance auditing inform the selection of audit topics. The SAI's monitoring of developments in specific areas also informs audit topic selection.

In the AFROSAI-E region, most of the audit planning is done in a pre-study, although some planning may also be done during the main study. The purpose of the pre-study is to acquire sufficient knowledge of the audit topic and the problems in the area to be able to focus the main study on main performance problems, design the audit, design empirical studies needed and plan how to carry out the audit. The pre-study results in a pre-study memorandum and a work plan, usually presented in the same document. This document forms the basis for peer review and management's review and decision on whether to conduct an audit. Usually, SAIs do not present the full pre-study memorandum and work plan to the audited entities.

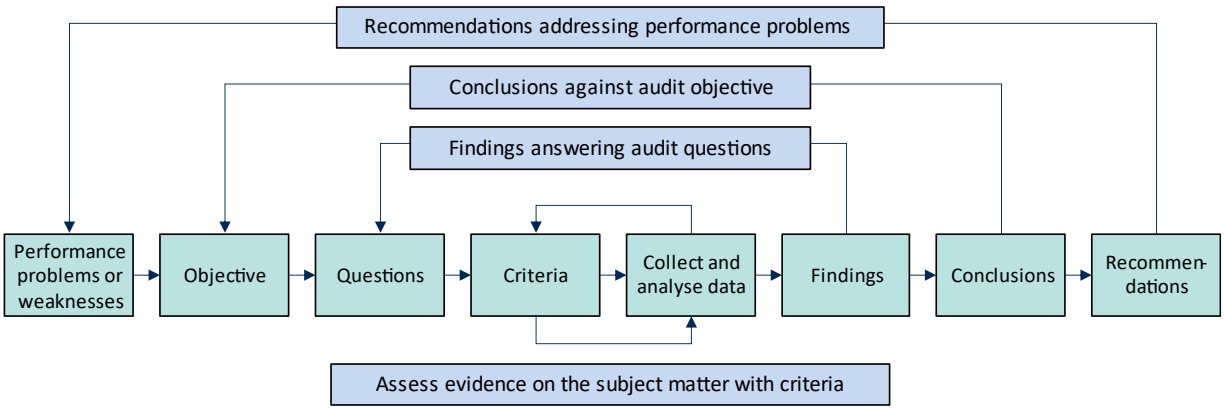
The goal of the main study is to carry out the planned audit and produce a performance audit report. While some work will have been done during the pre-study phase, most data collection, analysis and report writing are carried out during the main study.

The amount of time needed for an audit depends on the complexity of the topic and the selected audit problem, as well as the ambition level for data collection and analysis. A pre-study in the region can often be carried out within three months, while a main study can usually be completed within six months.

4.3 The path from performance problems to recommendations

Figure 5 illustrates the logical structure the auditors apply when performing their activities and how concepts are related. For a performance audit to be of high quality, its logical framework must be coherent and consistent.

Figure 5. The logical structure of performance auditing and key relations between concepts



Source: Based on an illustration developed within the international development cooperation of the Swedish National Audit Office.

A reason for carrying out a performance audit is that there are indications of significant performance problems or weaknesses in a selected area of government or risks of such weaknesses. To be able to perform a systematic audit, the auditors first need to acquire a preliminary understanding of the area and the problems within it and preliminarily identify what are likely to be the *reasons for the problems*. There are no requirements on "audit evidence" in the standards at this stage, as the pre-study memorandum and work plan are internal planning documents at the SAI. All that is needed is sufficient knowledge to be able to *choose a focus and design a reasonable main study* – no more. Sometimes, choices made during planning prove to be unsuitable once the auditors have gained more knowledge; this is not a problem. The overall audit design and empirical studies of the design and implementation of government undertakings can be modified during the main study. By setting an *audit objective,* the auditors establish a focus of the audit. While it would be possible to articulate detailed audit objectives, it is common to set one or more specific

objectives formulated as *audit questions* and sub-questions. Ideally, the questions address both the preliminary identified main performance problems and factors contributing to them.

An essential part of designing the audit involves planning for what *empirical knowledge* will be necessary to develop, verify, and understand the preliminary identified main performance problems and the factors likely contributing to them. The auditors can then evaluate the subject matter based on this knowledge, using the chosen *audit criteria* to answer the audit questions. The auditors also need to plan what data they will require and what *strategy, study design and methods* they will use to *collect and analyse data*. This includes considering what specific investigations into reasons for problems are needed to formulate recommendations. A well-thought-out plan will enable auditors to work systematically on data collection and analysis, creating good conditions for them to obtain *audit evidence* that can be used in their audit report.

Some elements of audit planning have been excluded from Figure 5: choosing an audit approach, defining the scope, planning resources and activities, planning communication with stakeholders, and managing audit risks. While all these issues are important, they are not conceptual cornerstones of the audit in the same way as the concepts illustrated in the figure above. The design of the audit and planning for the work is documented in a work plan that will guide the main study.

When the auditors have obtained empirical knowledge that can be used as evidence in the audit, they can evaluate these conditions to identify performance problems and the reasons for their consequences. This will then constitute the *findings* in the audit. Factors contributing to the main problems can be presented as separate findings based on their contribution to the main problems, based on specific criteria or both. However, they can also be presented as part of other findings. The evidence must be sufficient and appropriate to support the findings. The idea is that the findings should answer the audit questions (and sub-questions if such have been defined). When it is not possible to do so, this needs to be explained in the audit report. Findings must be systematically based on evidence. This includes objective arguments and logical reasoning that can be considered as analytical evidence. Based on these findings, the next step is to develop *conclusions*. Auditors should avoid simply repeating the findings. Rather, there are often reasons to address findings more overall, highlighting the relations between different findings. Ideally, conclusions should be of an overall nature and address the audit objective.

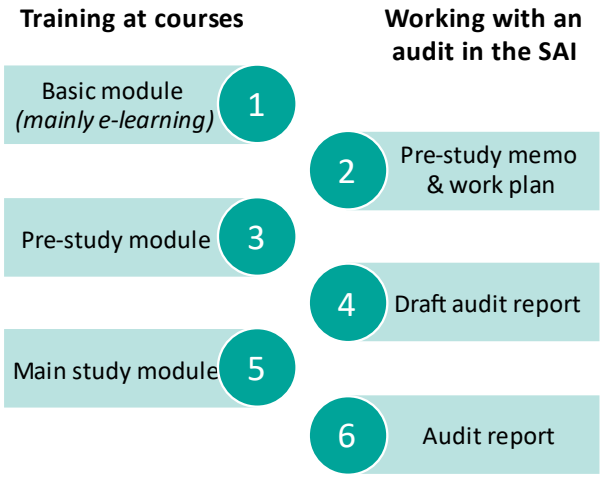
When relevant and the mandate allows it, performance auditors are also expected to formulate *recommendations*. The recommendations should address the causes of main performance problems, be practical and realistic, and be directed to those responsible for taking initiatives for improvement. They should also follow logically from the findings and conclusions, thereby making the whole conceptual framework of the audit coherent and consistent.

While the conceptual framework may look sequential in the illustration, practical audit work is not, in fact, a series of sequential activities. In designing the audit, the problems, objectives, questions, criteria, the need for empirical knowledge, and study designs and methods are considered in one and the same process. The main study is largely an iterative process in which data is collected and analysed step by step to form evidence that can be used to gradually develop findings addressing performance problems, their reason and their consequences. In the course of this process, there may be a need to redefine the study design, methods for data collection, analysis and criteria. As the auditors' knowledge increases during the audit process, it is important to be prepared to adjust the design of the audit based on the best available knowledge. Sometimes, the audit question, or even the objective, may need to be revised or modified.

4.4 The AFROSAI-E three-module courses

The performance auditing training provided by AFROSAI-E in the three-module courses is based on a combination of theory and practical work. The main structure of the courses is shown in Figure 6 below.

Figure 6. Structure of AFROSAI-E three-module courses in performance audit



5 Institutional capacity for performance auditing

This chapter is organised according to the five domains in the Institutional Capacity Building Framework (ICBF) developed by AFROSAI-E. A reader with limited previous knowledge of performance auditing may benefit from first reading Chapters 6–9. This will give a better understanding of the performance audit process and what is required to carry out high-quality performance audits.

ISSAI 140 – a quality framework for SAIs

ISSAI 140 outlines the quality management system that SAIs are expected to establish and implement.[23] The emphasis lies on managing quality and associated procedures in a risk-based and dynamic way to achieve the required level of quality rather than implementing a defined set of quality control procedures. The system involves a broad approach to quality management. SAIs are free to design, implement and operate a system of quality management, taking into account their changing nature and circumstances. SAIs will manage their system of quality management in a dynamic way by adapting it to changes in the nature and circumstances of the SAI and its engagements.

ISSAI 140 has been built around seven organisational requirements, reflecting the quality management process:

- Establishing a system of quality management.
- Establishing quality objectives.
- Identifying and assessing quality risks.
- Designing and implementing responses.
- Monitoring the system of quality management and remedying identified deficiencies.
- Evaluating and concluding on the effectiveness of the system of quality management.
- Documenting the system of quality management.

AFROSAI-E Institutional Capacity Building Framework

ICBF can be used:

- As a tool for a SAI's general self-assessment.
- For an SAI's identification of areas of improvement and how these can be achieved with an institutional perspective (capacity building).
- For a SAI's benchmarking with other SAIs.
- As a basis for common vocabulary and thinking (strategic and other) among AFROSAI-E members.
- As a basis at the AFROSAI-E secretariat for planning, development of manuals and guidelines, workshops, monitoring, and evaluation.

[23] This Handbook refers to the new version of ISSAI 140 coming into force 1st of January 2025, replacing the previous version Quality control for SAIs.

The five domains in the ICBF are:

- Independence and legal framework (Section 5.1).
- Organisation and management (Section 5.2).
- Human resources (Section 5.3).
- Audit standards and methodology (Section 5.4).
- Communication and stakeholder management (Section 5.5).

The SAIs in the region annually respond to a self-assessment questionnaire from AFROSAI-E. The answers are used to monitor the development of the SAIs and analyse institutional development in the annual publication, *Activity Report*.

According to decisions taken by the Auditors General, AFROSAI-E also carries out quality assurance reviews of the SAIs' operations, including reviews of the performance audit practices. For the reviews, AFROSAI-E utilises performance audit experts from SAIs in the region, institutional partners, and the AFROSAI-E secretariat. The reviews are based on the methodology in AFROSAI-E Quality Assurance Handbook. The review model has been adjusted for the performance auditing review so that the criteria are identical to the dimensions used in the Performance Measurement Framework (PMF) but sorted according to the ICBF.[24] However, the criteria for the two dimensions have been replaced as they cannot be used independently of the PMF scoring model. AFROSAI-E also uses a few additional criteria to fully cover the requirements in ISSAI 3000.

5.1 Independence and legal framework (ICBF Domain 1)

ISSAI 3000 STATES

- The standard for performance auditing (ISSAI 3000) in no way overrides national laws, regulations, or mandates. *ISSAI 3000:12*

This Section discusses:

- Different systems of accountability for SAIs in the region (Section 5.1.1)
- Independence and a mandate for performance auditing (Section 5.1.2)
- The value and benefits of SAIs (Section 5.1.3).

5.1.1 Different systems of accountability for SAIs in the region

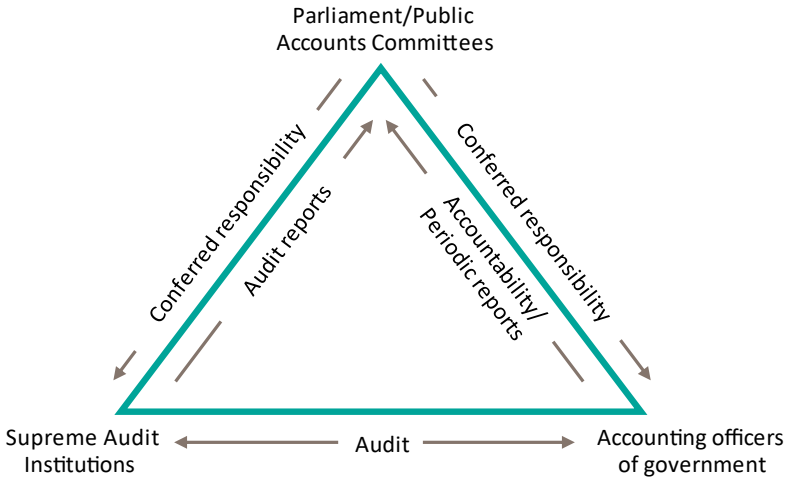
Most SAIs in the AFROSAI-E region operate within what is commonly referred to as the Westminster system of accountability, based on the system first developed in the United Kingdom. Figure 7 shows a typical Westminster system relationship between parliament and its Public Accounts Committee (PAC), the SAI, and government executives or accounting officers.

Parliament confers responsibility on accounting officers to manage funds and deliver services economically, efficiently, and effectively. The accountability mechanisms put in place include periodic reporting; the SAI's responsibility in this process is to audit the financial information presented by government executives and provide a report thereof to parliament. The SAI can usually also report on the economy, efficiency, and effectiveness with which the allocated resources have been used. The SAI's reports are only the first step in oversight. Representing parliament, the PAC is the main stakeholder of the SAI's reports. It is the task of the PAC to ensure that the issues raised in audit reports are further investigated when necessary and that actions taken by

[24] The Performance *Measurement Framework (PMF)* was developed by the INTOSAI Development Initiative (IDI) with the assistance of SAIs and other organisations. The AFROSAI-E secretariat played a major role in developing the criteria for performance auditing.

accounting officers are followed up. Effective oversight in a Westminster system relies heavily on a well-functioning relationship between the SAI and the PAC.

Figure 7. The Westminster system of accountability and oversight in government



Angola and Mozambique have an accountability system in which an administrative court with judges makes rulings and can sanction government officials. The box below describes what this means for reporting and following up on performance audits.

EXPERIENCES IN THE REGION – SAI MOZAMBIQUE
PERFORMANCE AUDIT IN A JUDICIAL SYSTEM OF ACCOUNTABILITY

The Administrative Court of Mozambique has three sections. The Public Accounts sub-section processes all audits under the third section. This section has five judges, each assigned to oversee a number of audits. Any performance audit must be authorised by one of the judges before the audit process is commenced. During the audit, the judge is not involved. However, the judge is involved in authorising the audit team to issue the report to the audited entity for contradictory comments from the audited entity.

When the report is ready, it is submitted to the judge. The judge works together with two counsellors, an accountant and a lawyer. The counsellors analyse the audit procedures, the evidence gathered, the comments of the audited entity and the recommendations made by the audit team. If clarifications are needed, the counsellors consult with the audit team. Once the report has been thoroughly analysed, the judge in charge of the audit presents it to the plenary of five judges in the Public Accounts sub-section. Together, the five judges decide on approval of the report.

Once the report is approved, it is sent to the audited entity to implement the recommendations. As the judges also make an Administrative Court ruling on performance audits, the law indicates that all recommendations made by the court's auditors should be implemented. The judges can decide on sanctions if the responsible official does not implement audit report recommendations. It remains to be seen whether the judges will also use this opportunity in the case of performance audits.

After the judges approve it, the report is submitted to the government and parliament for divulgation, according to Law No. 8/2015, on the organisation, functioning, and process of the Public Accounts subsection of the Administrative Tribunal.

5.1.2 Independence and a mandate for performance auditing

In December 2011, the General Assembly of the United Nations (UN) adopted a resolution recognising that SAIs can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. The UN also recognised the important role of SAIs in promoting the efficiency, accountability, effectiveness, and transparency of public administration, which is conducive to achieving national development objectives and priorities as well as internationally agreed development goals. In its resolution, the UN encourages Member States to apply the Lima Declaration and the Mexico Declaration on SAI Independence[25] in a manner consistent with their national institutional structures. [26]

According to INTOSAI-P 10:3, the mandate for the SAI should include the right to audit the use of public resources, the collection of revenues, and the economy, efficiency, and effectiveness of government or public entities' operations. It does not question the intentions and decisions of the legislature, depending on the SAI's mandate, but examines whether any shortcomings of the laws and regulations or their implementation have prevented the specified objectives from being achieved.[27]

While respecting the laws enacted by the legislature that apply to them, SAIs are also free from direction or interference from the Legislature or the Executive in the:[28]

- Selection of audit issues
- Planning, programming, conducting, reporting, and follow-up of their audits
- Organisation and management of their office
- Enforcement of their decisions where the application of sanctions is part of their mandate.

The right of the SAI to have discretion in the selection of audit issues and the freedom to decide the content and timing of reports are of particular importance in performance auditing. SAIs should also have adequate powers to obtain timely, unfettered, direct, and free access to all the necessary documents and information. Other important aspects include the requirement for audited entities to comment on findings within an established period of time, the right to separately report performance audits to parliament, and the right to make the reports available to the general public.[29]

SAIs cannot be absolutely independent because they are part of the State as a whole. However, they should have the functional and organisational independence to perform performance audits effectively.[30] In the AFROSAI-E region, limitations to SAIs' independence are common, for example, concerning staff recruitment and Executive involvement in allocating resources to the SAI. Such limitations can influence how the SAI applies performance auditing.

Many SAIs in the region have an explicit mandate to audit the economy, efficiency, and effectiveness of government. In some cases, SAIs interpret their mandate to allow for performance auditing, even when this is not explicit. Each SAI must operate within the limitations provided by legislation. On the other hand, the UN resolution makes it clearly legitimate for SAIs to try to

[25] INTOSAI-P 1 and INTOSAI-P 10.

[26] Resolution adopted by the General Assembly on 22 December 2011 [*on the report of the Second Committee (A/66/442)*] 66/209. Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions.

[27] ISSAI 300:12 and ISSAI 3000:31.

[28] INTOSAI-P 10:3.

[29] See INTOSAI-P 1, Sections 4, 5 and 16; and INTOSAI-P 10:3–4.

[30] INTOSAI-P 1, Section 5.

influence the legislation to better meet the expectations of the Lima Declaration and the Mexico Declaration.

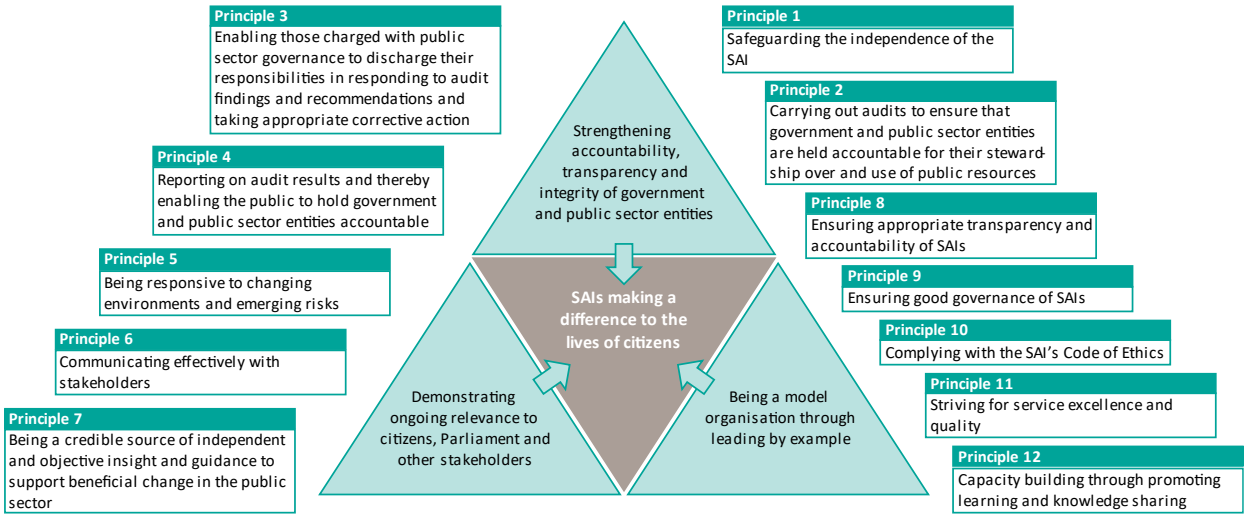
5.1.3 The value and benefits of SAIs

An independent, effective, and credible SAI is an essential component in a democratic system, where accountability, transparency, and integrity are indispensable parts of a stable democracy. SAIs can show relevance by appropriately responding to:

- Challenges of citizens
- Expectations of different stakeholders
- Risks and changing environments in which audits are conducted.

To fulfil their functions and ensure their potential value to citizens, SAIs need to be seen as trustworthy. SAIs only deserve trust if they are objectively judged as credible, competent, independent, and can be held accountable for their operations. They need to be model institutions, setting an example from which others in the public sector and the auditing profession at large can learn. The *Value and Benefits of SAIs*[31] provides objectives and principles that SAIs should strive towards to enable them to communicate and promote their contribution to democracy and accountability in their respective jurisdictions (see Figure 8). The principles apply equally to SAI staff and those who undertake work on behalf of the SAI.

Figure 8. Objectives and principles in INTOSAI-P 12 on the value and benefits of SAIs



[31] INTOSAI-P 12.

5.2 Organisation and management (ICBF Domain 2)

ISSAI 3000 STATES

- Performance auditing carried out by SAIs is an independent, objective, and reliable examination of whether government undertakings operate in accordance with the principles of economy, efficiency, and effectiveness and whether there is room for improvement. *ISSAI 3000:17*
- Performance auditing aims to contribute to improved economy, efficiency and effectiveness, good governance, accountability and transparency. It seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. *ISSAI 3000:18*
- The role of the auditor is fulfilled by the Head of the SAI and by people to whom the task of conducting the audits is delegated, which comprises the audit team and those in charge of supervision and management. *ISSAI 3000:6*

This section discusses:

- Developing a performance audit function (Section 5.2.1)
- Further development of performance auditing (Section 5.2.2)
- Organisation of the performance audit function (Section 5.2.3)
- Overall planning – selecting audit topics (Section 5.2.4)
- Managing the performance audit process (Section 5.2.5).

5.2.1 Developing a performance audit function[32]

There are several issues that the Head of an SAI needs to address when developing a sustainable capacity for performance auditing. Successful implementation of performance auditing requires political support, appropriate regulations, leadership, active management involvement, and recruitment and training of staff with appropriate skills. The Head of the SAI needs to ensure sufficient funding and, as needed, seek partners to assist in building capacity for managing and conducting performance audits.

If there is not already a suitable *legal mandate* for performance auditing, the SAI needs to seek legislative changes to obtain a suitable legal mandate that comprises the following criteria:

- A mandate to carry out performance auditing on the economy, efficiency, and effectiveness of government programmes and entities
- Freedom to select what to audit, when to audit, and how to audit, as well as to conclude and report on findings
- Freedom to place the audit results in the public domain
- Access to all information needed to conduct the audit
- Freedom to decide who to recruit.

It is important that the Head of the SAI consider that performance auditing is significantly different from financial and compliance audits, is demanding, and takes time to implement. The Head of the SAI needs to communicate a clear vision of the purpose of performance auditing and the desired outcomes to be achieved. The introduction of performance auditing requires a personal *commitment from the Head of the SAI*, and it is also important *to get management actively involved and professionally trained*.

[32] This section mainly summarises paragraphs 17–60 in the appendix to GUID 3910.

HOW TO GET STARTED WITH PERFORMANCE AUDITING*	
Begin on a small scale, with a pilot and focused themes.	Look for audits that can lead to quick wins and are not too complicated so they are within the SAI's capacity to carry out. These may be, for example, audits related to performance management, time and resources management, systems for inspection and control, public procurement, and service delivery (for example, waiting times).
Determine the resources needed.	The SAI should take into account the costs related to building up the necessary competence and conducting the audits. While a few full-time auditors might conduct initial performance audits, a good ambition might be for the performance auditing staff to grow to perhaps 15 staff within 18 to 36 months. For the performance audit function to have sufficient professional weight, an even larger number of staff would be useful. While initial performance audits might be staffed by financial and compliance auditors, the SAI could eventually recruit people with solid experience from analytical work and a research background. Eventually, the performance audit function might consist of people with academic backgrounds from a variety of disciplines. The SAI may seek partnerships with donor organisations, academic institutions, other SAIs, and AFROSAI-E to support its development.
Raise awareness within the SAI.	One key message to pass on to staff is that the Head of the SAI considers developing performance auditing an important priority.
Do not set up detailed systems and procedures at an early stage.	The burden of developing audit manuals and quality management arrangements can be prohibitive for starting on performance auditing. Initially, the SAI can use the GUID 3910 and GUID 3920, the *AFROSAI-E Template Manual,* or the *IDI Performance Audit ISSAI Implementation Handbook* for guidance in the audits. Approaching the first performance audits with a 'pilot mentality' can be quite helpful in terms of all parties understanding what needs to be learned and that mistakes might be made. The capacity can then be built step by step, starting with capacity for the production itself (including management control) and further development of systems for quality control. Once these elements are established, systems for quality assurance can be developed.
** Based on advice on how to get started provided in paragraphs 45–60 in the appendix to GUID 3910.*	

Experience proves that introducing performance auditing will often require changes in attitudes, management style, organisational behaviour, recruitment practices, etc. It requires leadership to publish critical performance audit reports, which may be challenging, especially in an environment that is less used to such criticism. It takes courage to reveal performance problems in government programmes or services, even when backed up by reliable, objective, balanced empirical evidence and arguments. Performance auditing requires skills which SAIs with limited or no experience in the field will have to acquire.

It is important that the SAI *build relationships with stakeholders* regarding performance auditing. The Head of the SAI should be prepared to promote the value of performance auditing to stakeholders. The SAI must identify its key stakeholders and establish effective two-way communication with them. One reason for doing this is to enable the SAI to fully understand the needs and expectations of the different groups to guide the SAI's decisions. Another reason is to allow the SAI to explain the purpose of performance auditing to stakeholders. The importance of communication with the *legislature, PACs, audited entities, citizens, media and other stakeholders* is a theme that is highlighted in several chapters of this Handbook.

Performance auditing requires special competencies, flexibility, imagination, and analytical skills. The ability to *recruit the right staff* is a critical factor. It is well understood by SAIs with long

experience in performance auditing that conducting performance audits requires different skills from financial and compliance auditing. Performance auditors are generally required to hold a university degree. Experience in qualified investigative or evaluation work is an advantage. Personal competencies like creativity, receptiveness, integrity, and oral and written skills are vital. It is also necessary to be familiar with methods applied in social sciences as well as other relevant methods and skills. Sound knowledge of organisational management also helps to ensure that performance auditors make realistic and achievable suggestions for improvements.

It is essential to ensure that *competence is built up step by step* and to stimulate knowledge sharing and learning in the organisation. Recruiting a *competent operational manager* is of strategic importance. The manager is a key factor for sustainable capacity building. In the longer term, how to develop capacity for methodological, analytical, and professional *in-house training* should be considered. There is also a need to address the conditions, *standards, and guidelines that will safeguard quality* and sustainability. This includes a well-functioning process for the efficient production of performance audit reports.

5.2.2 Further development of performance auditing[33]

The capacity for performance auditing should be built progressively over several years. The keys to success will lie in being realistic about the SAI's ambitions and about being flexible in its approach. The following provides a high-level outline of some issues that the SAI will need to consider as it works to build its performance auditing capability.

A key factor to the sustainability of the performance audit function in the SAI will be establishing an *operational manager* role that is responsible for the development and oversight of the function. Ideally, the operational manager and the performance audit function should be supported by a member of the SAI's top management. Such a person can act as a manager accountable for the function, a 'champion' to help promote the benefits of performance auditing and ensure that the function gets the necessary resources to help build its ongoing success.

The auditors' competence, ability, and attitude are vital to the function's success. Performance auditing covers the full spectrum of public administration, and it is vital for this to be reflected in the skills and competencies of staff. *Recruitment of performance auditors* often targets people with:

- Academic qualifications in areas such as social sciences or broader investigative and evaluation work
- Personal qualities, including integrity, creativity, judgement, analytical skills, and oral and written communication skills.

For particular audits, subject matter experts may be needed to temporarily support the auditors. Engaging subject matter experts can improve the quality of the audit and contribute to the auditors' professional development.

Initial training in performance auditing and the SAI processes is needed, as well as *continuing professional development* in areas that will improve auditors' skills and the SAI's capability. A combination of internal and external training can be used to improve personal abilities (such as writing, communication, and analysis) as well as technical skills (such as interview techniques, descriptive statistics, and using specific IT software). From a sustainability perspective, developing a balanced internal training capacity that covers methodological, analytical, and professional areas will assist in building a solid learning environment. The more a learning culture can be developed and promoted within the SAI, the greater in-house knowledge sharing can be utilised to improve staff skills and experiences and the overall quality of published reports.

[33] This section is largely based on paragraphs 61–73 in the appendix to GUID 3910.

EXPERIENCES IN THE REGION – SAI LESOTHO
IN-HOUSE TRAINING AND PROFESSIONAL DEVELOPMENT

The Directorate of Performance Audits at SAI Lesotho has established a system for in-house training sessions for all managers and auditors every second week or as often as needed. The sessions are scheduled and are continuously updated with topics and presenters. All members of the directorate are expected to attend these sessions unless they have pre-approved reasons. The schedule of sessions must be taken into account when planning audit activities so that time is made available for everyone to attend the sessions.

Staff members and managers identify the need for training and propose topics to the senior auditor, who coordinates the sessions. Sessions can also be based on materials from local or regional training and meetings and can cover other topics that may interest the auditors, such as time management, facilitation skills, and team building. The responsible senior auditor liaises with the director or audit managers to identify suitable people within the directorate or outside to facilitate each session.

The director also holds 'staff development talks' with each member of staff at the beginning of every year to craft their developmental plans according to their professional development needs. The talks include goals for the year, development needs, and development plans for the next six months and another six to twenty-four months. Staff members are always encouraged to pursue senior degrees in fields such as finance and audit, public policy and development, project management, project monitoring and evaluation, risk management, and other relevant fields.

Each staff member's developmental needs are agreed upon, approved by their immediate supervisor, and included in their annual performance management contract.

Many of the methods applied in performance auditing lie within the scope of academic fields such as social and economic research. Therefore, developing relationships and collaboration with experienced external researchers over time can bring an additional independent dimension to the work supporting a performance audit.

Developing a mature and sustainable performance audit function within an SAI involves *establishing a framework for performance auditing supported by manuals, policies*, and quality management systems. This framework should be progressively developed as the performance audit function matures. It is recommended that SAIs develop a manual that reflects the SAI's mandate, policy, division of responsibilities, and processes for performance auditing. One option is to customise the AFROSAI-E *Template Performance Audit Manual*. Other options include finding inspiration from existing manuals in other SAIs, GUID 3910 and GUID 3920 or the *IDI Performance Audit ISSAI Implementation Handbook*.

The development and introduction of manuals, policies, procedures, and other supporting tools will play an important role in consolidating and institutionalising performance auditing in the SAI over the longer term.

5.2.3 Organisation of the performance audit function

SAIs often organise their performance auditing separately from financial and compliance auditing and include auditors with different backgrounds and skills from those selected for the other audit types.[34] This makes it easier to establish a professional performance audit environment and culture. Another argument for having separate units is that the nature of the work differs significantly from other audit types. Financial auditing is mandatory and must often be carried out under high pressure to complete audits in a short time. The nature of performance auditing is different, with longer working processes and usually no explicit requirement on the volume of audits to be carried out.

[34] GUID 3910:77.

Generally, SAIs in the region have chosen to organise performance auditing in a separate department or unit, even though some SAIs have not been able to recruit staff with a professional background other than accounting. According to the AFROSAI-E ICBF, an SAI should have at least ten performance auditors to establish a unit that can be sustainable. At that level, the SAI is expected to produce at least three reports per year regularly. While it is impossible to generalise how large a performance audit function should be at an SAI, it is worth noting that the Lima Declaration states that economy, efficiency, and effectiveness are audit objectives of equal importance to the legality and regularity of financial management and accounting.[35] Based on this notion, each SAI needs to set its own priorities.

Most SAIs in the region use a small proportion of their audit resources for performance auditing. This is likely to be influenced by the maturity of systems for accounting, financial management and reporting, and compliance. In contrast, some SAIs in OECD countries use 40–50% of their audit resources on performance auditing.[36]

In the early stages of the development, there is a need for a hands-on operational manager who can guide and assist the performance audit teams. It is usually difficult for an operational manager to supervise more than three to four teams if the auditors have limited skills and experience and need close and hands-on supervision and support. In a well-developed performance audit function, on the other hand, highly experienced team leaders may make hands-on operational managers redundant – reducing the number of managers and the hierarchical levels.

Performance, financial and compliance auditors need to cooperate

Separate organisational units for performance and financial/compliance auditing call for cooperation between auditors in the different units. This is necessary for the SAI to use the available resources efficiently to produce good audit reports that are followed up and result in improved performance. Some topics that may be addressed in performance audits, such as procurement, are also of core interest in other audit types. Financial audits always target individual entities, although some transversal themes are often chosen for audit across the audited entities. It can be easier to lift common problems to the level of systems in performance audits and consider whether regulations are appropriate. Examples of links between performance auditing and financial or compliance auditing that should be taken into account are that:

- Performance auditors may find the *AFROSAI-E Financial* and *Compliance Audit Manuals* helpful in developing their understanding of financial risks and controls in relevant areas and possibly use elements in the checklists.
- Financial and compliance auditors may have country-specific checklists, e.g. regarding procurement, which may also be considered in a performance audit.
- There may be findings in financial or compliance audits that indicate common problems across the public sector, for example, regarding the use of consultants or the use or maintenance of property, which can be considered topics for performance audits.
- Financial and compliance auditors may have useful documents and findings about different processes in the entities that can be addressed in a performance audit.
- When planning financial and compliance audits, it is important to consider whether findings and recommendations made in a performance audit should be followed up to ensure that identified problems are addressed and actions taken to improve performance.
- There may be audit topics where there is a need to use auditors from different audit disciplines.

[35] INTOSAI-P 1, Section 4.

[36] 40% of the audit resources should be used for performance auditing to reach level 4 in the ICBF.

Financial auditors visit the audited entities more frequently than performance auditors. This allows them to help explain the differences between audit types and follow up on specific requests for information made by performance auditors. This is especially important when the audited entities do not respond to requests and are located far from where the performance auditors are posted.

5.2.4 Overall planning – selecting audit topics

REQUIREMENTS ACCORDING TO ISSAI 3000*

- The auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter, with the goal of delivering as much added value as possible. *ISSAI 3000:83*
- The auditor shall select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify audit risks and problems. *ISSAI 3000:89*
- The auditor shall select audit topics that are significant, auditable, and consistent with the SAI's mandate. *ISSAI 3000:90*
- The auditor shall conduct the process of selecting audit topics with the aim of maximising the expected impact of the audit while taking account of audit capacities. *ISSAI 3000:91*

** The same requirements are referred to in Section 6.4 when choosing a more detailed focus of the audit.*

The box below includes an example of how audit topics are selected at SAI Namibia.

EXPERIENCES IN THE REGION – SAI NAMIBIA
SELECTION OF AUDIT TOPICS – ANNUAL PLANNING

During the year, all performance auditors at SAI Namibia spend some time on area-watching – staying updated with what is going on in the public sector, the debate in parliament, reading literature, and so on. Normally, priority sectors are identified and allocated to the respective sub-divisions during the annual planning process.

As part of the annual planning, the auditors conduct annual sector assessments in priority sectors within society to gain general knowledge about the sector(s) and monitor what is happening and what topical issues there are. Auditors also consider the SAI's strategic plan, ideas provided by top management, requests or information from PAC and other stakeholders, information from financial, compliance, and information systems auditors, and a database of potential audit topics.

Based on these sector assessments, the performance audit management assigns each auditor to probe further into highly rated audit topics and develop a proposal/motivation for a pre-study. Auditors spend up to two weeks on each topic proposal, doing further reading and desktop research to collect and evaluate relevant information available on the internet and annual reports for the auditee and within the SAI, such as different documents and information from financial auditors and the SAI's management.

The proposals they write should follow a standard structure and should not exceed 2–3 pages:

1. **Background.** A brief description of the area/problem, the objectives, systems, and internal controls.
2. **Identified risks.** A short explanation of issues where there is evidence of problems in the performance of entities within our mandate (including the source).
3. **Inherent risks.** Risks that are inherent in the activity, but where there are not yet clear indications of actual problems, should be explained and motivated in terms of significance for performance.
4. **Materiality.** Link the risks to materiality in terms of money, importance for citizens and context.
5. **Other factors.** Interest in the study/need for assurance, previous audits, ongoing or planned reforms and the SAI's time, competence, and financial resources to carry out the audit.
6. **Conclusions.** What the audit is expected to lead to.
7. **Recommendations** on whether or not to carry out a pre-study, indicating the opportunities for improvements and what sources of information are needed and can be used in a pre-study.

The motivation/proposals for audit topics are presented in a meeting with the Deputy Auditor-General and the whole department, discussing and anchoring the selection of possible topics. The proposed topics are ranked according to the criteria on relevance in terms of the mandate, materiality, risks to the three Es, auditability, and potential for change. The meeting recommends topics for inclusion in the coming year's annual plan.

Proposals for audits not included in the annual plan are kept in the database for consideration in the planning process for the coming years or as needed.

The first step in the performance audit process is to decide what to audit. Performance auditing should be directed towards topics or areas in which 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 can be expected to lead to substantial benefits for public finance and administration, the audited entities, or the general public. The focus is on whether government undertakings operate in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. For this reason, problems likely to be explained by a shortage of resources are typically not suitable topics for performance audits.

According to the ISSAIs, auditors should select audit topics through the SAI's strategic planning process by analysing potential audit topics and conducting research to identify risks and problems. 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 to the auditor's subsequent work. In this process, auditors should consider that topics should be sufficiently significant, auditable and within the SAI's mandate. The selection process should aim to maximise the expected impact of the audit while taking into account audit capacities, such as 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 must be complemented by professional judgment to avoid one-sided assessments.[37]

The auditors need to conduct some research to identify risks and indications of performance problems and to understand the topics and why potential audit entities seem to operate or perform as they do. The ISSAIs also recognise the opportunity for the legislature to request audits. It may be appropriate to have meetings to establish performance audit topics that are of interest to the legislature.[38]

The selection of audit topics is made in the SAI's overall planning. SAIs in the region use different tools to provide input to this process, such as area watching, discussions with experts, discussions with the PAC, and observations in other audit types. Management often allocates audit topics to different teams, but auditors who are developing the ideas for an audit may also be involved in the implementation.

Area watching means that during the year, the SAI monitors the development in different areas of the public sector. This is done by following the debates in parliament, reading articles in media, literature, and journals, visiting conferences and seminars, and discussions with colleagues and specialists in different fields.

Some SAIs in the region use risk assessment to identify audit topics. In this approach, the auditors first assess the risks of performance problems in different sectors, including developing proposals for audit topics and then aggregate this into an overall risk assessment for the SAI.

[37] ISSAI 300:36 and ISSAI 3000:89–94.

[38] GUID 3910, Appendix, paragraph 27.

EXPERIENCES IN THE REGION – SAI ZAMBIA
USING RISK ASSESSMENT IN ANNUAL PLANNING

In SAI Zambia, the selection of performance audit topics commences with area watching, an activity used by the SAI to identify topics for audits based on current developments in the country. The objective of area watching is to assess areas in the various sectors where there are reports of dissatisfaction by the public with service delivery, or performance-related problems by public entities. The performance audit unit liaises with the Auditor General and relies on financial and compliance audit reports produced by the different departments within the SAI to identify potential areas for performance audit investigations.

During area watching, an ongoing process throughout the year, the performance audit unit is organised into teams comprising two (2) to four (4) auditors to carry out sector assessment activities. The teams are grouped according to the National Development Plan (NDP) Strategic Development areas. The selected topics align with applicable developmental goals at the global level. The task of the auditors is to keep abreast of current developments and problems in the sectors during the year.

During area watching, assigned auditors will collect information through, for example, strategic and annual plans, debates in Parliament, executive decisions, budget allocations, the media, and public discussions by subject matter experts and other stakeholders. Results of the area watching are documented in WP 1 Sector Assessment, after which auditors will be required to propose an audit topic for approval by the Auditor General. Proposed audit topics are documented using WP 2 – Proposal for audit topic. The topics proposed by the various auditors will then be ranked using WP 3 (Scoring of proposed audit topics) to determine whether or not the area is auditable and will consider the mandate of the SAI, materiality, audibility, risk for the 3Es, and potential for change.

The selected topics are then ranked using WP 4 (Prioritisation of proposed audit topics), which is then submitted to the Auditor General for approval and inclusion in the annual work plan.

Performance audit topics should be chosen without outside pressure. The SAI must maintain its political neutrality. The SAI's independence does not preclude the parliament, its committees or the government from proposing matters for audit. Nevertheless, to maintain its independence, the SAI must be able to decline any such request and, if accepted, decide how to plan, conduct, and report the audit.[39]

There are many problems in a society, many of them largely affected by circumstances out of the direct control of the government, such as human behaviour, international markets, and weather conditions. The purpose of government policy is primarily to address societal problems, even when other factors influence the problem. Performance auditing does not address societal problems, such as environmental problems, but rather the government's response to them. Situations or events in government undertakings where the performance is unsatisfactory may be defined as 'problems' relevant to performance audit. It is important to distinguish between 'dilemmas' and "problems"; 'dilemmas' being difficulties that are natural in the sector and thus impossible or difficult to change for the public entities involved; and 'problems' being shortcomings that could be avoided, as it is within the ability of the public sector entities to improve the situation. The topics suitable for audits must encompass performance problems of public undertakings linked to one or more of the concepts of economy, efficiency, and effectiveness (see Section 3.3). In other words, having identified a problem of great importance in society does not necessarily mean that the auditors have found a suitable audit topic.

Many topics in performance auditing are politically sensitive because they may relate to the performance of public programmes prioritised by the government. Performance auditing examines whether legislature or executive decisions are efficiently and effectively prepared and implemented and whether taxpayers or citizens have received value for money. Depending on the SAI's mandate, it does not question the intentions and decisions of the legislature but examines whether any

[39] INTOSAI-P 10:3 and 10:6.

shortcomings of the laws and regulations or their implementation have prevented the specified objectives from being achieved. [40]

Political decisions and goals established by the legislature are often the starting point for identifying relevant audit criteria for assessing performance. It is not the role of a SAI to question these decisions and goals. However, as a result of its findings, an SAI may comment on the goals, for example, if they are inconsistent or if it proves impossible to follow up on the extent to which they have been achieved. The goals or objectives may be too vague, in conflict with other objectives, or based on insufficient information, making it impossible or difficult to achieve them. The policy may be inefficient and ineffective, and changes might be required to overcome existing shortcomings. Performance audits can also highlight the consequences of a given policy as well as identify and illustrate shortcomings resulting from conflicting goals, for example, because of a lack of coordination between different systems.

A strategic plan documents the main direction of the SAI's performance auditing. It spans several years and may cover the approach to performance auditing, the volume of audits, the size and qualifications for the staff establishment, the selection of topics (programmes or themes), and the principles for follow-up audits. The annual plan has a more operational character than the strategic plan. It often involves selecting topics to be completed or initiated during the coming year and is based mainly on area watching, risk analysis, and strategic planning. This plan deals with resource allocation, decisions on pre-studies, main studies, and other issues related to individual audits.

The same criteria are suggested for selecting audit topics in processes for overall planning as for selecting a focus for the main study in the individual audit during the pre-study phase (see Section 6.4). The level of detail in the analysis made during overall planning and pre-studies may vary between SAIs as well as between different audits. Among other things, this is influenced by the size of the performance audit function and level of specialisation of auditors, the availability of information through the internet, and SAIs's design of planning processes.

In the AFROSAI-E region, the criteria listed in ISSAI 3000:89–91 are commonly used for selecting audit topics. An obvious point of departure is that all topics considered for audits must be possible to design in accordance with the SAIs mandate. Other criteria for selecting topics are: the need for a ***material*** topic and ***risks of performance problems*** (problems related to the three Es), the need for an ***auditable*** topic (considering the SAI's capacities to carry out a high-quality audit, but also the timeliness, other work in progress and the political sensitivity) and the need for ***potential for change*** (the audit needs to be likely to contribute to the improvement of the functioning of government and its entities).

[40] ISSAI 3000:31.

CRITERIA FOR SELECTING AN AUDIT TOPIC	
Selection criteria presented in the AFROSAI-E course	**Considering, for example**
1. Materiality	Financial, social, and political relevance, significance or importance of the subject matter. Legislative or public interest, taking into consideration requests for audits.
2. Risk for the three Es	Inherent risks, identified risks, or observed indications of performance problems.
3. Auditability	Access to the required resources and skills, timeliness (for example, considering previous audit work, other studies or major work planned or in progress, or other developments likely to affect an audit). Reputational risks and political sensitivity.
4. Potential for change	Room for improvement and possible impact. Willingness to change weighed against the interest of transparency.

Factors that may indicate higher risk or uncertainty regarding the economy, efficiency, or effectiveness include:[41]

- Financial or budgetary amounts that are substantial or significant changes to the budget.
- Areas traditionally prone to risk (for example, IT systems procurement, technology, environment issues and health).
- New or urgent activities or changes in conditions, such as requirements and demands.
- Management structures that are complex, with possible confusion about responsibilities.
- Lack of reliable, independent, and updated information on the economy, efficiency, or effectiveness of a government programme.

SAIs may allow strategic choices to influence the selection of topics, such as the type of performance audit, policy spheres, and their relationship with reforms within the public sector.

Applying a thematic approach may be helpful for initial performance audit work as it enables SAIs to learn in a structured way. It creates possibilities to recognise similar public administration problems and use experiences from one area for new audits in another area. This, in turn, may have positive impacts on the efficiency of production and may provide opportunities for focused capacity building. Examples of potential topics or themes for initial performance audits might include:[42]

- Performance management: for example, the quality of setting objectives and targets and the monitoring and evaluation of results.
- Time and resource management: for example, the efficiency of organisational processes and the cost-consequences for service users and society.
- Systems for inspection and control: for example, whether systems are focused on significant organisational risks such as corruption, rather than compliance with lower-level procedures.
- Public procurement strategic functions and processes.
- Service delivery.
- Environment, climate change, and sustainability.
- Productivity and skills.
- Efficiencies.
- Personal safety and security.

[41] GUID 3920:13.

[42] Appendix to GUID 3910, paragraph 49.

Performance audits should normally be carried out where the audit is likely to contribute to change that otherwise would not have occurred over a reasonable period of time. In the AFROSAI-E region, performance management systems are still relatively unsophisticated. In the early years, one of the major contributions that performance audits can make is to help audited entities develop and improve their own performance management systems. The added value will, in this case, partly be to raise stakeholders' awareness of the problems.

There is no shortage of potential performance audit topics in the AFROSAI-E region. There are many examples throughout Sub-Saharan Africa of severely delayed or abandoned capital projects, over-ambitiously developed IT systems, a lack of clearly defined objectives and performance measures, poorly planned operations, poor service delivery, and similar problems. The challenge is to select topics where the audits can also contribute to reducing such problems in the future, addressing the factors contributing to the problems. Still, the greatest challenge for performance auditors worldwide, regardless of previous experiences, is to design and conduct every performance audit and write a high-quality report useful for stakeholders.

5.2.5 Managing the performance audit process

REQUIREMENTS ACCORDING TO ISSAI 3000

- The SAI shall ensure that the work of the audit staff at each level and audit phase is properly supervised during the audit process. *ISSAI 3000:66*

This section summarises the need for an active role of managers in the performance audit process discussed in Chapters 6–9 and discusses the operational management of efficiency in the audit process.

An active role for managers in the audit process

Managers play an essential role in the performance audit process; the less skilled and experienced the team leader and team members are, the more important the managers are. Managers are essential in terms of:

- Participating in identifying appropriate audit topics.
- Reviewing and deciding on pre-studies and work plans for main studies, approving the audit design, activity plan, budget, principles for monitoring and communication with the audited entities, and assessing risks in the audit.
- Regularly reviewing the progress of the audit.
- Supporting the audit teams when needed.
- Ensuring appropriate supervision of teams.
- Ensuring appropriate quality control.
- Reviewing draft reports.
- Participating in presenting the report when appropriate.
- Ensuring appropriate follow-up of the implementation of the audit engagement and the lessons learned.
- Ensuring appropriate follow-up of audit reports.
- Ensuring monitoring and evaluation of the quality management of the performance audit practice when the SAI has reached a certain level of development.[43]

[43] See Section 5.4 and AFROSAI-E recommendations in the *Quality Assurance Handbook* (2012).

Senior members of staff supervise the performance audit team by directing, supporting, and monitoring their work to ensure that the audit objectives are met. This involves:[44]

- Ensuring that all team members fully understand the audit objectives
- Ensuring that audit procedures are adequate and properly carried out
- Ensuring that audit evidence is relevant, reliable, valid, sufficient, and documented as well as supports the audit findings and conclusions
- Ensuring that international and national auditing standards are followed
- Tracking the progress of the audit to ensure that budgets, timetables, and schedules are met
- Considering the competence and capabilities of individual team members, whether they have sufficient time to carry out their work, understand their instructions, and carry out their work in accordance with the planned approach
- Addressing significant matters arising during the audit, considering their significance and modifying the planned approach appropriately
- Supporting the auditors as and when needed to overcome challenges in the audit
- Providing hands-on support in solving issues that arise
- Identifying matters for consultation or consideration by more experienced auditors
- Reviewing the audit work.

EXPERIENCES IN THE REGION – SAI GHANA
"SUPERVISION" ALSO MEANS ASSISTANCE AND SUPPORT TO PROFESSIONAL DEVELOPMENT

During a team meeting with their supervisor, the supervisor identified one auditor who had difficulty writing reports from data collected during the fieldwork. The supervisor scheduled a coaching session with the auditor. At the meeting, the supervisor used his experience and expertise and, through questioning, helped the auditor identify his challenge area. The supervisor then guided the auditor in developing options on how to build capacity to overcome his challenge. The auditor identified two options to pursue: self-tuition and attending seminars on report writing. The supervisor helped the auditor develop his own training plan and provided support to the auditor by regularly checking on the auditor and his progress.

Operational management of efficiency

The adopted standards and the SAI's performance audit manual outline the framework and map out the main concepts, requirements, and audit process for performance auditing. In addition to being reference material for staff, a manual adds value by establishing clarity of purpose and promoting consistency in the process, supporting compliance with legislation and standards, providing an overview of performance auditing for new staff members, and making work practices more efficient.

As performance auditing is time-consuming and expensive, it is essential that it is properly planned – with a clear design, budget, and activity plan – and that the implementation of the audit is monitored. Performance audit planning is a tool to guide the audit in situations with varying degrees of uncertainty. Making realistic plans is challenging since the initial knowledge is limited. As the knowledge increases step by step during the audit, auditors and managers need to consider whether the new knowledge should lead to a revision of the design and plans for the audit. It is important not to be reluctant to change the plan when appropriate in order to produce a high-quality audit report.

[44] GUID 3910:82.

Some SAIs in the region face difficulties in terms of delays in the production of audit reports. It usually takes a long time to complete a performance audit. However, delays can also often be avoided. These may be delays due to:

- Use of performance auditors for other assignments.
- Delays in releasing funding.
- Inadequate monitoring of the progress of the audit.
- Unavailability of public officers for gathering information.
- Poor work discipline among auditors.
- Delays in management review of draft pre-studies and approval of the main study.
- Delays in management review of draft audit reports and approval of reports.
- Delays in the audited entities' commenting on draft reports or providing requested information.

Some measures that can be taken to reduce the processing time for performance audits are:

- Do not choose audit problems that are too complex without having developed an appropriate capacity for dealing with them. Sometimes, different aspects of a very important topic can be addressed in more than one audit – making each audit less complex.
- Choose thematically related audits.
- Carefully consider the audit and develop a specific activity plan for what needs to be done during different time periods, setting dates for main deliveries and achievements.
- Do not make the activity plan too detailed, for example, by indicating dates for every planned meeting. This will make it more difficult to keep it up-to-date and relevant.
- Organise close supervision of audit teams to support them.
- Ensure regular monitoring of the progress of audit by management, in substance as well as in terms of costs and timing. This includes regular reporting and involvement of top management; this may lead to corrective actions and, when needed, revision of the work plan. In performance auditing, there is no value in following a plan that, according to current knowledge, is no longer relevant.
- Ensure that management reviews of pre-studies and draft reports are given priority and are not delayed.
- Do not accept situations in which representatives of the audited entities make themselves unavailable or repeatedly do not submit requested information; raise the problem with the supervisor, the audit manager and, if necessary, top management. There is always the possibility of contacting the audited entities at a higher level to try to obtain the requested information or a meeting.
- Do not accept situations in which audited entities do not submit comments on draft reports within a reasonable time. The Auditor-General may be willing to inform audited entities not responding on time that unless they respond within a set deadline, the report will be published anyway – together with information stating that they have not responded as requested.

Resource-intensive performance audits also require SAIs to have sound knowledge of how the resources are used and regularly consider how activities are prioritised and whether the available resources can be used more efficiently. It is particularly important to monitor the use of staff for different activities, which requires a time-reporting system.

Quality management processes are important in ensuring consistency and efficiency in audits. SAI management should set criteria to evaluate the quality of audits and targets to measure efficiency. In addition, mechanisms should be put in place to provide management with information periodically on the progress of the audits.

5.3 Human resources (ICBF Domain 3)

The SAI needs to recruit, train, and retain qualified auditors. It must also ensure that the audit teams have the *appropriate competence* (Section 5.3.1) to perform the audit and that the auditors apply *professional judgement and scepticism* (Section 5.3.2), *professional behaviour, and willingness to innovate* (Section 5.3.3), as well as comply with the *ethical requirements* (Section 5.3.4) in each engagement.

5.3.1 Appropriate competence

REQUIREMENT ACCORDING TO ISSAI 3000

- The SAI shall ensure that the audit team collectively has the necessary professional competence* to perform the audit. *ISSAI 3000:63*

** Relevant professional competence includes having sound knowledge of auditing, social science methods, evaluation techniques, personal abilities (analytical capacity, writing and communication skills, creativity and receptiveness), knowledge of functions related to the subject matter and sometimes more specific expertise. ISSAI 3000:64*

Auditors in performance audits typically work in a team that includes different and complementary skills.[45] It is not good practice to conclude a performance audit alone since the issues involved are complex.[46]

According to ISSAI 300:30 and ISSAI 3000:63–64, the audit team should collectively have the necessary professional competence to perform the audit. This will ensure that the right areas are selected for audit and that auditors can effectively undertake reviews of government programmes and activities.

This competence should include sound knowledge of auditing, research design, social science methods, investigation or evaluation techniques, and personal abilities such as analytical capacity, writing and communication skills, creativity, and receptiveness to views and arguments. Performance auditing also requires sound knowledge of government organisations, programmes, and functions related to the subject matter of the audit. It may also require expertise in social, physical, computer, or other sciences and legal expertise.

EXPERIENCES IN THE REGION – SAI TANZANIA
GOOD COOPERATION ENABLES US TO RECRUIT THE PERFORMANCE AUDITORS WE NEED

SAI Tanzania does not have a full mandate to hire and fire its own staff. Instead, the SAI has to apply for permission to recruit staff from the *President's Office – Public Service Management (PO-PSM)*. The PO-PSM decides on the number of new recruits to be employed by the SAI for that particular period. Sometimes, they decide that public offices, including the SAI, are only allowed to recruit, for example, 50 % of the actual needs. Once the PO-PSM has agreed on the calibre and number of staff, the *Recruitment Secretariat (RS)* within the President's Office starts the recruitment process.

The SAI has agreed with the President's Office on how to work together on recruitment to ensure that the SAI gets the staff with the qualifications it needs without affecting its mandate:

- The SAI proposes the number, *professional background and calibre of the new recruits*, based on an analysis of the existing mix of staff with different professional backgrounds in relation to the needs
- The SAI *prepare the advertisement* for vacant positions and submits it to the PO-PSM for approval; the RS then advertises the vacant post
- The PO-PSM invites the SAI to participate in the team of officers that *shortlists applicants*

[45] ISSAI 300:16; See also ISSAI 3000:63.
[46] GUID 3910:79.

- The SAI is usually given an opportunity to *formulate the interview questions* related to performance audit while the PO-PSM sets the more general questions; the SAI uses a Recruitment Kit developed by the Swedish National Audit Office, which provides guidance on setting the interview questions and assessing the responses
- The SAI has influenced the PO-PSM to include a *short written examination* where the candidates provide their answers on a computer – both to analyse the answers and to test the applicants' computer literacy
- The SAI is invited to *participate in the interviews*; the technical questions are usually handled by the representatives from the Performance Audit Division.

The SAI recruits performance auditors from different academic backgrounds, such as economists, statisticians, and engineers.

There may also be specific ways of acquiring the necessary skills. For each performance audit, the auditors need to have a good understanding of the audit area and the government measures that are the subject matter of the audit. 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. Therefore, on-the-job learning and training should 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 essential conditions for enhancing individual auditors' professional skills.[47]

When specialised expertise is needed, the audit team may consult individuals within the SAI and, if approved, external experts. Any external experts engaged with the audit also need to be independent of situations and relationships that could impair their objectivity. Although the auditor may use the work of experts as audit evidence, the auditor retains full responsibility for the audit work and the conclusions in the audit report. [48]

The SAI needs to review its need for performance auditors and what background and skills the SAI needs to carry out high-quality performance audits. The extent to which the SAI is independent in their recruitment varies. Some SAIs are restricted by establishments decided by a civil service commission or similar and may only be able to recruit accountants. While working towards increased independence in recruiting and managing staff, the SAI needs to seek close cooperation with the commission in such situations. It can be important to inform the commission that according to the Lima Declaration, performance auditing is equally important to traditional types of audit (financial and compliance) and often requires auditors with another academic background and different skills.

EXPERIENCES IN THE REGION – SAI UGANDA
RECRUITMENT OF AUDITORS WITH A MULTI-DISCIPLINARY BACKGROUND

Until 2008, all staff of the SAI were recruited by the Public Service Commission in line with the Public Service recruitment procedures. As such, to be an auditor in the SAI, one had to have an accounting background. The National Audit Act (2008) empowers the Auditor General to recruit staff as he deems necessary for the efficient performance of his functions. He does this in consultation with the Public Service Commission.

With the operational and financial independence gained through the Audit Act, the SAI has opened up the skills base of the staff required for performance auditing and recruited staff with degrees in law, procurement, statistics, economics, social sciences, environment, engineering, geology, and information technology.

[47] ISSAI 300:30.

[48] ISSAI 3000:65; See also ISSAI 300:30.

Currently, the Value for Money and Special Audit Directorate of SAI Uganda, which oversees the implementation of VFM/Performance audits as of 30 October 2023, has a technical staff strength of 82. Of these:

- 41 have an accounting background.
- 18 have an engineering background (16 in civil engineering and 2 quantity surveyors).
- 16 are economists/statisticians.
- 6 have a social science academic background.
- 1 is an environmentalist.

Additionally, the office has 25 specialists in other Directorates that can be coopted when the need arises, and these include:

- 11 with an information technology background.
- 11 lawyers.
- 1 in petroleum.
- 2 geologists.

Furthermore, where the need to engage experts in the form of individual experts or consultancy firms arises, the SAI has done so. This has been undertaken in the VFM audit and assessment of infrastructure projects with a financing arrangement with Development Partners such as the World Bank.

A SAI may not always be able to recruit people who meet all the requirements. The required skills may, therefore, be developed once a person has been employed, as long as candidates for appointment have clearly demonstrated a mindset and aptitude for the kind of work that performance auditing entails. The SAI should have a programme to ensure that staff maintains professional proficiency through continuous education and training. Learning through practical audit work is a key factor in the development process.[49]

EXPERIENCES IN THE REGION – SAI NAMIBIA
PERFORMANCE AUDITORS ARE NOT BORN, THEY ARE BRED

As you cannot acquire all the skills that a performance auditor needs through academic or professional training, SAI Namibia focuses on recruiting the right staff and training them extensively. A lesson is also that international exposure of staff is very useful in making them more competent.

A three-year degree in social sciences is usually enough for someone who applies for a post as a performance auditor in SAI Namibia. Once new auditors have been appointed, they are inducted and undergo the office's internal functional training course. Here, they are taught how government works and basic principles in financial management, compliance, information systems, and performance auditing. Continuous on-the-job training, refresher courses, and other training interventions are the order of the day. All performance auditors we currently employ have undergone the AFROSAI-E regional three-module course.

Performance auditors are not born, but they are bred. So, the SAI continuously analyses the needs and provides training accordingly. Workshops are arranged yearly, where the auditors retreat and discuss issues related to performance auditing and how to function better as a unit. We are also actively involved in AFROSAI-E activities, which enrich the individuals, the performance audit unit, and the SAI as a whole.

Performance auditors' backgrounds, skills, and experiences determine the need for training. The variety of topics and methods that may be relevant for performance auditing means that performance auditors are never fully trained. Continuous education and training may include such topics as current developments in performance audit methodology, research design, 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

[49] GUID 3910:77 and 79.

technology. It is good practice to require auditors to maintain their skills by obtaining a certain number of continuing professional development hours every year or within a two-year period.[50]

Experience proves that introducing performance auditing often requires changes in attitudes, management style, organisational behaviour, recruitment practices, and more.[51] While living up to high standards and requirements on professional skills and ethical behaviour, performance auditors need to be encouraged to develop critical (but constructive) thinking, creativity in finding ways to overcome challenges and obstacles, as well as curiosity in learning about government undertakings and methods for performance auditing. Their attitude to work needs to include a strong personal commitment, honesty and openness within the office, persistence, promotion of teamwork, and sharing knowledge and assisting colleagues to overcome challenges.

The SAI needs to use the many opportunities to support the professional development of performance auditors, for example, by:

- Encouraging/supporting academic education relevant to performance auditing.
- Providing induction training.
- Providing basic training in performance auditing.
- Organising the work to promote learning: allocate challenging tasks under supervision.
- Providing on-the-job training supporting the auditors.
- Using an encouraging and supporting management style for professional auditors.
- Providing regular further training, internal or external, in relevant subjects.
- Arranging in-house seminars
  - Sharing knowledge acquired by auditors participating in external training and conferences.
  - Discussing and developing methodological skills.
  - Sharing the lessons learned from completed audits.
- Encouraging auditors to obtain knowledge from subject matter experts in the audits.
- Encouraging contacts with academic institutions and professional organisations.

Performance auditors should have access to on-the-job learning and training. A learning mindset among individual performance auditors and an encouraging management culture are important conditions for enhancing professional skills.

5.3.2 Professional judgement and scepticism[52]

REQUIREMENT ACCORDING TO ISSAI 3000

- The auditor shall exercise professional judgment and scepticism and consider issues from different perspectives, maintaining an open and objective attitude to various views and arguments. *ISSAI 3000:68*

According to ISSAI 300:31 and ISSAI 3000:68, the auditor shall exercise professional judgment and scepticism and consider issues from different perspectives, maintaining an open and objective attitude to various views and arguments. Performance audits require significant judgment and interpretation since audit evidence for this type of audit is more persuasive than conclusive in nature. *Professional judgment* refers to the application of collective knowledge, skills, and experience to the audit process. Using professional judgment helps the auditor determine the level of understanding needed for the audit subject matter. It involves the exercise of reasonable care in

[50] GUID 3910:78–79.

[51] GUID 3910, appendix paragraph 19.

[52] See ISSAI 300:31 and ISSAI 3000:68–72.

the conduct of the audit and the diligent application of all relevant professional standards and ethical principles.

Professional scepticism means maintaining a professional distance from the audited entity and an alert and questioning attitude when assessing the sufficiency and appropriateness of the audit evidence obtained throughout the audit. Auditors are expected to make rational assessments and discount their own personal preferences and those of others.

Exercising *professional judgment and scepticism* allows the auditor to be receptive to a variety of views and arguments and better able to consider different perspectives, maintain objectivity, and evaluate the full range of audit evidence. It also helps to ensure that the auditor avoids errors of judgment or cognitive bias and draws objective conclusions based on a critical assessment of all the audit evidence collected. 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.

The concepts of professional judgement and scepticism are further elaborated in materials from the Canadian Audit and Accountability Foundation. Applying professional judgment includes, but is not limited to:

- Selecting audit objectives, audit questions and scope.
- Determining audit criteria against which actual performance will be judged.
- Determining what constitutes sufficient, appropriate audit evidence.
- Synthesising and analysing evidence to produce accurate and appropriate audit reports.
- Identifying when significant problems or differences of opinion warrant additional information or opinions being sought.
- Formulating appropriate recommendations to improve performance.
- Preparing reports that are fair, concise, complete, pertinent, logical, and emphasise individual issues properly.
- Communicating with the audited entities about the audit process, findings, conclusions, and recommendations.

Professional scepticism is the term used to describe the mindset of an auditor in critically assessing the audit evidence obtained during an audit. Scepticism is central to what an audit is about. Rather than approaching audit work in an unthinking, box-ticking way, the auditors should challenge the information given and the evidence obtained. Auditors must step back, look at the wider context, and ask, “Does that make sense?” Exercising professional scepticism by asking questions to test the accuracy of evidence, following up when things do not make sense and not accepting what management tells the auditor without corroboration helps to improve the strength of the evidence. Exercising professional scepticism is critical to ensuring the audit team is able to answer the audit questions and conclude against the audit objective with a high level of assurance. As they receive information, auditors should consider the overall picture:

- Does the information reflect the substance of what has happened?
- Does it make sense?
- Is the evidence too weak?
- Are we focusing on the things that are there but missing the things that are not there – but should be?
- Are there limitations to the scope of our procedures?
- What evidence is there besides what management has provided to us?
- Is there a need for more time to complete our audit?

5.3.3 Professional behaviour and willingness to innovate

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall maintain a high standard of professional behaviour. *ISSAI 3000:75*
- The auditor shall be willing to innovate throughout the audit process. *ISSAI 3000:77*

To maintain a high standard of *professional behaviour*, the auditor must:[53]

- Apply high professional standards in carrying out the work competently and with impartiality
- Not undertake work they are not competent to perform
- Know and follow applicable laws, regulations, conventions, policies, procedures, and practices
- Possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity
- Not engage in behaviour that may discredit the SAI
- comply with ethical principles and requirements.

The auditor must also be *willing to innovate* throughout the audit process. By being creative, flexible, and resourceful, the auditor will be in a better position to identify opportunities to develop innovative audit approaches for collecting, interpreting, and analysing information. It is important to recognise that different stages of the audit process provide different levels of innovation opportunities. During the planning stage, the auditor may have the greatest opportunity to innovate while still in the process of determining the best audit approaches and techniques applicable to the audit.

5.3.4 Ethical requirements

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall comply with the SAI's procedures for independence and ethics, which in turn shall comply with the related ISSAIs on independence and ethics. *ISSAI 3000:21*
- The auditor shall take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users. *ISSAI 3000:23*

According to ISSAI 100:35, a SAI should establish and maintain appropriate ethical procedures that will provide reasonable assurance that the SAI and its staff are complying with the ethical requirements. The ISSAI 130 Code of Ethics contains guidance in this regard. The existence of these procedures at the SAI level is a prerequisite for applying INTOSAI standards or developing national standards based on auditing principles.

The Code of Ethics applies to all those who work for the SAI. The Code addresses the responsibilities of SAIs as well as the ethical behaviour of all those who work for the SAI. It is based on five fundamental values and guiding principles in the box below.[54]

[53] ISSAI 3000:76.

[54] ISSAI 130:9.

KEY CONCEPT	MEANING
Integrity	To act honestly, reliably, in good faith, and in the public interest.
Independence and objectivity	To be free from circumstances or influences that compromise, or may be seen as compromising, professional judgement, and to act in an impartial and unbiased manner.
Competence	To acquire and maintain knowledge and skills appropriate for the role and act in accordance with applicable standards and with due care.
Professional behaviour	To comply with applicable laws, regulations, and conventions and avoid any conduct that may discredit the SAI.
Confidentiality and transparency	To appropriately protect information, balancing this with the need for transparency and accountability.

Each SAI is encouraged to develop or adopt a code of ethics, which should be at least as stringent as the INTOSAI Code. The SAI should also implement an ethics control system to identify and analyse ethical risks, mitigate them, support ethical behaviour, and address any breach of ethical values. The main components of the ethics control system are:[55]

- Code of ethics.
- Leadership and tone at the top.
- Ethics guidance.
- Ethics management and monitoring.

In each audit engagement, the SAI must ensure that the auditors comply with the ethical requirements based on the five fundamental values and guiding principles in the box above. In addition to complying with the ethical values, staff needs to take concrete action such as:[56]

- Identify situations where their integrity, independence, and objectivity can be impaired.
- Inform management about relationships and situations that may present a threat.
- Maintain and develop their knowledge and skills.
- Raise with their superior if their expertise is insufficient to perform a specific task.
- Sign declarations of interests and conflict to help identify and mitigate threats to independence.

Periodic staff rotation is normally not necessary or feasible in performance auditing, except on the rare occasion in which auditors repeatedly audit the same entity. However, it may be needed for some audit managers. The SAI may also need to consider whether they need to take other actions to avoid staff developing a relationship with the audited entity that threatens its independence over time.[57]

ISSAI 3000 further elaborates on some of the requirements in the Code of Ethics.[58] The auditor shall comply with the SAI's procedures for independence and ethics, which in turn shall comply with the related ISSAIs. Independence comprises independence in fact and independence in appearance. Independence in fact allows the auditor to perform activities without being affected by influences that compromise professional judgement; to act with integrity and exercise objectivity and professional scepticism. Independence in appearance is the absence of circumstances that would cause a reasonable and informed stakeholder, having knowledge of relevant information, to

[55] ISSAI 130:12–23.
[56] See ISSAI 130:35, 39, 51 and 58.
[57] Compare ISSAI 130:39 (f).
[58] ISSAI 3000:21–24.

reasonably doubt the integrity, objectivity, or professional scepticism of the auditor, or conclude that they have been compromised.

Another requirement is that the auditor must take care to remain independent so that the audit findings and conclusions are impartial and will be seen as such by the intended users. The auditor must consider specific risks to independence that may be present in performance audits. The auditor has a particular role in identifying audit criteria, measuring against them, and formulating a balanced audit report. In this regard, the auditor needs to remain independent so that the audit report is impartial and the ethical behaviour of the audit team is safeguarded. While it is important to consider the positions of relevant stakeholders and their interests and establish open and good communication with them, it is essential for auditors and the SAI to safeguard their independence.

5.4 Audit standards and methodology (ICBF Domain 4)

This section discusses:

- Standards and guidance (Section 5.4.1)
- Safeguarding quality in the performance audit process (Section 5.4.2)
- Review, monitoring and evaluation in the quality management system (Section 5.4.3)
- Confidence and assurance in performance auditing (Section 5.4.4).

5.4.1 Standards and guidance[59]

ISSAI 3000 states

- ISSAI 3000 is the *international Standard for Performance Auditing* and should be read and understood in conjunction with the *Performance Audit Principles* (ISSAI 300) and the *Fundamental Principles of Public-Sector Auditing* (*ISSAI 100).* ISSAI 3000:2*
- SAIs that choose to adopt ISSAI 3000 as their authoritative standard can directly reference it by stating: *We conducted our audit(s) in accordance with the International Standard of Supreme Audit Institutions for Performance Auditing (ISSAI 3000). ISSAI 100:10, ISSAI 300:8 and ISSAI 3000:14*
- SAIs that adopt and refer to ISSAI 3000 as their standard shall comply with each requirement (unless it is not relevant in the circumstances of the audit). If not all requirements have been fulfilled, this should be disclosed with an explanation of the consequences thereof. *ISSAI 3000:13*
- The standard needs to be complemented with an appropriate level of detail to guide the auditor to follow good practices when conducting a performance audit. *ISSAI 3000:11*

** INTOSAI-P 1, 10, 12, and 20, as well as ISSAI 130 and ISSAI 140, also need to be considered, as they provide an authoritative international frame of reference for defining public-sector auditing. See ISSAI 100:3 and 35, and ISSAI 300:13.*

According to INTOSAI-P 10:3, SAIs should use appropriate work and audit standards, and a code of ethics, based on official documents of INTOSAI, International Federation of Accountants, or other recognised standard-setting bodies.

Professional standards and guidelines are essential for the credibility, quality, and professionalism of public sector auditing. ISSAIs support the members in the development of their own professional approach in accordance with their mandates and with national laws and regulations. The *Performance Audit Principles* (ISSAI 300) seek to establish a common understanding of the nature of performance auditing, including the principles to be applied to achieve a high standard of audit. ISSAI 300 should be read and understood in conjunction with ISSAI 100, which includes the fundamental principles for public sector auditing in general.

[59] The five first paragraphs in this section refer to INTOSAI-P 10:3; ISSAI 100:1–2 and 7; and ISSAI 300:1–6 and 8. (See Section 8.2 on how to refer to ISSAIs in performance audit reports.)

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

INTOSAI recognises that SAIs have contrasting mandates and work under various conditions. INTOSAI encourages its members to adopt INTOSAI's standards as the authoritative standard for their work or to develop national standards based on or consistent with ISSAI 300, taking into account the INTOSAI guidance on performance auditing.

AFROSAI-E recommends that SAIs in the region adopt the INTOSAI Standard for Performance Auditing (ISSA 3000) as the authoritative standard for their work and make explicit references to it. In such cases, the auditor and the SAI shall comply with each requirement of this standard unless, in the circumstances of the audit, the requirement is irrelevant because it is conditional and the condition does not exist. If not all relevant requirements have been fulfilled, reference to this standard shall not be made without disclosure of that fact and further explanations about the consequences thereof.[60] The purpose of AFROSAI-E handbooks, manuals, guidelines, and other materials is to help member SAIs implement ISSAIs. In the early stages of the development of performance auditing, the SAI can use the INTOSAI GUID 3910 and GUID 3920, AFROSAI-E *Template Performance Audit Manual* or the IDI *Performance Audit ISSAI Implementation Handbook* to guide performance auditing. When performance auditing is firmly established, SAIs can develop a national manual either by customising the AFROSAI-E Template Manual or by developing their own manual. There are two advantages to having a performance audit manual specifically developed for the SAI:

- The standards become clearer when presented in the context of the SAI's mandate, approach to performance auditing, and the national context.
- The manual can include the specific performance audit processes in the SAI, as well as elements of the policy and guidance relating to performance auditing that are necessary as a complement to INTOSAI standards.

The main challenge is to communicate the standards to auditors and managers at all levels and complement them with policies and staff training to ensure their implementation. This is particularly true for performance auditing, as standards can never be precise in terms of what the auditors are expected to do since the topics, problems, and methods used in the audits are more or less unique for each audit.

Principles of performance auditing

ISSAI 300 presents ten general principles that provide guidance on aspects of performance auditing relevant throughout the audit process. The principles, which are further elaborated in the standards, are briefly presented in the box below and further elaborated in different parts of the Handbook.

[60] ISSAI 3000:13.

GENERAL PRINCIPLES OF PERFORMANCE AUDITING IN ISSAI 300:25–34

- *ISSAI 300:25* Audit objective Auditors should set a clearly defined audit objective that relates to the principles of economy, efficiency and effectiveness.
- *ISSAI 300:26* Audit approach Auditors should choose a result-, problem- or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.
- *ISSAI 300:27* Criteria Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.
- *ISSAI 300:28* Audit risk 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.
- *ISSAI 300:29* Communication 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.
- *ISSAI 300:30* Skills 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.
- *ISSAI 300:31* Professional judgement and scepticism Auditors should exercise professional scepticism, but also be receptive and willing to innovate.
- *ISSAI 300:32* Quality control 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 300:33* Materiality 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.
- *ISSAI 300:34* Documentation 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.

ISSAI 300 also presents seven principles related to the audit process. Together with ISSAI 3000, these principles form the basis of Section 5.2.4 and Chapters 6–9 of the Handbook.

PRINCIPLES IN ISSAI 300:36–42 RELATED TO THE PERFORMANCE AUDIT PROCESS

- *ISSAI 300:36* Planning – Selection of topics Auditors should select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify risks and problems.
- ISSAI 300:37 Planning – Designing audits 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.
- ISSAI 300:38 Conducting – Evidence, findings and conclusions Auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations.
- ISSAI 300:39 Reporting – Content of the report Auditors should strive to provide audit reports which are comprehensive, convincing, timely, reader friendly and balanced.
- ISSAI 300:40 Reporting – Recommendations 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.
- ISSAI 300:41 Reporting – Distribution of the report Auditors should seek to make their reports widely accessible, in accordance with the mandate of the SAI.
- ISSAI 300:42 Follow-up Auditors should follow up on 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 actions.

5.4.2 Safeguarding quality in the performance audit process

REQUIREMENT ACCORDING TO ISSAI 3000

- The SAI shall establish and maintain a system to safeguard quality, which the auditor shall comply with to ensure that all requirements are met and place emphasis on appropriate, balanced, and fair audit reports that add value and answer the audit questions. *ISSAI 3000:79*

The Handbook integrates requirements on quality management in audit engagements into the audit process described in Chapters 6 and 9.

ISSAI 140 provides general guidance on the system for quality management at the organisational level. In the conduct of performance audits, the following specific issues need to be addressed:[61]

- A performance audit team gathers a large amount of information and exercises a high degree of professional judgement and discretion, which needs to be taken into account in quality management. 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 relevant and easy-to-manage procedures and ensuring that auditors are open to feedback received in the quality review of draft reports. If there is a difference in 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.
- 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 audits, it is important to define clearly what constitutes a high-quality report in the specific context of an audit. General quality management measures should, therefore, be complemented by audit-specific measures.

Control procedures at the individual audit level cannot guarantee high-quality performance audit reports. The quality management system should foster the team's ownership of its audit and encourage team members to be competent and motivated. As a complement, there is also a need for procedures enabling the SAI to identify instances of teams needing support or guidance as well as identifying risks of sub-standard audits.

Quality at the engagement level

The *Performance Measurement Framework*, developed by IDI, summarises the quality management requirements on the audit engagement level as shown below.

QUALITY CONTROL IN PERFORMANCE AUDIT. *PMF SAI-12(III)

a) "All work carried out should be subject to review as a means of contributing to quality and promoting learning and personnel development", and the review process should be documented. *ISSAI 140 pg19–20 (I.e. including review of the audit plan, working papers and the work of the team, and regular monitoring of progress by appropriate levels of management. The review should ensure that the applicable requirements are met and place emphasis on appropriate, balanced and fair reports that add value and address the audit questions. General quality control measures should be complemented by audit specific measures. ISSAI 300:32; 37, SAI PMF Task Team).*

[61] ISSAI 300 and ISSAI 3000 has not yet been revised to reflect the new version of ISSAI 140. This text is based on ISSAI 300:32 with minor adjustments to be consistent with ISSAI 140.

b) "Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met (…)." *ISSAI 300:32*

c) "Where difficult or contentious matters arise, SAIs should ensure that appropriate resources (such as technical experts) are used to deal with such matters" *ISSAI 140 pg 19*

d) "...any differences of opinions within the SAI are clearly documented and resolved before a report is issued" *ISSAI 140 pg 20*

e) "SAIs should recognise the importance of engagement quality control reviews for their work and [where carried out] matters raised should be satisfactorily resolved before a report is issued". *ISSAI 140 pg 20 (I.e. the SAI should have a policy on whether and when to perform reviews of the whole audit by experienced auditor(s) not involved in the audit, prior to report issuance – note that this is part of quality control and not quality assurance. SAI PMF Task Team)*

f) "Procedures are in place for authorizing reports to be issued" *ISSAI 140 pg 20 (I.e. Carry out quality control review of draft reports; normally including review by different levels of management and possibly discussions with staff in the unit and/or external experts. SAI PMF Task Team)*

Source: Performance Measurement Framework, October 2016

** Please note that Performance Measurement Framework of 2020 refers to ISSAI 140 "Quality Control for SAIs" endorsed in 2010 with editorial changes in 2019. AFROSAI-E has updated the references to page numbers above to the latest version of ISSAI 140 available on www.issai.org in September 2024. The revised ISSAI 140 endorsed in 2023 is called "Quality Management for SAIs" will come into force in January 2025, which will lead to changes in the Framework.*

Many steps and measures can be taken to ensure high-quality audits. Such measures are covered in more detail in Chapters 6–9. In summary, the following measures are important during the planning stage:

- Comprehensive research is needed to find indications of problems and design the audit.
- The audit objective, scope, questions, and criteria must be defined.
- Criteria need to be directly or indirectly linked to the results of the undertaking and used to evaluate performance (avoiding limiting the audit to only identifying gaps in relation to criteria).
- Various perspectives and study designs must be examined, and the strategy and methods for data collection and analysis must be assessed.
- Scientists and subject matter experts have to be consulted and perhaps engaged.
- The SAI needs to ensure that the work plan proposals are critically examined, in particular, the context and motive for the audit, the overall audit design, the strategy and methods for data collection and analysis, and the administrative planning (competence, resources, activity planning, monitoring of progress, assessing risks, and planning communication).

In summary, the following measures are important during the main study to ensure high-quality audits:

- Provide the audited entities with a proper introduction.
- Involve the audited entities and find arguments from various stakeholders.
- Be creative in finding evidence and checking the quality and reliability of data, but be flexible and find smart solutions; less precise figures or estimates may be sufficient, even if no other conclusion should be drawn than what is permitted by the data.
- A well-functioning supervision and well-informed management, reviewing the quality of the report, and checking whether the design and work plan have been followed, and tools used properly, whether data and analysis are balanced and sufficient, and whether there are significant disagreements with audited entities.
- Carry out focus group meetings.
- Have experienced colleagues at the office to review drafts.

- Get critical external examination by scientists and subject matter experts.
- Conduct a proper clearance process with the audited entities.
- Submit a properly processed draft report to top management.
- Write a solid and reader-friendly report.
- Consider an exit conference with the audited entity to go through the report again.
- Before publication, managers should check whether the report meets the requirements of the standard.

5.4.3 Review, monitoring and evaluation in the quality management system

ISSAI 140 states the need for SAIs to consider the importance of *engagement quality review*. SAIs should establish policies and procedures that identify when an engagement quality review is an appropriate response to address one or more quality risks. An engagement quality review is an objective assessment of the significant judgments made by the engagement team and the conclusions reached. It is performed by the engagement quality reviewer and completed before the date of the audit report. The reviewer should be independent of the audit team and line management and have a position at the SAI that makes it possible to challenge the responsible team and managers.

AFROSAI-E recommends SAIs that are in the development stage of establishing a well-functioning performance audit practice to subject all performance audits to independent engagement quality review. The reason is that the risk of insufficient quality is relatively high in performance audits, and insufficient quality in a single report can pose significant risks to the SAI's reputation. Such reviews are part of quality management and aim to improve the quality of the reports before they are published.

SAIs with a well-established performance audit function are also expected to cover the performance audit practice when *monitoring and evaluating the quality management system*. In ISSAI 20:3, this is called 'quality assurance' and involves checking whether the appropriate quality management systems have been put in place and are appropriately implemented. It includes reviewing already published reports. AFROSAI-E's *Quality Assurance Handbook* provides recommendations on how to monitor and evaluate the quality management system based on the level of development of the performance audit function in the SAI.

At the international level, some SAIs also allow academic institutions to review a sample of published reports in order to learn how future audits can be improved.

5.4.4 Confidence and assurance in performance auditing

The following section elaborates on:

- Assurance in performance auditing.
- How to communicate assurance in performance audit reports.

Assurance in performance auditing

REQUIREMENT ACCORDING TO ISSAI 3000

- The auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way.* *ISSAI 3000:32*

** The auditor needs to transparently communicate the audit objective(s), scope, methodology and data gathered and any significant limitations in the report so that users will not be misled. ISSAI 3000:34*

As in all audits, the users of performance audit reports will wish to be confident about the reliability of the information they use to make decisions. They will, therefore, expect reliable reports that set out the SAIs' evidence-based position on the subject examined. Consequently, performance auditors should always provide findings based on sufficient appropriate evidence and actively manage the risk of inappropriate reports.[62]

Assurance means that users can be confident in the report's findings, conclusions, and recommendations. The auditor provides this assurance by explaining how the findings, criteria, and conclusions were developed in a balanced and reasoned manner and why the findings result in the conclusions and recommendations.[63] Put simply, intended users of assurance reports should be able to be reasonably sure that the conclusion (and underlying findings) accurately reflects the state of the underlying subject matter.

To achieve this, the conclusion(s) must be clearly linked to the audit objective(s) and audit criteria and written in a way that enhances the degree of confidence of the intended users about the evaluation of the underlying subject matter against criteria. Reaching an audit conclusion is an inferential exercise involving considerable judgment. Therefore, it is important that:

- All aspects of the conclusion are supported by findings.
- All findings are considered in drawing the conclusion.
- All findings are based on sufficient appropriate audit evidence relative to the criteria.

Providing assurance involves managing audit risk to an acceptably low level (see further Section 7.5.2).

How to communicate assurance

The assurance level can, in principle, be communicated in two ways, depending on the purpose of each audit and the needs of intended users:[64]

- Through opinions and conclusions which *explicitly convey the level of assurance*
- *In other forms*, where 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.

ISSAI 300:22 adds that the auditor can convey the degree of economy, efficiency and/or effectiveness achieved in the performance audit report in different ways:

- 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
- Provide specific information on a range of points, including the audit objective, the questions asked, the evidence obtained, the audit criteria used, the findings reached, and the specific conclusions.

[62] ISSAI 300:21.

[63] ISSAI 100:32 and ISSAI 3000:32–33.

[64] ISSAI 100:31–33; ISSAI 300:22. When providing reasonable assurance, the audit conclusion is expressed positively, conveying the auditor's opinion on whether or not the subject matter comply with the applicable criteria. When providing limited assurance, the auditors state that nothing has come to their attention to cause them to believe that the subject matter is not in compliance with the applicable criteria.

Since performance audits are direct reporting engagements, assurance is usually communicated in a descriptive way. In such a situation, there is no need to categorise the level of assurance[65] explicitly since the consistency of the audit elements, and the clarity in the description of the findings and conclusions transparently communicate the level of assurance provided.

EXAMPLE OF GUIDELINES FOR COMMUNICATING ASSURANCE IN PERFORMANCE AUDIT REPORTS

"In reporting audit methodology [in the audit report], auditors should explain how the completed audit work supports the audit objectives, including the evidence-gathering and evidence-analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when the results of sampling testing significantly support the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population."

Source: SAI USA, General Accounts Office, Government Auditing Standards, 2018, paragraph 9.14.

The auditor should ensure that the audit report does not mislead intended users as to the level of assurance provided. To meet this requirement, the performance audit report can include a statement communicating assurance to intended users, such as the one presented below.

EXAMPLE OF AN ASSURANCE STATEMENT IN A PERFORMANCE AUDIT

We conducted this performance audit in accordance with the International Standard of Supreme Audit Institutions for Performance Auditing (ISSAI 3000). This standard requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.*

** Adapted from Government Auditing Standards, GAO, 2018, paragraph 9.03.*

There are several ways in which the suggested statement above provides assurance to the reader of the report:

- It clearly identifies the audit as a "performance audit" and confirms to the reader that the audit was conducted in compliance with all of the standards for performance audits.
- The second sentence summarises the assurance standard for users who might not know it.
- Finally, the last sentence in the statement confirms to the reader that by conforming to those standards, the auditors believe they have obtained evidence that provides a reasonable basis for the findings and conclusions based on the audit objectives.

5.5 Communication and stakeholder management (ICBF Domain 5)

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall plan for and maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process. *ISSAI 3000:55*
- The auditor shall take care to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI. *ISSAI 3000:59*
- The SAI shall clearly communicate the standards that were followed to conduct the performance audit. *ISSAI 3000:61*

[65] Many SAIs do not explicitly categorise the level of assurance in performance audits, but clearly explain the methodology, findings and conclusions in the audit reports. Some SAIs consider the level of assurance in performance audits to be a continuum, varying with the methods used and evidence provided. Others only call a study "performance audit" if reasonable assurance can be provided.

ISSAIs expect SAIs to communicate timely and widely on their activities and audit results through the media, websites, and other means. SAIs need to communicate openly with the media or other interested parties regarding their operations and audit results, and they need to be visible in the public arena. SAIs should also encourage public and academic interest in their most important conclusions. SAIs make public their conclusions and recommendations resulting from the audits unless they are considered confidential by special laws and regulations.[66]

The auditor should plan for and maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process. The key audit aspects that the auditor needs to communicate to the audited entity include: the audit subject matter, audit objective(s) and/or audit questions, audit criteria, the time period to be audited, and the government undertakings, organisations, and/or programmes to be included in the audit.[67]

A prerequisite for developing effective communication with the stakeholders is that they have been identified and their needs considered. This is needed both at the institutional level and in each performance audit. Effective communication can help improve the auditor's access to information and may help the auditor gain better insights into the perspectives of the audited entity and the stakeholders. A sound dialogue throughout the audit process with the audited entity involved is pivotal in achieving real improvements in governance and may increase the impact of the audit. In this context, the auditor can maintain constructive interactions with the audited entity by sharing audit findings, arguments, and perspectives as they are developed and assessed throughout the audit.[68]

It is vital for the auditor to maintain good professional relationships with all stakeholders involved in the audit, promote a free and frank flow of information as far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding of each stakeholder's respective roles and responsibilities. However, the auditor must take care to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI.[69]

The SAI should also clearly communicate the standards that were followed when conducting the performance audit. The SAI can choose to include a reference to the standard followed in each audit report or may use a more general form of communication in a statement in an annual report or on the SAI's website. When the standard followed is based on several sources taken together, this also needs to be communicated.[70]

Communication as part of the audit process is dealt with mainly in Section 7.5.3 and mentioned in other parts of Chapters 6–9.

[66] INTOSAI-P 20:7–8.

[67] ISSAI 300:29; ISSAI 3000:55 and 57.

[68] ISSAI 3000:56 and 58.

[69] ISSAI 3000:59–60.

[70] ISSAI 3000:61–62.

6 Planning the audit

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall 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.* *ISSAI 3000:96*
- The auditor shall explicitly identify the intended users and the responsible parties of the audit and, throughout the audit, consider the implication of these roles in order to conduct the audit accordingly. *ISSAI 3000:25*
- The auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter, with the goal of delivering as much added value as possible. *ISSAI 3000:83*
- The auditor shall assess the risk of fraud when planning the audit and be alert to the possibility of fraud throughout the audit process.** *ISSAI 3000:73*
- The auditor shall submit the audit plan to the audit supervisor and SAI's senior management for approval.*** *ISSAI 3000:104*
- The auditor shall document the audit in a sufficiently complete and detailed manner. *ISSAI 3000:86*

** This involves planning, organising, securing, managing, leading, and controlling resources to achieve specific goals. ISSAI 3000:97*

*** The auditor needs to identify and assess the risks of fraud relevant to the audit objectives. If the risk of fraud is significant, it is important during the audit for the auditor to obtain a good understanding of the relevant internal control systems and examine whether there are any signs of irregularities that could hamper performance. ISSAI 3000:74*

**** The SAI's senior and operational management, as well as the audit team, need to be fully aware of the overall audit design. ISSAI 3000:105*

High-quality audits require the auditors to develop a good understanding of the area to be audited and its performance problems. Auditors also need to decide on an appropriate overall audit design, identify the need for information, develop a strategy, and design empirical studies and methods enabling the auditors to establish findings, conclusions, and recommendations. Good project management is also needed for audits to be carried out timely and efficiently in accordance with the overall audit design.[71]

According to ISSAI 100, all public-sector audits have the same basic elements: the three parties to the audit (the auditor, responsible party, and intended users), the criteria for assessing the subject matter, and the resulting subject matter information. These elements should be identified in each audit. As some of these terms were not commonly used in performance auditing before the 2016 revisions of the ISSAIs, they are explained in the box below.

BASIC ELEMENTS IN ALL PUBLIC SECTOR AUDITS	
Term in the ISSAIs	*What the term refers to in performance audit*
Auditor	This refers to the Head of the SAI and the persons at the SAI delegated to conduct the audit, typically including the audit team and audit managers.
Responsible party	Is defined in the audit scope. In this handbook, they include entities responsible for managing the audit activities, which are referred to as audited entities or auditees. There can also be other responsible parties, such as parties responsible for providing the auditors with information or parties responsible for initiating change, for example, the parliament, and for that reason may be addressed with recommendations (which cannot always be foreseen when planning the audit).

[71] ISSAI 300:37.

Intended users	Refers to the persons for whom the auditor prepares the performance audit report, such as the parliament, government agencies, and the general public. The responsible party can be one of the intended users but is usually not the only one. The users are preliminary defined in the work plan and presented in the audit report.
Subject matter	Refers to the information, condition, or activity that is measured or evaluated by applying criteria. In performance auditing, the subject matter is determined by the audit objective, formulated in the audit questions, and detailed in the scope of the work plan and unique for each audit.
Criteria	Are the benchmarks used to evaluate the activities the audited entity performs (the subject matter)? In performance auditing, the criteria are unique for each audit and defined in the workplan. Criteria used to establish main performance problems can also be used indirectly to define factors contributing to them as performance problems if they are in the control of the government.
Subject matter information	Refers to the result of evaluating the subject matter using the criteria presented in the performance audit report. In performance auditing, this includes identified performance problems as well as the reasons for and consequences of them. Causes and consequences can be presented as separate findings or as different elements in another finding.
Source: Based on ISSAI 100:25–28, 30; ISSAI 300:15–20; ISSAI 3000:25–31	

By considering the needs and interests of the intended users and responsible parties throughout the audit, the auditor can ensure that the audit report is useful and understandable to them. This should, however, in no way undermine the auditor's independence and objective attitude, who remains responsible for a well-balanced audit approach pursuing the public interest.[72]

Good planning leads to good audits. In the region, the teams typically carry out planning in the form of a pre-study. In many SAIs, the auditors are expected to develop a brief plan for how to carry out the pre-study, clarifying matters such as the topic, the team, the time schedule, and the sources of information. The pre-study is an exploratory phase in which the auditors learn about the topic and the area of audit and examine different ideas on how to focus a main study. The result should be a realistic and well-thought-out plan for conducting a main study on the specified topic. The resulting plan should not be seen as unalterable. If insights obtained during the main study make it reasonable to adapt the plan, this should be allowed. The audit plan and significant changes to it should be approved by management. This includes approving the design of the audit, the team composition, the budget, and the activity plan. The approved work plan will guide the team in conducting the audit and provide a basis for management to regularly monitor progress.

Since pre-studies provide a basis for management decisions, they often include explicit discussions on alternative focuses and their advantages and disadvantages. However, resources spent on exploring and comparing alternatives always need to be balanced so that the main part of allocated time and resources is earmarked for carrying out the main study for the chosen alternative. To avoid spending too much time on alternatives that the SAI will later decide not to pursue, it is important that managers are involved regularly during the pre-study, not just at the end, in making decisions on whether to start a main study.

[72] ISSAI 3000:28.

This chapter will cover the following steps in the planning of a performance audit:

- *Collecting initial information* to develop an understanding of the audit area, the risks for and indications of performance problems, the factors assumed to contribute to them, and get an overview of the conditions for carrying out an audit (Section 6.1)
- *Describing the audit area and mapping out actors and processes* (Section 6.2)
- *Preliminarily identifying problems* by structuring preliminary indications of performance problems and factors assumed to contribute to them (Section 6.3)
- *Selecting a focus for the main study* by assessing and considering the main alternatives (Section 6.4)
- *Developing an overall audit design*, including objective, questions, scope, and criteria (Section 6.5)
- *Developing a strategy and design empirical studies*, designing different empirical studies and choosing methods for data collection and analysis (Section 6.6)
- *Developing an administrative plan* (Section 6.7)
- *Testing the design of the audit* by making preliminary observations based on the choices made to assess whether there is a need for adjustments (Section 6.8).

This chapter focuses on the planning activities, but also provides advice on what to include in the pre-study memorandum and workplan. Everything needed to plan the audit does not necessarily need to be described in full in the pre-study memorandum and workplan. A standard structure for a pre-study memorandum and work plan is presented in Appendix 2.

Section 3.4 extensively discusses the role that performance auditing can have in reducing fraud and corruption and the actions that can be considered in planning and designing audits. Section 5.3 discusses the general expectation of professional judgement, scepticism, and willingness to innovate throughout the audit process. Issues related to audit management and documentation are discussed in Sections 7.5–7.7.

6.1 Collecting initial information

The first step in the planning process is to understand the audit topic and identify problems in the area and the relevant entities to be audited. This first step lays the foundation for subsequent steps in the planning process. Substantial amounts of background knowledge and information are required to assess problems and risks, identify possible sources of evidence, and determine auditability.

Therefore, all efforts are initially concentrated on gathering information from a wide range of sources. Auditors will typically need to study the legislation and identify which ministries, agencies, and other government bodies have responsibilities related to the topic of interest.

To understand these responsibilities, auditors will need to collect documents, such as laws and regulations, objectives, strategies, plans, budgets, monitoring and evaluation reports, statistics, and work procedures. Information from other written sources, such as academic research and reports from government, international organisations, and NGOs, can provide valuable insights. Auditors should always search the internet for available information early in the pre-study, for example, from government or international organisations. It is also useful to carry out exploratory interviews with managers and staff in audit entities, other government organisations, clients, scientists, subject matter experts, consultants, former employees, and other stakeholders. If it is difficult to find information about the problem area of interest, auditors should try to find information about comparable cases, such as the same type of government programme in a neighbouring country. Other SAIs may, for example, have audited similar topics and made the report available on their website.

It may also be relevant to collect information about the environment in which government entities operate and the opportunities and limitations this may create for their performance.

Some fieldwork will usually be necessary at this early stage, including visiting key institutions at the central level. Visits to regional or local governments should typically be kept to a limited scale during the planning phase, concentrating efforts on generating sufficient knowledge to focus and design the audit rather than on collecting evidence for the audit report. There always needs to be sufficient time and resources left to carry out a systematic main study. While it may be possible to use some information collected during the pre-study and also in the audit report, the execution of the main study should not depend on the reuse of data gathered early on during the planning stage. It must be possible to use lessons learnt during the pre-study phase to redirect the focus of the audit towards different methods for data collection than those used in the pre-study. Therefore, the use of resources for fieldwork in the pre-study phase always needs to be balanced against the need to save resources for fieldwork in the main study phase.

WHAT TO INCLUDE IN A PRE-STUDY MEMORANDUM

All information collected at this early stage will not necessarily be described in the pre-study memorandum. However, it is quite possible that the material gathered in this first stage will be useful both in the description of the motivation for the audit and in other sections of the final report.

6.2 Describing the audit area and mapping out actors and processes

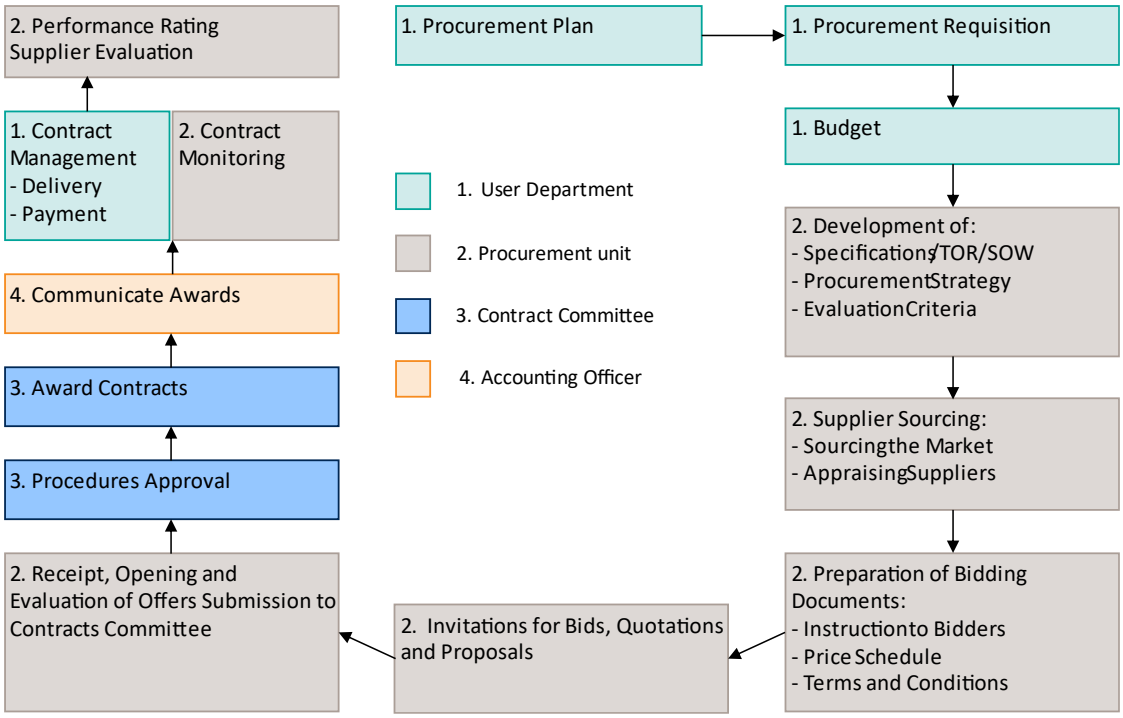
In the planning phase, the auditors should analyse and develop an understanding of the topic or area selected for the audit. The challenge is to analyse the topic and present the information necessary for an informed choice of the focus of the main study. The pre-study memorandum needs to include an analysis of the audit area and the relevant systems and processes that are potential objects of the audit. This is often referred to as a description of the audit area.

Initially, the auditors need to get an overview of the whole area and gradually zoom in on the activities that might be covered in a main study – ones that seem to be related to significant performance problems and the reasons for them. There may be a need to present a brief overview of the area selected for audit based on available descriptions of the sector. Auditors can use a flowchart to map out the relevant actors and the processes as they are supposed to work. This creates a foundation for checking if the entities/systems function as intended. The description will facilitate the collection of audit evidence that can later be linked to different actors or processes within the system.

A flowchart is a graphic presentation of the audit topic or area. Its purpose is to describe how important actors, processes, and/or activities are related to each other. Note that organisations and other actors may have many types of relations, different in kind and extension. The ones depicted in the pre-study memorandum should be relevant to the topic at hand. The level of detail and which activities to include in a flowchart depend on what is critical in the audit.

Depending on the purpose, flowcharting can be done in several ways. Figure 9 illustrates a flowchart for the procurement process in local government, covering the key actors in the local authorities (but not actors such as suppliers and central regulatory authorities).

Figure 9. Example of a system graph – Procurement in local authorities



Source: Value for money audit on procurement system in local governments – A case study of 7 Districts, OAG Uganda 2011

The responsibilities and the workflow may be simple and easy to grasp, as shown in Figure 9, or more complex, including many more detailed activities. Flowcharts can also be used to identify bottlenecks, time-consuming activities and resources used for the different steps in the work. Complex and detailed processes may be difficult to illustrate in flowcharts. The auditors may then have to use more than one flowchart, or when processes are too complex to capture graphically, settle for narrative descriptions only. Generally, the processes and activities must be further elaborated in a narrative description in the pre-study memorandum. The auditors need to avoid too much detail about activities and processes that are not likely to be covered in the audit.

The auditors may encounter situations where there is one official process documented in manuals and guidelines and another process for how the operations are actually carried out. Discrepancies between the official and the actual processes are quite common. They may indicate problems with the implementation of the processes, or it may also mean that official processes are not appropriate or possible to implement – leaving lower-level civil servants trying to do their best with the limited resources at their disposal. Since the actual processes lead to the results, auditors should try to see beyond official policy.

To understand the workflow, the auditors may need to access written documents and conduct interviews with staff and management of the audit entities and representatives for clients and other stakeholders. When the auditors have produced a first draft flowchart describing the process, it is a good idea to ask the audited entities to comment on it.

The appropriate time for mapping out the audited entities, systems, and processes is during the planning phase. However, as the auditors' knowledge increases during the main study, the initial descriptions of relevant systems and processes may need to be revised.

WHAT TO INCLUDE IN THE PRE-STUDY MEMORANDUM

The final pre-study memorandum should not include all the collected information. The presentation should focus on what is important for performance problems that may be covered by a main study (see Sections 6.3–6.4). A common mistake is to include too much of the collected information by copying and pasting long texts from documents from the audited entities. The result is often a text that is not relevant to the purpose of the pre-study.

6.3 Preliminarily identifying problems

One of the most critical tasks for the auditors during the pre-study is to identify performance problems related to the audit topic, the likely reasons for them, and their consequences. When ministries, agencies, or programmes do not perform well, they put the economy, efficiency, and effectiveness of the public sector at *risk*. Problems can often be identified simultaneously with developing an understanding of the audit area. This is because what is worth including in the systems description – actors, processes, activities, and relations – depends on what main performance problems and potential reasons for them the SAI considers covering in the main study.

When relevant, the preliminary observations may also include considerations of the risk of fraud and corruption in the audit area. In case of significant risks, auditors are recommended to make preliminary observations on how the management of audited entities has analysed such risks and taken measures to mitigate them.

To select a focus for the main study, the auditors need to get an overview of the observations made and understand if and how different problems are related to each other. A wide range of sources can be used to collect information, such as research studies, reports from various organisations, media coverage, documents from government entities, files, statistics, and interviews with managers and professionals at the central, regional, and local levels.

Searching the internet reveals a multitude of techniques for problem analysis, several of which establish a structure for the information generated through brainstorming. The techniques themselves do not generate any knowledge but can help the auditors organise the knowledge they have obtained. The level of structure provided by different techniques varies. If the audit team does not find a particular method helpful, it is better not to use it.

One example of a technique for problem analysis is *mind mapping* or illustrating the problems in any type of graph. (Search the internet for descriptions and examples.) There are no strict rules for developing a mind map, which gives the auditors maximum freedom but can also make it difficult to use the technique. Other tools have a relatively high degree of structure, with the risk of limiting the auditors' analysis by forcing it into the structure, for example, the fishbone diagram and the Five Whys, which both emerged from industrial production. (Search the internet for descriptions and examples.)

We find two techniques more interesting than the others, as they are more consistent with principles and knowledge in the social sciences and provide some guidance to the user without creating clear limitations. One of them is called issue analysis, which is based on the logic of breaking down an overall question step by step into its components and clarifying what questions need to be asked to answer a question on a higher level.[73] The other technique – *the problem tree* – is used in AFROSAI-E 3 Module courses. It has the advantage of focusing on cause-and-effect relationships. Here, problems are defined hierarchically according to how they influence each other in cause-and-effect relationships. To do this, auditors will need to make reasonable and logical assumptions on likely reasons for performance problems. See the example in the box below.

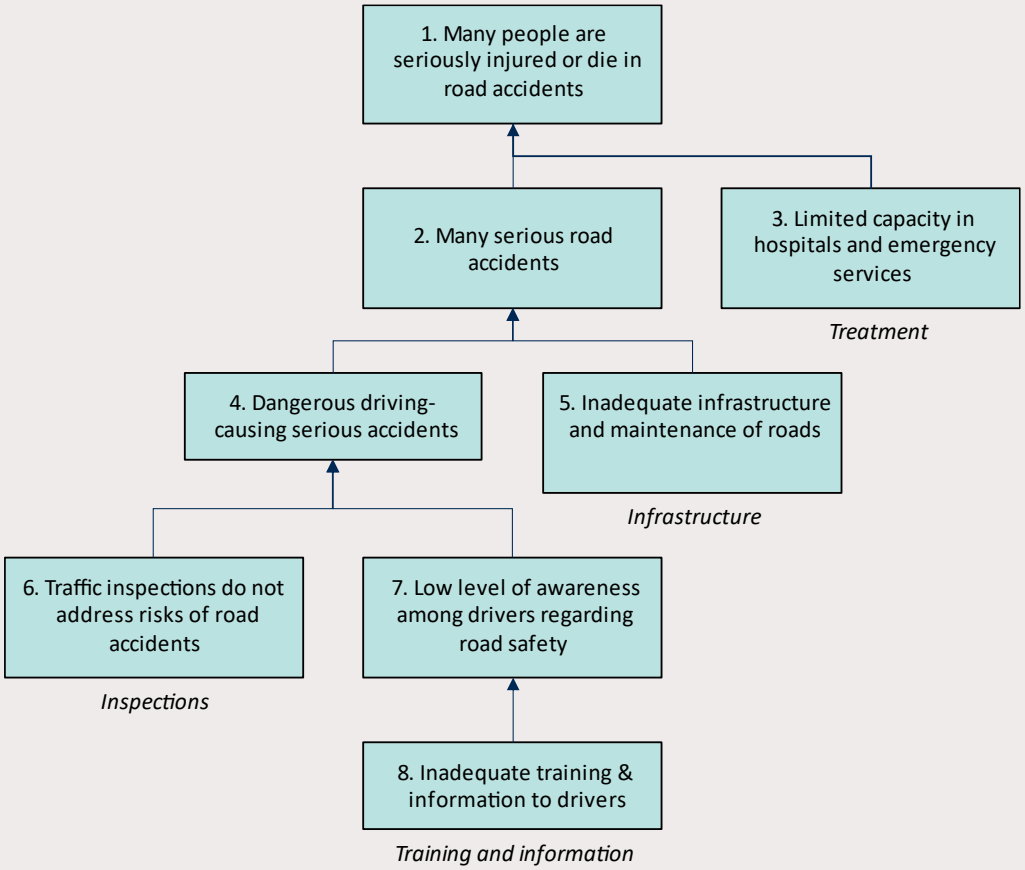
[73] See IDI Performance Audit ISSAI Implementation Handbook, page 91.

EXAMPLE: SERIOUS INJURIES AND DEATHS IN ROAD ACCIDENTS – TRAFFIC INSPECTIONS

Using the example from Section 3.1, we note that the government has assigned different responsibilities to several public organisations to try to reduce road accidents, particularly accidents with serious or fatal consequences. All public entities involved share this goal, even if they are likely to have additional goals.* An agency under the Ministry of Works is responsible for road construction and maintenance. The Traffic Police carry out inspections to promote safe driving and reduce the number of road accidents. There may also be an organisation responsible for information campaigns on road safety. As some accidents occur anyway, the Ministry of Health is responsible for emergency services and hospital treatment once an accident has occurred to save the injured people.

SAIs do not audit societal problems in general, but performance problems within the responsibility of public organisations. We can draw an overall problem tree to identify what could be the leading causes of deaths in road accidents. We have simplified the problem of road accidents and only included some of the main factors the government is responsible for and likely to contribute to. In principle, it is advisable to try to identify all significant factors contributing to the main performance problems, as these are factors that cannot be directly influenced by the government and thus are not suitable as the main focus of the audit. This broader understanding of how external factors influence the general problem may be important when assessing the performance of the audited entities.

Figure 10. Overall problem tree for the problem of serious injuries or deaths in road accidents



The overall problem tree in Figure 10 identifies one main societal problem: many people are seriously injured or die in road accidents (1). An important reason, following almost logically, is that there are many road accidents (2). A possible explanation for the fact that many deaths follow from serious accidents is that there is limited capacity for emergency services at hospitals (3). The many serious road accidents, in turn, may be caused by dangerous driving (4) and/or the inadequate infrastructure and maintenance of roads (5).

If dangerous driving causes serious accidents, this can, in turn, be explained by the fact that traffic inspections do not address the risks of accidents to prevent dangerous driving (6). There may also be a low level of awareness about road safety among drivers (7), which reasonably, at least in part, is affected by driver training and information campaigns.

The different factors linked in the problem tree can be described in terms of problems and potential causes and consequences. Any factor in the tree can be called a "problem". You will find the consequences (effects) as you go upwards in the tree. As you go downwards in the tree, you will find the causes. To develop a tree downwards, the auditors can use the question: "Why?" and use available information and logic to try to find a reasonable answer. Many people are seriously injured or die in road accidents. Why? There are many serious road accidents, and the emergency services and hospitals have a limited capacity. Why? – Continuing to ask the question "Why?" can give a very detailed problem tree. In developing the tree, you may also go upwards, asking, "So what"? The information campaigns seem to have failed. So what? There are indications of low awareness among drivers regarding road safety. So what? People drive dangerously and cause serious traffic accidents. So what? There are many serious accidents.

* *The example has been simplified, excluding some organisations influencing road safety, for example, entities that issue driving licenses and regulate speed limits or other traffic regulations.*

As is clear from the overall problem tree in the example, the government controls various tools, which in various ways can potentially affect the number of deaths and injuries from serious road accidents. It may be tempting for auditors to select the top problem and include all potential causes in the audit. Doing so generally means a more relevant audit, but it is also an audit that is more difficult to conduct with many explanatory factors to study and analyse. Covering many different government interventions may make the audit too complex.

To facilitate the choice of what audit problem to focus on, auditors should consider what factors government can control and are directly responsible for. In this case, boxes 1, 2, 4 and 7 in Figure 10 represent societal problems, which, in general, are beyond the direct control of the government. Factors 3, 5, 6 or 8, on the other hand, could be considered for audit, as they are under the control of the government. It may be sufficient to focus on one of the factors and possibly limit the audit even further in the planning process. It can be taken as a general rule that government operations prove to be more complex than they appear at first sight once the auditors carry out an in-depth analysis. To be able to argue and justify the choice, a problem tree is a useful tool for auditors.

Identifying potential audit problems using a problem tree requires coherent and logical reasoning as well as some collection of information and data. Notably, the standards do not have any strict requirements for the evidence in a pre-study, and proving causal assumptions is not a requirement. Auditors have collected and documented sufficient information when they are able to convince themselves and SAI management that there are convincing indications that material performance problems exist. They should also have a good enough understanding of the likely causes of the problems to plan a high-quality main study. Once this is accomplished, it does not necessarily add much value to collect more data or make more analysis in the pre-study. At the end of the pre-study, the team and SAI management should be reasonably confident that their understanding of the system is good enough to focus on the main study. The need to underpin assumptions with audit evidence and arguments is significantly lower than during the main study and in the audit report.

The example above illustrates how auditors may try to understand the topic and what will likely be explanations for problems the audit may be focused on. The information underpinning the problem tree is usually a mix of known facts, indicators, and reasonable hypotheses. It may, for example, be a well-documented fact that many of the road-related deaths that occur could have been avoided if there had been better emergency health care. The claim that road infrastructure is deficient could be indicated by systematic but incomplete data gathered in the pre-study, whereas the contribution of bad roads to fatal accidents is substantiated by a series of unsystematic indicators. The

assumption that inadequate training is causing reckless driving may be based on indicators, but it may also be included as a likely explanation worth exploring in the audit, mainly based on logical reasoning.

Sometimes, the topic selected by management is so specific that it can also be suitable to use as the audit problem. In such cases, the auditors should not take the audit problem for granted. Instead, they should search for observations that confirm or falsify that the initial ideas are reasonable. It is also recommended that the auditors, to some extent, consider whether there are alternative audit problems in the area that may be better to focus on.

WHAT TO PUT IN THE PRE-STUDY MEMORANDUM

The pre-study memorandum often includes a thorough description of problems related to the audit topic and the role that public entities play in solving these problems. This will help explain the motivation for the audit and will also provide a basis for management's assessment of the team's recommendation on the choice of focus, discussed in Section 6.4.

6.4 Selecting a focus for the main study

REQUIREMENTS ACCORDING TO ISSAI 3000*

- The auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter, with the goal of delivering as much added value as possible. *ISSAI 3000:83*
- The auditor shall select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify audit risks and problems. *ISSAI 3000:89*
- The auditor shall select audit topics that are significant and auditable and consistent with the SAI's mandate. *ISSAI 3000:90*
- The auditor shall conduct the process of selecting audit topics with the aim of maximising the expected impact of the audit while taking account of audit capacities. *ISSAI 3000:91*

** The same requirements are referred to in Section 5.2.4 on choosing an audit topic on a more overall level.*

Once the auditors have a fair understanding of the audit area and its problems, they need to choose an appropriate focus for the main study. This will be called "the audit problem" in the Handbook. The audit problem is usually selected in the pre-study and documented in the pre-study memorandum (see Appendix 2). On the international scene, the terminology for describing the focus of the audit varies. See the box below.

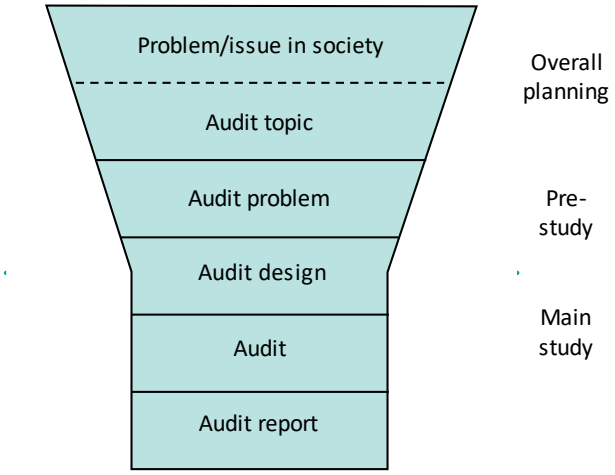
A VARYING TERMINOLOGY FOR DESCRIBING THE FOCUS OF A PERFORMANCE AUDIT

The terminology for describing the focus of a performance audit varies between SAIs. After selecting the audit topic, the AFROSAI-E terminology includes the selection of a focus of the audit – an 'audit problem'. The 'audit problem' is an analytical concept that is rephrased neutrally into an audit objective, encompassing the main performance problem and the likely reasons for it to be addressed with different audit questions. Some SAIs may formulate several audit objectives, covering the main performance problems as well as the likely reasons for them. There are also examples in which an SAI formulates the purpose of the audit and one or two overall audit questions, covering the reasons for performance problems under each of the overall questions without explicitly specifying them in the audit plan.

Such terminological variations are of little significance. The main distinction in the overall audit design is whether it focuses on one or a limited number of main performance problems and the likely reasons for them and designing empirical studies addressing the problems and the preliminarily identified causes. Such a design gives the auditors much better conditions for a high-quality analysis of the relation between performance problems and the reasons for them than trying to bring causes into the analysis towards the end of the audit without much empirical evidence.

The technique of narrowing down general problems in society to audit topics and a suitable audit problem is a process called the audit funnel (see Figure 11). The auditors further specify and narrow down the audit in the overall audit design. The problem tree technique, converted to a question tree technique, can also be used on a more detailed level to guide the further planning of the audit in terms of defining the audit questions and sub-questions (see further Figure 12 in Section 6.5.3). Depending on the SAIs processes, some of these analyses may have been done during overall planning (see Section 5.2.4) or preparations for the individual audit before formally starting a pre-study.

Figure 11. The Audit funnel



Often, the topics selected in overall planning need to be further narrowed down during the pre-study to clarify which main performance problem to focus on. The auditors can use criteria to get a systematic overview of the most interesting alternatives. The four criteria presented in Section 5.2.4 for the selection of audit topics can also be used to select the focus for a main study on a more detailed level:

1. **Materiality of the subject matter:** money involved, importance for the citizens, the public administration, economic development, legislative or public interest, or request for audit.
2. **Risks of performance problems:** significant risks of not meeting overall objectives, that is, inherited and observed weaknesses or risks of not meeting the principles of economy, efficiency, or effectiveness in government or public sector organisations.
3. **Auditability** (possibility to carry out an audit):
   - Relevant data available and audit methods applicable.
   - Resources available (budget, transport, time).
   - Relevant audit skills available.
   - Relevant audit criteria.
   - Risks to the SAI.
   - Political sensitivity.
   - Timeliness, considering major changes or studies in progress by other bodies.
4. **Potential for adding value and promoting change:**
   - Improvements or solutions are possible (in principle excluding increased budget allocation of resources).
   - Importance for public accountability.
   - No major factor (political, financial, or other) limits the potential for change.
   - Interest in change shown by the audited entities or the government.
   - The potential value added (the potential contribution to improved performance and better services to citizens).

According to ISSAI 300:33 and ISSAI 3000:83, the auditor should consider materiality at all stages of the audit process, including the financial, social, and political aspects of the subject matter, with the goal 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. An issue will be considered material where the topic is considered 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 performance problems would be restricted to a small area or otherwise minimal. Auditors should bear in mind that what is socially or politically significant varies over time and depends on the perspective of the relevant users and responsible parties.

In the example in the previous section, the problem of serious injuries and deaths in road accidents is likely to be material in different ways, for citizens' welfare, economic development, and public finance. If the SAI assesses that over-speeding and drunk drivers are important factors contributing to the accidents, this may motivate the SAI to focus the audit on the fact that the Traffic Police does not focus their inspections on reducing these risks. There is, in principle, nothing stopping the auditors from focusing the audit on more than one main performance problem. However, there is reason to be cautious since there is a risk that the audit will become more complex and take longer.

Problems mainly explained by a shortage of resources are normally unsuitable as audit problems and the main focus of an audit. This is because the auditors will not get sufficient knowledge about the allocation of resources by the government by only looking at one area. Thus, it will not be possible to recommend that the government or parliament reallocate resources between areas or sectors. The matter of resources may need to be considered as one of several factors causing problems with performance. There are some general possibilities to reallocate resources within a sector, which is the responsibility of the audited entities to decide or propose. In some cases, it may also be possible to generate more resources in the areas that are audited – resources that may be used to solve problems.

Effectiveness problems, where the intended effects are not achieved, can sometimes be explained mainly by insufficient resources, making the objectives more or less impossible for the audited entities to achieve. While in such cases, an audit may not be able to make significant contributions to improvements of the operations, it may be possible to conclude that the intended effects cannot be reached with the available resources. The appropriate recommendation is to reconsider the programme and adjust the objectives to the resources that can be made available to create realistic conditions for achieving the objectives. Whether this means adjusting the objectives, or increasing the allocation of resources, it is a policy decision for the government or parliament to make.

According to ISSAI 140, an SAI should establish a quality management system to ensure that the SAI is able to carry out its audit work with sufficient quality. This requires that the SAI has the necessary independence, is competent to perform the work, and has the capabilities, including time and resources, to do so. These are some of the main aspects when considering the criterion of *auditability* in the selection of audit problems. The relevant audit skills and methodology must be available. The auditability can also be affected by other recent audits or other studies, the current development in the area, the political sensitivity, and the risk the audit may pose to the SAI's reputation. If the timing of an audit is not right, for example, because the programme has just started or gone through major changes, it can be a good idea to wait a few years before once again considering carrying out an audit. In other words, it is not sufficient that the problem is important; it must also be practically auditable.

USING CRITERIA TO SELECT THE AUDIT PROBLEM

To get an overview of how different alternatives meet the criteria, a matrix can be developed by using keywords or a scoring scale. Clearly, all audits must be designed to fall within the SAIs mandate. Problems that are mainly affected by factors outside the government's control are usually not suitable as a focus for performance audits. Based on the example of injuries and deaths caused by road accidents, various potential focus for an audit can be identified:

A. Many people die in road accidents;
B. Dangerous driving with many road accidents;
C. Limited capacity in hospitals and emergency services;
D. Traffic inspections do not address risks of road accidents;
E. The training of and information to drivers is not successful; and
F. Inadequate infrastructure and maintenance of roads.

While all alternatives in the tree (all boxes) could be assessed as alternatives for focusing the audit, it is advisable to only apply the criteria to the most interesting alternatives.

The various problems can be *categorised using keywords indicating the extent to which they meet the criteria, such as* not at all, low, medium, or high.

Criteria	Identified main performance problems					
	A	B	C	D	E	F
1. Materiality	High	High	High	High	High	High
2. Risk for the three Es	Medium	Medium	Medium	High	Medium	High
3. Auditability	Low	Medium	High	High	Medium	Medium
4. Potential for change	Medium	Medium	Medium	High	Medium	Medium

According to the table, problem D – traffic inspections – seems to be the best choice for the audit. C, E and F also seem possible, while problems A and B score low on auditability. In addition to being more difficult to audit, significant factors contributing to problems A and B are not within the SAIs mandate to audit. The table gives a good overview of how various main performance problems meet the criteria. To be understandable, however, there is a need to *write a narrative* about the strengths and weaknesses of different problems to focus the audit on in relation to the selection criteria. If a scoring scale is used, mathematically summarising the scores is not recommended, as it implies that the alternative getting the highest total score should be selected. All criteria need to get a satisfactory rating.

The various audit problems can also be *analysed against the selection criteria by developing a narrative* on each problem's strengths and weaknesses without using categorisation or scoring. The result is likely to be the same.

According to ISSAI 3000:17–18, performance auditing aims to lead to improvement. This is why the *potential for change* is the fourth major criterion used in the AFROSAI-E region for selecting audit problems. The objective is to contribute to a more economical, efficient, and effective public sector. Trying to solve problems by just allocating more resources will usually not improve the efficiency or effectiveness of the organisations involved. When selecting the audit problem, to avoid wasting resources, the SAI also needs to consider the interest in taking action on the report once it has been published. If there are reasons to believe that an audit will not attract interest in parliament, among citizens, in media, or within the audited entities, it is possible that the resources can be put to better use in another audit.

Finally, it should be noted that although it is important to design audits in line with the SAIs mandate and carefully evaluate the materiality, risk, auditability, and potential for change in different alternatives, resources spent on optimising selection should be balanced against the need to save resources for carrying out the main study.

WHAT TO INCLUDE IN THE PRE-STUDY MEMORANDUM

As mentioned in Section 6.2, narrowing down the information in the pre-study to what may be relevant for a coming main study is advisable. However, the focus should not be too narrow. If the pre-study is to provide a basis for choosing between different alternatives for focusing the main study, it can be relevant to briefly present observations on different problems in the pre-study, even if they are not all related to each other.

6.5 Developing an overall audit design

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall identify the subject matter of a performance audit.* *ISSAI 3000:29*
- The auditor shall set a clearly defined audit objective(s) that relates to the principles of economy, efficiency, and/or effectiveness. *ISSAI 3000:35*
- The auditor shall choose a result-, problem-, or system-oriented audit approach, or a combination thereof. *ISSAI 3000:40*
- The auditor shall articulate the audit objective(s) in sufficient detail in order to be clear about the questions that will be answered and to allow logical development of the audit design. *ISSAI 3000:36*
- If the audit objective(s) is formulated as audit questions and broken down into sub-questions, then the auditor shall ensure that they are thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit question. *ISSAI 3000:37*
- The auditor shall establish suitable audit criteria**, which correspond to the audit objective(s) and audit questions and are related to the principles of economy, efficiency and/or effectiveness. *ISSAI 3000:45*
- The auditor shall, as part of planning and/or conducting the audit, discuss the audit criteria with the audited entity. *ISSAI 3000:49*

** The subject matter relates to the question "what is audited" and is defined by the audit objective, questions, and scope. The subject matter of a performance audit may be specific programmes, undertakings, systems, entities, or funds and may comprise activities (with their outputs, outcomes, and impacts) or existing situations, including causes and consequences. ISSAI 300:19 and ISSAI 3000:30*

*** The audit criteria need to provide an appropriate and reasonable basis for assessing against audit objectives and enable the audit questions to be answered. ISSAI 3000:48*

Performance audits must be carried out thoroughly, with the aim of collecting relevant, valid, reliable, and sufficient evidence 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, the scope of the audit, the audit questions and criteria, the data collection and analysis strategy, the methods to be used, the issues to be reported and the overall audit conclusion.[74]

As performance audits can address many topics and questions within a topic, it is impossible to use any standardised audit design. What is standardised in performance auditing is what to include in an overall audit design, and partly how, while the content of the plan needs to be tailor-made for each audit. The overall audit design further specifies and narrows down the audit. By communicating the overall audit design, together with the design and methods for empirical studies, the auditors live up to the requirement of communicating key aspects of the audit to the audited entity. Notification will usually take the form of a written engagement letter and regular communication during the audit.[75] However, as shown below, the standards clearly require the auditors to discuss the criteria with the audited entities.

[74] See ISSAI 300:37; ISSAI 3000:101–102.

[75] ISSAI 300:29; ISSAI 3000:55 and 57.

The overall audit design is elaborated below, covering the:

- Audit objective.
- Audit scope.
- Audit questions and possibly sub-questions.
- Audit criteria.

The development of a strategy for and design of empirical studies are important elements in designing the audit. These steps are discussed in Section 6.6. The methods for collecting data and audit evidence are covered in Section 7.1 as part of conducting the audit.

In practice, the different steps might not fully be carried out in the logical sequence described here. It is expected to move back and forth between the stages to align all the parts of the audit design.

6.5.1 Audit objective

The auditor should set a clearly defined audit objective(s) that relates to the principles of economy, efficiency, and/or effectiveness. The objective(s) should be articulated in sufficient detail to clarify the questions that will be answered and to allow logical development of the audit design. If the audit objective(s) is formulated as audit questions and broken down into sub-questions, then the auditor shall ensure they are thematically related, complementary, not overlapping, and collectively exhaustive in addressing the overall audit question. A well-defined audit objective(s) relates to government undertakings, systems, operations, programmes, activities, or organisations related to the subject matter. The formulation of audit questions is an iterative process in which the questions are repeatedly specified and refined, and account is taken of known relevant information on the subject as well as feasibility. The objective determines the approach and design of the audit.[76]

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.[77] In the main AFROSAI-E approach, the formulation of the audit objective is based on the selected audit problem and encompasses the full audit, including the likely reasons for the main performance problems. 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.

The audit objective, formulated neutrally, establishes the main focus of the audit and provides directions to the auditors in determining the audit scope, audit questions, audit criteria, strategy, and methods for data collection and analysis. A clear objective and a good plan help the auditors save time and costs by limiting what is relevant in the audit.

The objective is directly linked to the audit questions and sub-questions. Answering the audit questions and sub-questions – producing the findings – should lead to the achievement of the audit objective. Conclusions in the report can be presented in relation to the audit objective.

Elements commonly found in objectives for performance audits include the word “assess”, the type of the government undertaking, and, when appropriate, the name of the audited entities.

[76] ISSAI 3000:35–38; See also ISSAI 300:25. Many objectives can be framed as an overall audit question. An alternative is to develop several objectives, which need not always be broken down into sub-questions.
[77] ISSAI 300:25.

One example of a potential audit objective for an audit of the traffic inspections could be:

> *To assess whether the Traffic Police has put in place measures to plan, implement, and follow up traffic inspections based on factors contributing to road accidents.*

6.5.2 Audit scope

The audit objective(s), questions, and scope are interrelated and must be considered together. The audit scope is the boundary of the audit and is directly tied to the audit objectives. It defines the subject matter that the auditor will assess and report on. The auditors need to further specify and possibly limit what they are going to audit. Scoping the audit involves answering the questions: "Who?" – "What?" – "When?" – "Where?" (See the box below.) The auditors should also consider to whom the ultimate recommendations are likely to be relevant.[78]

ASPECT	QUESTION	DESCRIPTION AND EXAMPLE
The audited entities	WHO?	The entities to be covered in the audit, for example, the Traffic Police.
The audit object	WHAT?	What the audit object is, the activities, programmes, or processes that will be audited. In the case of the Traffic Police, the audit is limited to traffic inspections and the activities supporting them.
Time coverage	WHEN?	What time period is to be covered in the audit? For traffic inspections, it may be useful to analyse a series of years to examine the development over time.
Geographical coverage	WHERE?	The geographical area that the auditors want to analyse and express their opinion about is usually not the same as where the information is collected. The audit of the Traffic Police aimed at drawing conclusions and issuing recommendations for traffic inspections in general, which makes the scope the whole country. Where data is collected is an issue for data collection.

Scoping the audit in terms of geography should not be confused with how to collect data in the audit. In the audit of traffic inspections, the auditors may choose to visit four regions that, after discussions with the Traffic Police, are considered to represent typical but varying conditions in the country (considering aspects such as road infrastructure and condition, traffic volume, and socio-economic factors). As the auditors intend to write a report and draw conclusions on traffic inspections in the country as a whole, the regional visits are case studies used in the analysis of how the Traffic Police as a whole performs; that is, the scope is the whole country while data is collected from four regions and the head office.

Sometimes, data may be collected from entities not covered by the audit scope. For example, an audit covering the management of markets in the capital city may very well need information about the management of markets in other cities for the purpose of comparison.

The scope of an audit can also leave out certain activities or entities from the audit, even if they would be relevant, in principle, to the audit objective. One reason may be to avoid an audit that is too complex. Such limits in the coverage of the audit should be made explicit, and their consequences considered in the analysis in the report.

[78] ISSAI 3000:30; GUID 3920:35–36; See also ISSAI 300:25.

6.5.3 Audit questions

The next step in the design of the audit is to identify the audit questions that need to be answered to meet the audit objective. The audit questions are derived from the objective. Audit questions and sub-questions should be thematically related, complementary, not overlapping, and collectively exhaustive in addressing the audit objective (or overall audit question). All terms employed in the questions should be clearly defined. The formulation of audit questions is an iterative process in which questions are repeatedly specified and refined, accounting for known information on the subject and feasibility.[79] The audit questions define and structure the audit. They are stated in a neutral form, even though the auditors normally expect to find problems related to them.

The questions will guide the auditors, as they will try to answer the questions by collecting data about the factual situation, comparing this with audit criteria, and/or making it plausible that the conditions contribute to the main performance problems. With the coverage defined in the audit scope, all aspects of the audit objective should be covered by audit questions. In AFROSAI-E courses, participants are usually recommended not to use more than 4–6 audit questions to maintain a clear focus. Even fewer questions are quite feasible. It is better to use a few overall questions and further detail them into sub-questions or even sub-sub-questions.

When performance audits focus on one or a few main performance problems, these problems need to be verified in the report. It is irrelevant to analyse why the Traffic Police does not address risk factors for accidents unless it can be proven that they are not doing so. However, it may not be sufficient to show to what extent traffic inspections are carried out, and how, without explaining the materiality of this in relation to the obvious problem of road accidents. Therefore, it may be appropriate to elaborate on the consequences of main performance problems in government activities, in this case, traffic inspections not being planned and implemented as intended. The audit may take to prove with audit evidence or outline a reasonable assumption that serious traffic accidents are likely to take place since risk factors such as speeding and the use of alcohol are not considered in planning and implementing traffic inspections.

Sometimes, other studies may already have provided sufficient and uncontroversial evidence of the existence of the main performance problems, which the auditors can then refer to.

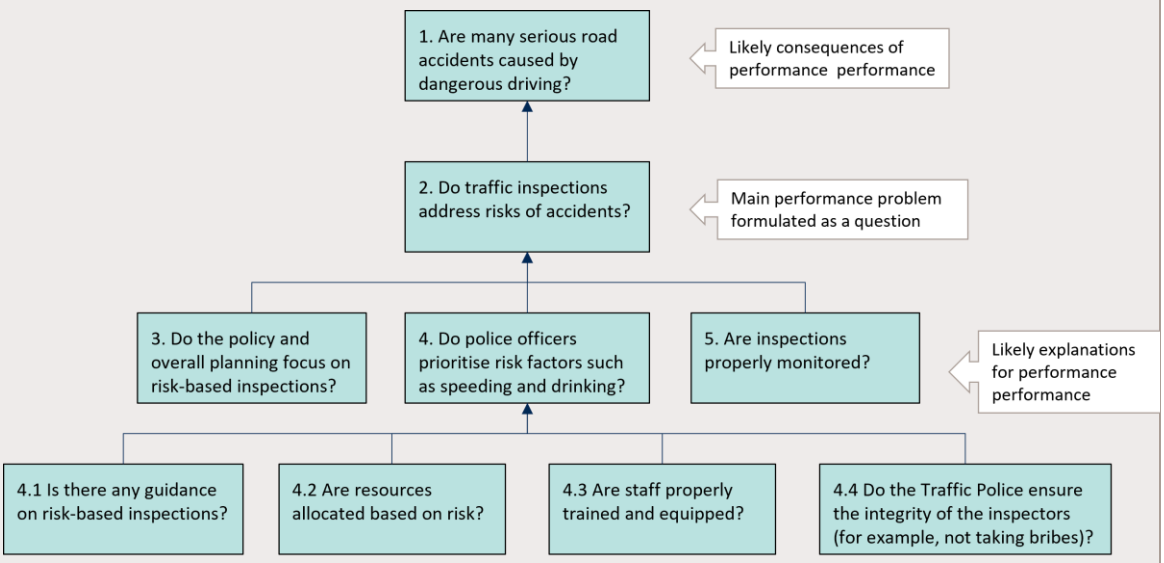
The rest of the audit questions often address the factors that have been identified as likely explanations for the main problems. Examples of such factors within “the black box” were listed in Section 3.2, for example, the organisation, operational procedures, or staff skills and experience. When identifying what factors need to be addressed, the auditors usually revisit the problem tree. A more detailed problem tree starting from the selected main performance problem can often be drawn, converted into audit questions, and even depicted as a question tree. This will clarify the structure of the audit.

Using the example of road accidents and the Traffic Police from Sections 3.1 and 6.4, Figure 12 shows a question tree for an audit of traffic inspections in the box below.

[79] ISSAI 300:25; ISSAI 3000:38.

EXAMPLE: TRAFFIC INSPECTIONS – A QUESTION TREE ON A MORE DETAILED LEVEL

Figure 12. Question tree for auditing traffic inspections



In this example, the auditors had to verify the main performance problem by examining whether the traffic inspections address the risks of road accidents (2). To ensure that the readers would be convinced why this is important, they also analysed available statistics and research on reasons for and consequences of different types of traffic accidents, comparing the focus of traffic inspections with risk factors for serious accidents.

Based on their amassed knowledge of the topic, the auditors' analysis led them to decide that there were three likely main factors explaining the degree to which traffic inspections address risk factors for serious accidents. One identified factor was policy and overall planning (3), another the actual priorities made by police officers (4), and the last identified factor was monitoring mechanisms (5). Four sub-questions were designed to address what the auditors believed to be the most important factors influencing the priorities made by police officers by looking into the guidance for how to carry out inspections (4.1), whether resources are allocated based on the risks for accidents (4.2), whether staff members are properly trained and equipped (4.3), and whether the Traffic police ensures the integrity of inspectors (for example not taking bribes) (4.4).

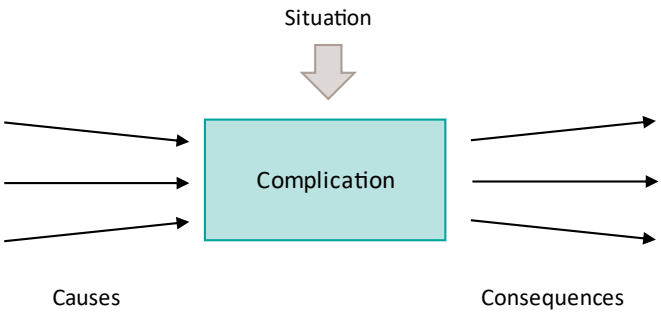
Audit questions mainly address factors the government is responsible for and can influence. There may also be factors external to the government and out of their control that are important for societal problems relevant to the audit. On an overall level, such external factors need to be considered when assessing the performance of government entities. Sometimes, this may not be sufficient, creating a need to address specific audit questions addressing factors outside the control of the government. Such questions are a complement that enables the auditors to consider the conditions under which the audited entities operate when assessing their performance.

6.5.4 Formulating audit questions

The example with a question tree in the section above can be used to formulate audit questions. Another technique that provides a similar result is called the *Situation-Complication-Cause-Consequence technique*. This technique is used to first develop the main audit question. The 'Situation' provides background on the subject in the form of non-controversial statements that a listener/reader would either know to be true, or willingly accept as such. The "Complication" represents the "so what?" factor, that is, what "complicates" the situation and makes the subject worthy of audit (for example, overspending, long waiting times, or negative side effects of actions). This introduces a degree of subjectivity in selecting the audit issue, in that the auditors most often have a particular complication in mind to arrive at the proposed audit, while other complications

might lead to different audits. As a result of the complication, a potential main issue to examine should arise. The technique becomes more advanced if two additional components are considered, namely the causes and the consequences, as seen in the figure below. This places the complication in a wider context and makes it easier to define what to audit and how (see Figure 13). [80]

Figure 13. The Situation, Complication, Cause and Consequence technique



The main audit question now needs to be broken down into sub-questions or lower-level questions, the lowest level of which can be answered by carrying out specific audit procedures. The techniques of a problem tree or issue analysis can be used to do so. When using these techniques, the lower-level audit questions should be:

- Short and clear questions, i.e. unambiguous and easy to understand.
- Relevant and logically or causally linked to the problem at the level above.
- Mutually exclusive, i.e. different and distinct from one another and not overlapping.
- Collectively exhaustive at each level, i.e. taken together, they should be sufficient to answer the higher-level question.
- Specific or testable (i.e. in principle, capable of a "yes/no" response, even though an elaborated answer is usually required) so that it is possible to identify what procedure and evidence is needed to provide an answer and to conclude against the question (e.g. "is a comparative analysis of projects undertaken?", rather than "how are projects selected?".
- Break down questions at a higher level to a limited number of sub-questions (a maximum of 3–5) to assure clarity.

While performance problems mainly explained by a shortage of resources are normally not suitable as a focus for a performance audit, the auditors may have to consider the resource situation to make a fair assessment of the performance of the audited entities. Sometimes, there can be a need to address specific audit questions related to the resource situation.

As mentioned, auditors should not recommend re-allocating resources between areas or sectors based on analysis of just one area. Sometimes, there are other opportunities to influence the resource situation of the audited entities. In such cases, it is appropriate to ask if waste is prevented, if the prioritisation of resources is right or if a funding mechanism is appropriate, for example, to:

- Reduce waste of resources. For example, adjust the level of staffing to the workload, avoiding staff being idle.
- Change the mix of resources to use them better. For example, reduce the number of drivers to be able to afford fuel and maintenance of vehicles.

[80] The descriptions of the *Situation-Complication-Cause-Consequence technique* and the characteristics of lower-level questions are based on a previous practice note from INTOSAI Performance Audit Sub-committee on designing performance audits, a practice note that has been since withdrawn.

- Make investments that will be profitable in terms of leading to capital gain or reduction of future costs. For example, proper maintenance of vehicles to increase their availability and prolong their life span.
- Improve the collection of revenue, for example, municipal fees and taxes.
- Improve or create new funding mechanisms, for example, improving the services through user contributions, particularly when the value of the improvements for the users exceeds their cost.

6.5.5 Audit criteria[81]

ISSAI 3000:45 requires the auditor to establish suitable audit criteria, which correspond to the audit objective(s) and audit questions and are related to the principles of economy, efficiency, and/or effectiveness.

Audit criteria are explained as the benchmarks used to evaluate the performance of the audited activities. In audits covering complex issues, setting audit criteria in advance is not always possible. The auditor might find more detailed audit criteria during the audit process, for example, being aware of best practices among comparable public entities. Whereas in other audit types there can be unequivocal audit criteria, this is not typically the case in performance auditing. The full set of criteria that are relevant for an audited activity cannot even theoretically be defined. There are many perspectives that can be considered and many criteria that could be applied. This means that a deviation from chosen audit criteria is insufficient to define performance problems – there is also a need for opportunities for improvement.

Audit criteria are not always readily available to the auditor in performance auditing; they are typically based on knowledge of best practices on how activities are carried out to be most economical and efficient (or what conditions are the most favourable for good performance and effectiveness). It is essential to have suitable audit criteria for assuring the quality of a performance audit, particularly since, in many cases, clarifying and developing these criteria might be part of the value added by the performance audit.

The audit criteria can be qualitative or quantitative and may be general or specific. They focus on what is expected according to sound principles, scientific knowledge, and best practice, on what could be (given better conditions), or on what should be according to laws, regulations, or objectives.

Performance audit criteria are reasonable and audit-specific standards of performance against which the economy, efficiency, and effectiveness of operations can be evaluated. The criteria provide a basis for evaluating the evidence, developing audit findings related to the main performance problems and the reasons for them, and reaching conclusions on the audit objectives. They also form an important element in discussions within the audit team, with SAI management and in communication with the audited entities. Audit criteria must be relevant, understandable, complete, reliable, and objective in the context of the subject matter, the audit objective(s), and/or the audit questions. The criteria should be discussed with the audited entities, but it is ultimately the auditor's responsibility to select suitable criteria. Defining and communicating the criteria during the planning phase may enhance their reliability and general acceptance.

The audit objective, questions, and approach determine the relevance of the audit and the type of criteria that is suitable. User confidence in the findings and conclusions of a performance audit depends largely on the credibility of the used criteria and the analysis of the reasons for performance problems. The selected criteria should reflect performance in a fair way and be transparent and reliable.

[81] The six first paragraphs are directly based on ISSAI 300:27 and ISSAI 3000:45–48.

In the problem-oriented approach, the starting point is a known or suspected deviation from what should or could be, or what is expected. The main objective is, therefore, not just to verify the main performance problems (the deviation from criteria and its consequences) but to identify the reasons causing them. This makes it important during the design phase to decide how to examine relevant factors and how they are related to the main performance problems during the main study.

A problem-oriented audit can limit the use of specific normative criteria to establish the main performance problem(s). The rest of the analyses can focus on analysing how different factors contribute to the problem. The contributing factors can also be described as performance problems since they contribute to the main problem. The analysis of the explanations of the main problems is rooted in the normative criteria and based on the assumption that government entities are expected to prevent, reduce, or solve the verified main performance problems. This can be described as indirectly using the same criteria for the contributing factors as for establishing the main problems. As for all performance audits, recommendations are expected to address the causes of the main performance problems.

The auditors can use many different sources to identify criteria for establishing the main performance problems, for example:

- Laws and regulations.
- Political goals or statements by parliament.
- Decisions by the legislature or the executive.
- Procedures for a function or activity.
- Standards from research, literature, professional and/or international organisations.
- International benchmarks of good performance.
- Corresponding performance in the private sector.
- Benchmarks – same ministry, different years; different ministries, same activity.
- Planning documents, contracts, and budgets from the ministry.
- Standards, procedures, and measures set by the audited entities.
- Standards set by the auditors, possibly after consultation with subject matter experts (preferably to be agreed with the relevant audited entities).
- Identification of what could be (given better conditions).

It should be clear which sources were used. The legitimacy of the alternative sources of criteria varies, both in the eyes of the audited entities and the eyes of citizens and other stakeholders. Decisions taken by parliament usually have a high legitimacy for all involved. If the audited entities do not accept the criteria used as legitimate, they may dispute the findings even if the factual information is correct. While all criteria should be discussed with the relevant audited entities, criteria with a weak legitimacy base (such as criteria defined by the auditors themselves) should preferably be agreed upon with the relevant audited entities. Without such an agreement, the auditors do not have any strong arguments supporting the appropriateness of their assessment should an audited entity challenge the audit criteria used in the report.

Some criteria may be highly legitimate in the eyes of the audited entities, such as their own objectives, targets, policies, strategies, or working procedures. When the conditions the auditors observe do not meet the audited entities' own criteria, this can usually be used as a finding in the audit. On the other hand, when an audited entity meets standards set by themselves, the auditors cannot take for granted that this is a sign of good performance. Organisations often tend to set formal objectives and targets too low to make it easy to achieve them. In such cases, the auditors should also try to use additional criteria for assessing performance, such as benchmarking.

The auditors must remain critical to the criteria initially chosen to assess performance, regardless of the source. For example, auditors may have considered legislation or regulations to provide

criteria relevant to assessing performance. During the audit, however, they may discover that these authoritative sources are unrealistic and impossible for the implementing entities to achieve. This may cause the auditors to search for other criteria more relevant for evaluating the performance of implementing entities or redirect their main interest from implementation to the design of the government undertaking. Another example is when the analysis shows that meeting the initially chosen criteria would not have resulted in good performance, meaning they are not suitable for assessing performance in the audit. While non-compliance with legislation and regulations should be described in the report, the main conclusions and recommendations may not address the non-compliance. The auditors need to consider appropriate action to solve or reduce the performance problems in the area. It is not uncommon that the analysis shows that performance can be improved if the legislation, objectives, strategies, or procedures are changed.

The auditor shall, as part of planning and/or conducting the audit, discuss the audit criteria with the audited entity, but it is ultimately the auditor's responsibility to select suitable criteria. Discussing the audit criteria with the audited entity ensures a shared and common understanding of what quantitative and qualitative criteria will be used as benchmarks when evaluating the subject matter. This is particularly important when the audit criteria are not defined directly by laws or other authoritative documents, or the audit criteria have to be developed and refined throughout the course of the audit work.[82]

As highlighted in Chapter 2, AFROSAI-E's main approach to performance auditing is a combined approach, mainly selecting audit topics where material performance problems are expected to exist. When possible and reasonable, the main performance problems are verified, and their likely reasons are analysed. As a complement, the auditors can identify additional specific criteria, enabling them to assess contributing factors independently from their relation to the main performance problems. This makes the audit less vulnerable to weaknesses in convincingly linking the main problems to their likely reasons. A risk worth noting, however, is that auditors give priority to assessing contributing factors with separate specific criteria and neglect to link them to the main performance problems.

Main performance problems established in relation to audit criteria, as well as their reasons and consequences, are usually presented as findings. The linkages between main problems and their reasons vary, and the explanations can sometimes include a chain of factors on different levels. For this reason, findings often include more than one level of problems.

6.6 Developing a strategy and designing empirical studies

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall acquire substantive and methodological knowledge during the planning phase. *ISSAI 3000:98*
- During planning, the auditor shall design the audit procedures to be used for gathering sufficient and appropriate audit evidence that responds to the audit objective(s) and question(s). *ISSAI 3000:101*

Besides the audit objective, scope, questions, and criteria, the auditors need to consider the availability of data, what empirical information is needed to convince the reader and how this information is going to be collected and analysed. The auditors must carefully consider how different study designs, methods, and techniques for data collection and analysis can be combined to develop evidence to answer the audit questions. The strategy and methods for data collection must be developed specifically for each audit, depending on the context and overall audit design.

[82] ISSAI 300:27 and ISSAI 3000:49–51.

It is also necessary to consider how data is going to be analysed already during the planning stage, even if the methods for data analysis are further specified during the main study.

This can be approached in several stages: which questions to ask, determining the level of observation (studying a process and/or individual files), deciding whether to analyse the whole population or a sample, and choosing data collection techniques. 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 is available. This makes it easier to choose the most appropriate audit method.[83]

The audit methods chosen should best allow audit data to be gathered efficiently and effectively. While the auditors should aim to adopt best practices, practical considerations such as data availability may restrict the choice of methods. It is, therefore, advisable to be flexible and pragmatic in this respect.[84] For this reason, performance audit procedures should not be overly standardised. Excessive prescriptiveness may hamper the flexibility, professional judgement, and high analytical skills required in a performance audit. In some instances – 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 detailed interview or research questions and procedures are explicitly defined.[85]

6.6.1 Developing a strategy for data collection and analysis

A combination of qualitative and quantitative data and a combination of primary and secondary data is used in performance audits to develop audit evidence. All methods have strengths and weaknesses and are complementary in verifying the main performance problems and analysing the reasons for them.

The auditors can use a combination of different study designs, methods, and techniques for data collection and analysis in the audit. It is important for auditors to establish an appropriate strategy, combining different methods in a way that enables them to answer the audit questions and meet the audit objective.
The collected data and analysis must provide sufficient, relevant, valid, and reliable audit evidence that covers the audit questions. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding. The evidence must also be reasonable in terms of the time needed to collect it and the cost implications. This requires good judgement by the auditors as well as creativity. The strategy can be built on different methods for data collection, for example, using:

- A survey or existing statistics to get an overall picture and verify the main performance problems.
- File reviews combined with document analysis and interviews in local offices to detail the understanding of the problems and identify the main reasons for them in a selected number of cases.
- Interviews with stakeholders to verify the problems they are facing.
- Document reviews and interviews at head office to analyse how the audited entities have, or have not, tried to influence the development through the operational and management systems.
- Observation and walk-through studies of main aspects of the operational and management systems to identify opportunities for improvements.
- Interviews with management, staff at different levels, and different stakeholders to verify findings and collect information on potential actions for improvement.

[83] ISSAI 300:37 and ISSAI 3000:101.
[84] ISSAI 3000:103.
[85] ISSAI 300:37.

The auditors can also use several study designs in their audits that may include the use of different types of methods for data collection and analysis. The different study designs can be used partially or fully in an audit, and different designs can be combined with each other and with additional elements. The challenge is to establish an appropriate strategy, combining study designs, methods, and techniques in the audit to suit the context, objective, questions, criteria, available skills and resources, and available data.

Performance audit reports should include a description of the methods used to develop them. This is important for the reader to be able to assess the credibility of the report. References to appropriate methods can increase the credibility of the report. However, a note of caution is needed here. The auditors should not use study designs and methods that they do not sufficiently grasp and are able to apply appropriately. For example, using sampling techniques in the wrong way or in a way that is irrelevant to the empirical study at hand undermines the report's credibility when readers understand that this is the case. Similarly, referring to arguments based on the methods used that are irrelevant to the statements made in the report undermines the readers' confidence in the report. It is preferable for auditors to use their common sense rather than put the SAI's reputation at risk through inappropriate use of study designs and methods. The auditors can also look for methodological advice internally, from other government entities, such as universities or other actors they cooperate with. However, the ultimate responsibility always rests with the SAI.

EXPERIENCES IN THE REGION – SAI KENYA
DEVELOPING A STRATEGY FOR DATA COLLECTION

During the planning stage, the team should prepare a strategy for data collection. The strategy should define the data required, the appropriate methods of gathering the data, and how the collected data should be analysed. The nature and complexity of the audit will determine the choice of strategy. The team can employ various methods for data collection. The choice of method depends on the data required to answer the audit questions in addressing the audit objective. Depending on the data required, the team may choose one or a combination of methods to collect the data. Some of the planned data sources may prove not to be as rich as expected, hard to get, or even totally unavailable. Furthermore, new sources not considered during planning may emerge during the audit execution, promising to give the team more evidence about the audit problem and answer the audit questions. However, it may prove not to be as useful as it looked.

SAI Kenya employs a combination of different methods and data sources to gather the evidence needed to answer audit questions. This is achieved through the use of an audit design matrix that forms part of SAI Kenya's pre-study memorandum and work plan. The top management must approve the audit design. The audit design matrix allows performance auditors to consider each audit question, brainstorm on the evidence required, including the possible sources of evidence and propose the appropriate method for data collection and analysis. Generally, SAI Kenya uses testimonial evidence gathered through interviews, surveys, and focus group discussions; documentary evidence gathered through document and file reviews; and physical evidence gathered through inspection of objects. The audit design matrix forms a reference tool for the audit team during data collection and analysis of the collected data.

6.6.2 Eight study designs for empirical studies

Below, eight different study designs are presented that may be considered during the planning phase. The presentation is largely based on previous INTOSAI documents, even if structured slightly differently.[86] Methods for collecting and analysing data and audit evidence are covered in Sections 7.1–7.2 as part of the conducting the audit.

1. Goal-attainment, outcome-oriented studies and impact studies

Basic question: Are the programmes achieving their overall goals and intended effects?

These studies assess the extent to which a programme achieves its outcome-oriented – and client-oriented – goals or objectives (including side effects and unintended effects). The purpose is often to judge programme effectiveness, but emphasis may also be put on quality issues and client perspectives. The general steps in goal attainment studies include defining the goals, objectives, and major outputs and outcomes, deciding how to measure goal achievement, as well as collecting and analysing data.

This study design is most appropriate when the goals and objectives are reasonably well defined in order to be used as criteria in the audit. Finding out whether the objectives and intended outcome have been achieved is a main feature of this design. When problems with the achievements are identified, the study may also include a more detailed analysis of how problems and weaknesses in the operations of the audited entities have contributed to shortcomings in the achievements.

It is common that goals and objectives are not explicitly stated, are vague or in conflict with other objectives. In such situations, the auditors may use other sources to make the objectives more operational, using criteria from the legislation, professional standards, research, and similar sources.

If the investigation focuses only on outcomes, the auditors need to assume that outcomes are the result of what audit entities do or don't do. An alternative is to make a *goal-means analysis*, that is, to actually study if and how the means applied have succeeded in affecting goal attainment. This type of study can illuminate certain shortcomings between resources committed and goals attained. A goal-means analysis may, for example, be used when there is reason to believe that an audited entity has not acted efficiently.

A *programme logic model* (or a policy intervention theory) may help the auditors conduct goal-attainment studies (and other studies). The auditors can structure the programme logic to depict how the objectives are linked to responsibilities, components, and activities. This can be done to better understand the programme, to analyse whether the components of the programme are linked logically to one another, or as a first step in analysing the programme theory.

Impact studies are used to assess to what extent the audited programme has contributed to the intended outcomes, excluding the influence of other factors on the results.

When it is not possible to directly assess impact and effectiveness, an alternative is to assess the assumptions that the programme is built on – *assessing whether the programme theory is working*.[87] The outputs of a programme are designed to have a certain outcome in society, often transformed through a chain of intermediate outcomes before the intended results are achieved. In cases where it is difficult to assess actual outcomes in society, auditors may assess if the programme theory is working as expected. If the different steps of intermediate outcomes that the

[86] The *Standards and Guidelines for Performance Auditing* from 2004 (the old version of ISSAI 3000) described seven study designs and five investigation designs. In this Handbook, these have been combined into eight study designs that may be used fully or partly, or in different combinations, to establish a strategy guiding data collection and data analysis.

[87] Compare GUID 3920:44.

programme theory is built on are not achieved, it is not likely that the intended end results have been achieved.

In an information campaign, for example, the output from government activities would be different types of information. This information must be noticed, read or listened to, understood, increase knowledge, change attitude, and change behaviour before the expected end results of the campaign can be achieved. The different steps are often referred to as intermediate outcomes or intermediate effects before the final outcomes are achieved. The outcomes that can be attributed to the programme are sometimes referred to as the impact of the programme.

The closer to the end results the auditors can measure, the more relevant the measurements are. On the other hand, the closer to the end results the auditors measure, the stronger the results are influenced by external factors, making it more difficult to assess the impact of the programme. If the auditors find significant problems while measuring intermediate outcomes earlier in the results chain, it is not likely that the programme theory works as intended, and the programme is not likely to have the intended impact.

2. Process studies

Basic question: How does the functioning of the programme work meet expectations?

Systems studies assess the extent to which a programme, activity, or organisation operates as intended. This is a common element in most performance audits. Typically, it is concerned with the programme activities' conformity with statutory and regulatory requirements, programme design, and professional standards or citizens' expectations. It is important to assess whether the quality of the operations – for instance application forms, processing times, service deliveries and other client-oriented activities – meet expectations.

Process studies are geared to permit a full understanding of how a government programme works: how does it produce the results that arise? The design of a process study may involve different types of investigations, for example:

- Mapping out work processes and studying their implementation, possibly comparing with best practices.
- Mapping out the processes from the client's perspective and how the clients are treated in the different steps.
- Mapping out stakeholders to understand their roles, legitimate interests, influence, and potential coordination between them.
- Studying the organisational structure and responsibilities.
- Studying the design and use of management systems, possibly comparing with best practice
- Studying the design and use of technical support systems (IT, equipment and materials).
- Study strengths and weaknesses in the programme from different perspectives, such as clients, management and staff.
- Study the design and use of performance measurement systems.
- Study time management, resource utilisation and involvement of stakeholders.

3. Cost-benefit studies and cost-effectiveness studies

Basic questions: Do the programme benefits exceed the costs, and are the objectives met at the lowest possible costs?

Cost-benefit studies are investigations of the relationship between the costs and benefits of government projects or programmes 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). Such a study aims to determine whether the benefits of an entity, programme or project exceed its costs.[88] 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 the costs of alternatives when benefits can be assumed to be constant.

Cost-effectiveness studies focus on the relationship between project costs and outcomes expressed as costs per unit of outcome achieved. Cost-effectiveness studies are concerned with finding the cheapest means of accomplishing a defined objective or the maximum value from a given expenditure. The effectiveness of a programme in reaching intended effects is related to the monetary value of the resources needed.

4. Comparative investigations and benchmarking

Basic question: How does performance (processes and/or results) stand in comparison with comparable cases?

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 undertakings in different countries.

Benchmarking studies are a special form of comparative studies where the basic question is whether things are being done in accordance with best practices. Benchmarking is the process of comparing an organisation's (or a programme's) methods, processes, procedures, products, and services against those of organisations (or programmes) 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.
- Lend more credibility to audit recommendations.

5. Before and after investigations

Basic question: After a policy intervention, have the results or processes of interest changed?

In a 'before and after' investigation, a comparison is made of the situation after the programme with the situation before programme implementation started. A simple 'before and after' study is one in which one set of measurements is taken before programme participation, and a second set is taken on the participants after sufficiently long participation. The 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 attributed to the programme without further investigation.

6. Surveys and sampling investigations

Basic question: What characterises a large target group of interest?

A survey is a systematic collection of information from a defined population, such as all primary schools in a country. It usually uses questionnaires sent by post or via the internet, telephone, or direct interviews in person. Surveys are particularly useful when one needs to quantify information from a large number of subjects on a specific issue or topic: descriptive statistics.

[88] Cost-benefit studies 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.

It is often not possible to collect information from the whole population. By using statistical probability sampling, the auditors can get samples, allowing them to make relevant estimates for the whole population. Surveys focus on quantitative data. In a survey on the distribution of books to primary schools, for example, statistics on the quantities of books delivered, the time needed, and the timing of the delivery compared to the start of the school term may be collected through a questionnaire to regional or district education offices. It is also common to quantify qualitative data in surveys, for example, by asking for assessments of the quality of teaching materials on a numerical scale from 1 (not at all) to 5 (very good).

The auditors must make a judgement as to whether descriptive statistics 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 units in the population.
- The complexity of the questions to be answered.
- The relevance and reliability of evidence produced with alternative tests and procedures and the relative cost and time involved in each.

As the auditors seek to draw conclusions about a whole population by testing a sample of units selected from it, it is essential that the sample is representative of the population from which it is drawn. This is achieved if the selection is *random,* that is, if (in the simplest form of random selection) all units in the population of interest have an equal chance of being chosen, like in a lottery. The number of randomly selected units must also be big enough for this lottery logic to produce representativity.

The first stage in planning the sample is to make an exact definition of the population. Moreover, the sample size must be determined. The auditors should rely on established principles for the determination of sample size to ensure that the sample is likely to adequately represent the population. A smaller sample size can be used if the population is homogenous. A solution when the population is not homogenous is to split it into different strata and draw a sample from each of them. It is also essential that the auditors clearly define the specific objectives the testing with the sample aims to achieve.

Statistical sampling is sometimes used to obtain evidence in performance audits, although use in the AFROSAI-E region is currently limited. Statistical 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 generalisations. Due to 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, surveys may be supplemented with other information-gathering techniques, such as case studies.

Sometimes non-random samples, or random samples not big enough for statistical inference, are used for lack of better alternatives. If statistical sampling is not possible, auditors should be aware that it is difficult to argue sample representativity. With non-statistical sampling, it cannot be claimed that the proportions in the sample represent the proportions in the population.

7. Case study investigations

Basic questions (examples): What happens in a process typical for the policy of interest? How does the activity of interest work in a situation where conditions are favourable? How does the activity of interest work in a situation where conditions are unfavourable? Which different organisational challenges are associated with service delivery?

Case studies aim to thoroughly examine a limited number of incidents, events, transactions, or items in order to understand an entity, programme, process, or activity. Organisational changes, geographical considerations, and audit economy are important factors in designing a case study.

There are different types of case studies: exploratory, case examples, and evaluative. Exploratory case studies examine a small number of cases, usually no more than three, to identify core questions, issues, and problems that can be addressed in the audit. *Case examples* are used in performance audits to illustrate findings in the report.

Evaluative case studies are the most important type of case studies in performance auditing, as they examine a systematic selection of cases in order to understand an entity, programme, process, or activity as a whole. Evaluative case studies can be described as building a theory about performance problems and their causes in government operations. What conclusions can be drawn from an evaluative case study depends on the logic used for selecting the cases. If, for example, the "best case logic" has been used, and the cases for examination have been identified together with an audited entity to study the best-performing offices, there may be strong arguments that the problems observed are likely to be even worse in other offices. Surprisingly often, the best-case logic is quite useful.

Another useful principle for selecting cases is to let the selections reflect an expected variation in performance, from the best to the average and the not-so-good (but usually not the worst). This may enable auditors to identify factors that are important for performance. In selecting cases, auditors should be prepared for the fact that the actual performance of different units deviates from assumptions made at the head office.

In evaluative case studies, it is important that the auditors search for evidence disproving the theory they have started to develop. A theory that withstands such tests is more likely to be relevant.

Case studies enable auditors to concentrate on details and understand organisational processes. Several different methods can be used to collect data in case studies, such as quantitative data or existing statistics, interviews, observations, file reviews, and other examinations of documents. Consequently, case studies may be based on both quantitative and qualitative data.

In our example on the distribution of schoolbooks, case studies may deal with all aspects of these activities in a few schools, each in three districts, where data is recorded, and teachers, parents, pupils, and administrators are interviewed. In case studies, a trade-off between the number of cases and the depth and robustness of the information gathered needs to be considered.

It is usually not possible to make statements regarding the frequency and extent of problems based on case studies, even when the cases are carefully chosen to represent different types within the population of interest or selected to illustrate general problems. For the purpose of determining frequency and proportions in larger populations, fifteen case studies are no better than five. In order to make estimates for the whole population, statistical probability sampling methods need to be used, and a sufficient number of cases need to be investigated, usually counted in hundreds. However, in combination with other methods, case studies may allow some general conclusions to be drawn.

EXPERIENCES IN THE REGION – SAI RWANDA
USING EXPERTS FOR CASE STUDY INVESTIGATIONS

In an audit of the expropriation of land for the construction of a hydropower plant, the auditors wanted to find out if the expropriated properties were fairly valued in terms of quantity and value of each property. Most properties included forests where the valuation was based on the type and age of the trees in the forest. At the time of the audit, some trees had been removed during construction work. It was not easy to assess whether the quantity of trees and their age used for valuation were accurate. During field visits, the auditors noted that trees still on the ground did not reflect the age reported in the valuation process, which implied an overstatement of their value.

The SAI decided to carry out a case study to investigate the correct age and number of expropriated trees. That task required forestry skills, which we did not possess. The SAI enlisted the support of an expert in forestry from the Ministry of Natural Resources and designed an audit programme in order to determine:

- The size of land expropriated for sampled expropriated persons
- The number of trees that could fit on that land
- The age of trees which were still on the ground.

The SAI used the report from the expert as a working paper, enabling us to report that the number and age of expropriated trees were overstated, which implied an overstatement of the value and that money was wasted during the expropriation process.

Once a number of case studies have been compiled and analysed, the auditors may circulate the findings to the audited entities involved to obtain their views on the extent to which the analysis gives a true and fair picture of the problems in general. The results of the case studies may also be discussed with scientists, subject matter experts, and specialists in seminars and elsewhere. By combining general statistics with in-depth case studies and verifying the relevance of the case studies, the auditors may gain sufficient acceptance of their findings to enable them to argue that it is likely that their findings are relevant beyond the cases studied.

It is often useful to combine case studies with surveys or existing statistics. In our example of schoolbook distribution, certain types of overall statistical data may be collected for the whole country or for a few regions. Then, some case studies may be carried out for a few districts or schools to gain and present a deeper understanding of what explains good or problematic performance.

8. Quasi-experimental investigations

Basic question: What is the impact of this intervention?

The essential feature of *true experiments* is the random assignment of subjects to treated and untreated groups, which constitute the experimental and control groups, respectively. A control group is a group of untreated subjects that is compared with experimental groups in terms of outcomes. An experimental group is a group of subjects to whom an intervention – the "treatment" – is delivered and whose outcome measures are compared with those of control groups. For various reasons, true experiments can seldom be arranged.

A *quasi-experiment* is a research design in which the 'experimental' and 'control' groups are formed non-randomly, but where it can still be argued that the two groups are as alike as if they had been randomly selected. 'Quasi-experimental' methods attempt to eliminate as much as possible the extraneous effects that make assessing impact difficult, though without the full scientific rigour of a true experiment.

One common type of quasi-experimental design involves constructing control and comparison groups by matching participating and non-participating targets to make the two groups as similar as possible with respect to the relevant characteristics. Another type of quasi-experimental design is the natural experiment, which makes use of situations where policy interventions, for some

reason, have targeted only some units in a non-systematic fashion. This design may, for example, be possible when there is a change in regulation, policy, or practice which has affected only some regions, districts, or social units or where a service has been distributed to some citizens but been delayed for others, with no relation to the intervention as such. Natural as well as quasi-experimental designs typically rely on statistics and statistical sampling methods to determine effects.

The overall audit design and the design of empirical studies must be closely linked

All parts of the audit design need to be linked to each other. This means that the audit objective, scope, audit questions, sub-questions, and audit criteria must be congruent with each other. They must also be properly linked to the strategy and methods for data collection and analysis. After having elaborated on the methodological planning of the audit in the work plan, it is a good idea to summarise the design in a matrix (see table below).

EXAMPLE OF A DESIGN MATRIX FOR "DELAYED DISTRIBUTION OF SCHOOLBOOKS"

AUDIT QUESTION	AUDIT CRITERIA	DATA COLLECTION AND ANALYSIS		ANTICIPATED FINDINGS	RISKS TO THE EXECUTION
		AUDIT EVIDENCE NEEDED	METHODS & DESIGN OF EMPIRICAL STUDIES*		
1. Are school books distributed on time	The law: All students should have access to school books needed during terms	The time the books are distributed and the period of delay	Questionnaire to schools Case study of schools with a review of records	Average delay of 3–5 months in different districts	Few responses on questionnaire
2. Are distribution plans realistic and based on schools' needs	Manual with principles for needs assess-ment and other procedures	Shortcomings in needs assessments Repeated failure to follow the plan	Document review at the Ministry Case study of schools on needs	Needs in schools and time for distribution are underestimated	Poor documentatio n of plans
3. Is distribution coordinated between regional stakeholders	Manual with responsibilities for different actors	Delays and non-activity from stakeholders	Interviews of involved stakeholders Minutes from meetings	No or delayed activity from some stake-holders	Little documented evidence
4. Are staff in district stores trained on the distribution	Good practices from similar countries are successful in the distribution	Actual knowledge and training	Interview storekeepers Training records	Procedures are not known No training	None

** Methods for data analysis have been excluded in this example to limit the size of the matrix.*

A design matrix is structured based on the audit questions and includes a description of the audit criteria. It is also common to include a description of the audit evidence that is needed to answer the audit questions and the methods for collecting and analysing this evidence (data). In the example above, a description of the anticipated findings has also been included, as well as what can go wrong – the risks in the execution of the audit. The anticipated findings are what the auditors expect to be able to present as findings in the audit report based on their knowledge at this stage of the planning.

If too many aspects are included in the matrix, it becomes complicated, and the advantage of an overview of the audit design may be lost. The overview is also lost if the auditors write the full sentences used in the text in the work plan rather than keywords. A good idea is to limit the matrix to the most important aspects, which may vary between SAIs and audits. Examples of other factors

that could be included in a design matrix are anticipated recommendations and measures to mitigate risks for the execution of the audit.[89]

6.7 Developing an administrative plan

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall 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. *ISSAI 3000:96*
- The SAI shall ensure that, the audit team collectively has the necessary professional competence* to perform the audit. *ISSAI 3000:63*
- The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value. *ISSAI 3000:52*
- The auditor shall plan for and maintain effective and proper communication of key aspects of the audit with the audited entity and relevant stakeholders throughout the audit process. *ISSAI 3000:55*

This section will cover:

- Selecting a competent audit team and organising the audit (Section 6.7.1).
- Developing a realistic activity plan (Section 6.7.2).
- Developing a realistic budget (Section 6.7.3).
- Planning the monitoring of the progress of the audit (Section 6.7.4).
- Planning for managing the risks in the audit (Section 6.7.5).
- Planning the communication with the audited entities and other stakeholders (Section 6.7.6).

6.7.1 Selecting a competent audit team and organising the audit

The relevant professional competence a team needs to carry out a performance audit includes sound knowledge of auditing, social science methods, evaluation techniques, personal abilities (analytical capacity, writing and communication skills, creativity, and receptiveness), knowledge of functions related to the subject matter, and sometimes more specific expertise.[90] (See also Section 5.3.1).

Performance auditing is a team effort. It is not good practice to conclude a performance audit singlehandedly since the issues involved are complex.[91] A team leader with the main responsibility for the audit engagement is appointed and supported by other team members. The normal size of the team is usually 2–4 auditors. If the team is too large, it is normally less efficient since more auditors need to learn about the topic and take part in numerous team discussions. An exception is when some auditors play a limited role in an audit by only carrying out a specific task, for example, collecting certain data in the provinces.

When appointing an audit team, management needs to consider the team composition to ensure that the team as a whole has the necessary experiences and skills for the audit. Management should

[89] A partly different matrix is presented in the Performance Audit Manual of SAI Brazil, covering the audit questions, required information, information sources, methodological strategy, procedures for data collection, procedures for data analyses, limitations to the methodological strategy and what the analysis will allow the auditors to say.

[90] ISSAI 3000:63–64.

[91] GUID 3910:79.

also consider how the audit can be used for further professional development of the auditors. By systematically considering how auditors can be allocated new challenging tasks under supervision, the SAI can enhance their professional skills. This means, for example, that it is not necessarily the most experienced or most senior auditor who should be the team leader. It may be a good idea to appoint a less experienced auditor as a team leader to promote the auditor's professional development. Quality can still be safeguarded by ensuring that the team leader is supported by sufficiently experienced team members.

Even if a team was appointed at the beginning of the pre-study, the composition needs to be reconsidered in developing a work plan for the main study. Only at this stage will the auditors and the SAI have sufficient knowledge about the overall audit design and design of empirical studies.

EXPERIENCES IN THE REGION – SAI ESWATINI
CHALLENGES IN PUTTING TOGETHER AUDIT TEAMS

The primary criteria that we use for assembling engagement teams under performance audit is a balance of educational background, a completed AFROSAI-E performance audit 3 module course, experience, and special skills. The challenge we face is that the recruitment is done by the central government body, the Civil Service Commission (CSC), which prioritises the recruitment of accountants. There is no provision in the Audit Act of 2005 that speaks to the appointment of staff in the Office of the Auditor General (OAG).

However, the OAG has already engaged a consultant to review and update the legal framework, including the Audit Act, in relation to the country's Public Finance Management Act of 2017, the UN resolution, the INTOSAI standards, and the AFROSAI-E Institutional Capacity Building Framework.

The consultant presented that they have engaged the CSC and will propose that the CSC recruit new staff after getting confirmation from the Auditor General if they meet the desired criteria in terms of qualifications, skills, experience, and others. This opportunity will enable the SAI to recruit people with diverse skills, even for the performance audit unit.

It is good practice to require the performance auditors and their manager to sign a declaration of no conflict of interest for each performance audit engagement, combined with a declaration that the auditors understand the significance of the Code of Ethics in ISSAI 130 and the SAI's code of conduct. Preferably, the declaration of no conflict of interest is signed when the pre-study starts, even if the auditors have limited knowledge about the audit entities and the upcoming main study. If auditors become aware of conflicts of interest during the pre-study or main study, this should be reported to management, and a new declaration should possibly be made. If a potential conflict of interest exists for an auditor, it is up to top management to decide whether this affects the auditor's involvement in the audit. In performance auditing, it is in many cases sufficient that any potential conflicts of interest have been made clear at the outset of the audit so that management can monitor that this does not influence the audit. Audits can also benefit from involving auditors with previous knowledge of the subject matter.

While multidisciplinary skills are useful in a performance audit unit, most performance auditors need to be able to work in audits where they do not possess subject matter expertise. In fact, performance auditing involves such high requirements and needs for a multitude of skills that it is truly a profession in its own right. Among other things, this means that performance auditors should be able to carry out audits in many different sectors of society.

Depending on the overall audit design and the study designs, the team may need to consult subject matter or methodological experts in certain parts of the audits and as reviewers of a draft report. Some SAIs are able to contract consultants for limited tasks in an audit. There may also be public or private sector experts willing to share their knowledge with the auditors without being contracted as consultants. Most professionals have a genuine interest in the sector in which they operate and may have an interest in contributing to improvements by supporting the SAI in addressing the

problems. The auditors should, however, always take care and consider the risk of elements of self-interest among external experts.

Some SAIs more or less systematically consult subject matter experts in certain audit steps and ask them to comment on a draft audit report.

Before using experts, the auditors should ensure that this is necessary and that the experts are competent and independent. Although the auditors may use the work of experts as audit evidence, the auditors retain full responsibility for the audit work and the conclusions in the audit report.[92]

6.7.2 Developing a realistic activity plan

Good project management, among other things, means that the auditors must plan the length of the audit and outline the dates when different key activities will be carried out. The activity plan also needs to specify various milestones when management decisions must be made.

Figure 14. Activity plan for a main study

Activities	Period
Work plan approved	16 October
Introduction to the auditee with discussions on the audit criteria	18 October
Document analyses and interviews at head office & with stakeholders	19 October – 8 November
Collect and analyse data - field trip 1	9–22 November
Draft and approve report synopsis	23–30 November
Collect and analyse data - field trip 2	1–10 December
Interviews at head office & with stakeholders	11–20 December
Vacations	20 December – 5 January
Drafting report	6 January – 10 February
Revise draft in dialogue with managers	10–12 February
Draft report submitted to audited entity	15 February
Exit meeting	25 February
Finalise report and publish	26 February – 11 March

In the activity plan, the auditors consider in what order different activities shall be carried out and how much time is needed for them (see Figure 14). The activity plan must be realistic to add value to the audit process. It is difficult to plan a performance audit in detail, for example, on which date to have a certain meeting. While the activity plan needs to be more specific than the example in the figure, it is often advisable to avoid being too detailed in the plan to avoid frequent revisions. Common mistakes include being optimistic about how long the audit will take, particularly analysis and report writing, the time needed for management processes and review by the auditees, and other activities other than the audit, such as training and vacations. On the other hand, auditors risk overestimating the time needed for field visits and possibly also the number of visits needed.

Regardless of how well the audit is planned, it is often difficult to estimate how long it will take. In the AFROSAI-E region, it is common that unanticipated factors delay the progress of the audit. Sometimes, the activity plan is outdated even before the audit starts, as it may take longer than

[92] ISSAI 3000:65.

expected to approve the audit and allocate resources. Also, during the audit, factors cause delays compared to the original plan. One reason is that the original plan turns out to be too optimistic.

Some SAIs in the region face difficulties with long production times for performance audits. While the time needed to complete a performance audit is usually rather long, frequent delays can be avoided. (See Section 5.2.5.)

6.7.3 Developing a realistic budget

Good project management also presupposes that management develops and approves a realistic budget. The execution of the budget also needs to be monitored during the audit.

It is common practice in the SAIs in the region to budget expenditures, such as travel costs and allowances. It is less common to budget costs for the working hours of the auditors and managers, which is typically a major part of the costs for a performance audit. Staff resources are usually budgeted in terms of the number of working days.

As part of the further development of performance auditing, it is advisable for SAIs to budget staff resources, at least in terms of working days, audits, and other operations. When combined with a time recording system of the actual use of working days, the SAI will be able to get information about the actual resources used for different operations as a basis for prioritisation and improved planning in the future. It is common for auditors to spend a lot of time on activities other than the audit, which may not be fully recognised in the activity plan. It may also be challenging for supervisors and senior managers to assess what the auditors have produced without information about how much time they have used.

Time recording systems may sometimes be misunderstood as instruments for controlling staff. This is rarely the purpose of such systems, and they are rarely effective for this purpose.

6.7.4 Planning the monitoring of the progress of the audit

One advantage of a realistic activity plan is that it enables regular monitoring of the progress of the audit. The work of the performance audit teams is usually supervised by an operational manager, who, to some extent, also takes part in the audit by accompanying the team on some interviews and field visits. It is important that this supervision is used to further develop the professional skills of the auditors through on-the-job training and guidance. The teams should also have regular progress meetings with the senior manager for the audit, and top management should regularly be informed about the use of resources and the progress of the audit, often by a senior manager.

Monitoring of the budget and use of time was briefly mentioned above.

6.7.5 Planning for managing the risks in the audit

The ISSAIs[93] require auditors to actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information, or failing to add value. Actively managing audit risk includes anticipating the possible or known risks of the work envisaged, developing audit approaches to address those risks during audit planning and the selection of methods, and documenting how those risks will be handled.

Actively managing audit risk also includes considering whether the audit team has sufficient and appropriate competence to conduct the audit, adequate access to accurate, reliable, and relevant good-quality information, consideration of any new information, and consideration of alternative perspectives.

[93] ISSAI 300:28 and ISSAI 3000:52–54.

The auditors should also consider the SAI's reputational risks in the audit. Such risks may be related to performance problems and audit questions in themselves, for example, when questions are politically sensitive. Risk management in the audit is further discussed in Section 7.5.2.

6.7.6 Planning the communication with the audited entities and other stakeholders

Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process, and communication recipients for each audit. Planning communication involves deciding how to present information before starting the main study and communicating during the main study. The SAI should also provide the audited entities with an opportunity to review and comment on a draft report and discuss differences of opinion, if any, with the SAI before the report is issued.

Communication with the audited entities always needs to be planned in an audit. The SAI also needs to identify whether there are other main stakeholders with whom it needs to communicate during the audit, such as the legislature, other government bodies, academic and business communities, citizens and their representatives, research institutions, interest groups, non-government organisations, and media representatives.

SAI staff shall not disclose any information acquired as a result of their work without proper and specific authority, unless there is a legal or professional right or duty to do so.[94] For this reason, it is important to identify the need for communication with main stakeholders so that top management can decide how different actors can be informed during the audit, unless the SAI has a communication policy that clarifies this matter.

EXPERIENCES IN THE REGION – SAI GHANA
COMMUNICATION WITH THE AUDITED ENTITIES

Feedback from auditors in the field informed the SAI of the need for a forum to engage with our audited entities. There was a lack of cooperation from top managers of audit entities, which are key targets in performance auditing. The practice has been that top managers usually assign all the responsibility of answering questions from the auditors to their accountants. Thus, performance auditors were unable to access all the data needed to support their findings.

In 2008, the SAI organised a stakeholder conference inviting representatives of entities earmarked for audit that year. At the forum, which was well attended by the heads of the institution, the process of selecting topics for audit was discussed, together with the reasons why those entities were selected and the SAI's requirements during a performance audit. That year, top managers of the audited entities were keenly interested. The SAI has now developed a document entitled 'Auditees' Guide to Performance Audit'. The idea is to distribute the document to audited government entities to provide knowledge about the audit processes and inform them of what to expect from the auditors.

Audited entities may not have prior knowledge of performance auditing, so it is important to introduce the purpose and processes. It should be made clear that the audited entities will get an opportunity to read and comment on a draft report, although the SAI decides what should be written in the final report (see Section 8.1).

Most regional SAIs arrange an entry meeting when a new audit is initiated to inform the audited entity's management about the planned audit. Usually, the audit team will be accompanied by a manager to the entry meeting. It is advisable to take minutes during the meeting and send these to the audited entity. Usually, the SAI requests a contact person for the team during the audit. The role of the contact person will be to assist the team in finding relevant documents, statistics, and the right persons to interview. It is advisable to agree with the top management of the audited

[94] ISSAI 130:71.

entity that the team will keep the contact person informed about the progress of the audit. At the same time, it is an internal issue for the audited entity to decide when top management or other parts of the organisation need to be informed. The relationship between the team and the contact person will also make it easier to test different ideas informally in the analysis or in developing recommendations.

The communication with the audited entities is also covered in Section 7.5.3.

6.8 Testing the design of the audit

There is a need to test the strategy developed for data collection and analysis and the design of empirical studies to determine whether they work as intended or need to be modified. This can be done during a late stage of the pre-study or an early stage in the main study. For example, if case studies are made in three provinces, there is a need to consider the experiences and results from visiting the first province and to modify the methods used if there are reasons for this – possibly collecting any missing information from the first province.

7 Conducting the audit

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall be willing to innovate throughout the audit process. *ISSAI 3000:77*
- The auditor shall consider materiality at all stages of the audit process, including the financial, social and political aspects of the subject matter, with the goal of delivering as much added value as possible. *ISSAI 3000:83*

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 to obtain audit findings. The auditor should exercise professional judgment to reach a conclusion based on the findings. Findings and conclusions are the results of analysis in response to the audit objectives. They should provide answers to the audit questions.

Performance auditing involves a series of analytical processes that evolve gradually through mutual interaction, allowing the questions and methods employed to develop in-depth sophistication. This usually involves combining and comparing data from different sources, drawing preliminary conclusions, and compiling findings to build hypotheses that can be tested, if necessary, against additional data. The whole process is closely linked to 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.[95]

This chapter discusses:

- *Collecting data and audit evidence*, including different types of data, methods for data collection, and the requirements for sufficient and appropriate audit evidence (Section 7.1)
- *Analysing data*, qualitative as well as quantitative analysis (Section 7.2)
- *Bringing causes into the analysis* (Section 7.3)
- *Drafting the report*, the analytical process of developing findings, conclusions, and recommendations and how to write better reports (Section 7.4)
- *Managing the audit engagement*, monitoring the progress of the audit and managing the audit risk as well as communication during the entire process and follow-up of lessons learned (Section 7.5)
- *Working in teams* (Section 7.6)
- *Documenting the audit process and the audit evidence* (Section 7.7).

Section 5.3 discusses the general expectation of professional judgment, scepticism, and willingness to innovate throughout the audit process, and Section 5.2.4 briefly discusses materiality.

Additional data collection and analysis guidance is available through the AFROSAI-E SAI Enhancement Audit Tool (A-SEAT) and at the AFROSAI-E website, www.afrosai-e.org.

[95] ISSAI 300:38; ISSAI 3000:112–114.

7.1 Collecting data and audit evidence

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall obtain sufficient and appropriate audit evidence in order to establish audit findings, reach conclusions in response to the audit objective(s) and audit questions and issue recommendations when relevant and allowed by the SAI´s mandate. *ISSAI 3000:106*
- The auditor shall exercise professional judgment and scepticism and consider issues from different perspectives, maintaining an open and objective attitude to various views and arguments. *ISSAI 3000:68*

The main purpose of collecting data in performance audits is to establish empirical information that can be used as audit evidence and to develop findings that answer the audit questions by verifying main performance problems and analysing their reasons. This is mainly done in the main study. Data is the primary observation, which is transformed into information when compiled. Information that is analysed and relevant to the audit objective and questions can be used as audit evidence. The audit evidence, in turn, is evaluated using criteria for the auditors to develop audit "findings", establishing main performance problems and the reasons for the problems.

During performance audit planning, data is also collected as part of the learning process for auditors, developing a general understanding of the audit area and the entities to be audited. Even if the auditors have a general knowledge of how government administration is organised, obtaining up-to-date information about the relevant ministry or programme will be necessary. Data also needs to be collected to understand the role of different stakeholders fully and the intended functioning of activities and processes to be covered in the audit.

7.1.1 Different types of data and audit evidence

There are no sources of data or information that can always considered to be good or bad. The relevance of a source depends on what the auditors want to know from it and how the information will be used in the audit. Source evaluation means examining the source critically to determine whether the information can be trusted, relevant, and good enough to be used in the audit report. When examining the source, the auditor can consider the risk of bias depending on the answers to the following questions:

- Who is saying it? (What perspective and knowledge does the sender have?)
- What is being said? (Is the content credible, objective, and facts correct?)
- Who is the target audience? (Can the content be used for your purpose?)
- What is the purpose of saying it? (Presenting facts, marketing, or opinions?)
- When is it being said? (In relation to the time the content refers to?)

A distinction can be made between quantitative and qualitative data. Quantitative data refers to numbers and numerical relations. Qualitative data refers to descriptions of factual situations, processes, opinions, and attitudes or observations of workplace conditions. Text is a format for qualitative data. It is common to convert qualitative data collected in other formats into text before analysing it, such as transcription or notes from interviews, focus groups, inspections, and observations.

A distinction can also be made between primary data and secondary data. Primary data is collected by the auditors themselves, with the specific purpose of being used in the audit. While this can ensure that the data is relevant for the audit, it is relatively expensive and needs to focus on the most important aspects of the audit.

Secondary data, on the other hand, is information that is already available and may be used in the audit. It is cheaper to use the available data. On the other hand, there is a need to consider that it

has been collected for other purposes, which may limit its relevance in the audit. It is also important to consider how reliable the source of information is, which depends on the nature of the information. For example, routine statistics in a ministry that is important for the ministry's planning or implementation of their operations can usually be expected to be more reliable than the ministry's own descriptions of their performance. It is not uncommon for the latter to reflect the intentions rather than the reality.

7.1.2 Methods of data collection

The different types of audit evidence are linked to different data-collection methods, as illustrated in the box below.

THE LINK BETWEEN TYPES OF AUDIT EVIDENCE AND DIFFERENT METHODS	
Audit evidence	**Methods of data collection**
Testimonial evidence	Interviews
	Questionnaires
	Focus groups
	Reference groups
Documentary evidence	Document reviews
	File reviews
	Using existing statistics
	Using existing databases
Physical evidence	Observation of people
	Inspection of objects or processes
	Experiments, e.g. level of computer data security
Analytical evidence	Quantitative data collection methods, for example, descriptive statistics, Data Envelopment Analysis, regression analysis
	Qualitative data collection methods, for example, process tracking, case studies, and content analysis based on interviews or texts
	Computations, comparisons, separation of information into components, and rational arguments
Source: Inspired by GUID 3920:49. AFROSAI-E has added the link between analytical evidence and descriptive statistics and qualitative data collection methods, respectively.	

Testimonial evidence is obtained from people through interviews, questionnaires or focus groups. Documentary evidence consists of information in, for example, the legislation, policy documents and procedures, budgets and other planning documents, management information on performance, contracts, letters, accounting records, invoices, evaluations, and literature, as well as information in existing statistics and databases. Direct observation of people and events or inspection of objects, such as property, generates physical evidence. Analytical evidence includes computation, comparisons, separation of information into components, logical reasoning, and rational arguments.

According to the Code of Ethics, the SAI shall balance the confidentiality of audit-related and other information with the need for transparency and accountability.[96] Information may be sensitive from the perspective of the government, certain organisations, or third parties, as well as for individuals providing information to the auditors. The auditors may, for example, obtain sensitive information during a main study, such as opinions on management or politics. It may be difficult to obtain this kind of sensitive information unless the anonymity of the informer is guaranteed. If this is not possible, the information must be made clear to the informer before data is collected. It is usually difficult to guarantee anonymity for top management's views in an audited entity, as they formally represent the entity. In general, it is advisable not to disclose the names of informers in the audit report. However, it will often be clear from the context who has expressed management views about the operations or the audit report.

The methods of collecting data shown in the box above will be presented in the following, along with their advantages and disadvantages. The different methods may provide both quantitative and qualitative data.

Testimonial evidence – asking people

One of the most important ways of collecting information that can be used as evidence in the audit is by asking people. Different ways of asking people may yield different types of information. The most frequently used methods are:

- Direct interviews.
- Telephone interviews.
- Questionnaires (written questions usually sent by mail, e-mail, or web questionnaires).
- Focus groups.
- Reference groups.

Interviews

Interviews are used in all performance audits. During the planning stage, the auditors need to learn from people who are knowledgeable in the area about how operations are functioning and what challenges and problems exist (exploratory interviews). Interviews are also used to get explanations to documents, to map out procedures or actual behaviour in relation to established procedures, and to collect opinions and personal preferences from the interviewees. Interviews are also frequently used to probe for the interviewees' understanding of the reasons why the expected results are not achieved or for the consequences of not performing the procedures in the way expected to generate the desired results. Interviews with managers and staff in different positions and stakeholders with different relations to the audit entity are also a rich source for identifying and testing ideas for potential actions to improve performance. This is usually important information as input to developing appropriate and realistic recommendations.

Interviews often generate interesting ideas about what is lacking and what could be improved. By interviewing people in different positions in the audited organisation and different stakeholders, the auditors can sometimes quickly learn more about the actual running of operations than what is known by top management.

Interviews are most suitable for collecting qualitative data. However, if the interviewee has been asked to prepare in advance, collecting some quantitative data, such as office statistics, may also be possible. It is also possible to use a few highly standardised questions in interviews to get answers according to pre-defined alternatives that can be compared across a number of interviews (which is similar to the use of questionnaires). If interviews are quantified, auditors need to consider issues such as population, sample and representativity.

[96] ISSAI 130:70.

Thus, the auditors face different interview situations. The interviewer's task is to arrange the situation so that the interview will be as effective as possible. In general, there are five steps that need to be considered before interviews are carried out:

- Planning the interview.
- Introducing the interview.
- Conducting the interview.
- Concluding the meeting.
- Securing the information afterwards – documentation.

When planning the interview, the auditors need to consider how the interview should be carried out. This includes to:

- Determine the purpose of the interview.
- Organise the interview team.
- Prepare for the interview by studying relevant documents.
- Structure the interview.
- Prepare the interview guide.
- Make practical arrangements.

The box below compares three typical interview situations. Semi-structured interviews are the most common type in performance audit.

CHARACTERISTICS OF DIFFERENT TYPES OF INTERVIEWS			
Factor	**Unstructured interviews**	**Semi-structured interviews**	**Structured interviews**
Topic	Varies	Planned, but flexible in bringing up other important topics.	Specified
Interview guide	Not used	Main questions well prepared, with conditional sub-questions or potential areas of probing.	All questions are precisely written
Order of questions	Not decided in advance	Prepared, but implemented flexibly, depending on responses and preferences of the interviewee.	Decided in advance
Type of questions	Open questions	Written down open questions, as well as ideas for how to probe; implemented flexibly depending on responses.	Direct questions, sometimes fixed alternative answers
Approach	Flexible	Well-planned and flexibly implemented.	Planned in detail

In all types of interviews, it is important to document the answers to the interview questions. Detailed interview notes often prove valuable when analysing the information and writing the audit report. For most auditors, it is difficult to lead an interview at the same time as taking notes. Techniques for improving the interview notes include having one team member focus on taking notes during the interview, supplementing notes from memory directly after the interview, asking the interviewee to comment on the draft interview notes, or using audio recording and transcribing the interview. Which technique is the most appropriate depends on the type and topic of the interview as well as the auditors' skills in taking notes.

Questionnaires

Questionnaires typically include specific standardised questions with pre-defined answer alternatives. Standardised answers can be compiled, presented, and analysed as quantitative information by counting the number of different responses to a certain question. It is common to

use a scale for different answers, for example, showing to what extent performance auditors in a three-module course were satisfied with different aspects of the course. Even if the scale is usually designed as a continuous variable, the underlying information – the degree of satisfaction – is qualitative. The number of respondents choosing different answers can be counted. Whether it is also reasonable to calculate the average degree of satisfaction in these cases is debatable, even if it is common to do so. The question is how to interpret an average of, for example, 4.5 on a five-graded scale, where 4 means satisfied and 5 means very satisfied.

Questionnaires can be useful for collecting information from a large number of respondents, such as municipalities or drivers with experience in traffic inspections. In general, it is more challenging to collect data through questionnaires than through interviews since:

- Developing an appropriate questionnaire requires a sound knowledge of the audit area.
- The questions must be precise, well prepared, and tested so that they will be correctly understood by the respondents; this both takes time and requires sufficient knowledge.
- It is challenging to develop fixed alternative answers that make sense for the respondents, and it is, in general, more difficult to motivate people to answer questionnaires.
- It may be difficult to distribute questionnaires and receive responses from the respondents.
- Experts may need to be involved in the design, compilation, and analysis of data.
- If not everyone in a population can be surveyed, questions of sampling and representativity need to be addressed.

Questionnaires can include open questions which the respondents are requested to answer in their own words or offer other opinions. This can provide the auditors with relevant information or feedback on difficulties associated with completing the survey. It is important to remember that it is quite time-consuming to review large numbers of open-ended answers. In other words, open questions should be used with caution.

Focus groups

Focus groups are a selection of individuals brought together to discuss specific topics and issues. For example, a number of drivers can be gathered to discuss their experiences of the inspections carried out by the Traffic Police, what the policemen check as well as how they behave in general. It is mainly a technique for collecting qualitative data, where the experiences and views of the selected individuals can be enhanced by discussions among them.

Meetings with focus groups need to be carefully prepared so that the group focuses its activities on what is relevant to the audit. It is also important to properly record the information provided in the discussions for the auditors to analyse and use as audit evidence. With a group of people expressing different views and opinions, it can be difficult to take sufficiently detailed notes capturing the discussions. Audio recording can be used either to transcribe the discussion, or to enable the auditors to check and improve the quality of notes taken afterwards. There is software available that can be used to transcribe audio records.

A reference group is a different type of group with another purpose than collecting data. Usually, it is a way of bringing together a group of experts from within or outside the SAI to assist the team with technical skills and knowledge important for the audit. Reference groups can be used during the planning stage of the audit, providing the team with knowledge and ideas for the audit design, and to test preliminary findings, conclusions, and recommendations and comment on a draft report.

Documentary evidence

Using written documents

Reviewing existing documents is an important method for collecting information in all audits. If not earlier, at the beginning of the pre-study, the auditors need to review the relevant legislation and key planning and procedural documents from the audited entities. This is necessary to build up knowledge of the audit area and its processes. The information can also be used as audit evidence in the report.

Studying documents may give the performance auditor access to useful materials, but it is important to assess the reliability of the content of the documents. This can be done by considering who has developed the document and for what purpose.

SOURCES	EXAMPLES OF DOCUMENTS
Legislation, budget, and government policy	The audit team should gather the legislation, parts of the government's budget bill, policy documents, directives, and decisions from the ministry relevant to the audit. Recent changes in the documents may need to be considered.
Planning documents from the audited entity	Usually, the auditors need to review the audited entity's strategic documents, organisational structure, annual plans, budgets, training plans, and other plans.
Policy and procedures from the audited entity	The relevant policy documents, guidelines, and operational manuals need to be reviewed to fully understand the audited entity's operations and how it is expected to function.
Management information from the audited entity, incl. monitoring	It is useful to search for internal documents providing management information, reporting on conditions, and proposing actions. Interviews and minutes from management meetings can, for example, be used to identify these documents.
External evaluations, reports and literature	The auditors should search for relevant literature, evaluations, and other reports that may be available from government entities, researchers, interest groups, NGOs, or donors.

File reviews

Reviewing files is a method used in many performance audits, usually on a sample basis. In order to obtain strong evidence, file reviews need to be carefully planned and implemented systematically to collect the same information from each file in a similar structure. This enables statements such as "out of 50 files reviewed, only 11 included documentation on the applicant's eligibility for the grant as required under the regulations".

It is important that the audit team realises that all relevant documents may not be contained in files that are registered. There may be other relevant documents that the team is unaware of.

File reviews can be used to collect qualitative as well as quantitative information. If statistical methods for sampling the files have been used, file reviews can be used for making estimates for the full population (see Section 6.6.2 (number 6) on Surveys and sampling investigations).

Using existing statistics and databases

Numbers and figures often attract attention in performance audit reports, making it even more important that presented figures are relevant, valid, and reliable. As it is time-consuming and expensive to collect primary data to compile statistics, auditors should always first investigate what statistics and databases are already available. Most organisations use some sort of database, either manual, computerised, or both, to support production. Often, some statistics on performance are produced by or can be retrieved from these databases. There is normally also a national statistical office producing statistics on behalf of the government that may be used in the audit. One example

is information about the population in different parts of the country. Sector statistics are also useful sources of information.

Existing databases will enable the auditors to use data that has already been collected and compiled, saving time and money. Special computer compilations are usually possible to order, even if they may sometimes be expensive. However, it is important to consider the implications of the fact that existing databases and statistics have been developed for purposes other than the audit, which may limit their relevance.

EXPERIENCES IN THE REGION – SAI SOUTH AFRICA
DATA ANALYTICS

Data analytics is a key component of standalone performance audits in SAI South Africa. For example, on request, the auditee helped combine river and mine data for the standalone performance audit on the rehabilitation of mines, to highlight the pollution from abandoned mines to the rivers in South Africa.

Data Snipper* is used extensively by the Performance Audit Business Unit. It was used, for example, in the audit of relief funds in the province of KwaZulu Natal. Lists of beneficiaries were compared with human settlements data to determine whether beneficiaries were allocated houses. It was also used to read all the payment certificates to compare them instead of only relying on the last certificate.

Optical Character Recognition (OCR) is also a function of the data snipper being used. For example, taking a table from the pdf- Bills of Quantity to import into Excel to be able to make calculations.

** Data Snipper is an intelligent automation platform within Excel that accelerates the speed and quality of audit and finance procedures.*

Physical evidence

Observing people

Observation provides an opportunity to monitor or assess a process or situation and document evidence of what is seen and heard. Seeing actions and behaviours as they usually occur provides insights and understanding of the event, activity, or situation being audited. Observations can be more or less structured. Less or un-structured data collection can be used as a tool to understand the processes better, "walking through" the office to understand who is doing what and how different tasks are related. This may be useful, for example, for auditors during the pre-study to develop a basic understanding of the operations. It can also be used to develop audit evidence on how a process works in practice.

Preparing a scheme for taking notes of actions and behaviour enables structured observations. Structured observations call for careful preparation so that the activities and behaviour observed can be registered in a pre-defined and systematic way. They are useful when there is a need to aggregate results from several observations and calculate proportions. This, in turn, calls for careful consideration of the population of interest and sample representativity.

Making observations undercover is questionable from an ethical perspective unless it has been agreed upon with the top management of the audited entity. Instead, it is advisable to inform the relevant audited entity that observations are being made. A disadvantage with this, however, is that staff members' behaviour can be affected when they know that they are being observed.

Inspecting physical objects

Inspections of physical objects are more common in the region than systematic observations of people. Several SAIs have used this method in auditing construction activities, environmental problems, and management of physical objects, such as markets, training facilities and government housing. There is usually a need to make systematic inspections and record the information in pre-defined categories, so that the results can be quantified. It is also possible, however, to use physical

observations just as examples that do not provide any information on the occurrence of the conditions observed.

Inspections of physical objects should be corroborated when they are critical to achieving the audit objective. This may be achieved by having at least two auditors making the inspection, if possibly accompanied by a representative from the relevant audited entity. This type of evidence can also be reinforced by photographs showing examples. Structured observation of physical objects for the purpose of verifying a problem calls for careful consideration of the population of interest and sample representativity.

Analytical evidence

Analytical evidence is not distinctly separated from other types of evidence. Rather, it brings additional value to collected data and other types of evidence by using analytical techniques and logical reasoning. Analytical evidence includes computation, comparisons, separation of information into components, and rational arguments. The auditors use quantitative and qualitative analysis and combine information from different sources to develop new evidence relevant to the audit objective and the audit questions. Together with logical arguments interpreting the information, this forms the fourth type of audit evidence recognised by INTOSAI – analytical evidence.[97]

The eight different study designs presented in Section 6.6.2 provide opportunities for different types of analyses and the development of analytical evidence. Some techniques for data analysis that generate analytical evidence, will also be presented in Section 7.2.

7.1.3 Sufficient and appropriate audit evidence

Evidence should be *sufficient* to persuade a knowledgeable person that the findings are reasonable and appropriate; that is, it is *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 entities to confirm their validity.[98]

Evidence should be *placed in context,* and all relevant arguments, pros and cons, and different perspectives should be considered before conclusions are drawn. The need for precision should be weighed against what is reasonable, economical, and relevant to the purpose. The involvement of senior management is recommended.[99] 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. Findings and conclusions are the results of analysis, which are linked to the audit objectives and provide answers to the audit questions.[100]

The evidence collected should be *complete,* enabling the auditors to answer all the audit questions and draw conclusions against the audit objective. It must also be *reasonable* and possible to collect within a reasonable cost. Corroboration of evidence is the process of using at least two different kinds of methods to measure and analyse a phenomenon and then cross-check the results for consistency.

There is a need for *sufficient* evidence to answer the questions and conclude on the objective. What is sufficient is a matter of professional judgment. Evidence is sufficient when it is enough to support the audit findings. Evidence is sufficient when there is enough relevant and reliable evidence to

[97] GUID 3920:49.
[98] ISSAI 100:50.
[99] ISSAI 3000:115.
[100] ISSAI 300:38.

persuade a knowledgeable and critical person that the performance audit findings, conclusions, and recommendations are warranted and supported.

The following presumptions are useful in assessing the sufficiency of evidence: [101]

- The greater the audit risk, the greater the quantity and quality of evidence required
- Stronger evidence may allow less evidence to be used
- Having a large volume of audit evidence does not compensate for a lack of relevance, validity, or reliability
- More evidence is normally necessary when the audited entity has another opinion on the subject matter.

In determining how strong evidence is needed, the auditors need to consider:

- The importance of the observation
- The risk of incorrect conclusions being drawn
- Previous knowledge of the reliability of the source used (for example, the audited entities' records)
- The sensitivity of the observation
- The cost in relation to the benefits of seeking additional evidence.

What is sufficient is often affected by how the evidence is used in the report. It may be fully relevant to present evidence that includes uncertainties in a report, as long as this is presented accurately in the report and the uncertainties are fully taken into account in the analysis. The inexperienced auditor, however, is recommended to be careful in using evidence that is not clear, as there is a risk that the information may be misinterpreted by the reader and possibly even by the auditors themselves.

Most performance audits are carried out in relation to the responsibility of the management of the audited entities. Auditors should use professional scepticism in considering statements from management on the factual situation within their responsibility, and search for other corroborative evidence. However, problems that the auditors have observed by using multiple sources of data, including a limited number of case studies, can be tested in interviews with the management of the audited entities. If the problems observed by the auditors are not falsified by information from management, this is an argument strengthening the findings. If, on the other hand, management can make it likely that the observations the auditors have made in case studies do not appropriately reflect the situation, auditors may need to collect additional information and possibly also modify their findings.

It may seem obvious that the report should only include evidence that is ***relevant,*** that is, has a logical relationship with the audit objective and questions. In practice, this is not always obvious as the auditors may make interesting observations that they want to include in the report, even if it is not directly relevant. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding.[102]

As the auditors' knowledge increases during the audit, some audit questions and sometimes even the formulation of the audit objective may need to be revised.

This may make it possible to include findings and observations that are relevant to the problem that the audit focuses on, even if it may not have been fully covered by the initial audit questions. On the other hand, it is not advisable to include observations that are not reasonably linked to the objectives that the audit focuses on, as this will be confusing for the reader. Possibly, such

[101] GUID 3920:76.

[102] ISSAI 3000:109.

observations can instead be used in other audits, maybe in other audit types, or the observation may be reported separately to the relevant audited entity, if significant.

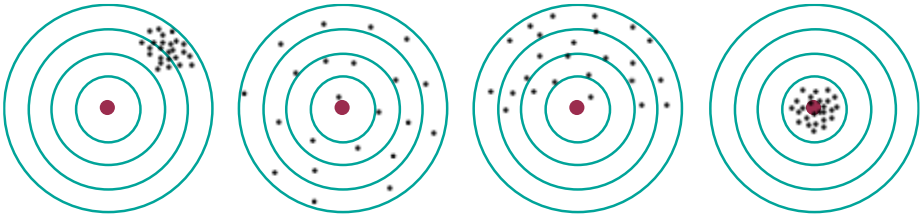
In a performance audit, the nature of the required audit evidence is determined by the subject matter, the audit objective(s), and the audit questions. Since these vary from one audit to another, the nature of the audit evidence needs to be specified for the individual audit.[103]

The data assembled during the audit must be of high quality if it is to be used as evidence in the audit report. Audit evidence is *valid* and *reliable* if the measures used are consistent and represent what they are supposed to represent:[104]

- *Validity* – Refers to the extent to which the evidence provides a meaningful or reasonable description of the subject matter of interest. In other words, validity refers to the extent to which the evidence represents what it is purported to represent.
- *Reliability* – Refers to the extent to which the audit evidence is supported by corroborating data from a range of sources that points in the same direction or measures used to produce the same audit findings when tested repeatedly.

The concepts of validity and reliability are illustrated in Figure 15. Think of the centre of the target as the concept that you are trying to measure. Imagine that for each unit you are measuring, you are taking a shot at the target. Where you hit the board represents how close your method of observation allows you to come to what you want to know. If you measure the concept perfectly for a unit, you are hitting the centre of the target. If you don't, you are missing the centre. Thus, aiming to be both fully valid and reliable, the bull's eye should be hit every time. An invalid method will systematically measure something not quite spot on (the first board to the left). An unreliable method will sway hither and thither, also not quite hitting the target but with no systematics to it (the second to the left).

Figure 15. Illustration of the concepts of validity and reliability



Source: The Research Methods Knowledge base, Trochim, hosted on the internet August 2023 by Conjointly on https://conjointly.com/kb/reliability-and-validity.

Auditors cannot know for sure when or how the real character of interest escapes their measurement efforts. Choosing methods and measures that produce valid and reliable evidence is a matter of understanding these risks and keeping the risks of being wrong as small as possible. It is also a matter of creating trust in results by explaining to the reader how risks are handled.

[103] ISSAI 3000:111.

[104] ISSAI 3000:110.

Common risks to validity include:

- Researcher bias – the auditors' previous knowledge, assumptions, and audit design
- Reactivity – how the auditors influence the respondents
- Respondent bias – whether the respondents provide accurate information.

Common ways to reduce the risk of bias in performance audits include using different instruments and methods for data collection and analysis (triangulation). The risk of bias can also be reduced by letting interviewees check the accuracy of interview notes, validating the auditors' understanding in other interviews. Complementary interviews with respondents can also help auditors assess the validity of measures used in quantitative studies. Exposing draft reports for review by the audit entity, peers, managers, and possibly subject matter experts can also help auditors avoid biased measurement in both quantitative and qualitative studies.

Risks to reliability in quantitative studies are handled by structured rule-bound data collection and formalised data, making observations as independent as possible of unexpected influences. In qualitative studies, the risk of unreliable evidence is handled by using different sources of evidence to support findings and conclusions. Findings consistent with information from multiple interviews and multiple other sources of data are more likely to be reliable, than findings depending on information from a single source.

It is important that the auditors retain a sceptical attitude to the evidence they have collected and consider the risk that it does not fully reflect reality. In fact, auditors should actively search for information that can falsify their findings. It is an important task for performance auditors to resolve conflicting evidence. Often what seems to be conflicting evidence can be explained by different relevant perspectives that together provide an understanding of the full picture.

Each type of evidence has its own strengths and weaknesses. GUID 3920 describes the following contrasts as being useful in assessing the appropriateness of evidence: [105]

- Testimonial evidence that is corroborated in writing is more reliable than oral evidence alone.
- Evidence based on many interviews together is more reliable than evidence based on a single or a few interviews.
- Testimonial evidence obtained under conditions in which people may speak freely is more reliable than evidence obtained under circumstances in which people may feel intimidated.
- Evidence obtained from a knowledgeable, credible, and unbiased third party is more reliable than evidence obtained from the management of the audited entity or others who have a direct interest in the audited entity.
- Evidence obtained when internal control is effective is more reliable than evidence obtained when internal control is weak or non-existent.
- Evidence obtained through the auditor's direct observation, computation, and inspection is more reliable than evidence obtained indirectly.
- Original documents are more reliable than copied documents.

Testimonial evidence

Testimonial evidence often consists of answers to questions. The answers can be provided by employees of the audited entities, beneficiaries and clients of the programme being audited, experts and consultants contacted to provide corroborating evidence, as well as by members of the

[105] GUID 3920:75. The GUID also states that "Documentary evidence is more reliable than oral evidence, but the reliability varies depending on the source and purpose of the document." This must be interpreted as meaning that it is fully possible that in specific situations oral evidence is more reliable than documents, making the statement contradictory.

general public. When possible, auditors should strive to corroborate testimonial evidence with other types of evidence.

In assessing the reliability and relevance of testimonial evidence, the auditor needs to assess the credibility of the interviewee; that is, the position, knowledge, expertise, and forthrightness of the person being interviewed. Corroboration of oral evidence could be obtained by:

- Written confirmation from the interviewee
- Weight of multiple independent sources revealing the same facts
- Checking against records afterwards.

There are many factors that can affect the reliability of interviews, and auditors need to use their professional judgment and scepticism. It is a common feature that people in general, and managers in particular, explain what is supposed to be done rather than what is actually taking place in reality. This may be partly due to a lack of knowledge of what is going on, and partly because most people have good intentions and want to live up to them. This may cause interviewees to describe what they try to do rather than what they actually do.

It is also common for management to explain shortcomings in performance with a shortage of resources. While it is common in the region that resources are scarce, it is also common that available resources are not used efficiently and effectively. Performance auditing mainly focuses on how the available resources are used, in order to contribute to improvements. The auditors need to collect substantial audit evidence and do a thorough analysis before considering reporting on how a likely shortage of resources affects the performance of the audited entities. In most cases, the available resources can be used in better ways. Furthermore, even if the auditors' analysis shows that government objectives cannot be achieved with the allocated resources, this does not necessarily mean that the resource allocation should be increased. One option can be to adjust the objective to make it realistic.

The reliability of testimonial evidence also depends on what information is collected. There are often tensions and different interests in an organisation, for example, between head office and regions, between different departments, and between managers and staff. While this may motivate interviewees to share information with the auditors, it is imperative for the auditors to remain attentive to potential vested interests and how they may affect answers. Auditors may try to identify disinterested witnesses to the subject matter of interest, ask questions that do not directly invoke interests, and afterwards take into account how interest may have affected evidence.

In addition, when all the conditions are perfect, and the interviewee describes the reality with full honesty, the information may not fully and correctly describe the situation. The reason is that different people may have different perspectives and preferences, and thus interpret reality in different ways. Therefore, when identifying interviewees and weighing their testimonials, it is important to consider the perspective and expertise of the interviewee. It is also important to consider what interviewees are likely to know from personal experience rather than secondary sources. Reports on first-hand experiences are generally more trustworthy. The implication is that it is rarely sufficient to base a finding on statements in a single interview.

When using questionnaires, the formulation and the respondents' understanding of the questions is crucial for the validity and reliability of the answers. What seems obvious and clear to the auditors may often not be clear at all to the respondents. The respondents may also not find the choice of answers relevant. To avoid answers that are not valid for what the auditors want to measure, the respondents' understanding and the relevance of the alternative answers must be tested before the questionnaire is used.

Documentary evidence

In GUID 3920:75, documentary evidence is described as being more reliable than testimonial evidence. We would argue that it always depends on the context, what the information is about and what different sources are available. Appraising if official documents can be used as evidence of the views of the organisation typically involves four criteria:

- Legitimacy – if the production of the document follows the rules or established procedures for how the organisation makes this kind of statement
- Authenticity – whether the document is genuine and has not been altered
- Representativeness - whether the document is typical for or in line with other comparable documents
- Meaning – whether the text is clear and comprehensible.

It is a different question whether the content of the document can be taken at face value. It depends on the general credibility of the organisation in question and on its credibility regarding the specific information in terms of the absence of bias and vested interests. However, the need to establish the accuracy of factual content also depends on the importance of the information for the audit findings and conclusions.

The reliability and validity of the information in written documents, in general, are influenced by the purpose for which the documents have been produced. For example, a brochure may have been part of a promotional campaign and may not fully reflect the factual situation on the ground; that is, it may not be fully reliable and valid. A budget request may be inflated if the submitting organisation knows that whatever budget they request will be cut down in the process regardless of the arguments provided. There is also a tendency for official documents in organisations to describe what is supposed to take place inside the organisation rather than what is actually happening.

Usually, the views and interests of special interest groups, such as patients, parents, or students, are highly relevant in an audit. At the same time, documents produced by stakeholders may have a specific purpose, affecting the validity of the information. The information may provide one relevant perspective without necessarily reflecting all the facts relevant to the audit. With proper analysis, such information can be combined with information from other sources and used as evidence to develop audit findings.

Existing statistics or databases with quantitative data available at the audit entity are often useful as audit evidence. In GUID 3920:49, such sources are categorised as providing documentary evidence. In general, data important for the functioning of the production process of the audited entities, such as the number of incoming applications and the number of decisions, are more reliable than information generated for monitoring or statistical purposes only. The data is usually registered by staff. There is a tendency for staff to be more attentive when registering information that is necessary for processing matters, than information added for statistical purposes (for example, categorisation of reasons explaining the processing time).

There is also a risk that organisations' monitoring of their operations is biased in favour of what is positive for them. When using existing statistics or databases, auditors must also be aware that definitions of groups, intervals, categories, and more may have changed over time or may not have been logically defined.

Physical evidence

When observing people, the auditors need to be aware of the risk that the behaviour is affected by the presence of the observers. The Traffic Police, for example, may carry out their inspections differently and treat drivers better if they are being observed. As long as auditors are aware of this

risk, observing people can still be useful. It is not easy to suddenly change your behaviour even if you know that you are being observed. As it can generally be expected that people perform better when they are being observed, the problems observed are likely to be even worse when there is no one there to observe them.

Inspection of physical objects can usually provide valid and reliable evidence if the objects are properly selected and the inspections are properly made. Inspections need to be made systematically by staff or experts with sufficient competence and also need to be properly documented. It is important to remember that individual examples, such as photos, can add value as case examples but rarely provide sufficient evidence in an audit. While a physical observation of a school building documented in a photo is likely to be fully reliable and valid, there is a need for systematic observations of a number of school buildings to develop sufficient evidence about the state of school buildings in a more general sense.

7.2 Analysing data

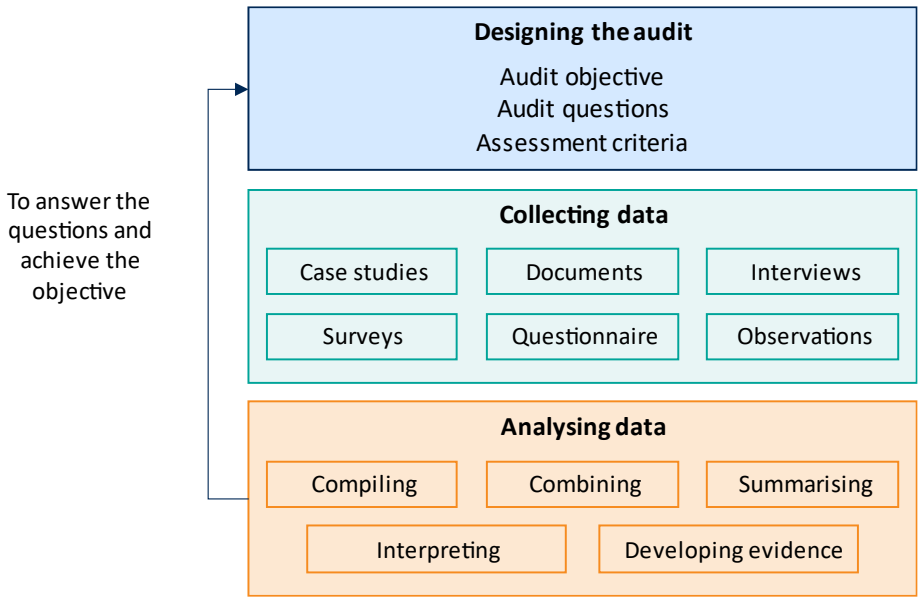
REQUIREMENT ACCORDING TO ISSAI 3000

- The auditor shall analyse the collected information and ensure that the audit findings are put in perspective and respond to the audit objective(s) and audit questions; reformulating the audit objective(s) and audit questions as needed. *ISSAI 3000:112*

Analysing data is an important step in all performance audits. The role of analysis is illustrated in Figure 16. Analysis is carried out in order to use the data that has been collected as audit evidence to evaluate the entities performance by using criteria and explain the reasons for identified performance problems. The purpose of the analysis is to enable the auditors to answer the audit questions by verifying the main performance problems and analysing the reasons for them.

When analysing data, the audit team can start by revisiting the audit objective and the audit questions and considering whether they need to be revised. This will help them organise their data and focus their analysis on the audit questions. Analyzing and interpreting information effectively will require time, communication, creativity, and a systematic use of the extracted and summarised data.

Figure 16. The role of data analysis in performance auditing



Data, information and knowledge are similar concepts linked together in a chain. Data refers to the primary observation. Data that has been compiled is transformed into information. Information that is analysed has become knowledge.

Information analysis is an intellectual, creative, and iterative process which includes both rational and intuitive elements. It always involves reflections and discussions, brainstorming, and mostly non-quantitative techniques such as content analysis, comparative analysis, and analysis with the aid of expert panels.

It is important to study the gathered data in-depth and extensively. Analysing and interpreting data is a process that requires the audit team to constantly move between the different stages as the analysis gives rise to new knowledge and ideas. This process should continue until the auditors are satisfied with the result.

While there is a need to collect some data before it can be analysed, the processes of data collection and analysis largely run in parallel during the audit. The type of data will determine what methods can be used to analyse it. The eight different study designs presented in Section 6.6.2 provide opportunities for different types of analysis. Here, the discussion focuses on:

- *Qualitative analysis of data* – analysing interviews and examining documents (Section 7.2.1)
- *Quantitative analysis of data* – descriptive statistics, trend analysis, as well as scatter plotting, correlation coefficient and cross-tabulation (Section 7.2.2).

7.2.1 Qualitative analysis of data

Qualitative analysis is a broad term used to describe a wide range of methods for structuring, comparing and characterising data. It is usually used for analysis of text and often involves different types of data and analysis. Qualitative analysis is based on logical reasoning and arguments on what collected data say about a subject matter of interest. In general, qualitative analysis involves creating ways of organising data that convince the reader that the evidence is true. By definition, the qualities of the study object are in focus, and the detail in the description of each studied unit tends to be richer and more nuanced than what is possible in a formalised quantitative study.

Qualitative analysis is commonly used to derive analytical evidence from certain data sources, such as interviews and documents. Developing findings, conclusions, and recommendations is a special form of qualitative analysis discussed in Sections 7.4.1 and 7.4.2.

Analysing interviews

Contrary to quantitative analysis, qualitative analysis does not build on the assumption that a number of units are examined in the same way for purposes of aggregation. Rather, it is often the case that different sources – interviewees, documents, secondary reports, etc. – provide complementary information on different aspects of the one unit of interest. Moreover, depending on the object of study and the questions asked, qualitative analyses may take many different forms.

To keep the analysis focused and help readers follow the argument, it is important to relate collected data to the study object of interest. This entails considering whether data sources are comparable (interviews with several beneficiaries of a programme of interest) and when they are complementary (an interview with management and street-level bureaucrats of the same program).

When analysing information or data from interviews, the main problem is to relate what has been said to different categories or topics connected to the study object. What the relevant categories or topics are is often guided by the audit objective and questions. In analysing interviews, the auditors are looking for common threads of information, things that fit together, or different

examples of the same underlying problem, issue, or concept. In this sense, qualitative (non-numerical) analysis may be used to assess and explain the performance of the audited entities.

AN EXAMPLE OF HOW TO ANALYSE INTERVIEWS

- Choose a method for structuring the data from the interviews, using audit questions as the first choice and sub-questions, actors, regions, etc., as the next choice if it is not meaningful to structure the data only in line with the audit questions.
- Read the interview notes again and focus on the structure. If interviews are to be organised according to audit questions, make a note in the margin when something is said that is relevant for question numbers one, two, etc.
- Go through all the notes regarding the first audit question. If there are many relevant remarks, make a written summary. If necessary, choose a new factor to structure the remarks. Key players could be used as such a structuring factor.
- Compile and analyse the information provided by each type of key player, one at a time.
- Compile and analyse the information provided by all types of key players together.
- Look for similarities and differences between the information provided by different categories of key players.
- Summarise the information (the interpreted data) and judge how the interviews can contribute to answering the audit questions and developing recommendations.
- Continue with the next audit question.

It is not uncommon for different actors to have a different understanding or opinion about problems in an area. It is the responsibility of the auditors to be objective and carry out their analysis based on all available facts. Usually, different actors have their own perspectives and are partly correct in their analysis of reasons for the problems. However, more often than not, no actor has the full picture and a correct and complete understanding of the situation. The auditors often have a unique opportunity to compile data from many different sources and listen to the knowledge and views of different stakeholders and staff at many positions and levels within the audited entities. This often enables auditors to produce a more objective and comprehensive picture of reality than the stakeholders have themselves.

Examining documents

Many types of documents can be analysed in a performance audit. Usually, the audit questions and sub-questions establish a basic structure for document analysis. As in interview analysis, the main problem is to understand the meaning of the text—taking into consideration who developed it and for what purpose—and relate this to the relevant categories or topics connected to the study object.

Documents from audited entities or governments also contain a lot of information that can be *used directly*, as they express the official plans or decisions that have been taken. Usually, it is advisable to cross-check the understanding of documents through interviews or other means.

Documents from the audited entities can also be *reviewed systematically, taking note of information* relevant to different audit questions. As more documents are reviewed or after initial analysis, it is also useful to further subdivide the information into themes. Searching for common threads, similarities, or differences can be useful in the coming development of audit findings. This means using a methodology similar to the analysis of interviews, as described in the box above.

Analysing existing statistics involves analysing electronic documents or hard copies. The statistics can be analysed as they are presented and related to the audit questions and sub-questions. The auditors may also choose to make further quantitative analysis based on the existing statistics, making new calculations using different data made available (see Section 7.2.2).

Documents can also be analysed for the purpose of *establishing the chronological order* in which a series of events occured and what information was documented during different steps of a process.

In some cases, it can be useful to *count the frequency of certain expressions or themes* used in documents, for example, how often minutes from management meetings include discussions on the results of the operations as part of a monitoring system. This requires that a clear methodology has been developed before the documents are reviewed so that the reviewer has clear definitions of what should be counted and how.

Systematic file reviews also need to be properly planned before the review starts. The same information must be collected from all files if it is to be used as audit evidence.

7.2.2 Quantitative analysis of data

It is usually sufficient to use simple techniques for quantitative analysis. This section briefly mentions:

- Descriptive statistics
- Trend analysis
- Scatter plotting
- Correlation coefficient
- Cross tabulation

Statistical techniques such as variance analysis and regression analysis require special skills to develop and also a certain level of knowledge for the reader to appreciate the information.[106]

Descriptive statistics

Quantitative analysis is often equated with statistical analysis. More sophisticated techniques often require special skills to use, and also a certain level of knowledge to understand and appreciate the information presented. What techniques for analysis to use depends on the data that has been collected. The difference between quantitative and qualitative analysis is often described as the difference between analysing numbers (quantitative analysis) and analysing texts or statements (qualitative analysis). Information that has been collected as text or statements can, nevertheless, often be transformed into numbers. One can, for example, go through documents to see how many of them include a positive statement about a certain issue. A calculation can then be made, expressing the percentage of investigated documents that include this type of positive statement.

Descriptive statistics is the most frequently used type of quantitative analysis in performance auditing. The auditor can use descriptive statistics to describe the audit object or to present findings from the audit. Descriptive statistics can be used to present the produced output, outcome, achievement of performance targets, size of the audited entity's staff, resources, operations, finances, and more. If the sample on which the auditors have collected data is chosen using statistical methods, numerical estimates valid for the whole population can sometimes be made based on a rather limited sample.

[106] For a description of variance analysis and regression analysis, see *Measuring Evidence – Statistical Handbook*, Chapters 5–6, NAO UK.

Some basic concepts in descriptive statistics are presented in the table below.

BASIC CONCEPTS IN DESCRIPTIVE STATISTICS			
	Concept	**Explanation**	**Usefulness**
Measures of centrality	Mean	The sum of the values of all observations divided by the number of observations	When scores are more or less symmetrically distributed, e.g. height or weight
	Median	After arranging the observations progressively – the median is found in the middle of all observations	When extreme scores distort the mean, e.g. income
	Mode	The most frequent observation	To describe dichotomous values and proportions, e.g. men and women, or to point out the 'typical' value, e.g. the typical number of children in a family
Measure of dispersion	Range	The difference between the highest and the lowest observation	To complement the mean/median as a measurement of how scores are distributed
	Variance	Average of the squared distance between the single observation and the mean value	To complement the mean as a measurement of how scores are distributed
	Standard deviation	The square root of the variance	To complement the mean as a measurement of how scores are distributed
Percentage		The part of the population/the total population multiplied by 100	To see the size of part of the population. For example, the number of 'yes' in relation to the total number of responses
Index		Relates the development of a variable to a base level in a particular year, often 100	Makes it easy to compare the development of variables over several years or to compare different years with regard to e.g. inflation

Figure 17 illustrates the measures of central tendency.

Figure 17. Income from trophy hunting in various farms – measures of central tendency

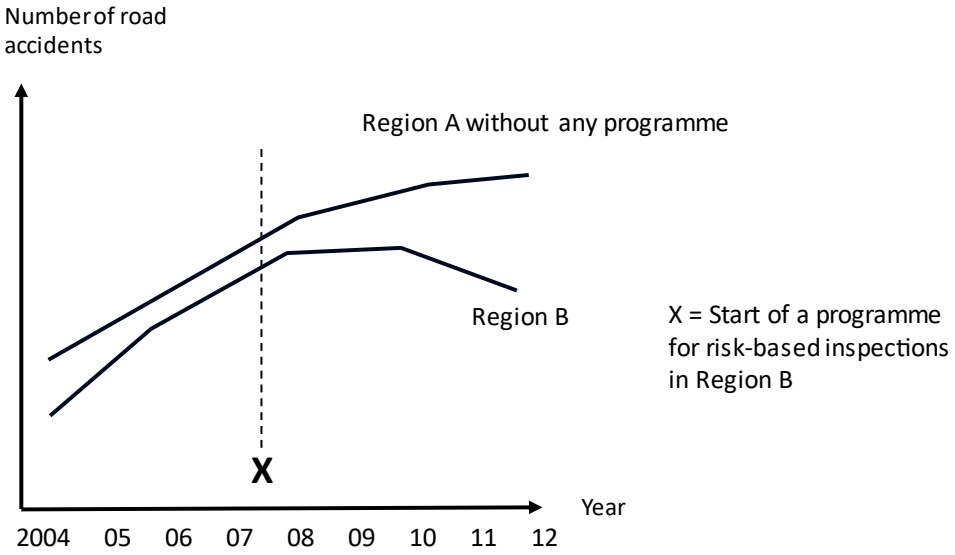
Tigress	400,000	Mode = 400,000
Newyard	400,000	
Kruge	400,000	
Brazo	436,000	Median = 436,000
Kuhmla	890,000	
Plato	990,000	
Olymus	1,270,000	N = 7
TOTAL	**4,786,000**	Mean = 683,714 (=4,786,000/7)

When generalising from a sample to the whole population, attention has to be given to the level of certainty with which this can be done. This depends on the construction, the size of the sample, and the size of the population. In the case of mean values, the degree of certainty can be calculated with statistical methods by establishing the confidence interval, that is, the interval within which the 'true' mean of the population falls within reasonable doubt.

Trend analysis

In our example of traffic inspections, it emerged that one of the regions – region B – for a number of years had implemented a programme to change the traffic inspections to address the main risk factors of road accidents. This had not met any particular interest in head office or other regions. The auditors decided to study the development of accidents in region B in relation to a region with similar conditions but without any programme to address risk factors in the inspections (see Figure 18).

Figure 18. Road accidents in regions with different types of inspections



Soon after region B started implementing the programme, the trend for the number of road accidents in region B changed. After a few years, the number of accidents actually started to decrease. There was also a slight shift in the development of the number of road accidents in region A, in that the *rate* of increase slowed, even though the accidents continued to increase year by year.

The auditors made further analysis to try to see whether there were other factors that could explain the development and the differences between the two regions. Even after thorough investigation and analysis, the auditors were not able to find any other factor than the programme that could explain the differences in development between the two regions. They noted that the steady increase of accidents that had taken place for many years and continued in region A probably could be explained by an increased volume of traffic. It was also observed that a national information campaign on road safety was launched almost at the same time as the change in the principles of traffic inspections in region B. This could explain the slower rate of increase for accidents in region A, which meant that the decrease in accidents in region B was also likely to have been influenced by the information campaign.

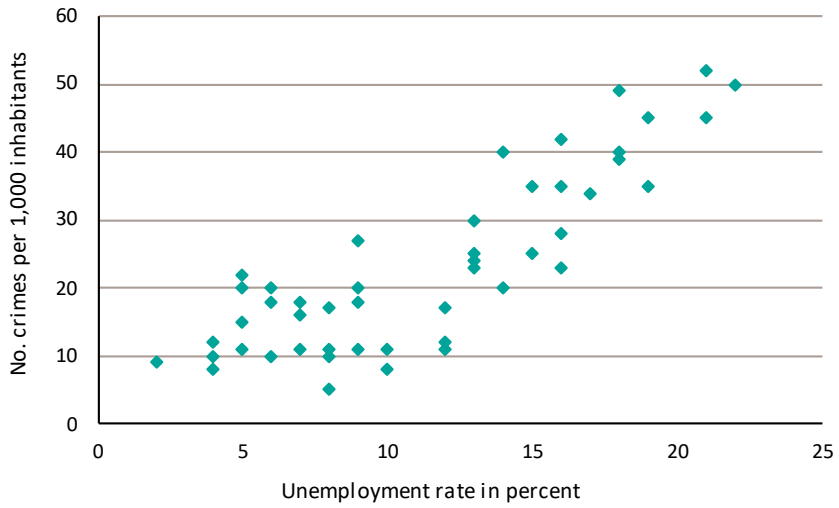
After further testing their analysis with subject matter experts and the audited entity, everyone involved agreed that the changed principles for traffic inspections had most likely resulted in a lower number of accidents. The Traffic Police decided to implement a similar programme in the whole country even before the audit had been completed.

The SAI reported the findings in its report to parliament, including the interpretation that had been reached together with experts and the Traffic Police. The SAI also acknowledged the actions already taken by the Traffic Police to change the principles for traffic inspections in the whole country.

Scatter plotting, correlation coefficient and cross-tabulation

In an audit of how the government combats crime, the auditors studied the relation between the crime rate and different factors that may explain the variation in crime rate between the municipalities in the country. The auditors managed to obtain statistics from the police on the number of crimes in each municipality. They collected information on the unemployment rate in the municipalities from the National Statistical Office. Already when plotting the data from the different sources in a scatter plot, it was clear that the variation in crime rate was correlated to the variation in unemployment (see Figure 19).

Figure 19. Number of crimes per 1000 inhabitants in municipalities in 2012 in relation to the unemployment rate in per cent of the workforce.



Note: Each dot represents one municipality, or more precisely, the crime rate and the unemployment rate in each municipality.

However, the auditors were well aware that a correlation between two variables does not necessarily imply any causal relationship between them. They interviewed a professor in criminology at a university, who explained that the relationship between the unemployment rate and the crime rate is a well-known phenomenon worldwide and has been established in several research studies. The auditors also borrowed a research study from a neighbouring country from the professor to read and refer to in the audit report.

Convinced that there is a causal relationship between the unemployment rate and the crime rate, the auditors took a step further to calculate the strength of the correlation by calculating the correlation coefficient. This turned out to be easy, as the function CORREL in Microsoft Excel is easy to use. The correlation coefficient turned out to be 0.86, which means a strong correlation.[107] When squared, the correlation coefficient explains to what extent the variation in the dependent variable, that is, the crime rate, can be explained by variations in the independent variable, in this case, 73%. Even if a causal relationship between the two variables is likely, the auditors could not establish how strong the causality is since other factors also may contribute to the correlation between the

[107] A perfect positive relationship has a correlation coefficient of 1.00. If this was the case, all the dots in the scatter plot would form a straight line. In that case, 100% of the variation in the crime rate would be explained by the variation in unemployment.

two variables. The auditors discussed the result of their analysis with a statistician at the National Statistical Office to be sure that they understood and used the statistical concepts correctly.

For a more detailed example of exploratory data analysis using both a scatter diagram and the correlation coefficient, see IDI *Performance Audit ISSAI implementation Handbook*, appendix 17.

Ordinal data, that is, data that can only take certain values where the different values can be considered higher or lower (or better or worse), can be used to cross-tabulate different variables to analyse whether there is any correlation between them. Even data that, in principle, can take any value (continuous data) can be grouped to allow for cross-tabulation. This is useful, for example, when one of the variables is of an ordinal scale. Figure 20 indicates that there is some correlation between the income level and the attitude toward energy conservation, in which families with higher incomes tend to be less interested in energy conservation.

Figure 20. Cross-tabulation between the number of homeowners in families with different income levels and the family's attitude to energy conservation

Attitude toward energy conservation	**Family income level**			
	"Low"	"Medium"	"High"	**Total**
"Indifferent"	26%	34%	44%	**35%**
"Somewhat positive"	33%	36%	32%	**34%**
"Positive"	41%	30%	24%	**31%**
Total	**100%**	**100%**	**100%**	**100%**

Co-variation between variables does not necessarily mean that there is a causal relationship between them. It may or may not be the case.

7.3 Bringing causes to problems into the analysis

This section starts with a discussion of the *INTOSAI standards and guidance addressing causes* of problems in performance audits (Section 7.3.1). The rest of the Section aims at elaborating on what it means to analyse causes in performance audit by discussing:

- *The essence of performance auditing*: linking what governments do to what they achieve (Section 7.3.2)
- *Use an audit design that includes cause-effect relationships* (Section 7.3.3)
- *Techniques used to bring causes into the analysis in reports* (Section 7.3.4).

7.3.1 INTOSAI standards and guidance on addressing causes

According to the ISSAIs, performance audits are not limited to showing the existence of problems in relation to the principles of economy, efficiency, and effectiveness. In addition, the causes and consequences of identified main problems need to be analysed, as well as whether there is room for improvement. See the box below with extracts from the standards on analysing causes in performance audits.

REQUIREMENTS IN THE ISSAI ON ANALYSING CAUSES

General for all performance audits

"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." *ISSAI 100:22*

"The auditor needs to explain causes and the consequences of the problems in the audit report because it will allow the reader to better understand the significance of the problem." *ISSAI 3000:121*

"Recommendations need to avoid truisms, address the causes of problems, and not encroach on the management's responsibilities. It should be clear how the recommendation would contribute to better performance." *ISSAI 3000:127*

Specifically for problem-oriented performance audits

"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." *ISSAI 300:27*

"Conclusions and recommendations are primarily based on the process of analysing and confirming causes rather than comparing audit evidence with audit criteria." *ISSAI 3000:44*

Performance auditing aims to contribute to improved economy, efficiency, and effectiveness of the public sector. The standards expect performance audit reports to provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified, whenever relevant and allowed by the SAI's mandate.[108] When issued, recommendations should avoid truisms and address the causes of problems. It should be clear how the recommendations would contribute to better performance.[109]

The reason why the standards require analysis of causes is to contribute to better performance. If the auditors have not only verified the existence of performance problems but also have an in-depth understanding of their nature and the reasons for them, they are in a much better position to develop appropriate recommendations for improvements. Reports presenting such information and insights enable different actors to act more effectively in their role in the accountability system.

While causes of problems should be analysed in all performance audits, the standards imply that there are nuances between different audit approaches. In problem-oriented audits, the audits are expected to be designed in such a way that the causes of a known or suspected performance problem become the main objective of the audit and the primary basis for conclusions and recommendations. The main objective of a results-oriented audit seems to focus on *"…whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended"*.[110] On the other hand, the main objective of system-oriented audits seems to be to examine "*…the proper functioning of management systems*."[111]

According to GUID 3920:88, causes need to be supported by sufficient and appropriate audit evidence. It is also possible to present the view of the audited entity in the report if this seems reasonable. However, experience shows that responsible managers often refer to shortage of

[108] ISSAI 3000:18 and 126.

[109] ISSAI 3000:127.

[110] ISSAI 3000:43.

[111] ISSAI 3000:42.

resources as explanations for weaknesses. While this may be partly true, it is rarely the only explanation and there are usually opportunities for improvement within the available resources.

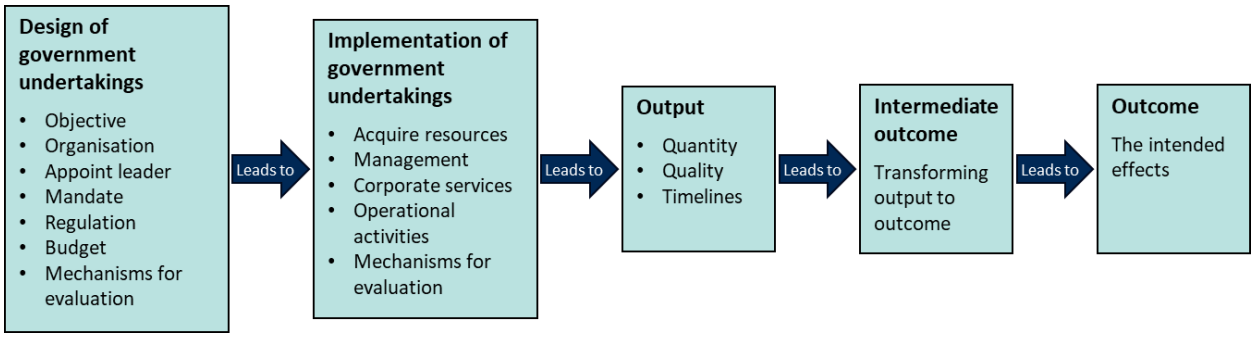
GUID 3920 distinguishes between effects that have already occurred and likely future effects. To prove causal effects is often the aim of an impact study, while logical reasoning about potential or likely causal effects is often used in problem tree analysis to focus design and analysis. Even when reasoning about likely effects is firmly based on research on comparable cases and logical reasoning, they are speculative to some degree. Auditors are advised to use them with caution. Even if there reasonably should be a causal link, this is not proof that there is one.[112] The guidance underlines the importance of auditors understanding the relationship between what may be perceived as a cause-effect relation. There may be other reasons for the relationship, such as reverse cause-effect relationships, coincidences, or confounding effects (where both factors are influenced by a third factor that has not been analysed). [113]

7.3.2 The essence of performance auditing

According to Oxford's Learners Dictionary, a "result" is something that has been caused by something else. All government undertakings are meant to lead to something – the results. The intentions can be clear and explicitly expressed, but they can also be vague, uncertain, implicit, or in conflict with other intentions. The results of what governments do are commonly described in terms of the resulting output (in terms of quantity, quality, and timeliness), intermediate outcome (the processes transforming the immediate output), and the final outcome. There can also be unintended positive consequences and negative side effects. The consumption of resources can also be considered a dimension of the results since it is an external consequence caused by the design and implementation of the undertaking.

A model for the intervention logic of government undertakings is presented in Figure 21. This model illustrates how government undertakings are first designed in terms of objectives, allocation of resources, mandate, rules, organisation, and more. This is, to a large extent, done or confirmed through decisions by the legislature or the executive. When the design is in place, those allocated responsibility can initiate the implementation of the undertaking – developing and implementing processes within the organisation. This will create an immediate output that is often transformed in chains of intermediate outcome to the final outcome, hopefully corresponding to intentions with the undertaking by those who decided on it.

Figure 21. The general model of intervention logic for government undertakings[114]



[112] Compare GUID 3920:90.

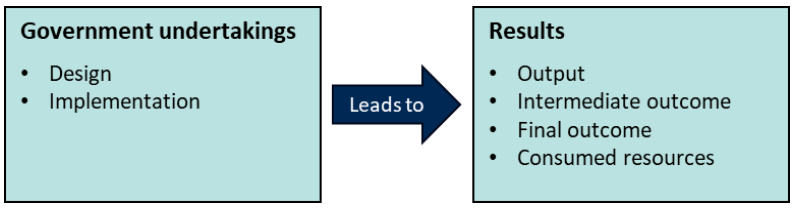
[113] GUID 3920:91.

[114] The model for the intervention logic has similarities with the input/output-model presented in Section 3.1 but is used for a different purpose.

The model of intervention logic shown above is rather complex but is nonetheless a simplification of reality. Removing details and complexity can help us understand the main features. Once they have become clear, it is easier for us to handle the fact that the real world is more complex than the model. In this case, the model does not indicate the complexity that often exists in the processes for implementation of undertakings or the often complex chain of intermediate outcomes needed to transform the immediate output to the final outcome. On the other hand, in designing government undertakings, a common challenge is limited knowledge of how to achieve the intended effects, conflicting or vague objectives, lack of consistency of different elements in the design, or a discrepancy between the real intentions and how the undertaking is presented officially. It is also a challenge for auditors that it is not known what factors would lead to satisfactory results.

Figure 22 is further simplified. In doing so, consumed resources and their costs have been included as consequences or "results" for stakeholders outside the implementing entity.

Figure 22. The essence of performance auditing: Linking what governments do to what they achieve



This further simplified model captures the essence of performance auditing – analysing how the design and implementation of government undertakings influence the results achieved. Performance problems exist when there are opportunities to improve the results by modifications in the design and implementation of, for example, activities, processes, projects, and programmes.

There are two different types of performance problems: design problems and implementation problems. Both types of problems can exist concurrently. A common situation in the AFROSAI-E region is that the design of government undertakings is not consistent. An audited entity may, for example, have been assigned objectives that are impossible to achieve because of limitations in the mandate, regulations, or the allocated budget. While performance problems exist in this situation, they are not caused by low performance by the implementing entity. Unrealistic objectives, however, may exist concurrently with performance problems in the implementation, thereby limiting the goal attainment even further than would have been necessary given the conditions.

Design problems may need to be addressed by the legislature or executive, while implementation problems can often be addressed by agencies assigned responsibility for the implementation. The legislature, executive, and government agencies can be users of performance audits as well as parties responsible for certain aspects of the subject matter. As such, the legislature and executive can be those mandated to initiate change, which may make it appropriate to address them with recommendations if allowed by the SAI's mandate. As mentioned in Section 5.2.4, performance auditing examines 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, depending on the SAI's mandate, but examines whether any shortcomings in the laws and regulations or their implementation have prevented the specified audit objectives from being achieved.[115]

[115] See ISSAI 300:12, 16–18 and ISSAI 3000:26–27 and 31.

7.3.3 Use an audit design that includes cause-effect relationships

One way to bring causes into the analysis in performance audits is to *design the main study so that it has at least two levels, covering some of the results as well as the government activities supposed to produce them*. This means to include elements of cause-effect relationships already in the design of the audit. With this design, both main performance problems related to results and the implementation of government activities become a main interest of the main study and subject to thorough study and analysis. The standards point to such a design for problem-oriented audits. However, such a design seems appropriate regardless of the approach in order to meet the general requirements in standards on analysing causes and addressing recommendations to causes. The task in the audit is then to verify the problem with the results and analyse how different factors have contributed to it. If the problem with the results is already sufficiently verified by existing credible sources, the auditors can report this and concentrate audit work on the weaknesses in design and implementation that contribute to the problem.

During the main study, it is important for the auditors to remain open-minded and ready to reassess the nature and importance of the problem with the results, as well as the relevance and importance of different contributing factors. The auditors need to be systematic in trying to identify the significant contributing factors and may have to add a factor not identified during planning, and possibly abandon some other factors. Such designs can be exemplified when auditors use the first audit question to verify the main performance problem with the results and use additional audit questions to address significant groups of activities and processes contributing to the problem. If the auditors can convincingly establish that the different factors have contributed to the main problem, and identify opportunities for improvement, the audit design has brought in elements of cause-effect relationships between the different audit questions and the evidence presented in answering them.

Proving causal relations can be very demanding and is not always possible. To reduce the consequences of the risk that readers do not find cause-effect relationships convincing, separate criteria can be used for each contributing factor, thus enabling the SAI to describe causes as performance problems in their own right. This is the idea of the combined approach described in this Handbook. However, it is important for the auditors to remember – and explain in their report – that the main reason for covering the contributing factors in the report is their analysis of how they are linked to the problem with the results.

When the auditors have verified and understood the nature of the main performance problem of achieving the intended results, this understanding helps them to understand how different activities and processes have contributed to it. For example, analysing what contributes to long response time for fire brigades may tentatively reveal problems with planning, training, or procedures for handling alarms. To be able to confidently argue that correcting an identified weakness will lead to better results, it is important that auditors not only note the absence of planning, training, or procedures, but try to understand the consequences of that absence. If the role of planning, training, or alarm procedures can be demonstrated – how it contributes to shorter response time when it is present, and how it delays the response when it is neglected – this may convincingly demonstrate that its absence is a contributing factor to unsatisfactory results.

Sometimes, the same logic and systematic analysis of the links between activities and results can also be used when it is not possible to verify the presence of problems with the results independently from the design and implementation of activities. For example, the risks of fraud can be considered as a dimension of the results. The auditors can systematically analyse whether activities and processes known to commonly affect the risk of fraud (preventing or creating such risks) are designed and implemented in a way that increases the risks. They can also study whether the generic experiences also seem to be applicable to the specific organisation, including by

interviewing staff in different positions. This is likely to enable the auditors to develop a convincing report that focuses on how weaknesses in processes create risks of fraud.

A performance audit can also be designed to *focus on problems with the design and implementation of specific activities, and the underlying weaknesses that have resulted in this problem*. Internal processes in a government entity do not have a value in their own right, but in how they directly or indirectly influence the results for the entity valuable for external actors. To convince readers that the weaknesses in the processes are significant, the auditors need to make it likely that this negatively affects the results. It is often possible to identify weaknesses in operational processes likely to have a negative effect on the results. However, it may require more work, or even be impossible, to convincingly show how weaknesses in planning, monitoring and other administrative processes affect the results – in particular, if the audit covers a large entity or a system involving different entities.

The alternative to designing the audit to cover the main performance problems and their likely causes already during planning is to try to address the reasons for performance problems towards the end of the audit. This is likely to make it more difficult to meet the requirements in the standards and convincingly analyse the causes of the problems. The reason is that there will be less evidence and analysis of the relationship between activities and results available in support of such analysis.

7.3.4 Techniques used to bring causes into the analysis in reports

The standards call for an analysis of causes and consequences. As initially mentioned in Chapter 1, we do not interpret this as a requirement of rigorous empirical analysis of causal relationships as such. Instead, our interpretation is that auditors need to look into *what has with reasonable certainty 'led to*', *'contributed to*' or *'what explains'* something described as a performance problem in a particular case of interest. As for findings in general, the analysis of causes should be built on empirical support and/or rational arguments, which is sufficient and appropriate to persuade a knowledgeable reader that the cause and the relationship with the problem are reasonable. The focus is on activities that governments are in control of, while external factors also can influence the situation.

Over the years, a broad variation in whether and how causes of problems are brought into the findings chapter of performance audit reports has been noted. The following practices have been identified.

Not even trying to bring in causes to the analysis

Some audits are restricted to verifying the existence of performance problems. Sometimes this is done through a gap analysis similar to what is appropriate in financial and compliance auditing. Obviously, the auditors have difficulties in addressing recommendations for the causes of the problems when the causes have not been analysed. For this reason, the report often has a circular logic of 'they should, they don't, they should' – since the auditors are not able to recommend more than that, the criteria used for the assessment should be followed. *In our view, these reports do not meet the requirements of the standards.*

Creating an illusion of causes without any supporting evidence or arguments

Some reports try to create an illusion of bringing causes into the analysis by rephrasing the identified problem. Examples are such as *'they didn't do it because they neglected it*' or *'they didn't do it because they didn't prioritise it*'. In both cases, the problem and the claimed reasons for them refer to the same observation, not to one thing leading to something else. *In our view, these reports do not meet the requirements of the standards.*

Use statements on claimed causes without any supporting evidence or arguments

In these reports, the auditors present short statements they claim to be the causes of the problems without the support of any evidence or rational argument. Sometimes these statements are presented in one single sentence. *In our view, these reports do not meet the requirements of the standards.*

Bringing in causes as findings in the analysis, but without presenting their relation to other findings

We have seen several audit reports in which the findings, in substance, quite obviously are interrelated, but the relationships between them are not presented in the report. The assumption is that the auditors in these cases have designed the audit to cover the main performance problems as well as their reasons. To strengthen the findings, the auditors have also identified specific criteria for each one of them. However, in the audit report, the findings are only presented in relation to the relevant specific criteria, while there is no presentation of the relationships between the different findings. The downside is that the more interesting, coherent story about the subject matter is not explicitly communicated to the readers, that is, how the main performance problem is related to factors contributing to it.

A finding may be the cause or consequence of one or several other findings. Causes and consequences may also be presented as part of different findings. There may also be chains of causes and consequences in different steps. It is paramount that auditors clearly describe to the reader if and how different factors presented in the report are related to each other (regardless of being labelled 'problems', 'findings', 'causes' or 'consequences') to successfully convey a coherent story.

Not explaining the causes and the consequences of the problems in the audit report makes it more difficult for the reader to understand the significance of the problem and how the recommendations would contribute to better performance. In our view, this means that *these reports do not fully meet the requirements of the standards*.

Use models or theories to link different observations to each other, with or without testing their applicability in the specific context

In many areas, there are general models or theories for how different factors are related to each other. This can be used to develop arguments for why a certain observation is likely to have contributed to the problem. *There may be exceptions where models or theories are so certain and generally accepted that referring to them is sufficient to link some causes to a problem. In our view, however, auditors should normally strive to also test the applicability of the models/theories in the specific context to meet the standards (see the following technique).*

Rational arguments and empirical evidence are presented in the report supporting the cause and the relationship to the problem

In our view, this is what performance auditors normally should strive to do in support of the analysis of causes of problems. One application is to use a commonly accepted model or theory, collect empirical information on whether or not it seems to be applicable in the specific context, and use this information to convincingly establish explanations for the main problem. One example could be models for processes expected to reduce the risk of fraud and corruption. Another example could be to use models for effective adult learning, but also test whether they seem to be applicable in the specific audit.

Another application is to carry out empirical studies establishing the mechanisms for how different processes influence the results. Also, objective analysis and logical reasoning and arguments may be sufficient. The conclusion is that causes presented in a report need to fulfil two requirements.

They need to:

1. The existence of them needs to be justified by objective and logical arguments and/or empirical evidence
2. Be linked in a reasonable way to the problem it has contributed to, based on objective and logical arguments and/or empirical evidence.

It is not possible to specify in general terms how many arguments or empirical evidence are needed since this depends on the individual case. *In our view, this technique is consistent with the standards, but the presented empirical evidence and arguments must also be sufficient and appropriate to persuade the knowledgeable reader.*

Statistical impact studies are designed to test whether one thing causes another. Just knowing that, for example, scores for students have gone up following an intervention doesn't mean improvement is attributable to that intervention. Perhaps other changes, such as changes in the school's schedule or staffing, also contributed. Impact studies isolate the effect of an intervention by assuring that there is a clear comparison between a treatment group that received the intervention and a comparison group that is just the same, except that it did not get the intervention. *Such techniques are consistent with the standards.* (See further Section 6.6.2 on study designs.)

Conclusions provide some additional opportunities to bring causes into the analysis

While conclusions should build on and flow logically from findings, the scope for including causes in the analysis is somewhat larger than when presented as findings. In the conclusions, it is easier for SAIs to raise risks, tentative developments, or to express their own opinions, which may make it possible to bring explanations to problems that could not convincingly be presented as part of the findings. *In our view, this technique is consistent with the standards, but should be used with caution and due care.*

7.4 Drafting the report – an analytical process

According to ISSAI 300:39 and ISSAI 3000:116, performance auditors should provide audit reports which are *comprehensive* (i.e. include all information and arguments needed to address the audit objective and questions and sufficiently detailed to provide an understanding of the subject matter, findings and conclusions), and *convincing* (i.e. logically structured, with a clear relationship between the audit objective, questions, criteria, findings, conclusions, and recommendations). The report should also be *timely*, *reader-friendly* and *balanced*. Generally, a report should be constructive, contribute to better knowledge, and highlight any necessary improvements.

Performance audit reports need to be based on sufficient and appropriate audit evidence and add value to users. To do so, the reports need to be clear and reader-friendly, following principles for plain language regarding:

- *Report structure* – a logical connection and a common thread connecting all its parts
- *Key messages* – visible and supported but not hidden in details
- *Clarity* – so the readers can understand the report and easily absorb the presented information
- *Simplicity* – so that readers do not have to spend too much time and energy reading it
- *Wording* – avoiding jargon and clichés so that readers do not have to be auditors to understand the report.

This section deals with drafting findings, conclusions, and recommendations in the audit report, which is a highly analytical process. Chapter 8 covers the processes of deciding on and reporting the audit, including elaborating on the requirements for good reports in Section 8.2.

In short, the purpose of a performance audit report is to:

- Promote improvement and create change
- Communicate the results of audits to parliament, the audited entities, government officials at various levels, and other stakeholders
- Explain audit results so that they can be properly understood
- Make audit results available to the general public
- Recommend measures to take for improvement (corrective actions)
- Facilitate follow-up to determine whether appropriate corrective actions have been taken.

Most SAIs with a history of undertaking performance audits publish individual performance audit reports. Performance auditors put in a lot of effort and time into writing audit reports. There are several reasons for starting the writing process early, for example, before engaging in data collection, drafting the background to the audit, the methodology, and the description of the audit area. It allows the auditors to focus mainly on the more analytical chapters' findings, conclusions, and recommendations at the later stages of the audit. However, text written early in the audit needs to be checked again and usually partly revised towards the end of the process. It is common with periods with a low workload in performance audits, for example, because expected meetings are delayed. This time can be used for drafting some sections of the report.

Developing findings, conclusions, and recommendations in performance audit reports is a highly analytical process in which all evidence and criteria are combined to answer the audit question and meet the audit objective.

7.4.1 Developing findings

Usually, audit evidence is developed by presenting data from different sources which has been collected and analysed using various methods. The final step in data analysis consists of combining information from the different sources to gain information and knowledge about the actual conditions on the ground, in order to develop findings verifying performance problems as well as the reasons and consequences of them. This means that information from interviews may be combined with analysis of statistical records; information from case studies may be combined with information from surveys; some information may emanate from field studies in one province while other information refers to the head office. Combining information from different sources can be compared with laying a jigsaw puzzle, where the pieces are the different elements of information and analysis.

There is no general solution for combining the different data and analysis. However, it is of central importance that the auditors work systematically and carefully in interpreting the data collected. By combining data from a range of sources, methods, and analyses (corroborating data), the auditors seek to overcome the bias that can arise from using a single source of information.

Figure 23. Using audit evidence to develop findings, conclusions and recommendations

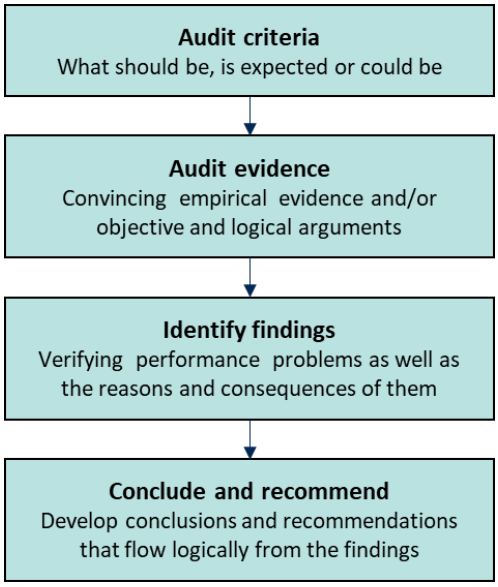


Figure 23 illustrates the steps in using criteria and evidence to develop findings, which lead to the development of audit conclusions and recommendations.

Performance problems, as well as the reasons for and their consequences, can be presented as separate findings or as different elements in the same finding. As mentioned in Section 7.3.4, the important thing is that auditors clearly explain to the reader the relations between problems, causes, and consequences and the relations that may exist between different findings. Reasons for performance problems that are in the control of the government can also be considered as problems with government performance. The same finding may include a chain of consequences, problems, and causes in several steps.

Audit findings should be congruent with the audit objective and the conclusions in the audit and should answer the audit questions or explain why this was not possible. Audit findings are developed by comparing the factual situation (the *conditions*) with the *audit criteria* to verify the main performance problems as well as the reasons for them and their consequences. If there are no discrepancies between the criteria used for the evaluation and the actual performance, the audited entity has, in principle, done what was expected of them according to the criteria used.

In developing findings, the auditors should refrain from expressing opinions. All findings must be supported by sufficient appropriate (relevant, valid, and reliable) audit evidence. The evidence should also be complete in covering the audit questions and be reasonable to collect in terms of time and cost (see Section 7.1.3). The use of analytical evidence as described in INTOSAI guidance[116] is important for enabling auditors to make interesting and meaningful findings. If only hard facts are presented as part of the findings, it is usually difficult to know how the facts should be interpreted. By adding analysis, compiling, comparing, grouping, and using objective and logical arguments – and comparing conditions with criteria – the auditors make the findings in a performance audit clear and interesting. This is to use the analytical evidence when developing findings.

Audit criteria are used differently in performance auditing than in compliance auditing. While the purpose of compliance auditing is to check whether the audited entities comply with regulations or other standards, the purpose of performance auditing is to assess the performance and whether there is room for improvement. This means that when there is a deviation between conditions and

[116] GUID 3920:49 and 93.

criteria, performance auditors must take the analysis a step further and consider whether the audited entity realistically could have met the criteria, and if this would have resulted in better performance. If this was not possible, the criteria initially chosen are not appropriate for assessing performance. If the criteria initially were chosen by the auditors, they need to consider and identify more appropriate criteria. If the criteria were defined in the design of the activities, but turn out to be unrealistic, the design of the government undertaking may be the main performance problem.

EXPERIENCES IN THE REGION – SAI KENYA
DEVELOP AUDIT FINDINGS

In developing the audit findings, SAI Kenya uses the findings matrix template. The template captures the audit objective, the audit questions, and the audit findings; in the form of criteria, condition, cause, and effect. Further, the template has a section on data collection and analysis which gives a summary of audit evidence, source of audit evidence, and evidence reference. This section is important in tracking and linking the evidence used in audit findings and documenting the evidence. The audit teams use the findings matrix to systematically capture and document the analysed data.

Audit findings are developed by comparing what auditors found in the field (condition) with the audit criteria (what should be). Using the audit design matrix to develop findings ensures that all the audit questions are adequately answered and the audit evidence is well aligned with the audit objective. The matrix, therefore, makes the findings explicit and facilitates the review process. Furthermore, it ensures that each finding is based on criteria and that there is sufficient and appropriate audit evidence.

Explaining the reasons and consequences of the performance problems in the report will help the reader better understand their significance. This will, in turn, encourage corrective action and lead to improvements by the audited entity.[117]

REMAIN SCEPTICAL TO INITIALLY CHOSEN CRITERIA – IS THERE REALLY ROOM FOR IMPROVEMENT?

In an audit of the construction of school buildings, the auditors used budget regulations, and regulations for procurement as audit criteria. The finding was that the Ministry of Education did not comply with the regulations in several respects. The Ministry informally approved that the contractors started construction activities before the funds had been made available. They also pre-paid work that had not yet been completed before the end of the year and signed incorrect statements on the work completed. There were also other regulations that, more or less systematically, were not complied with by the Ministry.

In their analysis, the auditors took a step further and considered what the consequences would have been if the Ministry had complied with the appropriate regulations. It turned out that this would have caused even worse delays in the construction of school buildings than the Ministry already was facing. The reason was that the Treasury only made funds available in October, although the budget year started in January. Funds that had not been spent during the calendar year had to be returned to the consolidated fund and requested once again in the budget process the following year – requests that might not be approved. Complying with the regulations would have left the Ministry and the contractors with only three months per year for construction work.

While pointing out the Ministry's non-compliance with regulations in the audit report, the auditors concluded that the budget system and Treasury's release of funds were an even bigger problem—and one that required immediate action to resolve.

[117] ISSAI 3000:121.

7.4.2 Developing audit conclusions and recommendations

Audit conclusions

Performance audit reports are not normally expected to provide an overall opinion on the achievement of economy, efficiency, and effectiveness on the level of the audited entities in the same way as the opinion on financial statements. This is also not a requirement of the ISSAI framework. Whether economy, efficiency, and effectiveness have been achieved may be conveyed either through an *overall view on aspects of economy, efficiency, and effectiveness*, when the audit objective, the subject matter, the evidence obtained, and the findings reached allow for such conclusions, or by providing specific information in the report on different points, including the audit objective, the questions asked, the evidence obtained, the criteria used, the findings reached, and the *specific conclusions*.[118]

Based on the example of traffic inspection, the two alternatives can be illustrated as follows.

Overall conclusion on aspects of the three Es:

The overall conclusion of the Auditor-General is that the Traffic Police has not been effective in using traffic inspections as a measure of reducing the number of road accidents, particularly serious accidents, as intended by parliament. The main reasons are that the traffic inspections have not been planned to address the main causes of road accidents and that the Traffic Police does not have the appropriate policy, guidance, and equipment in place to carry out such inspections. Instead, the inspections have focused on formal requirements with no or weak linkages to road accidents.

Specific conclusions:

Based on the evidence presented in this report, the Auditor-General concludes that the performance of the Traffic Police has not met the expectations of parliament in terms of:

- Carrying out traffic inspections in order to address behaviour by drivers contributing to serious road accidents
- Developing policy and plans and providing guidance to the police officers on how to focus on and carry out traffic inspections
- Providing equipment to the police officers to enable inspections of speeding and use of alcohol in the traffic, even if the financial resources have been available.

Formulating conclusions may require a significant measure of judgement and interpretation to answer the audit questions, as 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.[119]

The conclusions should be clearly linked to the audit objective. Often the conclusion is phrased in short statements summarising findings and reflecting the auditors' own assessment or opinion based on the findings. The conclusion is based on the evidence since it should flow logically from the findings. Based on good arguments, it also provides an opportunity for auditors to indicate overall problems lying behind the findings or make overall conclusions based on the findings, for example, on the need for radical change.

Audit recommendations

If relevant and allowed by the SAI's mandate, auditors should provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or

[118] ISSAI 300:21–23; See also ISSAI 100:32.

[119] ISSAI 300:38; ISSAI 3000:115.

problems identified by the audit.[120] While auditors can give recommendations, they must take care not to assume the responsibilities of the responsible parties.[121]

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, for example, by lowering costs and simplifying administration, enhancing the quality and volume of services, or improving effectiveness, impact, or the benefits to society. The recommendations should: [122]

- Be well-founded, practical and add value.
- Be linked to the audit objective, findings, and conclusions.
- Address the causes of performance problems and/or weaknesses.
- Be phrased in a way that avoids truisms or simply inverts the audit conclusions.
- Not encroach on the management's responsibilities.
- Be clear in who and what is addressed by each recommendation, who is responsible for taking initiative, and what the recommendations mean, that is, how they will contribute to better performance.
- Be addressed to the entities responsible and competent for implementing them.

This means that depending on the context, recommendations may be addressed to ministries, agencies, local governments, parastatals, or even the legislature. For recommendations to be practical it is important that they are realistic, which in principle means that it should be possible to implement them within available resources. Auditors should, in general, avoid recommending increased budget allocation to an entity unless it can be fully funded within the area of audit. There is usually room to use the available resources better by reconsidering the mix of different resources or the prioritisation within the same entity/sector.

Performance audit reports in the AFROSAI-E region usually include recommendations. Based on the ISSAIs, each SAI may make their own choice on how to issue recommendations. The suggestion in the AFROSAI-E course materials is to avoid making recommendations too specific, as it risks taking over the management responsibility for the actions taken, and on the other hand, avoid making recommendations that are too general to provide directions or ideas for how the problems can be solved or reduced. While there are arguments for focusing recommendations on what needs to be improved, such recommendations may not be convincing without indicating that it can realistically be done.

One technique is to *recommend what should be done* and, as a complement, more in detail, *discuss how this can be done*, possibly indicating different alternative options. Questions that may be considered in developing good recommendations are:

- What needs to be done and why?
- Where does it need to be done?
- Who is responsible for doing it?
- What example(s) on how this can be done can be elaborated in detail, convincing the audited entities that it is doable without necessarily excluding other alternatives to address the problems?
- What impact of proposed actions is expected?
- Could the implementation have negative effects?

[120] ISSAI 300:40; ISSAI 3000:126–127.

[121] ISSAI 300:16.

[122] ISSAI 300:40; ISSAI 3000:127–128.

EXPERIENCES IN THE REGION – SAI GHANA
DEVELOPING AUDIT RECOMMENDATIONS

The most important aspect of the performance audit work is the recommendations that should bring about the desired improvement in the work of the audited entity. While considering the six questions suggested above, it is important to get consent from the audited entity to guarantee implementation.

SAI Ghana always tries to involve the audited entity in formulating the recommendation. So, the question is put to the heads of the entity during interview sessions. "What will you do differently from what you are currently doing to improve the problems identified if asked to do so?" We also consider:

- Thinking about the recommendation early and throughout the audit
- Using previous good examples.

7.4.3 How to draft better performance audit reports

There is perhaps nothing more daunting for an auditor than a blank sheet of paper on which they have to write the audit report. The worries can be endless. What kind of structure should the report have? What sort of language should I use? How do I present tables and figures (charts) in the report? How can I take advantage of the word processing software? Where do I start? What are the key messages?

The following paragraphs provide a brief summary of some guidance to beat "the blank sheet" problem.

Getting the thinking straight

Perhaps the most important piece of advice is that you cannot write a report unless you know what you are trying to say. Most people think they face a "writing block" when, in reality, they face a "thinking block". They cannot write the report because they do not know what they want to say. You have to get the thinking straight before you can begin to write any report. This begins with an effective analysis of the issues to be addressed by the report.

Writing is a part of the analytical process. Often you cannot sit and think through what you want to say, but you need to start writing in order to come up with what you really want to say – and get your evidence sorted out to know what you will be able to verify. Analytical writing, however, rarely leads to a readable text. So, once you have clarified what you want to say – partly through analytical writing – it is time to re-write the text for the reader using reader-based writing. Often the draft needs to be re-written more than once to become easy to read.

Identifying the main messages of the report

During analysis, the audit team should begin to develop an appreciation of the main messages of the audit. These are the big-picture issues or headlines that summarise the most important findings. (For example, the Traffic Police is not effective in implementing traffic inspections as they don't focus on the risks of serious traffic accidents caused by speeding and alcohol use.)

Compiling the report

Writing can be a lengthy process, which is why it should be started early in the audit. Developing a synopsis of the report will give the auditors an opportunity to identify the key findings. Areas where conclusions are not clear enough or more audit evidence is needed, may also be discovered. This also means that several drafts may be written before the report can be finalised.

After reviewing the document, revision (s) to the previous drafts also become necessary. It is good to subject the report to review by managers, peer review by other auditors, and, if possible, subject matter experts. The final report should be proofread and cross-referenced to the supporting audit

evidence to ensure that facts are correctly stated and that this is properly documented in the audit file.

Lastly, constant consultation with the audited entities is an important part of drafting the report. Auditors should provide the draft report to management in the audited entities for review. This will allow management to agree with the report or provide comments and/or further evidence where they feel it is necessary (see further Section 8.1).

7.5 Managing the audit engagement

REQUIREMENT ACCORDING TO ISSAI 3000

- The auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value. *ISSAI 3000:52*

Thorough planning of the audit is a crucial part of good project management. As mentioned in Section 6.7.4–6.7.6, administrative planning should include planning of monitoring the progress of the audit (Section 7.5.1), considerations of the risk in the audit (Section 7.5.2), and communication with the audited entities (Section 7.5.3). There is also a need to follow up on lessons learned (Section 7.5.4). This section considers these issues during the conduct of the audit, which is an equally important part of good project management.

7.5.1 Monitoring the progress of the audit and taking necessary actions

Performance audits are costly and time-consuming as well as planned and partly carried out under uncertainty. This makes it particularly important to regularly monitor the progress of the audit.

According to ISSAI 3000:96, the auditor should plan the audit in accordance with the principles of good project management. The managers should ensure that the audits are completed within budget and on time, extending the budget or time if justified. The audit manager must be aware of risks to timely audit completion and ensure that audit work is relevant to the objectives and scope of the audit. The development of the data-gathering process and the analytical work have to be monitored. The audit manager should ensure that the audit teams are able to maintain good and proper relations with the audited entities and other stakeholders. The audit manager should inform the SAI's 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.

The monitoring needs to include the implementation of the activity plan, the use of the allocated budget, and the relevance of the audit design and methodology.

There are some incidences where the activity plan turns out to not be realistic. It happens that the original activity plan is outdated even before the audit has started. If the activity plan is not revised, the audit team and management will find themselves without any clear control points (milestones) to assess the progress of the audit. A realistic and updated activity plan gives incentives to the auditors to meet planned milestones, enables managers to monitor what the team has achieved, and provides the support the team may need. This can contribute to reducing the problem of lengthy audit processes in some SAIs.

A realistic and updated activity plan is no guarantee that it can be followed completely. Often situations out of the control of the audit team and management lead to problems and delays in the audit. While this may be unavoidable, it is important that the team and the SAI regularly consider how to address the problems experienced in the audit.

As the audit process proceeds, the knowledge of the audit topic, the main performance problems, and the reasons for them increase gradually. The audit design and methodology need to be regularly discussed between the audit team and management. New knowledge may make it appropriate to modify or even exclude some audit questions. It may also prove to be crucial to include an audit question that was not anticipated during the planning stage. The planned strategy and methods for data collection and analysis may prove to be impossible or not practical to use in full and need to be revised.

The implementation and use of the budget allocated for a performance audit must also be regularly monitored, taking into account important deviations and how they may be handled to avoid cost overruns (if possible).

Executing a performance audit is not a fully rational and straightforward process. Instead, it is fairly complex and requires a reasonable degree of flexibility in implementation to be successful. Performance auditors and the SAI should also be prepared to adjust the audit plan to use the best available knowledge – knowledge that gradually increases during the audit.

Not revising the work plan for performance audits when significant changes in conditions or delays have taken place will usually lead to poor project management, creating a risk of uncontrolled delays in the project. Even worse, it can lead to a lack of focus on the collection and analysis of data and the content of the report. There may even be instances when management needs to reconsider the audit objective or close down performance audit projects. Major changes to the work plan should always be assessed and decided on by management.

If the audit is not completed in a timely manner, the conditions in the sector may change completely during the audit. For example, the government programme may change, or the audited entities may be reorganised.

EXPERIENCES IN THE REGION – SAI TANZANIA
GOOD PROJECT MANAGEMENT

SAI Tanzania puts a lot of emphasis on good project management of performance audits, as the audits are costly and time-consuming. A pre-requisite for high-quality reports is that the SAI is able to allocate staff with the right competence, sufficient time, and resources. After conducting the pre-study and proposing an audit problem, the audit team prepares the work plan, including the design of the audit, the activity plan, and the budget. The work plan is reviewed by the Assistant Auditor General (AAG) as a first-level reviewer to ensure that it meets the standard in terms of quality and has a realistic implementation schedule (time) and cost. The Deputy Auditor General (DAG) is the second-level reviewer who also checks the three key issues: quality, cost, and time before the work plan is submitted to the Controller and Auditor General (CAG) for review and approval. The plan covers all steps of the audit process, including the management reviews and decision process.

The emphasis is on realistic and high-quality planning, making it easier to implement the plan. Management on all levels is deeply involved during the planning stage, as well as during the whole implementation of the audit. Managers on all levels are well informed and have a clear buy-in in the project. The team is always free to bring issues up with management at different levels when they face challenges, or if the work does not proceed as they expected. Significant efforts are also made to provide early and regular information to the audited entity about the content and methodology of the audit, the time schedule, the need for support from them, as well as the progress of the audit. This reduces incidents that are perceived to cause delays in the audits.

Once the work plan is approved, the team will be bound to ensure that the audit is accomplished within the planned period and budget. The team is required to report on the progress of the project to the AAG weekly. The AAG, in turn, reports weekly on the progress of the project, including the timeline and cost to the DAG. The DAG reports on a weekly basis to the weekly Executive Committee meetings on the progress of each individual performance audit project. Through this meeting, the CAG and other Executive members are informed weekly on the status of each performance audit project that is in progress. Any deviation from the plan is reported, including the reasons for deviation. Based on that, approval is granted by the Executive Committee members. This process continues until the report is finalised and tabled in Parliament.

There are a few instances when the audits are delayed. When deviations compared to the plan are observed, the SAI tries to analyse what actions can be taken to compensate for the delay or cost overrun. If this is not possible, it is considered whether the plan needs to be revised. Most of the performance audits are completed on time and within the allocated budget. An audit is not delayed more than one month without a formal revision of the plan.

7.5.2 Managing audit risks

According to ISSAI 3000:52, the auditor shall actively manage audit risk to avoid the development of incorrect or incomplete audit findings, conclusions, and recommendations, providing unbalanced information or failing to add value.

The audit risk needs to be brought down to an acceptably low level in order to enable the auditors to provide the necessary level of assurance. (See further on confidence and assurance in performance auditing in Section 5.4.4.)

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.

Numerous risks are associated with performance auditing, as shown in the box below. The SAI and its auditors must provide assurance to its users that these risks are appropriately minimised and managed.

COMMON RISKS IN PERFORMANCE AUDITING	
Incorrect or incomplete conclusions	Auditors reach incorrect or incomplete audit conclusions and make recommendations that are not focused on necessary or appropriate issues. Numerous factors can cause this, such as an inadequate assessment of the evidence and not following appropriate and necessary audit procedures.
Unbalanced information	Auditors fail to include and evaluate contrary evidence, clearly identify which audit criteria are met, or report on good practices. Achievements of the audited entity are not discussed, and contributing factors to the deficiencies identified are not disclosed. For example, shortfalls are highlighted without explaining the challenges or constraints under which the entity operates, or the audited entity's performance is assessed without reference to acceptable standards.
No or limited added value to the users as a result of the audit	Auditors fail to provide new information or knowledge from the audit. Specifically, the auditors do not add new analytical insights (broader or deeper analysis or new perspectives) or make information accessible to various stakeholders.

Difficulties in obtaining quality information	Auditors do not have access or have limited access to needed information. Additionally, the information may not meet quality standards (that is, the data are not reliable). As the audit findings and conclusions rely greatly on the quality of information and data collected, it is essential to assess the risk of not having access to good-quality information and data when planning and conducting an audit.
Insufficient analysis	Auditors do not conduct sufficient analysis due to the lack of expertise, audit criteria or access to information. If due care is exercised during the planning stage, risks due to a lack of expertise and audit criteria can be mitigated during the audit.
Omission of relevant information or arguments	Auditors do not identify all of the key issues at the planning stage that will be covered during the audit, fail to consider relevant pieces of evidence or fail to counter important arguments in the audit's conclusions.
Presence of fraud, abuse of resources and/or irregular practices	Auditors do not assess whether the risk of fraud is significant within the context of the audit objective(s) and/or fail to communicate fraud and irregularities promptly. If fraud exists, the auditor is encouraged to follow SAI procedures regarding fraud.
Substantial complexity or political sensitivities	Auditors do not appropriately handle highly complex and politically sensitive topics, which could seriously undermine the credibility of the audit report and the SAI.
Source: IDI Performance Audit ISSAI Implementation Handbook, page 49.	

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

Actively managing audit risk includes the following:

- Anticipating the possible or known risks of the work envisaged
- Addressing those audit risks during audit planning and the selection of methods
- Documenting how those risks will be handled
- Considering whether the audit team has sufficient and appropriate competence to conduct the audit
- Considering whether the audit team has adequate access to accurate, reliable and relevant good quality information
- Considering whether the team has considered any new information that is available and has considered alternative perspectives.

To manage audit risk, the auditor needs to:

- Identify the risks
- Assess these risks
- Develop and implement strategies to prevent and mitigate the risks
- Monitor audit risk and mitigation strategies throughout the audit and make adjustments as needed to changing circumstances (i.e. apply a risk management approach when addressing audit risk).

7.5.3 Communication throughout the audit process[123]

According to ISSAI 300:29 and ISSAI 3000:55, performance auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process. This involves defining the content, process, and recipients of communication for each audit.

It is stated in INTOSAI-P 20:3 that SAIs are to communicate which standards and methodologies they use, and how they comply with them. They are to also communicate the scope of their audit activities, the audit objective, criteria, and findings. Findings are subject to procedures of comment and recommendations to discussions and responses from the audited entities.

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

- Communication channels with certain entities and stakeholders may not exist. For example, academic or business communities or civil society organisations may not have been engaged with previously.
- Often, there are no predefined audit criteria, and thus, an intensive exchange of views with the audited entities is necessary.
- The need for balanced reports (see Section 8.2) 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, data, and opinions from the audited entities. 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.

Good external relations are important, not only in the short term perspective of gaining access to information and opinions and gaining a better understanding of the subject matter; they are equally important in the long term perspective for an SAI to gain trust, respect, and credibility with different stakeholders.

Auditors should communicate with audited entities throughout the audit process, engaging in constructive interaction as different findings, arguments, and perspectives are assessed.

The communicative process begins at the planning phase and continues until the report has been finalised and later when the results are followed up. Some methods that can be used to support the communication process are to:

- Send *letters* to the heads of the entities, to ensure the proper presentation of the pre-study and the main study
- Present *a leaflet* to stakeholders, presenting the purpose of the audit and the process.
- Request the audited entity to appoint *a contact person* who can assist the team and for the team to keep informed about the progress of the audit

[123] This section is mainly built on ISSAI 300:29, ISSAI 3000:55–58 and on *Communication in the performance audit process* from the Performance Audit Sub-committee, which in turn refers to the ISSAIs.

- Make *an agreement with senior management* of the audited entity at which stage there should be direct contact between the SAI and senior management
- Submit *a draft report to the audited entity* to check the factual accuracy and comment on the report
- Have *an exit meeting* with the audited entity to discuss any disagreements and outstanding issues.

During the pre-study

It is generally good practice to *inform senior management* of the audited entities about the reasons for carrying out a pre-study, even if the level of detail may vary. A good idea is to request an audited entity to appoint a contact person. *Discussions with managers and staff* at the responsible authorities are important for gaining basic knowledge of the audit area and its functions and conditions. It is also important to seek knowledge from *other stakeholders*, for example, clients, researchers, evaluators, scientists, and other experts; but it is wise to inform the concerned audit entities about this.

EXPERIENCES IN THE REGION – SAI ETHIOPIA
COMMUNICATION WITH THE AUDITED ENTITY AND OTHER STAKEHOLDERS

In performance auditing in SAI Ethiopia, there is regular communication between the SAI and the audited entity and other stakeholders. The main communication points are to:

- Involve the Public Accounts Committee (PAC) in the design of the SAI's Strategic Plan to consider their strategic interests in selecting topics for audit.
- Communicate and inform the audited entity officially before starting an audit.
- Hold an opening conference with the top management of the audited entity and brief them about the nature of the audit and how it will be conducted. Listen to their views on problems in the area that may need to be considered during the audit.
- Officially send the selected audit problem, audit question (issues), and assessment criteria to the audited entity for comments; the comments are considered and may lead to adjustments to the audit design when there are reasonable arguments for this; if the SAI disagrees with the comments made, the audit will continue as planned, and the disagreement will be reflected in the audit report.
- Send the major findings to the top management of the audited entity for comments, using a fact sheet, before writing the draft audit report.
- Conduct an exit conference on the draft report and, when needed, consider the points raised on the draft report.
- Send the final draft report to the supervisory organ of the audited entity, for their written comments.
- Send the final audit report to the audited entity, to the supervisory body, or Board.
- Table the report to the House of Peoples Representative (The Parliament).
- Incorporate the major findings on the annual speech of the Auditor General speech to the Parliament.
- Post the audit report on the SAI website so the public can access the full report.
- The PAC will conduct a public hearing on the report.
- Hold an annual press conference by the Auditor General covering performance auditing.
- Whenever there is a new election, the SAI provides training for the new members of the PAC and Chairmen and Vice chairmen of Other Standing committees on how the SAI functions and their role in the follow-up of the audit findings, including performance audit.
- The SAI also participates in the annual Accountability Conference, which mainly focuses on the audit findings and recommendations, organised by the PAC, which comprises three parties, namely: all standing committees of the Parliament, all Ministers (executives/auditees), and the Auditor-General.

Some SAIs prepare a communication plan during the pre-study phase, which lists all external stakeholders and experts to be contacted during the audit.

When the audit team has acquired sufficient subject matter knowledge to design the audit, it is advisable to hold discussions with senior management of the responsible authorities concerned by

the audit. Issues like study design, potential audit criteria, and other practical aspects relevant to the audit should be addressed. Since it is sometimes advisable to avoid setting precise and detailed criteria in the planning phase, an SAI must decide on a case-by-case basis the extent of these discussions with the responsible organisations concerned or other external stakeholders.

Examples of topics to be discussed during the pre-study are:

- How the pre-study has been initiated
- The objectives of the pre-study
- The kind of information the SAI will need to collect during the pre-study.

During the main study

The SAI needs to *inform senior management* of the audited entity about the audit objective, scope, questions, criteria, and methods of data collection for the main study. This will facilitate the process and help avoid misunderstandings. The audit criteria should be discussed with the audited entities.[124]

If a *contact person* was not already appointed during the pre-study phase, now is the time to do so.

An *open and constructive dialogue* is ideal in a performance audit. An audit may, however, provoke negative reactions, and the auditors may face varying situations, from openness and willingness to cooperate to evasiveness and secrecy. The auditors should aim to establish a constructive process of interaction. As a rule, the assistance of individuals from the organisations concerned is essential to an effective audit. An active dialogue during the audit with the responsible authorities, experts, and others makes it easier, for instance, to continuously verify the auditors' understanding and preliminary audit findings.

Evidence, findings, and conclusions must be properly communicated externally. As the audit proceeds, it is necessary to ensure that the factual basis of descriptions is accurate and fair and that the analysis is comprehensive and addresses the reasons for the main performance problems identified. Various arguments need to be represented, and findings put in perspective. Recommendations must be well-founded and add value. All these issues need to be communicated to the responsible authorities concerned by the audit.

A good practice besides having *meetings with senior managers or other government officials* is to carry out *focus group meetings*, in which various stakeholders and experts are invited to discuss preliminary findings, conclusions, and recommendations. Before publishing the report, the audited entities should always be given the opportunity to *comment on the audit findings, conclusions, and recommendations*; and all comments need to be carefully considered before a report is issued. At the end of the process, it is advisable to keep the responsible authorities *informed on the procedures* and timetable for the publication of the final report.

It is advisable to try to *get feedback* from the audited entities and stakeholders concerned on the quality of the audit report, how well the communication process functioned during the audit, and whether there is room for improvement.

Examples of topics to be discussed during the main study are:

- The audit objective, scope, criteria, methodology, and the expected audit process
- The need for documents and access to persons important for data collection
- How to keep management informed about findings and the progress of the audit
- The opinion of the audited entities on the draft report; are the facts presented correctly, are the conclusions understandable, do the recommendations add value
- The procedures and timetable for the publication of the final report.

[124] ISSAI 300:27; ISSAI 3000:49.

7.5.4 Following up on the lessons learned

While knowledge of the theory and methods for performance auditing is highly useful, the experience gained from completing audit reports is invaluable. Successes, mistakes, and failures in practical performance auditing are the most important sources of learning. Important elements of good project management include following up on how the audit has been implemented in terms of whether it has been completed on time, within budget, and what lessons can be learned for future audits. At the end of the audit process, stakeholder feedback can also be obtained on the quality of the published reports. The audited entities' perception of audit quality may also be solicited.[125]

According to ISSAI 150:27, a SAI shall establish dedicated pathways for the professional development of auditors, specifically tailored to the SAI's mandate, regulatory framework, organisation, structure, and needs. In performance auditing, learning and training for all staff are needed to encourage their professional development and help ensure that personnel are trained in current developments in performance auditing.

An important tool to meet this requirement is ensuring that lessons learned in completed audits are shared and discussed within the SAI, to benefit all performance auditors in their professional development. This can be done by requesting all teams finalise a performance audit to summarise their experiences and arrange an internal seminar with their colleagues to discuss these experiences and how the audits can be improved in the future.

Some SAIs also use external actors, for example a university, to review and comment on completed performance audits. The results of the reviews can be used in internal seminars with staff, discussing the comments, and opportunities for improvements.

EXAMPLE OF TOPICS FOR INTERNAL SEMINARS ON EXPERIENCES OF COMPLETED AUDITS

1. What went well and less well in the audit in terms of
    - Selecting the audit topic and problem
    - Designing the audit (scope, questions, criteria, and methodology)
    - Conducting the audit (including collection and analysis of data, communication with the audited entity and stakeholders, and cooperation with management in the SAI)
    - Writing and presenting the audit report.
2. What are good practices you would like your colleagues to consider using in their audits?
3. With the knowledge you have now, what will you try to do differently in future audits?

7.6 Working in teams

This section briefly discusses:

- Characteristics of effective teams (Section 7.6.1).
- How team members can make a team work well (Section 7.6.2).
- How to effectively lead a team (Section 7.6.3).
- Steps to develop a high-performing team (Section 7.6.4).

[125] ISSAI 300:29.

7.6.1 Characteristics of effective teams[126]

Effective teams need a clear unity of purpose. While it is important to have initial free discussions, it is also important to reach agreements on the objectives that the different team members can commit themselves to. The team also needs to have a mutual understanding of how they should operate and what norms, approaches, and rules to follow. Based on this understanding, the team can regularly reflect on how they are proceeding towards the objectives, and when matters are not progressing as intended, openly discuss the problems and find solutions to them. Establishing clear performance goals and milestones is essential to help teams monitor progress and be successful in stepwise achievements towards the larger goal.

An effective team includes committed people working in an informal, comfortable, and relaxed atmosphere without serious tensions. They stay focused on goals and purposes, at the same time as there are open discussions where people listen to each other, and everyone can contribute. There is sufficient trust for the team members to be creative in brainstorming, express feelings, and even make mistakes. Disagreements contribute to better results when the team reaches a consensus, meaning that no one is allowed to dominate another person. The effective team is also able to live with disagreements that cannot be resolved without letting that hinder them from reaching their objectives.

Each individual contributes to the team by doing their best and meeting or exceeding the expectations of others. Everyone is respectful to one another and to the group by listening actively, completing agreed tasks, arriving on time, and so on. Criticism is frequent, but frank and constructive. There is a formal team leader who can make a final decision when needed, but it is the team member's competency in each task that leads the group in the specific area to get the job done.

To summarise, the characteristics of effective teams are that:

1. There is a clear unity of purpose.
2. The group is self-conscious about its own operations.
3. The group has set clear and demanding performance goals.
4. There is trust which creates informal, comfortable, and relaxed working conditions.
5. There will be lively and open discussions in which virtually everyone participates.
6. People are free to express their feelings and ideas in a respectful way.
7. There are disagreements that are resolved into agreements or an agreement that one cannot agree.
8. Diversity is considered to be a contribution to the result.
9. Most decisions are made at a point where there is general agreement.
10. Each individual carries their own weight.
11. Criticism is frequent, respectful but frank, and will be received relatively comfortably.
12. There is a formal leader, but the day-to-day leadership of the group shifts from time to time.

7.6.2 How team members can make a team work well [127]

A performance audit team depends on all its members. Different team members may possess different technical skills, ensuring that the team is capable of carrying out the work together. However, many other factors influence how well different persons function as team players.

[126] Largely based on *The Human Side of Enterprise*, by Douglas MacGregor, and *The Wisdom of Teams*, by Kaztenbach and Smith (from a no longer operational website at http://www.stanford.edu)

[127] *Managing Teams For Dummies*, Marty Brounstein, 2002.

Most auditors would prefer members in the audit team who *demonstrate reliability*, i.e., people who always get the job done. There is also a need for people who *communicate constructively* and express their thoughts and ideas clearly, honestly, and with respect for others and the team. On the other hand, they also need to *listen actively* in order to understand and consider ideas and views from other people and think them through before entering into a meaningful dialogue. This includes being able to give and receive criticism.

Good team players are *active participants*, fully engaged, taking initiative and volunteering for assignments. They come prepared for team meetings. Information, knowledge, and experience are *shared openly and willingly*. They take the trouble to keep one another on the team informed. They *cooperate and pitch in* to help other team members for the greater good. They find ways to cooperate even when there are differences between them and figure out ways to get the work done. Good teams are also *flexible* and able to adapt to changing conditions as well as initiate change themselves when needed. They are also able to consider different points of view and compromise when needed. Strong team players are firm in their thoughts yet open to what others have to offer — flexibility at its best.

Strong team players also show *commitment to the team* and teamwork and expect others to do the same. They *work as problem-solvers.* They do not look for others to fault but get problems out in the open for discussion and then collaborate with others to find solutions and form action plans. They also *treat others in a respectful and supportive manner.* They show understanding and appropriate support from other team members to help get the job done. Good team players also have a sense of humour and know how to have fun. Quite simply, effective team players deal with other people in a professional manner.

Team players with commitment look beyond their own duties and care about the team's overall work. In the end, their commitment is about winning (reaching a goal) — not in the sports sense of defeating your opponent but about watching the team succeed and knowing they have contributed to this success. Winning as a team is one of the great motivators of employee performance. Good team players will be motivated by the achievement of the end result.

7.6.3 How to effectively lead a team

The box below includes some tips for team leaders on how they can lead their teams.

KEYS TO LEADING TEAMS EFFECTIVELY

A few practical tips for team leaders to effectively lead their audit teams are presented here.

Stand by your team. People need to know you're in their corner. Support equals motivation. Let your team see and hear you cheering them on. If they know they have your support, they will feel more motivated to do their job well. If you have resources that may help them achieve their goals, share them. It will make everyone's job easier. A little encouragement, along with the right resources, can create amazing results.

Cultivate relationships. Take the time to get to know your team members. Meet with them one-on-one with no interruptions. You'll be amazed at what you find out. When people know you care, they'll be more inclined to work harder.

Acknowledge a job well done. Let people know they make a difference. When people hear a compliment, they are more apt to repeat the behaviours that earned the compliment in the first place. Also, let others know if someone else praised them. It can be a great motivator and serve as a double dose of recognition.

Set specific, challenging, yet attainable outcomes for your team members. By setting specific goals from the beginning, you can avoid unnecessary surprises in the end. It also allows your team to more easily check their progress and ensures that they know what your expectations are.

Recognise that "my way or the highway" tactics don't work today. People want to be heard, and they want choices. Keep an open mind and listen to your team's ideas. Perhaps your way would work, but their way might be even better. New ideas can increase productivity.

Think and talk in terms of "we." This approach reminds you and your team that you're all in it together. No one wants to feel like they are working on a project alone. When there is a sense of unity, people are more likely to help each other, which will result in the job getting done more effectively and efficiently.

Share your principles and live by them (in other words, practice what you preach). People want to know what you stand for, and they want to see that your values and beliefs guide you. Your team will learn more from what they see you do than from what you tell them. If you lead with the right example, they will respond with your high standards.

Squelch the rumours. Rumours can wreak havoc on an organisation. The key is to squelch rumours before they begin to spread, and you can do this by simply keeping your team informed. If everyone knows exactly what is going on, the chances for rumours to arise will decrease dramatically.

Use humour in your daily interactions. A good laugh can be a great stress reliever. It makes people feel relaxed and renewed, which in turn creates a more positive environment.

If you see a problem, fix it. Whether it's a process, a way of thinking or a machine, if it is not working properly, fix it as soon as possible. People do not need to be burdened when trying to produce services and products.

Do it now. Don't let things get in the way. Take a good, long look at your priorities. Many of the tasks and chores that dominate our time are urgent, but not necessarily important. Don't let the urgent drive out the important!

Be more, not less, available in times of change. When your organisation is going through a change, you should limit meetings and other commitments that may take you away from your team. People need you most during these times. When they have questions, you need to be there with answers.

Source: From the article '20 Keys to Leadership' by Joanne G. Sujansky. Eight of the keys have been excluded as they are less relevant for team leaders.

7.6.4 Steps to develop a high-performing team

The following seven generic steps, included in the *team performance model,*[128] can be taken to develop a high-performing team:

1. **Orientation** – When teams are forming, everybody wonders *WHY* they are here, what their potential fit is, and whether others will accept them. People need some kind of answer to continue.
2. **Trust building** – Next, people want to know *WHO* they will work with – their expectations, agendas, and competencies. Sharing builds trust and a free exchange among team members.
3. **Goal clarification** – The more concrete work of the team begins with clarity about team goals, basic assumptions, and vision. Terms and definitions come to force. *WHAT* are the priorities?
4. **Commitment** – At some point, discussions need to end and decisions must be made about *HOW* resources, time, staff (bottom-line constraints) will be managed. Agreed roles are key.
5. **Implementation** – Teams turn the corner when they begin to sequence work and settle on *WHO* does *WHAT*, *WHEN,* and *WHERE* in action. Timing and scheduling dominate this stage.
6. **High performance** – When methods are mastered, a team can begin to change its goals and flexibly respond to the environment. The team can say "WOW!" and surpass expectations.
7. **Renewal** – Teams are dynamic. People get tired; members change. People wonder "*WHY* continue?" It's time to harvest learning and prepare for a new cycle of action.

[128] The model was developed by Allan Drexler & David Sibbet 1994–1999.

7.7 Documenting the audit process and the audit evidence

REQUIREMENT ACCORDING TO ISSAI 3000

- The auditor shall document the audit in a sufficiently complete and detailed manner. *ISSAI 3000:86*

Working papers refer to all relevant documents collected and generated during a performance audit. Examples of the types of records that are generally expected to be documented for most performance audits include:[129]

- Details of the audit plan and methodology
- Results of fieldwork and analysis
- Communications and feedback with the audited entity
- Supervisory reviews and other quality control safeguards.

According to ISSAI 300:34 and ISSAI 3000:86–88, auditors should document the audit in accordance with its particular circumstances. The information should be sufficiently complete and detailed to enable an experienced auditor with no previous connection to the audit to subsequently determine what work was done to arrive at the audit findings, conclusions, and recommendations.

This means to be able to understand:[130]

- The nature, timing and extent of the work conducted
- The findings of the audit work, and the audit evidence obtained
- Significant matters arising during the audit (for example, changes in the scope or approach of the audit, decisions regarding a new risk factor identified during the course of the audit, actions taken as a result of disagreement between the audit entity and the team), the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

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:[131]

- 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 their reasoning transparent.
- In performance auditing, in addition to presenting findings, conclusions, and recommendations, the report describes the framework, perspective, and analytical structure adopted and the process followed to arrive at the conclusions. To some extent, the report performs functions that are provided by general standards or audit documentation in other types of audits.
- 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 references to arguments not accepted in the report, or to describe how different viewpoints were dealt with in the report.

[129] GUID 3920:114.

[130] GUID 3920:114.

[131] ISSAI 300:34.

- 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., 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 the individual auditors' professional development, as it can shape good practice for similar audits in the future.

EXPERIENCES IN THE REGION – SAI MALAWI
USING ELECTRONIC WORKING PAPERS — MALAWI SAI ENHANCEMENT AUDIT TOOL (M-SEAT)

SAI Malawi has, with the assistance of AFROSAI-E, deployed and customised the A-SEAT. The A-SEAT was developed by AFROSAI-E to assist SAIs manage their audit work. The M-SEAT has functions for:

- Audit planning
  - Audit universe
  - Risk assessment
  - Sector assessment
- Audit management
- Audit guidance for auditors
- Audit control & closure
- Audit recommendation tracking
- Quality audit management
- Auditor monitoring & control
- Supervision
- Security of files.

The system has been used for almost two years. The pilot audits started in 2022 and were completed in 2023. The SAI then conducted training and a full rollout.

The system ensures that quality reviews are conducted by reviewers and that management has an overview of audits being conducted in the SAI.

It is important to establish a system for documenting the audit process (decisions, activities, and internal and external communication) as well as the audit evidence and analysis made in the audit. This will allow the auditor to easily access the information. It will also enable supervisors to review the work done and other internal or external quality reviews as part of the SAI's quality management procedures.

The filed information will also facilitate the preparation of the report and provide confirmation of the auditor's findings. Normally, the documentation needs to include:

- An index for the information included in the file
- A project journal, recording the dates for decisions, performed activities, and internal and external communication during the audit
- Statements of non-conflict for the auditors and acknowledgement of their understanding of the requirements in the Code of Ethics (ISSAI 130 and the SAI's own)
- The pre-study memorandum and approved work plan
- Minutes from meetings with the audited entity, in particular, the entry and exit meetings
- Sent and received letters
- Interview forms and typed notes from interviews
- Written documents and used statistics
- Registration forms from file reviews, observations, or inspections
- Answers in questionnaires

- Minutes from progress meetings documenting major decisions about the audit, when appropriate, changing original plans
- Minutes from meetings with focus groups and reference groups
- Special analysis made in separate working papers
- Documentation of reviews of draft reports
- Drafts of the report with the comments received, and changes made documented, including how differences of opinion with external stakeholders or within the SAI have been resolved or handled
- The final report cross-referenced to the evidence in the file, either by notes written in a copy of the final report or in a separate document explaining what evidence was used for different main findings and where this evidence can be found in the file.

Minutes from interviews and other meetings need to include information on the purpose, time, and place of the meeting, the names, positions, and organisations of those who participated (in the case of interviews, including contact information), the minutes of the meeting, and the agreements made, if any.

Some documents, questionnaires, and similar materials may be too bulky to include physically in binders. However, such materials should nevertheless be part of the file, even if stored separately.

Many countries have regulations on government archiving. Many types of documents in an audit (but not all) are easier to retrieve when filed electronically in a clear folder structure for the project. To the extent allowed by the regulations, electronic documentation can replace physical copies of the documents, provided a solid system with a backup of information is used.

EXPERIENCES IN THE REGION – SAI SOUTH AFRICA
USING ELECTRONIC WORKING PAPERS – TEAMMATE

The SAI of South Africa has since long been using electronic working papers (TeamMate) in performance auditing. The biggest advantage is that all the team members can access the same documents and that all the working papers are kept in the same format and in one central location. There are many similarities to the M-SEAT in Malawi. Supervisors can track progress with the execution of the audit and identify working papers ready for review, as well as communicate with the team through the system. There is a record of all staff making changes to working papers and working papers can be linked and referenced electronically to supporting documents, evidence, and the report.

However, there are some pitfalls that SAIs need to be aware of:

- The licenses are expensive
- Auditors and supervisors need to work in a structured way and have well-developed computer skills
- IT support must be readily available to help teams recover corrupted files, and it may be necessary to redo certain work
- Auditors, as well as supervisors, need to be trained in using electronic working papers
- The report function, in our experience, is not a good tool to support the development of the performance audit reports
- The system becomes slower as the number of users and amount of data increase.

8 Deciding on and reporting the audit

Building quality into performance audit reports requires long-term, systematic efforts to promote skilled and motivated auditors and managers and well-functioning organisational processes. It also requires everyone involved in an audit to prioritise quality throughout the audit process.

8.1 Reviewing and authorising the audit report

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall give the audited entity the opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report. *ISSAI 3000:129*
- The auditor shall record the examination of the audited entity's comments in working papers, including the reasons for making changes to the audit report or for rejecting comments received. *ISSAI 3000:130*

Before issuing the report, the SAI needs to review the quality of the draft report internally and submit it to the audited entities and possibly other stakeholders for comment.

Quality review of draft reports

Previous chapters have addressed different aspects of quality management. Quality review of draft reports is also an important element in the SAI's quality management system. The boxes below illustrate experiences from Tanzania and Sierra Leone, which illustrate how quality reviews of draft reports can be organised.

EXPERIENCES IN THE REGION – SAI TANZANIA
QUALITY REVIEW OF DRAFT AUDIT REPORTS

Quality cannot be imposed by reviewers but is something embedded in the whole process of performance auditing. However, quality review of draft reports is an important part of this process. In SAI Tanzania, as in all other SAIs, the quality of performance audit reports is considered to be paramount. It takes a long time to develop trust, but it can easily be ruined by inadequate information or poor analysis in a single report. The purpose of quality review of draft reports is to enhance the quality of the reports and safeguard against insufficient quality of reports.

The SAI systematically uses three types of quality reviews of drafts in all performance audits: peer review, review by subject matter experts and review by three levels of managers.

In the peer reviews, colleagues from other teams review the plans for the audit as well as the draft report. The draft pre-study and the draft audit report are discussed in meetings within different Performance Audit Sectors/Sections. The peer reviews provide an opportunity for the audit team to have their judgement tested against the collective experience and wisdom of their colleagues. Another benefit is that it keeps the reviewers and other staff members up to date with what other teams are doing and shares innovative approaches (e.g. suitable techniques for data collection in a certain locality due to their cultural behaviour) and successful experiences. This contributes to uniformity and improvement in the performance audit practices.

The SAI also asks *subject matter experts to review* all draft reports before they are published. The experts are selected among the renowned experts in a specific field with extensive theoretical and practical experience on the subject matter under audit. These may be, for example, professors from higher learning institutions, retired civil servants or any other experts who do not have any vested interest in the audited entity. The experts provide advice and counsel on the drafted preliminary findings, conclusions, and recommendations and discuss difficult, ambiguous, or contentious issues and alternative reporting strategies. This helps us to improve the quality of our reports. The Controller and Auditor General (CAG) personally participate in the review meetings with the experts. As a complement to the supervisory review, it means a lot to provide the CAG with assurance of the quality of the draft report.

The *supervisors' review* is intended to ensure that major decisions made by the team and the draft report are reviewed by the senior officials who can subject the team to rigorous scrutiny. Team leaders are supervised by their Supervisors (Chief External Auditors), Assistant Auditors General and the Deputy Auditor General responsible for performance auditing. The responsibility of the managers is to ensure that audits under their jurisdiction are properly conducted according to the set procedures.

A similar, but not identical, quality review process is used in Sierra Leone (see the box below). The SAI has established an Advisory Committee with a role in the internal finalisation process of audits.

EXPERIENCES IN THE REGION – SAI SIERRA LEONE
QUALITY REVIEW OF DRAFT AUDIT REPORTS

SAI Sierra Leone (ASSL) puts emphasis on quality review at every stage of the audit process. The Divisional Head supervises each audit on a regular basis, monitors the progress of the audit, and reports on a weekly basis to the Deputy Auditor-General (DAG) in charge. The quality control of reports is embedded as follows:

The Team Lead (TL) compiles a draft report with the help of the team members. This report is shared among members of the Performance Audit Division/Unit for their input. This allows for constructive comments and contributions from the auditors, independent of the audit team. It also enhances learning and review. The TL then absorbs the relevant comments of the auditors to amend and improve the quality of the report.

The next phase is submitting the report to the Divisional Head (DH), who reviews it in accordance with the working papers in the audit file and submits the review comments to the TL for the team to address. Once the report has been amended, the updated report is forwarded to the Division Supervisor (Deputy Auditor-General) for their review.

At this stage, the supervisor conducts their review and presents the feedback to the team. This is done in a meeting with the team and the Divisional Head. The team then updates the report with the supervisor's comments and submits it to the supervisor for their approval.

As part of the internal finalisation process, the SAI further ensures quality through review by an Advisory Performance Audit Committee (APAC). The Committee consists of a DAG without line responsibility for performance auditing, an Assistant Auditor-General, the Human Resources Manager, and a staff member from the Research and Training Division. The supervisor, the Head of the Division (who serves as the Secretary of APAC), and the team are present at the meetings of the Committee. The Committee reviews draft pre-studies and draft reports. The review comments of the APAC are addressed by the team and the amended report is again submitted to the Divisional Head for onward submission to the DAG for approval (to confirm whether comments from APAC have been addressed).

When satisfied, the DAG approves the draft report to be presented and discussed with the auditee at an exit conference. If the report highlights sensitive issues, the DAG may call for the relevant working papers before the report is sent to the auditee.

Before the report is sent to the client, it is forwarded to the Editorial Division/Unit of the ASSL to check its grammar and structure. After addressing all grammatical and structural issues, the report is then sent to the client.

The auditee is required to respond within 15 days of receiving the draft report. These responses are verified where necessary, and the final report is developed incorporating the client's responses and the audit team's verification comments. The report is then presented to the Auditor-General for their final review and approval before being submitted to Parliament and the client.

In 2012, SAI Sierra Leone established a Quality Assurance Committee to review audit reports after they were tabled in Parliament. Although the above process has progressed considerably well with quality input from the respective reviewers, challenges remain in building the capacity of the APAC and the Quality Assurance Review Committee in Performance Audit.

It is important to develop consistent policies and procedures that are communicated to all staff, which can be used to resolve differences of opinion between supervisors and audit teams.[132] A good practice is to document significant differences of opinions within the SAI and how they have been resolved before issuing a report.

Let the audited entities comment on a draft report

The SAI should give the audited entity the opportunity to comment on the audit findings, conclusions, and recommendations before the report is issued. Such comments contribute to the writing of a balanced audit report and help the auditor resolve any disagreements and correct any factual errors before an audit report is finalised. The audit report needs to reflect the views of the SAI but also show the perspective of the audited entity. It is important that the audited entities check the factual information in the report to minimise the risk of disagreements about the factual situation in front of the PAC. The recommendations should be subject to discussions and responses from the audited entities. [133]

The auditors' examination of the audited entity's comments shall be recorded in working papers, including the reasons for making changes to the audit report or for rejecting comments received. Usually, SAIs in the region also arrange an exit conference with the audited entity, where a draft report is discussed. The purpose is not really to agree on the report but to clarify if there are any differences in the understanding of factual information in the reports and if the audited entity can add important information that may have an influence on the audit conclusions and recommendations. The objective should be to reach mutual respect for the standpoints of different actors. This may involve "agree to disagree".

Differences in understanding of the factual situation should be resolved as far as possible before issuing the report. When this is not possible, the report should reflect the differences in understanding. The SAI may also choose to refer to the views of an audited entity regarding conclusions and recommendations – when they support the statements in the report and when there are differences in opinions.

Authorising the audit report

In regional SAIs, the Head of the SAI or the individual acting on behalf of the Head of the SAI decides when to issue performance audit reports. The ISSAIs require timely submission and publication of reports within the requirements of the legislation. This means that the SAI should issue and make the report public as soon as reasonable after the audit is completed.

8.2 Requirements and characteristics of a good report

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall communicate assurance about the outcome of the audit of the subject matter against criteria in a transparent way. *ISSAI 3000:32*
- The auditor shall identify the audit criteria and their sources in the audit report. *ISSAI 3000:122*
- The auditor shall ensure that the audit findings clearly conclude against the audit objective(s) and/or questions or explain why this was not possible. *ISSAI 3000:124*
- The auditor shall provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit whenever relevant and allowed by the SAI's mandate. *ISSAI 3000:126*

[132] ISSAI 3000:80.

[133] INTOSAI-P 20:3, page 7 (on discussing recommendations).

- The SAI shall clearly communicate the standards that were followed to conduct the performance audit. *ISSAI 3000:61*
- The auditor shall provide audit reports which are a) comprehensive, b) convincing, c) timely, d) reader-friendly, and e) balanced. *ISSAI 3000:116*

In a performance audit, the SAI reports findings 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, 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 auditor needs to transparently communicate the audit objective(s), scope, methodology data gathered and any significant limitations in the report so that users will not be misled. Audit findings have to be put into perspective, and congruence ensured between the audit objective(s), audit questions, audit findings and conclusions. Recommendations need to be constructive, well-founded, add value, practical and linked to the audit objective(s), audit findings, and conclusions. The recommendations should avoid truisms, address the causes of problems, and address those responsible for implementing them without encroaching on the management´s responsibilities. Recommendations should also follow logically or analytically from the facts and arguments presented with an explanation of how they would contribute to better performance. Overall, the reports should be constructive, *contribute to better knowledge, and highlight improvements needed*.[134] The report should be *comprehensive*, *convincing*, *timely*, *reader-friendly*, and *balanced*.

The declaration of which standards were followed should be accessible to users of the SAI's report. SAIs are encouraged to make such declarations in each performance audit report, even if a more general form of communication may be used instead.[135] SAIs that have adopted ISSAI 3000 as their standard may refer to this by stating in the performance audit reports:[136]

> *We conducted our performance audit in accordance with the International Standards of Supreme Audit Institutions on performance auditing (ISSAI 3000).*

Considering the needs of the audience

All written reports require an understanding of the audience. Who will read the audit report? How familiar will they be with the subject matter? What is their need for information? Moreover, audit reports often speak to multiple audiences:

- PACs, with less knowledge and understanding of the subject and critical points raised, unless they are clearly explained or signposted
- The management of the audited entity, who will know more about the subject matter but will want to be able to assess the weight of evidence supporting the auditors' conclusions as well as the logic supporting key recommendations
- The media, who may know little about the subject but will want to identify the main messages and the possible headlines they can write.

[134] ISSAI 300:39; ISSAI 3000:34, 125 and 127–128.

[135] ISSAI 100:8; ISSAI 3000:62.

[136] Inspired by ISSAI 100:10 and ISSAI 300:8 and descriptions in ISSAI 3000. See ISSAI 300:7 for references to national standards developed by the SAI.

The following points are general advice for addressing the needs of the audience:

- The topic dealt with should be significant and of interest to readers. The relevance of a performance audit report begins with a clearly defined and focused audit objective. The audit should also be suitably designed (including audit questions, audit scope, and choice of methods), and this should be described in the report.
- The report should give the reader an appropriate understanding of the organisations, systems, and processes subject to audit and how they are expected to function. This makes it easier for the reader to understand the findings, conclusions, and recommendations in the report.
- The report should clearly identify and address the target audience. The goal is to convey the information to the audience with the greatest clarity.

The diverse audience for performance audit work suggests that SAIs should address different groups with different products. Performance audit work can lead to a number of separate products in addition to the report, including summaries, leaflets, brochures, press releases, and presentations. Each of these should be written in a style tailored to its specific audience. To produce reader-focused, interesting, challenging, and widely appreciated reports, the SAI should research its audience groups in parliament, government, and the wider society to decide on the most effective format and style for achieving the desired impact. Preparing a communication plan can provide a structured way of thinking about how to effectively reach different audiences.

TIPS AND TRICKS

It is sometimes useful to think of the executive summary as written for the PAC, the report as written for the audited entities, and the appendices as written for academics or specialist staff with an interest in the field.

Comprehensive reports

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, the findings, and conclusions. Due to the diverse topics possible in a performance audit, the content and structure of the audit report will vary. Typically, for reasons of transparency and accountability, the minimum content of a performance audit report includes the:[137]

- Subject matter.
- Audit objective(s) and/or audit questions.
- Audit criteria and its sources.
- Audit-specific methods of data gathering and analysis applied.
- Time period covered.
- Sources of data.
- Limitations to the data used.
- Audit findings.
- Conclusions and recommendations (whenever relevant and allowed by the SAI's mandate).

The standards also require the auditor to identify the audit criteria and their sources in the audit report, since the intended users' confidence in the audit findings and conclusions depends largely on the audit criteria. The auditor shall also ensure that the audit findings clearly conclude against the audit objective(s) and/or questions or explain why this was not possible. The audit findings have to be put into perspective, and congruence has to be ensured between the audit objective(s), audit

[137] ISSAI 3000:117.

questions, audit findings, and conclusions. Conclusions are the statements deduced by the auditor from the audit findings.[138]

The report should explain why and how problems noted in the findings hamper performance to encourage the audited entity or other users of the report to initiate corrective action. It should, where appropriate, include recommendations for improving performance.

Convincing reports

To be convincing, a report should be logically structured and clearly present the relationship between the audit objective, audit questions, audit criteria, findings, conclusions, and recommendations. It should also address all relevant arguments and be accurate.[139]

The conclusions and recommendations need to follow logically or analytically from the facts and arguments presented. Findings should not include opinions and should be clearly separated from conclusions. The language used should not be suggestive, and the information presented should be sufficient to convince the readers to recognise the validity of the findings, the reasonableness of the conclusions, and the benefits of implementing the recommendations. Different arguments and opinions should be represented.

The report should only include information that is relevant to the audit objective and the audit questions. Users should be able to trust the reliability and validity of the reported results, and the evidence provided should be sufficient to support findings and conclusions. The data collection methods applied can contribute to more reliable and valid reports. The audit design should be such that the conclusions arising from the findings and the analysis are based on verified facts and other information from various sources.

The report also needs to present the audit findings persuasively, address all relevant arguments to the discussion, and be accurate. Accuracy requires that the audit evidence presented, and all the audit findings and conclusions, are correctly portrayed. Accuracy assures readers that what is reported is credible and reliable.[140] For the report to be accurate, the evidence provided needs to be true and comprehensive, and all findings need to be correctly portrayed. Auditors should question the reliability of the data used and eliminate conflicting or rival explanations. One inaccuracy in a report can cast doubt on the validity of the whole report, which can damage the reputation of the SAI.

Timely reports

Being timely requires that an audit report be issued on time to make the information available for use by management, the government, the legislature, and other interested parties.[141]

[138] ISSAI 300:39; ISSAI 3000:112 and 122–125; ISSAI 300:39 and ISSAI 3000:112 clarify that auditors may consider reformulating the audit questions to fit the evidence obtained and thus arrive at a position where the questions can be answered. Reasons for such changes may include increased knowledge and the availability of data.

[139] ISSAI 300:39; ISSAI 3000:118.

[140] ISSAI 3000:118.

[141] See INTOSAI-P 20:8; ISSAI 300:39 and ISSAI 3000:119.

Reader-friendly reports

As mentioned in Section 7.4, to be reader-friendly, the reports need to have a clear purpose and consider the needs of the reader as well as follow other principles of plain language regarding:

- Report structure
- Key messages
- Clarity
- Simplicity
- Wording.

Other qualities of a reader-friendly audit report include the use of illustrations and conciseness to ensure that the audit report is no longer than needed, which improves clarity and helps to convey the message better.[142] Reports should be easy to read and understand, avoiding jargon and with clear definitions of technical and unfamiliar terms. Auditors must keep in mind that one of their objectives is to be persuasive; this can best be done by avoiding language that generates defensiveness and opposition.

Information that the reader really needs, should be included; redundant information should be omitted. However, if your reader needs complex, legal, or technical information, do not omit it just to make the document simpler. Sometimes, reports that are complete but concise are likely to achieve greater results. However, writers should bear in mind that reports are not only written for technical specialists, so more information and explanation may be required to help readers without detailed knowledge to understand the subject.

Balanced reports

Being balanced means that the audit report needs to be impartial in content and tone. All audit evidence needs to be presented in an unbiased manner. The auditor needs to be aware of the risk of exaggeration and overemphasis of deficient performance.[143] All relevant findings, arguments, and evidence should be included. Facts must not be suppressed, and the auditor must not exaggerate minor shortcomings. Different perspectives and viewpoints should be represented. Explanations from audited entities must always be sought and critically evaluated. Explanations or opinions of an audited entity may be relevant to include in the report even when the auditor disagrees with them. Such statements should be presented in a factual manner, that is, stating that they represent the opinion of management.

The auditor needs to explain the causes and the consequences of the problems in the audit report because it will allow the reader to better understand the significance of the problem and enable the auditor to develop recommendations addressing the causes of the problems. This will, in turn, encourage corrective action and lead to improvements by the audited entity. The credibility of the report is significantly enhanced when the evidence is presented in an unbiased manner. The report should be fair, not misleading, and put the audit findings into perspective. While it is natural that performance audit reports focus on performance problems and the reasons for them, a balanced and fair assessment of performance requires the problems to be put into a broader perspective also covering positive achievements by the audit entity.

[142] ISSAI 300:39 and ISSAI 3000:120.

[143] ISSAI 300:39 and ISSAI 3000:121.

Reports contributing to better knowledge and highlighting improvements needed

As a whole, the report should be constructive, contribute to better knowledge and highlight any necessary improvements.[144] The report can provide new knowledge that is valuable in itself, as it may cause the responsible actors to initiate change. Usually, recommendations are also identified to add value and promote change. (See Section 7.4.2 on developing recommendations.)

EXPERIENCES IN THE REGION – SAI ZIMBABWE
MAKING REPORTS READER-FRIENDLY

SAI Zimbabwe puts a lot of effort into making the reports easy to read and understand. In addition to normal management review, reports are also subject to peer review; that is, other colleagues review and comment on the draft report. These reviewers can be other experienced performance auditors, internal experts in the area, or regularity auditors who are responsible for the audited entity. They comment on matters such as whether the message is clear and relevant, whether the draft report is clear and easy to understand, and uses neutral and simple language. The SAI wants to ensure that the ordinary citizen can understand the report.

The SAI has been working on how to best present the data collected, to make it understandable to the layman. The auditors use various techniques to present information in the report, such as pie charts, bar graphs, trend analysis, and pictures, rather than writing long, elaborated texts. This approach is an attempt to make the reports more interesting for the reader.

We believe that we are making progress in this respect and have received some positive feedback. Of course, we also face challenges. For example, we have tried to make the executive summary very short to entice the reader to go to the main report and find out more details. However, the PAC has requested that the executive summary be more detailed. Some other readers also want a more detailed executive summary, as they feel that the other parts of the report are too long.

Sometimes we present too many details in the findings that are not always fully relevant to the audit objective and the audit questions. To guard against this, performance audit reports are subjected to an independent quality control review committee comprising sufficiently experienced staff not involved in the audit.

Another challenge is that our audits tend to take too long time to produce. In some cases, the audited entity has already taken action for improvements. We realise that the actions taken need to be acknowledged in the report. Obviously, this is good and means that our audit has led to change. At the same time, the feeling among some auditors is that this action reduces the value of the report.

Sometimes detailed technical explanations may need to be included for the report to gain credibility among technical experts. A more comprehensive report might provide the reader with a better understanding of the basis for the conclusions drawn and thus add value and credibility. Comprehensive reports may, therefore, strengthen an SAI's capacity to serve the citizens' interests in terms of openness and transparency. A useful technique to make the report itself more concise is to place detailed information that is only of interest to some readers in appendices. In an attempt to reduce the bulkiness of the report, some SAIs have opted to have a normal report and a Citizen or Public report, which is less detailed and more reader-friendly. In these cases, the bulk report is accessible through the website.

Well-structured and well-written reports

How best can an auditor tell the story of the audit, and ensure that readers understand the main messages? A good report should have a clear and logically linked structure summarising and guiding the reader to key messages. Many readers, particularly members of the PAC and other

[144] ISSAI 300:39.

parliamentarians, have a shortage of time and need key messages to be summarised. An executive summary is an indispensable tool to provide key messages to readers with a shortage of time. It is also a good tool for conveying the key messages to other readers. Similarly, it is often useful to summarise different findings as a key message at the beginning of each chapter or section.

A general structure of a report is included in Appendix 3. It is important to logically organise, in particular, the findings chapter and guide the reader through it, explaining how one finding is followed by or related to another. It is often advisable to place more important issues before less important ones in the report. There are often many different ways of structuring an audit report. Some examples of common structures for findings are by:

- Issue or theme.
- Process, or system.
- Organisation.
- Level or geographic location.

Presenting tables and figures in audit reports

Using graphics and tables in audit reports can significantly increase a reader's understanding of a report. Three reasons to use graphics and tables are:

- *Condense text.* A graph or table showing the comparative performance of ten organisations will take up significantly less text than a written summary and will be easier for the reader to understand.
- *Clarify relationships.* Relationships are inherently difficult to describe in words, but relatively easy to present in a chart. (As an example, try explaining in words your own government's organisational structure.)
- *Highlight patterns.* Graphics can be very useful in identifying patterns in both large and small quantities of data.

Keep graphs and tables simple – they should illustrate one idea each and the reader should be able to quickly grasp that idea. Think of a graph as a paragraph in the report.

The box below presents some of the benefits of using graphics. However, there are also potential drawbacks, mainly related to readers possibly not understanding the summarised information correctly.

THE BENEFITS OF USING GRAPHICS

Focus attention – This is important as there is often a tendency to overcomplicate and provide too much detail too soon. (Note that this is also a common failing of audit reports.)

Attract and hold readers' attention – Providing more interesting visually appealing report and creating and expanding interest in the information.

Facilitate understanding – Because of their summarising effect, graphics aid in the absorption and understanding of financial information.

Save time in analysing data – To make decisions, readers need facts. Facts presented graphically, as a visual image, often provide much more immediate insight than columns of figures.

Help memory recall – Graphics are easier to remember than tables because the spatial aspect of a graphic provides information beyond the underlying data.

Highlight trends and clarify relationships – One of the primary uses of graphics is to reveal trends and make comparisons. By using colour and symbols, graphics can highlight trends and relationships better than numerical tabulations and call attention to or emphasise some aspect of a report.

Break down language barriers – Graphics also help to breakdown language barriers.

Source: A research project Using Graphics in Corporate Reporting sponsored by the Canadian Institute of Chartered Accountants in 2008.

See examples of how visuals can be used in the audit reports on *Flood relief funds 2022* or the *Follow up audit on the rehabilitation of derelict and ownerless mines* available on the website of the Auditor-General South Africa (www.agsa.co.za).

USING GRAPHICS TO ANALYSE AND VISUALISE DATA

Using graphics to analyse or visualise data is commonly referred to as data visualisation. Simply put, data visualisation is the presentation of data in a picture or graphic to communicate a quantitative message to help with analysis. Its goal is to enable auditors and decision-makers to grasp difficult concepts and identify new patterns.

Common commercial software applications have capabilities that can assist you in creating different visualisations, and your SAI may have in-house experts. Data visualisation must be easy for the reader to understand to be effective. The best graphics are self-explanatory, though in some cases, you may need to provide the reader with some background information in table notes to give the information appropriate context. Graphics are also intended to be complementary to the text of the report and not repetitive – meaning that you do not need to repeat in the text the information that the graphic provides. Once you have completed your analysis and developed your findings, data visualisation can also be extremely valuable for communicating the results of your audit.

The SAIs of the United Kingdom and the United States have created websites to share the interactive data sets they have recently produced. Check out these links for some examples of how you can use data visualisation in your audit reports.

www.flickr.com/photos/usgao

www.nao.org.uk/search/publication Type “data visualisations” in the field *Search for*

Source: Performance Audit – ISSAI Implementation Handbook, Ver 1, IDI, pages 155–156.

The SAI must maintain control over the publication of its audit reports, especially ones that include graphics. As the reliability of the information in the reports lies with the SAI, editorial control must remain strong until the point of publication. Proofreading and checking the information in the final report is vital.

8.3 Submitting and distributing the report

REQUIREMENT ACCORDING TO ISSAI 3000

- The SAI shall make its audit reports widely accessible, taking into consideration regulations on confidential information. *ISSAI 3000:133*

Distributing audit reports widely can promote the credibility of the audit function. Therefore, audit reports need to be distributed to the audited entity, to the executive and/or the legislature and to other responsible parties. The reports also need to be made accessible to other stakeholders and the general public directly and through the media, except for the classified information. The primary audience for performance audit reports is the legislature, executive, government agencies, and citizens. A good performance audit enables the legislature to effectively scrutinise government and agency performance and influence decision-makers in government and the public service to make changes that lead to better performance. However, there are also the general public and other stakeholders, such as the private sector and the media, who can have an interest in the outcome of a performance audit (possibly with a different focus).[145]

Audit reports always have one or more main recipients and other stakeholders who may be interested in the report. As mentioned in Section 8.1, it is important to analyse who the main readers of a report are and adjust the report to their needs. For most SAIs in the E region, PACs and

[145] ISSAI 300:41; ISSAI 3000:134–135.

audited entities are the main recipients of performance audit reports. SAIs in the region, in general, make their performance audit reports publicly available. It varies how actively SAIs distribute the reports and make them known to the media and other potentially interested parties.

In order to make the audit reports known to the citizens, SAIs usually rely on the media to spread knowledge about the reports. A tool to make media interested is to issue a press release immediately after the report has been formally submitted to the main recipients. SAIs may also invite media to a press conference to present a report.

EXPERIENCES IN THE REGION – SAI UGANDA
WIDE DISSEMINATION OF PERFORMANCE AUDIT REPORTS

After the report has been finalised and signed by the Auditor-General, it is submitted to the Speaker of Parliament, and copies are distributed to the appropriate oversight committee: the Public Accounts Committee, the Local Government Accounts Committee, or the Committee on Statutory Authorities and State Enterprises. Copies of the report are also sent to the various accountability agencies in Uganda, such as the:

- Inspector General of Government.
- Minister of Ethics and Integrity.
- Sector Ministry within which the audited entity falls.
- Permanent Secretary Ministry of Finance, Planning and Economic Development.
- Public Universities and some Development Partners for donor-funded projects.

This is done to ensure wide dissemination of our audit reports. The SAI also makes the reports available on its website.

At the end of every audit year, the SAI compiles an annual report and submits it to parliament. This report includes all the value-for-money reports finalised during the audit year and their findings.

In addition to submitting the report to parliament and the audited entities and making it publicly available, the SAI may be able to arrange presentation meetings with ministries, parliamentarians, and members of special parliamentary committees.

It is particularly important that SAIs focus on supporting PAC members in understanding the reports submitted to them. A close professional relationship should be established between the SAIs and the PACs, which will benefit both parties.

EXPERIENCES IN THE REGION – SAI NAMIBIA
FURTHER IMPROVING GOOD RELATIONS WITH THE PUBLIC ACCOUNTS COMMITTEE

The relationship with the Public Accounts Committee (PAC) is considered to be of strategic importance for SAI Namibia. The SAI also has a good relationship with the PAC. The Deputy Auditor General attends PAC hearings on a weekly basis and gives feedback to the performance auditors.

Since the PAC members and chairperson change when there are elections and new members in Parliament, our SAI and the Performance Audit Division sensitise the new members of the PAC. The SAI organises meetings with the PAC on an ad hoc basis to discuss how the PAC can use performance audit reports as well as financial and compliance audit reports.

To strengthen cooperation with the PAC, the SAI has decided to have a focal person from the Performance Audit Division who will liaise with the PAC on a regular basis. It is, for example, desirable that the PAC discuss performance audit reports more. This may further improve the impact of our reports.

Generally, SAIs assist the PAC by briefing members and providing relevant information regarding reported audit findings. In addition, it is essential for representative(s) of the SAIs to attend the PAC hearings where audit reports are discussed. This will allow SAIs to assist during the hearing where necessary and make the SAI better understand the actions recommended by PAC on the audit findings.

Assistance offered by SAIs can include the review of PAC reports before they are issued to confirm factual content and the consistency of interpretations.

EXPERIENCES IN THE REGION – SAI SOUTH AFRICA
SUPPORTING THE PUBLIC ACCOUNTS COMMITTEE IN HANDLING PERFORMANCE AUDIT REPORTS

Performance auditing increases public transparency and accountability, providing objective and reliable information on how public service performs. SAI South Africa reports publicly to enable the elected members of Parliament, some of whom are also members of the Public Accounts Committee (PAC), to use these reports to facilitate accountability. There should be close cooperation between the Auditor-General and the Public Accounts Committee. In South Africa, this is facilitated by:

- A meeting between senior audit staff and the chairperson of the PAC before a report is tabled to inform the chairperson and enable them to plan the hearings with the accounting officers.
- When the report has been tabled, the audit team presents the report to the PAC members in a closed meeting. During this meeting, PAC members can ask questions to ensure that they fully understand the report.
- The auditors are present during PAC hearings to serve as expert witnesses if specific questions are directed to them by the chairperson.
- The PAC may require auditors to accompany them during oversight visits to provide further insight and details.
- The auditors provide input in the resolutions of PAC when given the opportunity to, focusing on ensuring that the recommendations cover all the important areas.
- The Committee Researchers of the PAC can also request technical inputs for research documents.

In countries where the PAC is not ready to deal with performance audits, such audits can be summarised in the SAI's annual report or in a separate report. In such situations, the SAI may take the main responsibility of encouraging the audited entities to change and reporting the results to parliament.

9 Following up on the audit report

REQUIREMENTS ACCORDING TO ISSAI 3000

- The auditor shall follow up, as appropriate, on previous audit findings and recommendations, and the SAI shall report to the legislature, if possible, on the conclusions and impacts of all relevant corrective actions. *ISSAI 3000:136*
- The auditor shall focus the follow-up on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period. *ISSAI 3000:139*

There is a need to follow up on performance audit engagements from different perspectives. Following up on the implementation of the audit and the lessons learned are elements of good project management (see Section 7.5). This chapter deals with following up on the audited entities' implementation of the audit recommendations or other actions taken to address the problems highlighted in the audit.

It may serve four main reasons to follow up on the recommendations that the SAI and the PAC have provided in reports:

- Increasing the effectiveness of audit reports – the prime reason for following up on audit reports is to increase the probability that recommendations will be implemented or other actions taken to address the underlying performance problems
- Assisting the government and the legislature – follow-up may be valuable in guiding the actions of the legislature
- Evaluation of SAI performance – follow-up activities provide a basis for assessing and evaluating SAI performance
- Creating incentives for learning and development – follow-up activities may contribute to better knowledge and improved practices within the SAI.

According to ISSAI 300:42 and ISSAI 3000:136, auditors should follow up on 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 actions.

According to the standards, follow-up refers to the auditor's examination of corrective action taken by the audited entities 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 audit report seriously and provides the auditors with useful lessons and performance indicators. Follow-up should focus on whether the audited entities have adequately addressed the problems and remedied the underlying situation after a reasonable period of time.[146]

When conducting a 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.[147] While it is

[146] ISSAI 3000:137 and 139.

[147] ISSAI 300:42.

generally recommended to follow up on the recommendations made, different methods may be used to do so, for example:

- Arrange a meeting with the audited entity after a certain time has elapsed to find out what actions have been taken to improve its performance and to check which recommendations have been implemented.
- Request the audited entity to inform the SAI in writing about what actions it has taken to address the problems presented in the audit report.
- Ask questions and make observations during the entity's annual audit to determine what actions have been taken.
- Carry out limited field visits to collect and analyse data on whether identified problems have been appropriately addressed or not.
- Carry out a follow-up audit, resulting in a new performance audit report.

The methods to use depend on the priorities made by the SAI in the strategic and annual planning of performance auditing and the availability of resources. They are also influenced by the importance of the identified problems, the actions expected to be implemented, and the external interest in information on the actions taken.

EXPERIENCES IN THE REGION – SAI LESOTHO
FOLLOW-UP OF RECOMMENDATIONS

SAI Lesotho starts to follow up on each performance audit between six months to a year after issuing the audit report. In the first follow-up, the team usually contacts the auditee informally and requests the auditee to provide information indicating the extent to which the recommendations have been implemented. Depending on the result of the first follow-up, we decide whether we need to continue to monitor how the recommendations are being implemented.

We use the Follow-up Review Template to assess the extent and status of the implementation of audit recommendations. This is an effective way to confirm the status of action on each recommendation from the audited entity.

If, a year or two after the report was issued, progress on the implementation of recommendations is not visible or convincing, then the audit team will be introduced to the auditee to conduct a field follow-up so as to be able to assess the extent to which recommendations have been implemented. The team will also find out whether the auditee encountered problems that hindered the implementation of recommendations. It is after this exercise that a decision is made whether or not to also undertake a follow-up audit. It is not common for us to carry out follow-up audits.

LESOTHO FOLLOW-UP REVIEW TEMPLATE

AUDIT REPORT:

DATE OF ISSUE:

NAME OF AGENCY/DEPARTMENT:

MINISTRY:

Findings	Recommendations	Action taken (as per detailed) Action Plan/ Management Responses	Public Accounts Committee Recommendations	Status/Progress	Reason for non-completion of action on any recommendation	IMPACT (IF ANY)
1.						
2.						

Prepared by: Date:

EXPERIENCES IN THE REGION – SAI ETHIOPIA
FOLLOW-UP OF AUDIT RECOMMENDATIONS

This is the process SAI Ethiopia uses to follow up on audit recommendations:

- First, we demand that the Audited entity send us an Action Plan within 15 days that describes how and when they will implement the audit recommendations
- We attach the template of the Action Plan as an annexe of the Final Report sending letter,
- The SAI conducts a follow-up on the status of the findings, recommendations, and feedback given by the PAC
- The follow-up report will present:
  - Fully addressed and improved findings and conclusions
  - Partially addressed and improved findings and conclusions
  - Not addressed and implemented findings and conclusions
- The follow-up reports will also form part of the Auditor General's speech and the annual report we send to Parliament.

FOLLOW-UP OF RECOMMENDATIONS TEMPLATE – SAI ETHIOPIA

ACTION PLAN FOR IMPLEMENTATION OF PERFORMANCE AUDIT FINDINGS AND RECOMMENDATION

Name of Auditee_____
Audit Area _____
Date prepared _____

No.	Audit Findings	Recommendation	Action taken until now	Implementation time schedule for remaining recommendation	Responsible party (division) for the implementation	Remark

Remark: We would like to inform you that if you do not submit the Action plan and action taken to our office within 15 days of receiving the final audit report, we will include the name of your organisation under the category of "*Those entities who do not prepare and sent Action plan*" on our annual report that we submit to the Parliament.

Appendices

Appendix 1 Defining output and outcome and measuring efficiency

This Appendix addresses some challenges that the auditors may face in defining and measuring the output and outcome for public organisations:

- The distinction between intermediate products, outputs, and outcomes/results
- Different measures of outputs and outcomes
- Many public organisations produce more than one type of outputs and outcomes.

The distinction between intermediate products, outputs, and outcomes

Within the Traffic Police (the system of production) there may be different sub-systems producing intermediate products or services. In producing traffic inspections, an intermediate product may be, for example, to plan the inspections. Outputs and outcomes, on the other hand, cover the services provided to someone outside the organisation (traffic inspections) and the results that the inspections create in society (reduction in road accidents and deaths).

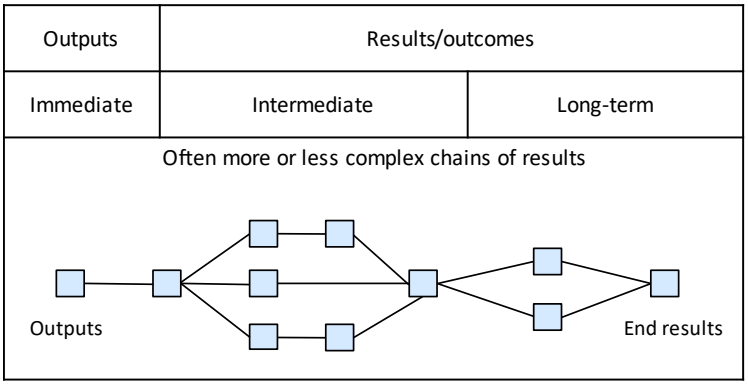
Measures of outputs and outcomes should only cover the outputs (products and services) and outcomes, leaving what has been defined as the organisation (the Traffic Police). If the definition of the organisation is changed, the definitions of the outputs and outcomes need to be changed accordingly.

The analysis of the reason for observed performance problems, however, needs to cover the design and different steps in the implementation of the activities within the organisation.

Different measures of outputs and outcomes

The achievements of an organisation can be measured in terms of the immediate outputs, the products and services, as well as the outcomes. It is not always obvious how to distinguish between outputs and outcomes, as the results of public activities can sometimes be seen as a continuum – from what the organisation immediately produces to what is finally achieved in society. This is illustrated in Figure 24.

Figure 24. Immediate, intermediate and long-term results



In general, it is easier to measure the achievements close to the organisation that has produced them, that is, the immediate outputs, than to measure the actual outcomes in society. The outputs can be measured in terms of quantity as well as quality. Quality can be seen as the aspects of the outputs that enable it to create the intended outcomes in society. This means that quality is not an absolute standard but is linked to the final results: a product of high quality will lead to the intended outcome.

While measures of efficiency often include the quantity of outputs, the quality of the outputs may also vary, which can be equally important for how efficient the organisation is. In the case of information brochures on road safety, for example, quality may refer to issues such as whether simple language is used, whether the message is understandable, whether the individuals in the target group are interested and can be affected by this type of message, and whether they are prepared to change their behaviour.

Efficiency is measured close to the organisation. It is often difficult to include costs, volume of production, and quality in the same calculation. In studies measuring efficiency in terms of the relationship between the volume of production and the costs, it is rather common to assume that the quality has not changed, and for that reason, it can be excluded from the calculation. In cases where there is no need or objective to increase the quality, this assumption may be reasonable. In most cases, however, there is either uncertainty or a need or objective to increase the quality. In such cases, it is necessary to collect other information about the development of the quality of products or services in order to make any statements on the efficiency.

The implication is that efficiency measures are usually partial. They either relate the volume of production to costs or separately measure some aspects of the quality of outputs. The limitations of efficiency measures must always be taken into account in the auditor's analysis.

Many public organisations produce more than one type of output and outcome

Many public organisations produce more than one type of output and outcome. There may be different products or services that together are expected to lead to the end results in society. The different types of traffic inspections that the Traffic Police carries out are a good example of this. The Traffic Police may also produce other products and services aiming at reducing road accidents, such as information materials. The different outputs are supposed to contribute to the same outcomes – increased knowledge and changed behaviour by citizens in order to reduce the number of deaths in road accidents.

Many public organisations, including the Traffic Police, not only have several products and services, but are also expected to contribute to different outcomes in society.

When different outputs are produced, it can be difficult to allocate the used resources to different products or services. The quantity of different products or services cannot be directly summed up with each other; for example, broadcasting information on the radio once cannot be summed up with one brochure. Instead, it is necessary to find ways to allocate resources to different types of products. Usually, it is necessary to use a logical basis for proportioning different costs according to a standard. For example, staff costs can be allocated to different groups of products based on the working hours used for each one of them. It may be more logical, however, to allocate costs for office space, furniture, and certain equipment proportionally to the number of staff involved in the production (rather than their time), while the costs for IT may be related to only one of the products.

When costs can be allocated to different types of products, the unit cost during a certain year can also be used as weights to summarise different types of products into one overall measure for the total production. With this technique, an index series for total efficiency over time can be calculated.

Sometimes the problem of allocating costs to different types of products can be avoided by defining a measure of outputs on an overall level, like the number of taxpayers for a tax administration or the number of graduates for a school.

Appendix 2 Structure of a pre-study and work plan

This Appendix presents a common structure for a pre-study memorandum and work plan for performance auditing.

- 1. Background:
  - A brief introduction, giving an overview that puts the audit topic into perspective, for example, in terms of the sector, main actor and possibly a brief history.
  - Motivation for the pre-study.
- 2. Design of the pre-study:
  - Gives a brief outline as to how the study was carried out in terms of scope and what methods and sources of information have been used.
- 3. Description of the audit area:
  - An overview of the area in order to understand the context of the topic for audit, such as legislation, budgets, the role of government entities, goals and objectives and the role of different stakeholders.
  - Systems and process descriptions – a more detailed description of how the system and processes being audited are expected to function – often supported by a figure, a flowchart or similar.
- 4. Results of the pre-study:
  - Presents the results in terms of the information collected, problems identified and the reasons why they are considered to be problems, often supported by a problem tree illustrating the relations between different problems.
  - Considerations of the risk for fraud and corruption in the audit area.
- 5. Selection of the audit problem:
  - Analysis of the alternative audit problems against selection criteria.
  - A description of the selected audit problem, if the team recommends that a main study should be carried out.
  - Recommendation to management on whether or not to carry out a main study.

The work plan normally needs to include the following items:

- 6. Methodological planning – audit design

  Overall audit design
  - Audit objective
  - Audit scope
  - Audit questions and sub-questions
  - Audit criteria

  Strategy and design of empirical studies
  - Strategy for data collection and analysis
  - Design of empirical studies and methods for data collection

  Expected results of the audit.
- 7. Administrative planning
  - Team composition, considering necessary skills and the need for experts.
  - Timed activity plan with clear management milestones.
  - Budget.
  - Mechanisms for monitoring the progress of the audit.
  - Risks of carrying out the audit (reputational risks as well as risks to implementation).
  - Communication with the audited entities and other main stakeholders.

Appendix 3 Structure of a performance audit report

This Appendix presents a common structure for reports. An alternative is to combine conclusions and recommendations into one chapter. Another alternative is to structure the report after the main issues and present findings, conclusions and recommendations in different sections. This may be relevant when the audit addresses more than one issue without cause-effect relationships, that is, when the audit focuses on more than one main problem. Findings, conclusions and recommendations in performance audit reports must always be clearly signposted.

Title

The title should clearly indicate the audit topic and, when feasible, indicate the audited entities responsible for the activities audited.

Submission letter

Written on the official letterhead of the SAI, the submission letter(s) presents the report to the responsible parties, those responsible for management of the government undertaking and those responsible for taking action for improvement. The letter includes the signature of the Head of the SAI. It may include references to the mandate of the SAI to perform the audit, the standards used, the names of the auditors who undertook the audit and information on how the SAI intends to follow up the findings and recommendations.

Table of contents

The table of contents presents the structure of the report.

Executive summary

The chapter summarises the introduction, major findings, conclusions and recommendations. It is a short summary of a few pages designed for those who have little time to read the full report.

TIPS AND TRICKS

Build an executive summary based on summary paragraphs in the main report. This will ensure that the summary is consistent with the report. Often the summary paragraphs can be summarised further in the executive summary.

Chapter 1: Introduction

The introduction provides brief background information about the audit topic. It can include a brief description of the area in society that is influenced by the audit topic, as well as a brief mention of government undertakings. This chapter also presents the audit motivation and a description of important aspects of the audit methodology, including the audit objective and scope, audit questions, criteria and methods for data collection and analysis, as well as the principles for selecting cases in the audit. An alternative is to present the audit methodology in a separate chapter. There is also a need to describe limitations in terms of the availability and quality of data and how this has affected the audit report.

Since the audit criteria are usually described in more detail in the chapter on the audit area and in the findings chapter, in Chapter 1 it is usually sufficient to list the type of criteria. If appropriate, a more detailed presentation of methods for data collection (list of documents reviewed and number of interview objects, etc.) may be included in an appendix.

Chapter 2: Description of the audit area

This chapter provides basic data about the type and size of government undertakings and describes the role of government entities and other stakeholders, including legislation, objectives, organisation and funding. the chapter also details how the systems, processes and activities are supposed to function. The chapter may be named after the audited system or programme. The descriptions should make it clear who is responsible for what and how the system should work, with details that make it possible to understand the report. It is often appropriate to explain the audit criteria in this chapter, even if they also need to be used to develop findings.

The question to ask when determining how much text to include in the report is: What does the reader need to know to understand the audit findings, conclusions, and recommendations?

Chapter 3: Findings

Audit findings address performance problems as well as the causes and their consequences. Description of the conditions on the ground are based on empirical evidence and objective logical arguments. Those conditions are evaluated by using reasonable criteria for assessing performance. The chapter should clearly describe the empirical evidence and arguments on the actual situation and the criteria used for evaluating performance. The purpose of this chapter is to answer the audit questions or explain why this was not possible. Sometimes, it is not fully appropriate to present consequences or causes as separate findings, for example, to avoid a too detailed structure of the report. Consequences or causes – based on evidence – can then be presented as part of another finding.

The order of information in the report should follow a pyramid structure, with the main or high-level messages raised first and then supported by lower-level findings and evidence. It is usually best to start the findings chapter by presenting the evidence for the existence and magnitude of the main performance problems. The rest of the chapter then flows naturally in explaining the reasons for these problems. In a well-written report, the executive summary can usually be taken from the opening paragraphs for each main finding.

TIPS AND TRICKS

Remember – you are not writing a mystery novel where you have to wait until the end for the mystery to be solved. Bring the main messages as far forward in the report as it makes sense for a reader with no prior knowledge of the subject.

The report should liberally use headings and other signposting material. Headings can be meaningful for summarising the findings included in the paragraphs below (e.g., instead of “Needs assessment in the procurement process,” the heading could be “Needs assessments do not take the user perspective into account” if this is the main finding.

TIPS AND TRICKS

Questions can make very useful headings in audit reports and encourage the auditor to state the answer in a punchy first paragraph (e.g., “Was the construction project finished on time?” where the next paragraph can begin with “Yes” or “No.”).

Chapter 4: Conclusions

The chapter contains the SAI’s conclusions, deduced from the findings. Conclusions should follow logically from the findings, which means that they should be based on sufficient appropriate audit evidence, including objective and logical analysis. Conclusions can also go a step further and include the SAI's opinion based on the findings and indicate problems or risks that go beyond the direct findings.

Chapter 5: Recommendations

This chapter includes the SAI's recommended practical improvements in operations and performance of the audited entity based on the audit findings and conclusions. Recommendations should address the causes of problems and be addressed to those responsible for taking action for improvement. This may include recommendations addressed to parliament.

Appendices

Appendices can be used to present detailed descriptions and findings and may also be used for comprehensive descriptions of the audited entities, statistical tables, detailed explanations of methods used, and more. This is a way to avoid the report becoming too long and making it easier to read. It is also suitable to place a glossary of terms and a list of abbreviations at the beginning of the report or in an appendix.

Abbreviations and glossary of terms

Be restrictive in the use of abbreviations, limiting the use to ones that are well-known or used often in the report. Put the abbreviation in brackets the first time it is used and explain the full name. Also explain technical terms used in the report to help readers' understanding.

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Abbreviations and glossary of terms

Abbreviations

Abbreviations	
AFROSAI-E	African Organisation of English-speaking Supreme Audit Institutions
AAG	Assistant Auditor General
ICBF	Institutional Capacity Building Framework
CAG	Controller and Auditor General
DAG	Deputy Auditor General
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PMF	Performance Measurement Framework
SAI	Supreme Audit Institution
SAI Botswana	Office of the Auditor General of Botswana
SAI Eswatini	Office of the Auditor General of Eswatini
SAI Ethiopia	Office of the Federal Auditor General of Ethiopia
SAI Ghana	Ghana Audit Service
SAI Kenya	Office of the Auditor General of Kenya
SAI Lesotho	Office of the Auditor General of Lesotho
SAI Malawi	National Audit Office of Malawi
SAI Mozambique	Tribunal Administrativo de Mozambique
SAI Namibia	Office of the Auditor General of Namibia
SAI Rwanda	Office of the Auditor General of Rwanda
SAI Sierra Leone	Audi Service Sierra Leone
SAI South Africa	Auditor-General South Africa
SAI Sweden	Swedish National Audit Office
SAI Tanzania	National Audit Office of Tanzania
SAI Uganda	Office of the Auditor General of Uganda
SAI U.K.	National Audit Office of United Kingdom
SAI USA	United States Government Accountability Office
SAI Zambia	Office of the Auditor General of Zambia
SAI Zimbabwe	Office of the Comptroller and Auditor General

Glossary of terms

Concepts related to Chapter 3 Economy, efficiency, and effectiveness	
"Black box"	A name for the activity programme or organisation in the input/output model.
Cost-efficiency	Produced output in relation to the total costs.
Economy	Minimising the costs of resources. The resources used should be available in due time, in appropriate quantity and quality and at the best price.
Effectiveness	Meeting the objectives set and achieving the intended results.
Effects	Another term for outcome or end results.
Efficiency	Getting the most from available resources. It is concerned with the relationship between resources employed and outputs delivered; in terms of quantity, quality and timing.
Government undertakings	Used in the Handbook as an umbrella term for activities, programmes, organisations etc.
Impact	The achievement of outcomes attributed to the government undertaking.
Intermediate effects	Another term for intermediate outcome.
Intermediate outcome	Different steps in a chain of effects before the final outcome is achieved.
Intermediate output	Internal products or services, not aimed for direct use outside the organisation.
Labour efficiency	Produced output in relation to the used manpower.
Objectives	Explicit or implicit intentions of governments regarding the purpose of government undertakings – what is intended to be achieved.
Outcome	The end results of government undertakings, the same as effects.
Output	The immediate product or services delivered to someone outside the organisation.
Quality of output	Aspects of the products and services that have a value for intended users and provide positive contributions towards achieving the intended outcome.
Results	Used in ISSAI 300 with the meaning "end results". Sometimes used as an umbrella concept covering output, intermediate outcome and outcome.
Concepts related to Chapter 5 Institutional capacity for performance auditing	
Ethics: Competence	To acquire and maintain skills appropriate for the role, and act with due care in accordance with applicable standards.
Ethics: Confidentiality and transparency	To appropriately protect information, balancing this with the need for transparency and accountability.
Ethics: Independence and objectivity	Be free from circumstances or influences that compromise, or may be seen as compromising, professional judgement, and to act in an impartial and unbiased manner.
Ethics: Integrity	To act honestly, reliably, in good faith and in the public interest.
Ethics: Professional behaviour	To comply with applicable laws, regulations and conventions, and to avoid any conduct that may discredit the SAI.
ICBF	Institutional Capacity Building Framework, AFROSAI-E's model for self- assessment of the development of SAIs in the region.
Engagement quality review	Independent review of drafts by a knowledgeable person not involved in the audit or in line management of the audit.
Quality review of reports	Independent review of already published reports as part of monitoring or evaluating the quality management system.
Quality review of drafts	Review of drafts before publication of an audit report, to improve its quality.
Quality management system	Organisational measures in a SAI to ensure sufficient quality in the produced audits.
Scepticism	Adopt a critical approach, probe, and maintain an objective distance to the information provided.

Concepts related to Chapter 6 Planning the audit	
Administrative planning	Planning of the budget, activities, staffing, risks and communication in the audit.
Area watching	Activities where the auditors scan different sectors to develop and initiate understanding and search for indications or risks of problems motivating an audit.
Audit criteria	Normative statements used to assess the performance of the auditee. What should be?
Audit coverage	When used in a specific audit, similar to scope. When used for the audit practice as a whole: the range of areas or topics covered.
Audit design	The audit objective, scope, question, criteria and strategy and methods for data collection and analysis used to guide the audit.
Audit engagement	The audit project.
Audit entity	The organisation subject to audit, synonymous with "the auditee".
Audit evidence	Factual information about and logical analysis of the conditions on the ground (answering the question 'what is?'), to be evaluated with criteria to develop findings.
Audit mandate	What the SAI is allowed to audit according to legislation/regulations.
Audit object	The activities, processes and programmes covered in the audit.
Audit objective	A brief and distinct formulation of what the audit is to accomplish.
Audit problem	A focus for a main study linked to the three Es, the main issue the audit will address and help improve.
Audit questions and sub-questions	Questions to answer that enable the auditor to reach an audit objective.
Audit scope	Defines what the audit covers (who? what? when? where?).
Audit topic	A more or less specific area or problem initially selected for audit.
Auditors	The Head of the SAI and other persons in the SAI delegated to conduct the audit.
Auditability	The possibility to carry out an audit, considering the context, skills and resources.
Auditee	The organisation subject to audit, synonymous with "the audited entity".
Societal problem	A situation in society which is not satisfactory and could be improved.
Identified risks	Risks based on indications or some evidence.
Inherent risks	Risks inherent in the type of activity, not yet based on indications.
Intended user	The persons for whom the auditors prepare the report.
Limitations to the audit	Shortcomings in terms of activities not performed as intended in the audit and the absence of or uncertainty in available data, affecting the audit.
Materiality	The importance of issues in financial, social and political terms.
Methods of data collection	For example interviews, questionnaires, document review and inspections used to collect data in the audit.
Methodological planning	Planning the strategy and methods to collect and analyse data.
Overall risk analysis	Compiling sector risk assessments to an overall assessment, prioritising audit topics.
Potential for change	The opportunity to solve/reduce performance problems related to a topic.
Responsible parties	The audited entities responsible for management of the government undertaking, as well as those responsible for providing information or acting on recommendations.
Risk for the three Es	Risk of performance problems with the economy, efficiency and effectiveness of government undertakings.
Sector risk analysis	Assessing risks of performance problems in a sector, resulting in identification and prioritisation of potential audit topics.
Strategy for data collection & analysis	Overall approach to data collection and analysis, identifying the need for data and combining study designs, methods and techniques to enable the auditors to answer the audit questions.
Subject matter	The government undertakings subject to audit.
Subject matter information	Information in the performance audit report, developed by the auditors.

Concepts related to Chapter 7 Conducting the audit	
Accurate	True and comprehensive with all findings correctly portrayed.
Analytical evidence	Includes computation, comparisons, separation of information into components as well as logical reasoning and rational arguments.
Anonymity	Not divulging people's opinions, in particular if information is sensitive.
Audit Criteria	Normative statements used to assess the performance of the auditee. What should be?
Cause	What has with reasonable certainty *'led to*', *'contributed to*' or *'what explains'* or what are the *'reasons for'* something described as a performance problem in a particular case of interest. May be presented in reports as separate findings or as part of another findings.
Complete	All information and arguments needed to correctly understand, satisfy the audit objectives and answer all audit questions.
Conclusions	Based on the findings, summarising the result of the audit against the audit objective, possibly including the SAI's opinion about the situation.
Conditions	The factual situation on the ground. What is?
Consequence	The effects of a problem. May be a link between different findings.
Cost-benefit studies	Investigations of the relationship between the costs and benefits of government projects or programmes expressed in monetary terms.
Cost-effectiveness studies	Focuses on the relationship between project costs and outcomes expressed as costs per unit of outcome achieved.
Documentary evidence	Information from documents, including IT systems and existing statistics.
Findings	Comparison of conditions with direct or indirect (factors causing another problem) criteria. One finding can be the cause or the consequence of another finding.
Objective and logical	Facts and arguments that are neutrally and rationally linked to findings.
Physical evidence	Information from observations of people or inspections of physical objects.
Process studies	Analysing the events in processes, often work processes.
Reasonable evidence	Creating a reasonable basis for findings at a reasonable cost.
Recommendations	Proposal addressed to government entities to solve or reduce problems and the reasons for them.
Relevant evidence	Has a logical and sensible relationship to the findings.
Reliable evidence	Consistent with facts – remain consistent if studies are repeated.
Sufficient evidence	Enough to support the audit findings and conclusions.
Testimonial evidence	Information from people (oral or written answers).
Valid evidence	Consistent with facts – measures what is intended to be measured.
Concepts related to Chapter 8 Deciding on and reporting the audit	
Balanced and fair	Objective, fair and not misleading, considering all relevant viewpoints and also acknowledging achievements.
Comprehensive	Includes all information needed to understand the report.
Concise reports	No longer than needed to convey and support the message.
Constructive reports	Add value, significantly contribute to addressing the weaknesses or problems identified by the audit. Include positive conclusions as appropriate.
Convincing reports	Are logically structured with clear links between the audit objective, criteria, findings (based on sufficient appropriate evidence), conclusions and recommendations.
Objective reports	Consider issues from different perspectives and maintain an open and objective attitude to various views and arguments.
Reader friendly reports	Are easy to read for the intended target group(s), as the subject-matter permits.

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