

**iCAT**

 Performance Audit

A mapping tool for ISSAI Implementation

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**Draft Version 2**

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**How to read this document**

The ISSAI Compliance Assessment Tool (iCAT) is detailed drilled down tool, based entirely on the ISSAIs at levels 2, 3 and 4 of the ISSAI framework. This tool is meant to assist SAIs in mapping their current audit practices to ISSAI requirements, so that they can identify their needs for ISSAI implementation.

This document is divided into seven chapters. The first chapter explains briefly the ISSAIs, the ISSAI framework and the format of the iCAT. The ISSAI requirements at level 2 of the ISSAI framework are detailed in Chapter 2. This chapter needs to be read with Annexe 1. Chapters 3 to 6 contain detailed guidance on how to assess the current audit practice against each ISSAI requirement for performance audit at levels 3 and 4 of the ISSAI framework. For the purpose of assessing current audit practice, the ISSAI requirements at levels 3 and 4 have been categorised as per the stages of a performance audit process. These chapters should be read with Annexe 2 that contains all ISSAI requirements at levels 3 and 4. The last chapter provides guidance on writing a report based on the use of the iCAT. This report would be necessary for the SAI management to formulate its strategy for ISSAI implementation.

Besides the core guidance, this package also contains Annexe 3, which has some illustrations on complete iCAT formats and Annexe 4, which contains Frequently Asked Questions regarding the use of the iCAT.

This is the second draft version of the guidance document. It is still work in progress. Your comments, suggestions and feedback will help the project team in further refining this tool and making it more relevant and useful for all stakeholders.

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**Chapter 1**

# Framework of the International Standards of Supreme Audit Institutions (ISSAI) and the Entity Level Pre-Requisites

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## Introduction

The International Organization of Supreme Audit Institutions (INTOSAI), the umbrella organization for the external auditing community, has, since it was founded in 1953, developed and improved public sector auditing worldwide. Standards, guidelines and best practices are developed under the auspices of three of INTOSAI’s standing committees, the Professional Standards Committee (PSC), the Knowledge Sharing Committee (KSC) and the Capacity Building Committee (CBC). The adoption of a comprehensive set of International Standards for Supreme Audit Institutions (ISSAIs) at the 2010 INTOSAI Congress gives INTOSAI members an updated framework of international standards, guidelines and best practices for public sector auditing. The standards are of significant value for member SAIs as well as providing a common frame of reference for public sector auditing. In 2010 INTOSAI identified the implementation of the International Standards for Supreme Audit Institutions (ISSAIs) framework as a key strategic priority for the coming years.

In line with the Lima and Mexico Declarations and recognizing the independence of each individual INTOSAI member to determine its own approach consistent with national legislation, through the Johannesburg Accords the XX INCOSAI called upon INTOSAI members to use the ISSAI framework as a common frame of reference. In addition, SAIs were encouraged to implement the ISSAIs in accordance with their mandate and national legislation and to measure their own performance and auditing guidance against the ISSAIs.

The implementation of the ISSAI framework is a demanding task that requires attention at global, regional and country levels.

The INTOSAI Strategic Plan and the ISSAI Rollout Model approved by INTOSAI Governing Board in October 2011 mandated the IDI to ‘support ISSAI Implementation’. In keeping with this mandate, the IDI has launched a comprehensive capacity development programme called the ISSAI Implementation Initiative (3i programme).

In the Part 1 of this chapter we will provide brief information on the ISSAI Framework, discuss strategic considerations that an SAI needs to think of in implementing ISSAIs, the process of ISSAI implementation and also introduce you to the ISSAI Compliance Assessment Tool (iCAT). In this chapter we will get an overview of the iCAT in terms of its purpose, format and some broad principles on how to use the tool. Part 2 of this chapter describes the requirements for level 2 ISSAIs and how to assess needs related to the requirements. Part 3 deals with the requisites for the SAI mandate that are stated in level 4 ISSAIs. Those requirements are studied in this session because they relate to the entity level, which is the approach taken in this part of the course.

## ISSAI Framework

INTOSAI issues two sets of professional standards: The International Standards of Supreme Audit Institutions (ISSAIs) and the INTOSAI Guidance for Good Governance (INTOSAI GOV).

The ISSAIs and INTOSAI GOVs convey the generally recognized principles and shared professional experiences of the international community of Supreme Audit Institutions. All ISSAIs and INTOSAI GOVs are developed and maintained in accordance with the Due Process for INTOSAI’s Professional Standards and issued after a decision of final endorsement by all Supreme Audit Institutions at INTO-SAI’s congress (INCOSAI).

The ISSAIs aim to safeguard independent and effective auditing and support the members of INTOSAI in the development of their own professional approach on the basis of their specific mandate.

The ISSAIs form a framework of official pronouncements with four levels:

**Level 1 - Founding Principles (ISSAI 1)**

Level 1 of the ISSAI framework contains the founding principles of INTOSAI. ISSAI 1 The Lima Declaration from 1977 calls for the establishment of effective Supreme Audit Institutions and provide guidelines on auditing precepts. The full set of ISSAIs draw and elaborate on this historical document.

**Level 2 - Prerequisites for the Functioning of Supreme Audit Institutions (ISSAIs 10-99)**

The Prerequisites for the Functioning of Supreme Audit Institutions contain INTOSAI’s pronouncements on the necessary preconditions for the proper functioning and professional conduct of Supreme Audit Institutions. These include principles and guidance on independence, transparency and accountability, ethics and quality control. The prerequisites may concern the institution’s mandate and further legislation as well as the established procedures and daily practices of the organization and its staff. By issuing pronouncements on these generally accepted prerequisites, INTOSAI aims to advance sound principles for the effective functioning of public sector auditing on an international level.

**Level 3 - Fundamental Auditing Principles (ISSAIs 100-999)**

The Fundamental Auditing Principles express the essence of public sector auditing. They contain the common pronouncements by INTOSAI´s members of the generally recognized professional principles that underpin effective, independent auditing of public-sector entities.

**Level 4 - Auditing Guidelines (ISSAIs 1000-5999)**

The Auditing Guidelines translate the fundamental auditing principles into more specific, detailed and operational standards and guidelines that can be used on a daily basis in the conduct of auditing tasks. This level is being reformulated in light of the Fundamental Auditing Principles endorsed by the INCOSAI in October 2013. It is foreseen that standards for performance and compliance audits will be endorsed by INCOSAI in 2016. Currently the structure of the level 4 differs across audit types.

The purpose of the guidelines is to provide a basis for the standards and manuals on public sector auditing which may be applied by the individual members of INTOSAI. Each guideline has a defined scope of application and may be adopted in full or adapted as necessary to reflect the individual circumstances of the jurisdiction. Such circumstances may include the legal mandate and further strategies and capacity of the Supreme Audit Institution as well as the specific purpose and character of the audit assignments. The General auditing guidelines (ISSAIs 1000-4999) contain the requirements of financial, performance and compliance auditing and provide further guidance to the auditor. They are developed and continuously updated by specialized subcommittees and define the internationally recognized best current practice within their general scope of application.

The Guidelines on specific subjects (ISSAIs 5000-5999) provide supplementary guidance on specific subject matters or other important issues which may require the special attention of Supreme Audit Institutions. These guidelines express the key lessons resulting from the sharing of knowledge and good practices among INTOSAI’s experts.

## ISSAI Implementation

Before any SAI takes on the onerous task of implementing the ISSAIs, a question that would come to mind is ‘what possible benefit can the SAI get from taking on such a project’. It is important for the SAI top management to answer this question and be convinced about the answer before plunging into ISSAI implementation. The draft CBC guidance on Implementing the ISSAIs – Strategic Considerations lists the following three benefits (http://www.issai.org/media/13550/implementing\_the\_issais\_-\_cbc\_guide.pdf):

**Quality –** Carrying out audits in accordance with globally accepted standards will ensure a certain level of quality and consistency in audits. All SAIs strive to earn the trust of citizens and stakeholders alike. Applying internationally accepted standards in audits is one important step in the direction of earning this trust. A high-quality standard will reduce auditor’s risk. The credibility of all audit organizations is built on the quality achieved in its audits. The use of globally accepted standards will simplify benchmarking, regional quality assurance initiatives and peer reviews as well as the sharing of experiences in other ways. Using similar audit methods in different countries can inspire organizations to continuous improvement.

**Credibility –** Using globally accepted standards will strengthen the credibility of both the audit organization and its auditors. External stakeholders will gain increased confidence and trust in the work of auditors using globally accepted standards. The results and conclusions of an audit conducted in accordance with globally accepted standards can stand external scrutiny. The transparency provided by using standards well-known to audited organizations and other stakeholders also leads to increased credibility of the audit results. Increase in credibility will help SAIs engage with their stakeholders for improved institutional framework and stronger audit mandates.

**Professionalism –** Standards form the basis for professionalization of auditors and audit organizations by providing a structured process for the audit work. Common standards can improve opportunities for exchange of professional views and experiences across national and sector borders. Joint training activities and sharing experiences will be easier if auditors apply the same set of professional standards. Globally accepted standards also provide a common language between public and private sector auditors in areas of similar responsibilities. Applying globally accepted standards will strengthen the audit profession in general.

## Strategic Considerations in Implementing ISSAIs

If an SAI decides to implement ISSAIs, it is recommended that they may like to think of the following considerations:

1. **Implementing ISSAIs involves institutional, organisational and professional staff capacity development –** As you have seen above, the ISSAI framework operates at both the SAI and the individual audit level. As such it encompasses not only all functions in an SAI, but also covers the institutional framework within which the SAI operates. While considering ISSAI implementation the SAI management would need to put in place strategies that cover all three aspects. E.g. if the SAI management is considering ISSAI compliance in its performance audit function, it would not be enough to just train SAI staff in performance audit ISSAIs. The SAI would need to look at introduce changes in its performance audit practice at an organisational level. It would need to consider issues like appropriate mandate, competent staff, ethical considerations, audit methodology and quality control.
2. **ISSAI Implementation, Strategic Planning and SAI Capacity Development may not be different process –** We believe that implementing ISSAIs, developing and implementing a strategy to achieve a vision and developing capacity of the SAI are all different aspects of one and same process. It is important for the SAI leadership to understand and integrate these processes and not to start separate processes that may lead to duplication.
3. **Role of SAI Leadership –** SAI leadership needs to play a defining role in implementing ISSAIs. Creating a conducive culture and environment, formulating a strategy for implementation, engaging with internal and external stakeholders and putting in place a robust monitoring and evaluation mechanism are some of the key roles for SAI leadership.
4. **Leading and managing change –** One important aspect of ISSAI Implementation is change management. As discussed earlier, ISSAI implementation would imply a relook and possible changes in all areas of functioning in an SAI. This can create uncertainty, fear and resistance in SAI staff. The SAI management and leadership needs to carefully consider the implications of change and think of measure to manage change. Raising awareness of ISSAIs, adopting a participatory approach to the implementation process, creating champions for ISSAI implementation, providing opportunities for acquiring required knowledge and skills could be some of the change management strategies that an SAI employ.
5. **SAI environment –** Regardless of whether an SAI decides to implement the ISSAIs for financial, compliance, or performance audit, the organisation needs to take into consideration both its internal and external conditions. The importance of different conditions may vary depending on what ISSAIs are being implemented. However, accounting and financial management systems, access to necessary information, relations to parliament and other stakeholders as well as the country’s audit culture are relevant to all audit tasks. These conditions may provide opportunities or limitations which will influence the implementation of ISSAIs. If the SAI is considering introducing new audit tasks in accordance with the ISSAIs, it is important to ensure that the SAI has the required mandate and all legal prerequisites are in place. Furthermore, it is important to ensure that there is an appropriate and functioning recipient of audit results. Introducing new audit standards and practices will not only affect the SAI, but also the audited organizations and the parliament. Therefore, it is very important to consider when and how to communicate with external stakeholders to ensure a smooth implementation process. Informing stakeholders of the motives behind and benefits of the introduction of new standards is very important in order to create a supportive environment for audits in accordance with ISSAIs.
6. **Stakeholder Expectations –** In deciding on the implementation path to be followed, an SAI should ascertain and consider the expectations that its clients and external stakeholders have.
7. **Impact of implementation –** It is important to differentiate ISSAI requirements that will create a paradigm shift in the audit practice, from those that might only involve changes in some procedures.
8. **Resources required –** If the ISSAIs are to be implemented and its requirements followed, an SAI would require considerable resources in terms of funds, systems, people etc. While developing a strategy the SAI should develop an implementation matrix where it details its plan for putting in place the required resources.

### Process of ISSAI Implementation

In our view, an ISSAI Implementation Process is the same as a strategic planning process. We would recommend the following stages in the implementation process:

## The ISSAI Compliance Assessment Tool (iCAT)

As mentioned in the previous section, the first step in implementing ISSAIs is assessing the SAI’s present level of compliance. This is done by comparing its audit practices to the requirements recommended by the ISSAIs. In order to assist the SAIs in assessing their compliance needs, the IDI has developed ISSAI Compliance Assessment Tools. A tool set of four iCATs have been developed. They are:

1. iCAT for Level 2 ISSAIs
2. iCAT for Levels 3 and 4 Financial Audit ISSAIs
3. iCAT for Levels 3 and 4 Performance Audit ISSAIs
4. iCAT for Levels 3 and 4 Compliance Audit ISSAIs

The purpose of the iCATs is to present the ISSAI requirements in a simple form and define a process for assessing compliance.

## iCAT Format

While the individual iCATs may have some variation in their formats, depending on the nature of the level 4 ISSAIs, all the iCATS have the following common components.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ISSAI Reference | ISSAI Requirement | Status of Compliance | Mechanism / Instrument of Compliance | Reasons for non- compliance |
| **This column references the ISSAI requirement to the ISSAI.**  | This column contains the ISSAI requirement in a brief form.  | Three options are available for status of compliance: Met – To be selected when the requirement is entirely met.Partially met – This option covers the entire gamut from where the SAI has just started implementation of this requirement, it has some elements of compliance in place, it has a large extent of compliance in place but is not entirely compliant.Not met – The SAI does not comply with the requirement at all.Not applicable – The requirement is not applicable to the SAI due the laws and regulations that govern it. | In this column the person conducting the iCAT should mention the specific document, provision, system through which the SAI complies with the ISSAI requirement. This column will be filled in when the status of compliance is met or partially met. | When the status of compliance is not met or partially met, the reasons for non- compliance should be recorded here. This column is important in determining future implementation strategy, which will involve addressing the reasons for non- compliance.  |

### Guiding Principles for conducting an iCAT

***iCAT is not an evaluation tool*  –** The iCATs formulated as a part of the 3i programme aim to help SAIs in understanding ISSAI requirements and assessing their needs for complying with ISSAIs. The iCAT is thus formulated as a needs assessment tool rather than an evaluation tool.

***Scope of the iCAT –*** As a part of the 3i programme four iCATs has been developed. Level 2 ISSAIs iCAT, Financial Audit Levels 3 and 4 iCAT, Performance Audit Levels 3 and 4 iCAT, Compliance Audit Levels 3 and 4 iCAT. As far as possible, it is better to conduct all four iCATs so that a consolidated strategy can be developed for implementation of ISSAIs. However, if that is not feasible in an SAI, then it is recommended that the SAI conduct the level 2 iCAT along with the levels 3 and 4 iCAT of the chosen audit stream. This is because the compliance gaps identified at audit level (level 4) would invariably have their reasons at the institutional level (level 2).

***Who can conduct an iCAT –*** If the SAI has adequate capacity, it can decide to conduct its own iCATs. An SAI may also ask for external support in helping it conduct the iCAT. It is envisaged that the pool of ISSAI facilitators created as a part of the 3i programme will help their own SAIs, as well as other SAIs in the regions conduct iCATs. For the purpose of objectivity, an SAI may also exercise the choice of having the iCAT conducted by an external team from the region.

***iCAT team –*** Whatever the approach the SAI selects, it is recommended that the iCAT be used by a team and not a single person. Forming a competent and credible iCAT team is the first step to be taken. The iCAT team should consist of at least one trained ISSAI facilitator. Team members must have managerial backgrounds so that they have a good organisational overview and necessary influence in subsequent implementation. Besides members who have a good understanding of SAI level issues (level 2 ISSAIs), the team should also have members who are well conversant with the relevant audit practice as defined in the ISSAIs and as actually practiced in the SAI.

***Participatory Approach –*** A broad-based consultative process is recommended for conducting iCATs. It is important for the iCAT team to consult with a cross section of SAI staff across various levels. Staff from different levels and different areas of the SAI should be consulted in this process and their views should be given due weight in iCAT. External stakeholders’ views and needs should also be taken into account. The involvement ranges from providing information or opinion to having an integral part on making decisions on needs and priorities. The more people feel they are involved, the greater the ownership and thus effectiveness of the results. If the SAI management is able to facilitate ownership for the process at the iCAT stage itself, the subsequent stages of developing and implementing an ISSAI strategy will have greater acceptance in the SAI.

***Top and senior management support* –** The success of the iCAT is highly dependent on the level of commitment at high levels in the SAI. The SAI management should insist on knowing the situation and the needs as they are. The SAI management should also ensure that the iCAT team has the required resources to conduct the iCAT.

***Documentation –*** The iCAT team should systematically document all the working papers and the evidence that it generates in filling out the iCAT format.Besides helping the team in later compiling its ISSAI Compliance Assessment Report, documentation will also be helpful in illustrating the finding of the iCAT to the SAI management and help future iCAT teams in conducting similar exercises.

###  Process of conducting an iCAT

***Planning the iCAT –*** Like any other project, conducting an iCAT would require resources in terms of financial resources, infrastructure, time, people etc. It is recommended that the iCAT team prepare an action plan detailing the milestones, the resource requirement and the risks attached to the achievement of each milestone.

***Use variety of data gathering tools –*** In order to gather data to fill in the iCAT format, the iCAT team should use a variety of data gathering tools like focus groups, interviews, document review, survey and physical observation. It is important that the tool used is appropriate for gathering valid and relevant information for assessing compliance. For example, if the ISSAI facilitator wants to check the extent to which a policy is actually implemented, interviewing people may not be enough, he/she would have to review documentation supporting implementation. A table listing the pros and cons of each tool is attached as Annexe.

***Writing the ISSAI Compliance Assessment Report*** *–* The final product of an iCAT is the ISSAI Compliance Assessment Report. The format of this report and guiding principles while writing this report are contained in the last chapter of the course.

## Prerequisites for Robust Audit Practices – level 2 ISSAIs

As mentioned in the previous section the ISSAI framework is a comprehensive framework that articulates both – the nature of robust audit practices in an SAI and the key drivers at institutional and SAI level that need to be in place for implementation of robust audit practices on a consistent basis. While the nature and requirements for robust audit practices are outlined in Level 3 and Level 4 ISSAIs, the key drivers and prerequisites for these are highlighted at level 1 and level 2 of the ISSAI Framework.

As such, before going into the details of implementing level 4 ISSAIs, we need to look at the level 2 ISSAIs and understand their impact on Level 4 implementation issues. For the purpose of clarity and process, this section is subdivided into two parts:

1 – Understanding the Prerequisites for Robust Audit Practices

2 – Ascertain status on Level 2 Requirements.

For understanding of level 2 ISSAIs part 1 can be used. Levels 3 and 4 iCAT guidance is discussed from the third part of this chapter, which comprises requirements related to the mandate of the SAI, to chapter 7. Please consider that, implementation status of Level 2 requirements of an SAI will be ascertained only after checking the Levels 3 and 4 requirements (by following the guidance from Chapter 2 to 7). Though Level 2 guidance is mentioned in Chapter 1, please come back to this chapter after completing Chapter 2 to 7 on Levels 3 and 4. At the end of the two first parts of this chapter you would be able to identify your SAIs needs regarding Level 2 requirements and also link the gaps in Level 2 requirements to the gaps in implementing level 4 ISSAI requirements which you will be able to find while going through Chapter 2 to 7.

### Understanding the Prerequisites for Robust Audit Practices

What does an SAI need for putting in place well functioning audit practices that generate value for SAI stakeholders? In recent years, SAIs have been increasingly expected to demonstrate their own value and benefit to their stakeholders. The principles set out in ISSAI 12 are constructed around the fundamental expectation of SAIs making a difference to the lives of citizens.

The iCAT for level 2 covers the prerequisites (diagram) necessary to an SAI achieve a robust audit practice. These four prerequisites are the four main ISSAIs of level 2 that we will look at: ISSAI 10, 20, 30 and 40:

* Mexico declaration (now incorporated in ISSAI 10 with examples in ISSAI 11) – looking at the roles and responsibilities of SAIs.
* Principles of Transparency and Accountability of SAI (ISSAI 20 and examples provided in ISSAI 21) – looking at fundamental good principles of how an SAI should perform its functions and what type of functions it should perform.
* Code of Ethics (ISSAI 30) – providing a framework for ensuring SAI behave at the highest level of credibility.
* Quality Assurance (ISSAI 40) looking at the critical ingredients required to make an SAI meet standards required to add credibility to any results or reports published by the SAIs.

The above documents form the basis for level 2 of the ISSAI framework and the participant should familiarize themselves with the documents.

The level 2 framework is also supported by a number of other publications and initiatives aimed at supporting SAIs. Some of these that are important for the participants include:

* IDI Capacity building initiatives and frameworks – this provides a mechanism for assisting SAI in identifying their needs to achieve the developments required to perform their tasks within the ISSAI framework.
* SAI Performance Measurement Framework – this provides a framework for reporting the results of the SAI and measuring its improvement over time (the most recent version of this document is available on [www.idi.no](http://www.idi.no) ).

There are numerous other documents available around this topic; however, the ones listed above provide a sufficient overview.

The ISSAIs at level 2 require capacity development of an SAI in all three areas:

1. Institutional Capacity Development.
2. Organisational Systems Capacity Development.
3. Professional Staff Capacity Development.

Institutional capacity of an SAI refers to the SAI having the appropriate Independence and Legal Framework, mandate and environment to carry out its core business functions effectively. Organisational Capacity refers to the internal systems and process of an SAI and professional staff capacity refers to SAI people and their ability to carry out their roles professionally.

In order to have robust audit practices as described by level 4 ISSAIs, an SAI would need all three capacities – Independence and Legal Framework, appropriate internal processes and structures and sufficient number of qualified people. The IDI’s Capacity Building Framework explains the relationship between the requirements of level 2 ISSAIs and the three aspects of capacity building.

**VALUE GENERATED BY SAI**

**(Key Audit Results – Audit Outputs & Outcomes)**

**SAI Core Processes**

 **Audit & Other Processes**

 **Support Structures & Infrastructure**

**External**

**Stakeholder Relations**

**Independence & Legal Framework**

**Human Resources**

**Leadership &**

 **Internal Governance**

**SAI Culture & Environment**

**SAI**

**Institutional Capacity**

**SAI Organizational Systems & Professional Staff Capacity**

**SAI Impact**

**Contribution to Good Governance**

The capacity building framework attempts to show a picture of both the capacities that an SAI must have and the performance that the SAI must deliver to generate value for its stakeholders. For an SAI to contribute to good governance, it needs to have required audit impact. In order to achieve the audit impact the SAI must have high quality audit outputs. These audit outputs are a result of robust audit practices (ISSAI Level 4) or ‘SAI Core Processes’ as they are referred to in the capacity building framework. The key drivers of robust audit practices within the SAI are SAI Leadership and internal governance mechanism, SAI resources and SAI external stakeholder relations (Parliament, Executive, Media, Civil Society etc). It is the SAI leadership’s role to ensure that the governance mechanism (including implementation of code of ethics), required resources and stakeholder relations are in place. A critical factor outside the SAI that can hamper or help the SAI’s performance and effectiveness is the SAI independence and legal framework and the general public financial management environment that the SAI operates in.

SAI Leadership drives the performance and capacity building initiatives of the SAI. The leaders in the SAI need to set the tone for determining how things will be done in the SAI. The SAI as a whole also should set an example in good governance to be emulated by the audited entities. As such the leadership should ensure good SAI governance in terms of its planning, code of ethics and conduct, accountability and transparency, internal controls and continuous improvement. The SAI leadership will be considerably effective in its internal governance efforts if they have in place a robust and vibrant internal communication mechanism.

Leadership is the key driver to ensure that the SAI makes the most of what is within its control through amongst others, effective strategic and operational planning. The category of management arrangements has been used to identify these key drivers. This element then becomes the driver for the other sub elements of:

* Human resources.
* Support structures and infrastructure.

These two elements are taken as sub elements of the leadership and internal governance. As often, deficiencies or opportunities for improvement in these areas require senior management intervention, for example, identifying and running training programs.

SAI Core Processes consist of:

* Audit standards (as elaborated in the ISSAI Framework)
* Audit manuals and guidance
* Audit plans short term and long term
* Audit tools such as computer assisted audit techniques
* Quality assurance.

All these aspects are aimed at ensuring that professional and consistent audit products are delivered by SAIs on a sustainable basis. The critical aspects are to ensure that the processes and intentions are reflected in the practice of the SAI and are not simply documents produced but not followed by the auditors.

External Stakeholders can be seen from two distinct perspectives, namely:

* Reporting to stakeholders.
* Communication with stakeholders.

Reporting is often a combination of what is mandated and what may be good practice. This often includes reports to parliament and to the audited entities. SAI are often also expected to produce reports on their own performance. SAI annual report or equivalent provides an opportunity for the SAI to document its achievements as well as the results from the audits conducted.

In terms of communication with stakeholders, SAIs have a very important role in dealing with legislatures, media and audited entity. Often enhancing the profile and image of the SAI can improve its effectiveness in carrying out its audits through improved cooperation.

For example, if an SAI where to consider implementing Level 4 ISSAI in Performance audit it would need an appropriate mandate to do so and strong supporting institutional structures. Leadership that drives the implementation process and puts in place necessary systems and structures to ensure implementation, qualified people and adequate resources and good relations with important stakeholders.

As such implementing ISSAIs and building capacity of an SAI are in fact one and the same process. Seeing this match, we have organized the ISSAI requirements at level 2 into the following four categories and sub categories:

The first category refers to the institutional capacity of the SAI and describes the requirements under ISSAI 10. The second category refers to the organizational and professional staff capacity of the SAI that is driven by SAI leadership. A combination of Level 2 ISSAI requirements are placed under this category. The third category refers to SAI core processes, which are the SAI level requirements specific to audit processes. The fourth category refers to external stakeholder relations both in terms of reporting requirements and communicating with stakeholders for audit effectiveness and impact.

The level 2 ISSAI requirements placed under these four categories can be seen in the Excel sheet called ISSAI Level 2 Requirements.

Part 2 of this chapter describes the requirements and how to assess needs related to the requirements. While we would recommend that you read through the Part 2 now, the actual collection of data and filling in of the format should be done after you have completed the iCAT for levels 3 and 4.

### Ascertain Status on Level 2 ISSAI Requirements

The ISSAI framework is a comprehensive framework that articulates the nature of robust audit practices in an SAI as well as the key drivers at institutional and SAI level that need to be in place for implementation of robust audit practices on a consistent basis. The principles and requirements for robust audit practices are outlined in Level 3 and Level 4 ISSAIs, and the key drivers and prerequisites for these are highlighted at level 1 and level 2 of the ISSAI Framework.

In the previous subsection we have mentioned that before going into the details of implementing level 4 ISSAIs, we need to look at the level 2 ISSAIs and understand their impact on Level 4 implementation issues. From Chapter 2 to Chapter 7 you will conduct the check for the Levels 3 and 4 ISSAIs. You will ascertain the status of compliance at Levels 3 and 4 in these four modules. You will also identify what are the reasons for non-compliance of the requirements at Levels 3 and 4 in the Chapters 2 to 7.

You will see that the reasons for non-compliance lie at the issues which actually are the drivers or prerequisites for Level 4 ISSAIs. These are all highlighted at Level 2 ISSAIs. So, it is clear that at Level 2 on a strategic level SAIs can take measures that would solve the issues of non-compliance at the Level 4. In this chapter you will look into this linkage between Level 2 and Levels 3 and 4 ISSAIs, also how the gaps in Level 2 requirements are lined to the gaps in implementing level 4 ISSAI requirements. Based on your findings at Level 2 and Levels 3 and 4 you will write the ISSAI Compliance Assessment Report.

Before ascertaining the status of level 2 ISSAI requirements, you would have done the following activities:

* Understood level 2 ISSAI requirements.
* Completed the iCAT format for levels 3 and 4.

On this basis we will now proceed to discuss how to identify SAI needs and ascertain the status at level 2. This step in the process will also help you in consolidating your findings on levels 3 and 4 ISSAIs, particularly the reason for non-compliance which is related to the Level 2 ISSAIs and create the linkage between the levels of ISSAIs. Based on this you will prepare the ISSAI Compliance Assessment Report.

### How to complete the Level 2 ISSAI Requirements

As we have mentioned before, the iCAT for Level 2 contains the requirements from the ISSAI 10-40. All these requirements have been grouped under the following major categories:

* Independence and legal framework
* Leadership and internal governance
	+ Code of ethics
	+ Management arrangements
	+ Resources
* SAI core processes
* External Stakeholders
	+ Reporting practices
	+ Communication

In the following sections we will discuss how the columns of the individual ISSAI requirements can be filled in step by step.

**Step 1 - Completing Columns 5 and 6 of Level 2 ISSAI requirement**

After completion of levels 3 and 4 of the iCAT:

* workshop should be held with relevant senior management to discuss the findings on levels 3 and 4;
* the purpose of the workshop is for senior management to assign levels 3 and 4 findings to their specific requirements within the level 2 ISSAI requirements.

When completing the level 2 ISSAI requirement the participant should understand the relationship between levels 2, 3 and 4 of the ISSAI Framework. Level 2 provides the strategic direction, level 3 has the fundamental principles of auditing and level 4 is aimed at the details of audit practices when implementing the strategic aspects.

There are 3 possible results to be entered into column 4 SAI Status, namely:

1. Full compliance – where levels 2, 3 and 4 requirements are met.
2. Partial compliance – where level 2 requirements are met but the implementation on levels 3 and 4 has not been achieved (example provided below) or where requirements are met at levels 3 and 4 and not at level 2. The second situation is highly possible. For instance, Principle 8, ISSAI 20 requires that “The SAI reports are available and understandable to the wide public through various means (e.g. summaries, graphics, video presentations, press releases)”. While, at the SAI level there may not be such a requirement, some field offices may bring out summary of their performance audit reports and issue press releases after tabling of a Performance Audit Report and satisfy ISSAI 3100, Section 35 on making audit report easily accessible to general public. Another real-life example that was quoted by several participants on iCAT relating to disclosure of the source of data in the audit report is that while there is no such requirement in their standards to disclose source of data, it has been followed in the performance audit engagements reviewed by them.
3. Non compliance – where requirements on levels 2, 3 and 4 are not met.

**Example of Partial Compliance:**

If the SAI has no individual declaration of interests for each audit, but the SAI has an organizational policy. Then this would be reflected in the iCAT as follows:

* Within column 4 the SAI status would be partially implemented.
* Within column 5 the entry should be that there is a finding with regard to “no individual declaration in the audit files” for the requirements under ISSAI 30 paragraph 13.

Column 6 should be used to state what action needs to be taken and within what timeframe.

Information gathered in Column 6 can then be used to complete the ISSAI Compliance Assessment Report.

**Step 2 - Completing Columns 3 and 4 of Level 2 ISSAI requirement**

1. **Independence and Legal Framework**

This section largely deals with ISSAI 10, which as previously stated links to the Mexico Declaration. The ISSAI requirements can largely be linked in most jurisdictions to the enabling legislation of the SAI (SAI law). Most of the aspects should be readily identifiable from the law. Further enquiries from the Head of the SAI to clarify uncertainties may be useful.

It is important not to simply identify the responsibilities and necessarily to assess the implementation. For example, if an SAI can “select the audit issues” but in practice is not doing so this should be included in column 4 (SAI status) as partially complying. There may be references to the SAIs in other legislation, for example, relating to the SAI budget (principle 8 ISSAI 10). In these instances, the participant may need to be aware of such documents and reference them in column 3 of the iCAT.

1. **Leadership and Internal Governance**

Code of Ethics

This section largely deals with the ISSAI 30 Code of Ethics. In many SAIs this is covered through policies at the entity level as well as through declarations made in each audit engagement. The participant should obtain these documents and assess what type of compliance is expected by the staff (for example annual declarations of income and assets).

If there is an absence of compliance tools such as annual declarations these will be highlighted in the level 4 assessment and will be included in columns 5 and 6 of the iCAT.

Management Arrangements

This section takes fundamental aspects of the SAI leadership and internal arrangements at a strategic level. This section will give rise to the important elements that include strategic planning and therefore prioritization for future decision making. Whatever the SAI is deciding to do must be communicated through this area and therefore represents a fundamental area where many improvements at level 4 of the framework will be managed.

This section should be completed through reviews of strategies, business plans and other key strategic documentation including performance management policies, quality assurance policies and recruitment plans.

Resources

This aspect of the internal governance and leadership follows directly from the management arrangements. This is the assessment of the requirements of the SAI and should be identified through reviews and studies and be included in key policies and strategies. Therefore, operational documents such as annual work plans and delegations should be reviewed.

Responses to this section should also relate to the management arrangements when considering the level 4 gaps. For example, issues regarding ISSAI 40 element 4 “ensuring staff have competencies to carry out their work” can be linked to the item under management arrangements principle 6 ISSAI 20 “the SAI measures the efficiency and effectiveness with which it uses its funds”. When completing columns 5 and 6 of the iCAT, these relationships will be analyzed to ensure that the action plans are as practical as possible.

1. **SAI Core Processes**

This area of the Level 2 ISSAI requirements is mainly concerned with the ISSAI 40 Quality Assurance. For the SAI to meet the requirements of level of the framework a number of factors are required from a technical perspective. These include:

* Audit reporting
* Follow up on audit findings
* Methodology
* Auditing Standards.

All the above need to be in place to ensure that the audit risk (the risk the auditor reaches an incorrect conclusion) is minimized. To assess the requirements, it will be advisable to schedule an interview with the person responsible for quality control and assurance in the SAI. Many of the practices should be documented in instructions through manuals and/or circulars. These should be assessed if they include the elements stated in the Level 2 ISSAI Requirements. If the practice is stated in documentation and not followed: at this stage simply state under column 4 that there is partial compliance (to be consistent with the view espoused at Step 2 i. Independence and Legal Framework). When the level 4 assessment is undertaken, this will identify the problem of the implementation.

1. **External Stakeholders**

Reporting Practices

This section lists all the reporting requirements identified in level 2 of the framework. There are 18 requirements. This represents a large expectation on SAIs to report on their activities and results. Many of these reports can be included in a single SAI annual report for example. The participant should therefore obtain all external correspondences that the SAI issues and assess them against the 18 requirements.

External Stakeholder Relations

This section assesses the SAI relationship with its primary stakeholders. This can include: legislature, parliaments and special committees of parliament. The SAI may include this information in a communication strategy and often have a spokesperson or an office directly linked to the Head of the SAI. It is advisable to interview the relevant personnel and obtain the necessary protocols, strategies and policies.

## SAI Mandate

In this third part of Chapter 1, we will examine the requisites in Levels 3 and 4 related to the Mandate of the SAI. Mandate requisites were integrated in Chapter 1 because they are linked to entity level requisites in Level 2, which is the driving line of reasoning in this Chapter.

Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. Although state institutions cannot be absolutely independent because they are part of the state as a whole, Supreme Audit Institutions shall have the functional and organisational independence required to accomplish their tasks. The establishment of Supreme Audit Institutions and the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation. In particular, adequate legal protection by a Supreme Court against any interference with a Supreme Audit Institution's independence and audit mandate shall be guaranteed. The legislation should also establish a performance audit function independent of financial audit to sustain performance audit activities on a continuous basis and develop a performance audit culture within the SAI *(Reference - The Lima Declaration of Guidelines on Auditing, October 1977 at the IX INCOSAI in Lima (Peru), ISSAI 1).*

###  Requirements on SAI Mandate

1. **Requirement:** *The SAI shall communicate a clear vision of the purpose for performance auditing and the desired outcomes to be achieved. (ISSAI 3100/Appendix, 3.3.1)*

**Explanation:** 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. Experience proves that introducing performance auditing will often require changes in attitudes, management style, organizational behaviour, recruitment practices etc. Performance auditing requires skills, which SAIs with limited or no experience in the field will have to acquire. It is important that the Head of the SAI takes into account that performance auditing is different, demanding and takes time to implement. PA identifies important problems, analyses the causes and effects and presents recommendations for the better use of resources. Performance audits help ministries, audited entities and agencies to improve their operations.

**Guidance:** Establish whether there is a PA function developed at an SAI and whether it is operational. There should also be policies and procedures development and applied for the full functionality of performance auditing. Check whether the strategic documentation of the SAI includes the vision of the purpose of PA and the outcomes of the function.

1. **Requirement:** *The SAI shall seek to obtain a suitable legal mandate that comprises of the following criteria (ISSAI 3100/Appendix, 3.3.2, 3.3):*

*a) a mandate to carry out performance auditing on the economy, efficiency and effectiveness of government programs and entities;*

*b) freedom to place the audit results in the public domain;*

*c) access to all information needed to conduct the audit; and*

*d) freedom to decide who to recruit.*

**Explanation a:** PAs should be conducted within the mandate of an independent audit institution whose authority is defined by relevant acts. The legislature should be convinced of the need for the introduction of performance auditing within the SAI. They should be made aware that the public sector reforms and improvement of government is more likely to happen if there is a parliamentary mechanism in place to consider the PA reports. The legislature needs to set out a clear procedure for receiving and deliberating on PA reports in order to ensure that appropriate actions are taken. In some cases, the SAIs will need to seek legislative changes to allow it to undertake PAs. In others, the SAI may need to harness a variety of means to help the legislature see the value of this type of auditing. This might involve paying visits to other legislatures, making presentations on the impact of the work and having meetings with representatives of SAIs with long experience in PA. The mandate ordinarily specifies the minimum audit and reporting requirements, stipulates what is required of the Head of the SAI, and provides the Head of the SAI with the authority to carry out the work and report on the results. The mandate should cover the whole public sector budget, including all relevant executive entities and all corresponding government programmes or public services.

**Guidance a:** Check if the powers and mandate of the Head of the SAI and the SAI emanate from the country’s Constitution. Check if there is an audit act or an act of parliament (Audit Law) in place which specifically establishes the SAI, giving it a specific mandate and allowing the SAI to carry out PAs. Check if policies are in place that clearly states the mandate, purpose and benefits of PA.

*b) freedom to place the audit results in the public domain.*

**Explanation b:** Publicizing of PA reports contributes to transparency in public sector management and demonstrates how performance auditing can contribute to improvements in public administration and governance. Accordingly, having in place a process for communicating the results to key audiences, such as the legislature, stakeholders and the media is paramount. At the basic level this should entail clarifying which stakeholders should receive information (and in what order) and what information should be provided. SAIs are free to publish and disseminate their reports, once they have been formally tabled or delivered to the appropriate authority as required by law. There should also be an established practice (in line with the communication policy) regulating to whom the PA reports should be routinely delivered.

**Guidance b:** Check if there is an audit act or law in place that provides the SAI with the freedom to publish its reports anywhere and anyhow it may find it fitting. Check if there is a communication policy on the publication of reports in place and applied.

*c)**Access to all information needed to conduct the audit.*

**Explanation c:** SAIs should have adequate powers to obtain timely, unrestricted, direct, and free access to all the necessary documents and information, for the proper discharge of their statutory responsibilities. The SAI has to have access to all records and documents relating to management practices and has to be empowered to request, orally or in writing, any documentation and information deemed necessary by the SAI to conduct the audit.

**Guidance c:** Check if the audit act or law is explicit on the SAI’s access to all information. Check if a policy is available on how and where to access documentation and information.

*d) freedom to decide who to recruit.*

**Explanation d:** The ability to recruit the right staff is a decisive factor in performance auditing. The SAI needs authority to set the recruitment criteria and have the freedom to select and remunerate its own staff.

**Guidance d:** Check if the audit act or Law is specific that the SAI is empowered to recruit its own staff. The human resource policy should be available stipulating exactly the system followed for staff recruitment.

1. **Requirement:** *The SAI shall be free to decide, within their mandate, what, when and how to audit, and shall not be restrained from publishing their findings (ISSAI 300/12, ISSAI 3000/1.2)*

**Explanation:** The SAI should not be subject to direction from anyone in relation to whether or not a particular PA is to be conducted or the timing thereof. The SAI must be given the freedom to select audit areas within their PA mandate. The mandate needs to allow for PAs of both individual government entities, large state-owned enterprises of public interest as well as government-wide programmes. The SAI needs to have complete discretion regarding the PAs to be undertaken. It is important that the SAI remains free to determine the manner in which it conducts all its work, including those tasks requested by the stakeholders.

 **Guidance:** Check if the audit act or Law specifies that the SAI is empowered to carry out PAs in all government entities, large state-owned enterprises as well as government-wide programmes. Check if there is a devised strategy for selecting PA topics and if it is the SAI’s sole responsibility and decision when and how to audit and that they are not restrained from publishing their findings.

## Summary

In the first part of this session, we examined the ISSAI Framework established by the INTOSAI. It was an overview necessary to understand the reasoning of the INTOSAI Implementation Initiative (3i Programme) and the process of conducting an iCAT exercise in an SAI. The ISSAIs form a framework of official pronouncements with four levels: founding principles, prerequisites for the functioning of SAIs, fundamental principles and guidelines.

In the second part of this session, we went through the requisites on the entity level, which constitutes prerequisites for the auditing function and the possible causes for gaps between requisites in level 4 and the SAI audit practice.

Finally, in the third part of this session we dealt with SAI mandate for establishing performance auditing. It is the role of the Head of the SAI to liaise with the legislature to ensure that the audit legislation include the establishment of PA within the SAI. The PA function should be independent and select topics without interference from any external forces. The Head of the SAI has a role to inform the legislature of objectives and key benefits of performance auditing and that PAs can also be conducted at all government entities. Giving legislature information would secure their buy-in and can be of great help whenever the SAI would need to request for more resources to finance PA functions.

**Chapter 2**

**General Principles**

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**2.1 Introduction**

In every society, resources are scarce and should be used in the best possible way. The main reason for carrying out performance audits is to assist governments in decision-making processes leading to better use of resources by public bodies and provide support to democratic governance. Performance audits deal with deficiencies in economy, efficiency and effectiveness. They help ministries, departments and agencies to improve their operations. Performance audits identify important problems, analyse the causes and effects and present recommendations for using resources better. Performance audits also present findings and make recommendations that can create a more efficient and effective public sector and in sense address the root cause of corruption. Performance auditing has a role to make public accountability visible and transparent by providing parliamentarians, the media and citizens with professional and independent assessments of government activities. Performance auditing therefore, can be seen as investment that could lead to better functioning public entities.

**2.2 Requirements on General Principles**

**1. Requirement**: *The auditor shall explicitly identify the elements of each audit. (ISSAI 100/25, 26, 27; ISSAI 300/15, 19, 25, 27)*

**Explanation**: As defined in ISSAI 100, all public sector audits have the same basic elements - 1) auditor, 2) responsible party, 3) intended users (the three parties to the audit), 4) criteria for assessing the subject matter and 5) the resulting subject matter information. These elements may assume distinct characteristics in performance auditing as discussed below:

1. **Auditors** in performance audits typically work in a team offering different and complementary skills. Auditors frequently have considerable discretion in the selection of subject matter and identification of criteria, which in turn influences who the relevant responsible parties and intended users are.
2. The role of **responsible party** may be shared by a range of individuals or entities, each with responsibility for a different aspect of the subject matter. Some parties may be responsible for actions that have caused problems. Others may be able to initiate changes to address the recommendations resulting from a performance audit. Others still may be responsible for providing the auditor with information or evidence.
3. The **intended users** are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can all be intended users. A responsible party may also be an intended user, but it will rarely be the only one.
4. **Criteria** are the benchmarks used to evaluate the subject matter. Performance audit criteria are reasonable and audit-specific standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed. The criteria provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives.
5. **Subject Matter** refers to the information, condition or activity that is measured or evaluated against certain criteria. The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences). The subject matter is determined by the objective and formulated in the audit questions.

**Guidance:** Check the planning documents, correspondence files, audit reports and follow-up documents of selected performance audits to examine:

1. whether the auditors have explicitly identified the elements of each audit and understood their implications to conduct the audit accordingly.
2. whether the auditors have considered what the audit pertains to, which organisations and bodies are involved and for whom the ultimate recommendations are likely to be relevant.
3. whether the audit recommendations are addressed to responsible entities only and that auditors do not assume the responsibilities of the responsible parties.

**2. Requirement:** *The auditor shall communicate the level of assurance provided in a transparent way (ISSAI 300/22)*

**Explanation**: The level of assurance provided by a performance audit should be communicated in a transparent way. However, performance auditors are not normally expected to provide an overall opinion, comparable to the opinion on financial statements, on the audited entity’s achievement of economy, efficiency and effectiveness. The degree of economy, efficiency and effectiveness achieved may be conveyed in the performance audit report in different ways:

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

**Guidance:** From a suitable sample of performance audit reports selected, examine whether the auditors have specifically given a clear view on the level of assurance provided by presenting a set of conclusions and – if applicable – a single overall conclusion.

**3. Requirement:** *The auditor shall specifically describe how the findings have led to the conclusions. (ISSAI 300/23)*

**Explanation:**  Audit reports should only include findings that are supported by sufficient appropriate evidence. The decisions made in drawing up a balanced report, reaching conclusions and formulating recommendations should be elaborated upon in order to provide sufficient user information. This means explaining which criteria were developed and used and why, and stating that all relevant viewpoints have been taken into account so that a balanced report can be presented.

**Guidance:** Examine a suitable sample of audit reports and the relevant working papers to ensure that the auditors have specifically described how their findings have led to the conclusion.

**4. Requirement:** *The auditor shall set a clearly defined audit objective that relates to the principles of economy, efficiency and effectiveness (ISSAI 300/25).*

**Explanation:** 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. Well-defined audit objectives relate to a single entity or an identifiable group of government undertakings, systems, operations, programmes, activities or organisations.

When auditing economy the auditor has to assess whether the inputs chosen represent the most economical use of public funds, whether the resources available have been used economically, and if the quality and the quantity of the ‘inputs’ are optimal and suitably co-ordinated. In efficiency, the main question is whether resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources. Effectiveness is concerned with the relationship between goals or objectives, outputs and impacts. Are the stipulated aims being met by the means employed, the outputs produced and the impacts observed? Are the impacts observed really the result of the policy rather than other circumstances?

Many audit objectives can be framed as an overall audit question, which can be broken down into more precise sub-questions. The formulation of audit questions is an iterative process in which the questions are repeatedly specified and refined, account being taken of known relevant information on the subject as well as feasibility. Instead of defining a single objective or overall audit question, auditors may choose to develop several audit objectives, which need not always be broken down into sub-questions.

**Guidance:** Check a suitable sample planning documentations to see whether:

1. audit questions and sub-questions are thematically related and complementary;
2. audit questions and sub-questions are not overlapping and collectively exhaustive in addressing the overall audit question addressing principles of economy, efficiency and/or effectiveness;
3. all terms employed in the question are clearly defined.

**5. Requirement:** *The auditor shall choose a result-, problem- or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design (ISSAI 300/26, 29; ISSAI 3000/1.8, Appendix 7).*

**Explanation:** The overall audit approach is a central element of any audit. It determines the nature of the examination to be made. It also defines the necessary knowledge, information and data and the audit procedures needed to obtain and analyse them. Performance auditing generally follows one of three approaches:

1. a **system-oriented approach**, which examines the proper functioning of management systems and is based on ideas and concepts from 'system theory', where government undertakings or programmes are seen as systems of interacting and functional interdependent elements;
2. a **result-oriented approach**, which assesses whether outcome or output objectives have been achieved as intended or programmes and services are operating as intended. In this approach, shortcomings are likely to be defined as deviations from norms or criteria. Recommendations, if presented, are often aimed at eliminating such deviations. The perspective is in that sense basically normative;
3. a **problem-oriented approach**, which examines, verifies and analyses the causes of particular problems or deviations from criteria. In a problem-oriented performance audit, the starting point is a known or suspected deviation from what should or could be. The problem-oriented approach deals primarily with problem verification and problem analysis, normally without reference to predefined audit criteria.

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

**Guidance:** Check a suitable sample of performance audits conducted by your SAI to see whether:

1. the selected audit planning memorandums and reports specifically state the approach or the combination of approaches used during the audit.
2. Examine the audit plan, report and working papers to ensure that:
3. When using a system-oriented approach, the performance auditors have applied a holistic perspective;
4. Under the results-oriented approach the auditors dealt with questions that mainly the form: ‘What is the performance or what results have been achieved, and have the requirements or the objectives been met?’.
5. In a problem- oriented approach the auditors have dealt with questions that mainly take the form: ‘Do the stated problems really exist and, if so, how can they be understood and what are the causes?’, where hypotheses about possible causes and consequences are formulated and tested.

**6. Requirement:** *The auditor shall establish suitable criteria, which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness (ISSAI 300/27).*

**Explanation:** Criteria are the benchmarks used to evaluate the subject matter. Performance audit criteria are reasonable and audit-specific standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed. The criteria provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives. The criteria can be qualitative or quantitative and should define what the audited entity will be assessed against. The criteria may be general or specific, focusing on what *should be* according to laws, regulations or objectives; what *is expected*, according to sound principles, scientific knowledge and best practice; or what *could be* (given better conditions).

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

The audit objectives, question and approach determine the relevance and the type of suitable criteria, and user confidence in the findings and conclusions of a performance audit depends largely on the criteria. Thus, it is crucial to select reliable and objective criteria.

**Guidance:** Check whether:

 1) the sources of criteria were specified in the audit report;

 2) the criteria were specifically linked to audit questions and stated in the Design Matrix;

3) the criteria were specifically linked to audit findings and stated in the Findings Matrix and in the audit report.

**7. Requirement:** *The auditor shall discuss the criteria with the audited entities (ISSAI 300/27).*

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

**Guidance:** Check whether:

1) the working paper files contain relevant documents, e.g. minutes of meetings, correspondence, that the criteria were discussed with the audited entity.

2) in case of disagreement with the audited entity, the auditors have documented the reason for disagreement and the rationale for deciding on a specific criteria.

**8. Requirement:** *The auditor shall actively manage audit risk. (ISSAI 300/28)*

**Explanation:** Audit risk is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users. Dealing with audit risk is embedded in the whole process and methodology of performance audit. Many topics in performance auditing are complex and politically sensitive. While simply avoiding such topics may reduce the risk of inaccuracy or incompleteness, it could also limit the possibility of adding value. The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors and, as a consequence, not being able to provide users of the audit report with knowledge or recommendations that would make a real contribution to better performance.

Important aspects of risk may include:

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

**Guidance:** Examine the planning memorandums and supporting documents of a suitable sample of performance audits to ascertain whether the auditors have stated the possible or known risks of the work envisaged and showed how to handle these risks.

**9. Requirement:** *The SAI shall monitor new research findings and acquire new knowledge, for keeping abreast of developments and maintaining awareness of innovative performance audit approaches**(ISSAI 3000/Appendix 1, 3.7).*

**Explanation:** There is need for continuous education and training that may include such topics as current developments in performance audit methodology, manage mentor supervision, qualitative investigation methods, case study analysis, statistical sampling, quantitative data-gathering techniques, evaluation design, data analysis, and reader-based writing. It may also include subjects related to auditors’ fieldwork, such as public administration, public policy and structure, government administration policy, economics, social sciences, or Information Technology science.

**Guidance**: SAI Training and Development Policies should include such interventions that would equip auditors with skills to monitor and assess emerging issues and new developments in performance auditing (e.g. training in relevant courses).

**10. Requirement:** *The SAI shall manage the legislature’s expectations carefully on PA (ISSAI 3100/Appendix, 3.3).*

**Explanation:** The SAI will need to establish the legislature’s preferences for performance audits by developing a good working relationship between the legislature and the SAI that ensures audit reports will be debated, through means such as meetings to establish performance audit topics of interest to the legislature; and briefings that the legislature may require to enable those working with the SAI’s performance audit reports to interact effectively with the government. For example, committee hearings involving questions to officials of audited bodies and production of legislative reports.

**Guidance**: SAI Communication Strategy, Policy and or Plan should stipulate how head of SAI should interact with legislature. There should be documented official correspondence and or minutes of meetings held between head of SAI and representatives of the legislature.

**11. Requirement:** *The SAI shall ensure that government authorities are made aware of the procedures relating to performance auditing, and understand the key requirements of performance auditing (ISSAI 3100/Appendix, 3.3).*

**Explanation:** A sound dialogue with the public authorities involved is pivotal in achieving real improvements in government. Although an SAI needs to maintain independence from the audited entity, the development of good and open professional relations is likely to make it easier for the SAI staff to conduct rigorous and useful audits as the audited entity may provide more willingly access to people and data that are necessary for performance auditing. Agreement on the findings between the SAI and the audited bodies involved may also increase the impact of the audit.

**Guidance**: SAI Communication Policy should specifically state ways for external communication. SAI should have “Awareness Creation Strategies” targeted at government institutions. These strategies should be planned for and reported on annually. The facilitor should check annual operational plans and a suitable sample of PA reports to ascertain that directives and procedures have been properly followed by the auditors.

**12. Requirement:** *The SAI shall (ISSAI 3100/Appendix, 3.3):*

1. *identify its stakeholders;*
2. *develop procedures for communicating with the media, the audited entity and other key stakeholders;*
3. *establish effective two-way communications with them.*

**Explanation a:** SAI has to establish and maintain stakeholders with regard to performance auditing. It is important to recognize that some stakeholders will be the SAI’s usual contacts, such as the legislature and government bodies, but others may be a new group not engaged with previously, such as the academic and business communities, citizens and their representatives, research institutions, interest groups, independent agencies such as non-governmental organisations, politicians and media representatives.

**Guidance a**: A Stakeholder Profile and or List should be kept by the SAI.

**Explanation b:** The SAI needs to develop procedures for communicating with all key stakeholders, and to ensure that its audit staff are aware of the strategies for external communication and are able to interact in a proper way with the audited entity and with any other party that provides information essential for performance auditing. A prerequisite for good external contacts is that the stakeholders have a basic understanding of the role and purpose of performance auditing. Staff and management of the SAI should therefore actively inform the stakeholders about performance auditing. This could be done in several ways, through meetings or written material; for example leaflets or brochures explaining the role and purpose of performance audits which can be distributed to audited bodies and key stakeholders.

**Guidance b**: There should be External Communication Strategy and Policy developed and functional.

**Explanation c:** The SAI needs to establish effective two-way communications with stakeholders to enable the SAI to develop a full understanding of the needs and expectations of the different groups in order to make decisions based on knowledge of what those expectations are. Another reason is to give the SAI the opportunity to explain the purpose of performance auditing to stakeholders.

**Guidance c**: Communication with stakeholders should be documented in official correspondence files.

**13. Requirement:***The SAI shall insure that all auditors possess adequate professional proficiency to perform their tasks.**(ISSAI 3000, 2.2)*

**Explanation:** Professional competence means that auditors should 1) conduct themselves in a professional manner at all times, 2) apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality, 3) not undertake work they are not competent to perform, 4) know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices, 5) possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity (ISSAI 30, 28-30).The SAI should recruit personnel with suitable qualifications and moral integrity required to completely carry out their tasks; and adopt policies and procedures to develop and train them. To become a performance auditor, certain distinctive qualifications have to be met; personal qualities such as an analytical ability, creativity, receptiveness, social skills, integrity, judgement, endurance as well as good oral and writing skills are vital. It is recommended that performance auditors have a university degree as a minimum qualification. Eventually the performance audit function might consist of people with academic backgrounds from a variety of disciplines.

**Guidance**: The SAI Human Resource Strategy should specify the requirements for each position and ways of achieving and maintaining them. This could be made possible through development of documents such as: Schemes of Service/established job descriptions, Training and Development Policy, Training Plans and Training Evaluation Procedures. Check if SAI map the skills required for the specific engagement against available resources and subsequently plan how to fill the gaps. For example, the SAI may contract consultants or ask the auditors to be trained.

**14. Requirement:** *The SAI shall ensure that a performance audit conducted in accordance with applicable auditing standards examines the quality of the information provided.**(ISSAI 3000/2.3, Appendix 3/2.3)*

**Explanation:** SAI should use appropriate work and audit standards, and a code of ethics, based on official documents of INTOSAI, International Federation of Accountants, or other recognized standard- setting bodies. The standards would allow auditors to assess whether the quality to be collected conform to the qualities appropriate for performance audit work.

**Guidance**: SAI should develop its own auditing standards based on ISSAIs and apply them. There should be Quality Management Procedures developed and applied. The auditor should assess the system’s internal control if he/she is to rely upon the documents that are the output of management control systems.

**15. Requirement:** *Before using experts, the SAI shall ensure that the expert (ISSAI 3000/2.3 and ISSAI 3100/38a, 38b):*

1. *has the necessary competence required for the purposes of the audit.*
2. *is independent of the activity/program.*
3. *is informed about the conditions and the ethics required.*

**Explanation a:** Experts are often used in performance auditing. An expert, if needed, is a person or firm possessing special skills, knowledge, and experience in a particular field other than auditing.

**Guidance a**: SAI Procurement Policy should specify circumstances under which services of experts in performance audit could be acquired. The policy should also state how these experts would be outsourced. There should be procedures established to assess the level of experts’ competences (e.g. procurement panels/committees and assessment/screening tools in place).

**Explanation b:** The SAI must ensure that the expert is independent of the activity/program being audited. Although the performance auditor may use the work of an expert as evidence, the auditor retains full responsibility for the conclusions in the audit report.

**Guidance b**: The assessment/screening tools should check the experts’ level of independence with regard to the audited body.

**Explanation c:** Outsourcing of expertise and audit activities to external entities, public or private, falls within the responsibility of the SAI and is subject to ethical policies (especially conflict of interest) and policies to ensure integrity and independence.

**Guidance c**: There should be a Memorandum of Understandings and or Terms and Conditions signed by the SAI and expert being engaged. These documents should specify the conditions ethical requirements necessary for the assignment; and also penalties for non-compliance.

16. **Requirement:** *The SAI shall ensure that performance auditing is a team effort with a selected team leader (ISSAI 3000/2.2, 3.3.3).*

**Explanation:** Performance auditing should be a team effort since the issues involved are complex. All audit team members should understand the audit questions, the terms of reference of the work assigned to them, and the nature of responsibilities required of them by auditing standards. Nevertheless, one person usually the most experienced or highest-ranking auditor, may be appointed team leader. The team leader is responsible for executing the audit work as well as allocating tasks to her/his team members. The team leader ensures the high quality of the output and its timely production. He/she acts as a link between the project team and the project manager.

**Guidance**: Established procedures should specify that there should be a team and team leader for each audit assignment. Procedures should state how teams should be assembled and how a team leader should be selected. Working papers for each audit should have these processes documented.

**17. Requirement:** *The SAI shall ensure that, collectively, the audit team has necessary professional competence to perform the audit (ISSAI 300/30; ISSAI 3100/19).*

**Explanation:** The SAI needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Whatever the nature of the audits to be undertaken under that mandate, the audit work should be carried out by persons whose education and experience is commensurate with the nature, scope and complexities of the audit task. The SAI should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, statistical sampling, audit of automated information systems etc.

**Guidance:** Check whether the SAI have Identified the knowledge and skill sets required for a suitable sample of performance audits selected for review and that the audit team as a whole possessed the skill sets, including domain knowledge.

When the audit engagement frequently requires downloading and analyzing data from information systems, check whether the audit team had the necessary knowledge and skill to download and analyze data.

**18. Requirement:** *The auditor shall have a sound knowledge of government organizations, programmes and functions (ISSAI 300/30).*

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

**Guidance:** Check whether:

1. the SAI maps the skills required for each specific engagements for against available resources and subsequently plans how to fill the gaps.
2. the SAI maintains permanent files for important audited entities and the audit team has access to these documents.

**19. Requirement:** *The SAI shall ensure that audits are performed with due care (ISSAI 3100/19).*

**Explanation:** The audit team and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations. Due care generally refers to the care that a person of normal prudence would have exercised in performing a given work. This includes adequate care in planning audit, collecting and evaluating evidence and in reporting findings.

**Guidance:** Examine a suitable sample of PA reports to see whether the audits were conducted with due care. Some indicators of due care checked are whether:

1. the audit were conducted according to the audit plan;
2. audit teams were alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorised operations, waste, inefficiency or lack of probity;
3. when external experts were engaged as consultants, due care was exercised to assure that the consultants have the competence and aptitude for the particular tasks involved. This also applies where outside auditors are engaged on contract with the SAI;
4. information gathered in the course of the audit was not used for purposes outside the scope of an audit and the formation of an opinion;
5. principles of fairness were applied during evaluation and in reporting of the outcome of the performance audits.

**20. Requirement:** *The auditor shall provide documentation that confirms the accuracy of facts. (ISSAI 300/34, ISSAI 3000/5.2)*

**Explanation:** *Accuracy* requires that the evidence presented should be true and comprehensive and that all findings are correctly portrayed. The need for accuracy is based on the need to assure readers that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report. Reported evidence should demonstrate the correctness and reasonableness of the matters reported. Correct portrayal means accurately describing the audit scope and methodology, and presenting findings and conclusions in a manner consistent with the scope of audit work

**Guidance:** Examine a suitable sample of performance audits to ascertain whether the auditors have kept adequate documentary records of the preparation, procedures and findings of each audit. Check the audit working papers and the evidences with the audit findings and conclusions to see whether the facts presented in the report are accurate, evidence presented are true and comprehensive and that all findings are correctly portrayed.

**21. Requirement:** *The auditor shall provide documentation that ensures that the report presents a balanced, fair and complete examination of the audited question or subject matter (ISSAI 300/34).*

**Explanation:** Documentation should not only confirm the accuracy of facts, but also ensure that the report presents a balanced, fair and complete examination of the audited question or subject matter. Thus, for example, it might be necessary for the documentation to include reference to arguments not accepted in the report, or to describe how different viewpoints were dealt with in the report.

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

**Guidance:** Check whether the auditors have documented in detail the analysis and conclusions, for all findings arrived at, in the working papers in a way that an independent auditor can arrive at the same conclusion from them. The audit report should also provide both issues of compliance and non-compliance related to the audited question or subject matter.

**Materiality**

**22. Requirement:** *The auditor shall consider materiality at all stages of the audit process (ISSAI 300/33).*

**Explanation:** Materiality can be understood as the relative importance of a matter within the context in which it is being considered. In performance audit, materiality by monetary value may, but need not, be a primary concern. Since the subject matter of performance audits can vary broadly and criteria are frequently not set by legislation, that perspective may vary from one audit to another. Assessing it requires careful judgment on the part of the auditor. Materiality concerns all aspects of performance audits, such as the selection of topics, definition of criteria, evaluation of evidence and documentation and management of the risks of producing inappropriate or low-impact audit findings or reports.

**Guidance:** Check a suitable sample of performance audits to see whether the audit plan and the working paper files should contain detailed explanations about how materiality was considered in selection of topics, identification of key audit areas, definition of criteria, evaluation of evidence, documentation and reporting findings and conclusions.

**23. Requirement:** *The auditor shall determine the materiality of the audit topic having regard to the magnitude of its impacts (significant or minimal) (ISSAI 300/33; ISSAI 3100/11).*

**Explanation:** Determination of materiality depends on whether the activity is comparatively minor and whether shortcomings in the area concerned could influence other activities within the audited entity. An issue will be considered material where the topic is considered to be of particular importance and where improvements would have a significant impact. It will be less material where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or otherwise minimal. The selection process for audit topics should aim to maximise the expected impact from the audit while taking account of audit capacities. Audit topics selected are significant (not only financial significance, but also social and/or political significance), auditable, reflect the SAI’s mandate and lead to important benefits for public finance and administration, the audited entity, or the general public.

**Guidance**: Examine the planning documentations and working papers of a suitable samples of audits to determine whether materiality of issues selected for audit were assessed based on the probable magnitude of impacts.

**24. Requirement:** *The auditor shall consider not only financial but also social and political aspects of the subject matter, with the aim of delivering as much added values as possible. (ISSAI 300/33)*

**Explanation**: Auditors should consider also what is socially or politically significant and bear in mind that this varies over time and depends on the perspective of the relevant users and responsible parties. The audit should lead to important benefits for public finance and administration, the audited entity, or the general public. Aside from audits carried out under legal mandate at the request of the Parliament or other empowered entity, performance audit topics should be selected based on problem and /or risk assessment and materiality or significance, focusing on the results obtained through the application of public policies.

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

**Guidance:** Check whether:

1. during selection of audit topics and designing individual audit engagements the auditors had considered not only financial but also social and political aspects of the subject matter.
2. auditors had taken into account problem and /or risk assessment and materiality or significance, focusing on the results obtained through the application of public policies.
3. auditors had considered if the policy field or subject has been covered earlier by audits or other reviews and there is opportunity to add value by providing new knowledge and perspectives.

**Professional judgement and scepticism**

**25. Requirement:** *The auditor shall exercise professional skepticism but also be receptive and willing to innovate (ISSAI 300/31).*

**Explanation**: The auditor should adopt an attitude of professional scepticism throughout the audit, recognizing that circumstances may exist that could cause the information relating to performance to be materially misstated. Auditors need to exercise professional scepticism and adopt a critical approach, maintaining an objective distance from the information provided. Auditors are expected to make rational assessments and discount their own personal preferences and those of others.

At the same time, auditors should be receptive to views and arguments. This is necessary in order to avoid errors of judgment or cognitive bias. Auditors are expected to consider issues from different perspectives and maintain an open and objective attitude to various views and arguments. If they are not receptive, they may miss important arguments or key evidence.

As auditors work to develop new knowledge, they also need to be creative, reflective, flexible, resourceful and practical in their efforts to collect, interpret and analyse data. Respect, flexibility, curiosity and a willingness to innovate are equally important.

**Guidance:** Some indicators of exercise of scepticism, receptiveness and innovation are:

1. The audit team make a critical assessment, with a questioning mind, of the sufficiency and appropriateness of evidence obtained throughout the audit;
2. The audit team identify competing views on the issue examined, compare and contrast those positions in the light of the public interest;
3. The audit team seeks corroboration of information and viewpoints;
4. The audit team plan for finding best practices;
5. The audit team search for innovative views and solutions by reviewing literature and interviewing relevant stakeholders.​

**2.3 Summary**

SAI and SAI officers should always be guided by some general principles to ensure a sustainable performance audit function that can perform its duties efficiently and effectively. ISSAIs 300, 3000 and 3100 cover all the aspects of the performance audit process and its conduct. They state explicitly the objectives of performance audit and the importance of communicating them more especially to the external stakeholders. It is imperative that stakeholders are established, given adequate information and maintained for the benefit of realizing the value performance audits could add to the overall administration of the governments’ operations. The SAI auditors should have appropriate skills and knowledge to carry out their duties but, on the other hand, the SAIs could use all the expertise it could get and help from stakeholders to ensure the good quality of its performance audit results.

**Chapter 3**

**Planning**

* 1. **Selection of topics**
		1. **Introduction**

A well-structured selection of topics, based on a sound rationale, is necessary to ensure that the resources of the SAI are used in the most efficient and effective manner. Proper selection of topics of performance audit is essential to ensure that an effective performance audit programme is in place, the audit programme is comprehensive and well planned, priorities are adequately determined, resources are allocated cost-effectively to areas with the greatest potential impact, monitoring arrangements are in place to review progress on delivering the agreed audit programme and individual studies are carried out as effectively as possible.

* + 1. **Requirements on selection of topics**

1. **Requirement:** *The auditor shall select audit topics through the SAI’s strategic planning process by analyzing potential topics and conducting research to identify risks and problems. (ISSAI 300/36; ISSAI 3000/3.2)*

**Explanation:** Determining which audits will be pursued is usually part of the SAI’s strategic planning process. Formal techniques to prepare the strategic planning process, such as risk analysis or problem assessments, can help structure the process but need to be complemented by professional judgments to avoid one-sided assessments. Linked to a SAI’s annual planning system, strategic planning may be a useful tool in setting priorities and selecting potential audits to be executed. In another context, it may serve as a mechanism to select future audit themes, as a basis for more detailed planning. It may also serve as an instrument for strategic policy decisions on the future direction of the audit.

The strategic planning process might be carried out by first determining the potential audit areas from which the strategic choices are to be made and then establishing the selection criteria to be used for these choices. The selection of audit areas involves strategic choices keeping in view the number of potential areas and the capacity of the SAI. The main selection criterion is probably the audit’s primary contribution to the assessment and improvement of the functioning of central government and the bodies connected with it. The general selection criteria would be as follows:

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

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

**Guidance:** Check whether:

1. the SAI undertakes strategic planning and that a strategic plan has been formulated;
2. the strategic plan contains a section on performance audit which outlines a list of potential areas for performance audits for the duration of the plan;
3. the selection of audit areas involves strategic choices and selection criteria are established to be used for these choices;
4. the strategic planning was based on risk analysis, or analysis of indications of existing or potential problems;
5. formal techniques such as risk analysis or problem assessments, complemented by professional judgment, were used to prepare the strategic plan;
6. adopted audit topics were aligned with the strategic plan;
7. the SAI’s policy/manual/guideline on selection of performance audit topics considers the basis of problem and/or risk assessment focusing on the results obtained through the application of public policies;
8. the requirements of the policy/manual/guideline were complied with in the selection of a suitable sampling of performance audit topics recently completed by the SAI. Evidence of this may be provided in the form of a matrix or analysis with supporting documentation contained in the working paper file or a separate file maintained by the performance audit section.

In some SAI’s, strategic plans on performance audits are prepared separately by the performance audit group which is forwarded to the Head of the SAI for approval.

1. **Requirement:** *The auditor shall take into account the perspective of the citizen that is related to the performance of the audited entity when selecting performance audit topics. (ISSAI 3100/10)*

**Explanation:** It is important to consider the interests of citizens on performance audits. Citizens are the source of ideas for performance auditing, a source of demand for performance auditing and users of performance audit reports. They may be contacted directly or through non-government organizations that represent them. The SAI will need to consider how best to communicate with the public. Depending on the circumstances with the SAI country, this could include a mix of television interviews, articles in various publications and use of the SAI’s websites. The SAI’s website could also include notifications of future performance audits, inviting those particular interests to contact the SAI with their comments particularly about service delivery.[[1]](#footnote-1)

**Guidance:** Check whether:

1. the SAI’s policy/manual/guideline on selection of performance audit topics considers the perspectives of citizens;
2. the requirements of the policy/manual/guideline were complied with in the selection of performance audit topics from a suitable sample of recently completed Pas by the SAI. Evidence of this may include the use of television interviews, articles in various publications and comments by the public provided through the SAI’s websites in considering audit topics for performance audits. This may be contained in the working paper of the audits or a separate file maintained by the performance audit section.
3. **Requirement:** *The SAI shall select topics that maximizes the expected impact of the audit while taking account of audit capacities. (ISSAI 300/36; ISSAI 3100/11)*

**Explanation:** The topic selection process should aim to maximise the expected impact of the audit by ensuring that the audit topics are sufficiently significant, auditable and relevant to the SAI’s mandate. It is important that the topics selected for audit leads to important benefits for public finance and administration, audited entity and the general public.A preliminary estimate of the likely benefits of auditing into a topic should be made at the strategic planning stage. If detailed audit inquiry into a particular area of the selected project is not likely to have any significant impact, then recommendations are unlikely to generate appropriate action. While considering this factor, the question that the SAI needs to answer is “Is the audit likely to make a difference? If detailed audit in the concerned area of the project is not likely to make a difference, then there would perhaps be no justification in applying limited audit resources in that area. All auditors should possess adequate professional proficiency to perform their tasks. The SAIs should recruit personnel with suitable qualifications, adopt policies and procedures to develop and train SAI employees to performance their tasks effectively, prepare written guidance concerning the conduct of audits, support the skills and experience available with the SAI and review the internal procedures.

**Guidance:** Check whether:

1) Audits should focus on significant issues that are likely to add value and be of interest to stakeholders. Answers to the following questions will help in identifying matters of significance:

1. Does the subject have an important impact on results?
2. Is it an area of high risk?
3. Does it involve material amounts?
4. Is it an area of visibility or of current concern?
5. Is it of interest to Parliament and the public?
6. Will it result in improved performance, accountability or value for money?[[2]](#footnote-2)

2) The SAI has enough human resources to carry out the audits and whether the auditors have the adequate professional skills.

1. **Requirement:** *The SAI shall select performance audit topics on the basis of problem and /or risk assessment focusing on the results obtained through the application of public policies aside from audits carried out under legal mandate at the request of the Parliament or other empowered entity.* (ISSAI 3100/11)

**Explanation:** The choice of audit problem is a crucial task for a SAI. The independence of SAI management in deciding which audit problems to address will vary from country to country, often due to the formal position of the SAI. In some countries, parliamentarians have great influence on the choice of problem, whereas other SAIs are quite independent of this kind of influence. In the situation where the SAI initiates an audit, there are a number of selection criteria which can be used to compare possible audit problems.

The most important ones are:

1. Relevance of the problem: includes materiality (money involved, importance for the citizens), risk (of ineffectiveness) and type of problem (structural, long-term problem etc.)
2. Possibility of carrying out an audit: includes relevant audit methods applicable, resources available (budget, transport, time)relevant audit skills available and evaluation already in progress by other bodies
3. Potential for change: includes possible solutions (excluding increased allocations) and interest in change shown by the audited entity or the government.[[3]](#footnote-3)

The decision to select a particular audit problem is based on the auditor’s description of the audit area, consideration of possible problems and analysis of the findings in the pre-study. Usually selection of topics in this regard begins with problem indicators of some kind e.g. shortcoming in service, complaints, rising costs etc.

Risk assessment helps to evaluate priorities and to decide between different possibilities for inclusion in a performance audit programme. In carrying out a risk assessment, auditors should:

1. identify areas, operations and activities susceptible to poor Value For Money (VFM) (that is, poor allocation and utilization of resources)
2. identify specific risks
3. establish VFM control and management information systems
4. assess degree of risk in terms of likelihood, frequency, significance, extent or consequence.[[4]](#footnote-4)

**Guidance:** Check whether:

1. the SAI’s policy/manual/guideline on selection of performance audit topics considers the basis of problem and/or risk assessment focusing on the results obtained through the application of public policies.
2. the requirements of the policy/manual/guideline were complied with in the selection of a suitable sampling of performance audit topics recently completed by the SAI. Evidence of this may be provided in the form of a matrix or analysis with supporting documentation contained in the working paper file or a separate file maintained by the performance audit section.

**3.2. Designing the audit**

**3.2.1 Introduction**

The auditor should design the audit in a manner which ensures that it is of high quality and is carried out in an economic, efficient and effective way and in a timely manner.[[5]](#footnote-5) A well thought out plan is indispensable in performance auditing.[[6]](#footnote-6) Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problem are identified and that the work is completed expeditiously. Planning also assists in proper assignment of work to team members and in coordination of work performed by other auditors and experts.[[7]](#footnote-7)

**3.2.2 Requirements on Designing the audit**

1. **Requirement:** *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 300/37; ISSAI 3000/2.2)*

**Explanation:** According to Wikipedia’s free encyclopaedia, project management involves planning, organizing, securing, managing, leading, and controlling resources to achieve specific goals. A project is a temporary endeavour with a defined beginning and end, undertaken to meet unique goals and objectives, typically to bring about beneficial change or added value. Managing this requires development of distinct technical skills and management strategies. The performance audit process should therefore satisfy all these attributes. In planning an audit, it is important to consider:

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

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

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

Planning should allow for flexibility, so that the auditors can benefit from insights obtained during the course of the audit. It is therefore advisable to be flexible and pragmatic in this respect. For this reason, performance audit procedures should not be overly standardised. Excessive prescriptiveness may hamper the flexibility, professional judgement and high levels of analytical skills that are required in a performance audit. In certain cases – where, for example, the audit requires data to be gathered in many different regions or areas or the audit is to be conducted by a large number of auditors – there may be a need for a more detailed audit plan in which audit questions and procedures are explicitly defined.

**Guidance:** Check whether there are:

1. performance audit procedure manuals to standardize the performance audit process;
2. Performance Audit Strategic Plan, Annual Operational Plan and Individual Audit Plans that meet all the requirements;
3. Training and Development Plans developed and implemented.

Check, from a suitable sampling of audits recently completed, whether at the planning stage there are evidences of:

1. research being conducted into the area being audited. The sources of these should be from outside the organization being audited. Evidence of such research should be part of the working paper file;
2. designing the audit procedures to be using for gathering sufficient appropriate audit evidences;
3. the planning was designing in a way that allowed flexibility;
4. senior and operational management being fully cognizant of the overall audit design;
5. that the senior management has ensured that skills, resources (time and money) and capacities are in place to address the audit objectives and the audit questions.
6. **Requirement:** *The auditor shall do research work aimed at building knowledge, testing various audit designs and checking whether the necessary data are available. (ISSAI 3100/16)*

**Explanation:** When planning a performance audit the auditors should conduct a research into the area to be audited. Auditors should read previous evaluations and reports written in the area. Sometimes these have data that can be utilized in the audit. Some of the reports that can be used include:

1. studies by industry, professional or special interest groups;
2. inquiries or previous reviews by the legislature;
3. information held by coordinating agencies or by interdepartmental committees;
4. research by academics;
5. work undertaken by other governments overseas; and
6. media coverage.[[8]](#footnote-8)

Such secondary data must be used with caution. It is also wise to consult academic research and other literature concerning the audit area. Alone this may not provide audit evidence, but it could provide the theoretical framework or points of reference necessary to elaborate on other audit evidence.[[9]](#footnote-9)

**Guidance:** Check for a suitable sampling of audits recently completed whether at the planning stage there exist evidences of research being conducted into the area being audited. The sources of these should be from outside the organization being audited. Evidence of such research should be part of the working paper file. Examples of the information are outlined above.

1. **Requirement:** *The auditor shall have a full understanding of the government measures which are the subject matter of the audit, as well as the relevant background causes and the possible impacts. (ISSAI 3000/Appendix 1, 5.2; ISSAI 3000/Appendix 3, 3.8 and ISSAI 3000/3.3.2)*

**Explanation:** Understanding of the audited program or audited entity’s business includes an understanding of the character of the government program being audited (role and function, activities and processes in general, development trends etc.), legislation and general programs and performance goals, organizational structure and accountability relationships, internal and external environment and the stakeholders, external constraints affecting program delivery, earlier investigations in the field and management processes and resources. The aim in the design phase is to develop a basic understanding of the audited program. Obtaining the required knowledge is a continuous and cumulative process of gathering and assessing information and relating the resultant knowledge to audit evidence at all stages of the audit.[[10]](#footnote-10)

It is important that at the planning stage the auditor examines various documents within the audited entity as well as past audits and evaluations carried out by the SAI as these may update and enlarge the auditor’s working knowledge of a particular subject. Some of the documents from within the organization that could be examined include:

1. enabling legislation and legislative speeches;
2. ministerial statements, government submissions and decisions;
3. recent audit reports, reviews, evaluations and inquiries into the agency;
4. the agency’s strategic and corporate plans, mission statement and annual report;
5. budget statements;
6. agency policy files, management committee and executive board minutes;
7. agency organization charts, internal guidelines and operating manuals;
8. the agency’s program evaluation and internal audit plans and reports;
9. conference reports and minutes.

**Guidance:** Check using a suitable sampling of recently completed audits whether at the planning stage there is evidence of audited entity being examined by the SAI to gain understanding of its statutory requirements operating environment etc. Evidence of examination of such documents should be part of the working paper file and should include relevant documents of the audited body some of which are listed above.

1. **Requirement:** *The auditor shall, before starting the main study, define the audit objectives, the scope, and the methodology to achieve the objectives. This could be done in the form of a pre-study. Where a pre-study is conducted it (ISSAI 3000/3.3*)*:*
2. *establishes whether the conditions for a main study exist;*
3. *provides background knowledge and information needed to understand the entity, program, or function;*
4. *is carried out in a fairly short period.*

**Explanation:** SAIs’ have limited capacity and would not commit its resources in commencing a performance audit without proper research. As such SAI’s mostly conducting pre-study before conducting the main study.

The pre-study[[11]](#footnote-11) is a process where it is possible to test different ideas, alternative audit problems and methods and provides sufficient justification to proceed with a main study or, alternatively, conclude any further work.

The purpose of the pre-study is to:

1. collect information to increase the auditor’s knowledge of the audit area;
2. identify possible audit problems;
3. decide whether to start a main study or not;
4. plan the main study.[[12]](#footnote-12)

If the pre-study results justify proceeding with a main study then it contains information about the most important economy, efficiency or effectiveness problems for the entity that is scrutinized as a guideline for the main audit. In addition, it provides background knowledge and information needed to understand the entity, programme or function. If the management decides to start a main study, an audit plan is prepared and decided upon.[[13]](#footnote-13)

The pre-study should normally be carried out in a short time while the main study usually lasts much longer. As a general rule, a complete audit project consisting of a pre-study and a main study should not exceed one year. However, nothing prevents a SAI from carrying out much shorter audit projects.[[14]](#footnote-14) Upon completion of the pre-study, the SAI should be able to establish the appropriate audit objectives, scope and methodology of the audit.

**Guidance:** 1.Check using a suitable sampling of recently completed audits whether:

1. there is evidence of pre-studies being conducted on the audits prior to the main study being conducted;
2. the study provided background knowledge of the audits; and
3. was carried out on a fairly short period.

2. Examine the audit plan of the selected two performance audits to check whether:

1. there is evidence that findings of the pre-study work was integrated in the audit objectives, scope and methodology of the audit;
2. the working papers provide details of the duration of the pre-study being conducted.
3. **Requirement:** *The auditor shall considered together the objectives and scope, which are interrelated. (ISSAI 3000/3.3)*

**Explanation:** The scope of the audit defines the boundaries of the activity being reviewed and tends to narrow the ambit of the audit from the broad audit objective. The audit objectives and scope are interrelated and, since changes in one usually affect the other, they need to be considered together.

**Guidance:** Using a suitable sample of recently completed audits check whether the objectives developed have close linkage to the scope. The audit plan contained in the working paper file should outline the objectives and scope developed for the audits.

1. **Requirement:** *The auditor shall describe a scope that clearly define the extent, timing and nature of the audit to be carried out. (ISSAI 3100/14)*

**Explanation:** The scope of the audit defines the boundaries of the activity being reviewed and tends to narrow the ambit of the audit from the broad audit objective. The decision on the scope of the audit is made taking into account the areas of the activity where most benefit could be gained from the audit while considering the amount that can be covered in the time and resources available for audit fieldwork. Scope may be geographic, excluding some physical areas, where an activity which is widely distributed. Scope is also time-related and the auditor should specify a time-period to be covered. The scope statement may also narrow the focus of the audit by specifying, for example, that the audit will only consider issues of effectiveness or compliance. It is particularly important that the scope of each audit to be conducted is clearly defined in the audit plan in respect to the extent, timing and nature of the audit.

The audit scope ensures that the examination phase is clearly bounded, enables decisions on resource requirements and audit procedures to be made and so assists in producing an audit of reasonable extent and cost. Scope can also be defined by stating what an audit will not cover.

**Guidance:** Check, in a suitable sampling of recently completed audits, whether:

1. the scope of the audit have been clearly defined;
2. the scope of the audit is defined in respect to the extent, timing and nature of the audit to be carried out.

The facilitator needs to review the audit plans for the above, which should be part of the working paper file.

1. **Requirement:** *The auditor shall include the following elements in the planning documents: (ISSAI 300/34, 37; ISSAI 3100/12 and ISSAI 3000/3.3)*
2. *the background and information about the audited entities, so as to allow an assessment of the problem and risk, possible sources of evidence, auditability and the significance of the area considered for audit;*
3. *the audit objective, scope, questions or hypotheses, criteria and period to be covered by the audit;*
4. *the methodology (framework, perspective and analytical structure that were adopted and the process that was followed to arrive at the conclusions, including techniques for gathering evidence and conducting the audit analysis);*
5. *the necessary activities, staffing and skills requirements (including the independence of the audit team, human resources and possible external expertise);*
6. *the estimated cost of the audit, the key project timeframes and milestones and the main points for control.*

**Explanation:** It is important to develop a sound understanding of the audited entity’s business sufficient to achieve the audit objectives, to facilitate the identification of significant audit issues and to fulfill assigned audit responsibilities. This knowledge would include an understanding of:

1. the mandate of the agency and the areas being audited within the agency;
2. objectives of the agency and relevant programs;
3. programs and performance goals of the agency;
4. organisational and accountability relationships within the agency;
5. the internal and external environment of the agency and the stakeholders;
6. external constraints affecting program delivery
7. agency management processes and operations; and
8. resources of the agency.[[15]](#footnote-15)

An audit objective is a precise statement of what the audit intends to accomplish. The scope of the audit defines the boundaries of the activity being reviewed and tends to narrow the ambit of the audit from the audit objective.

Having decided the subjects and the objectives of the audit general questions to be answered by the study have to be developed. Examples of general questions include *why are the services not delivered on time*? *Are government programmes implemented efficiently?* And *what is the reason for the poor impact of the government program?.[[16]](#footnote-16)*Audit hypotheses can sometimes be used instead of, audit questions. (Hypotheses are statements that are relevant to the audit problem; possible to test if they are true or false and formulated in a negative way.) It can be argued, however, that formulating questions is better than hypotheses as it helps the auditors to employ an open and inquisitive mind throughout the audit. Using questions instead of hypotheses, which are formulated in a negative way, can also make it easier when the audit is introduced to the audited entity. If hypotheses are used by the auditors, it is advisable to rephrase them to audit questions when the audit is presented to the audited entity and other stakeholders.[[17]](#footnote-17)

Audit criteria, are a set of reasonable and attainable standards of performance. Audit methodology refers to methods used by the auditor to gather evidence. Examples include, amongst others, documentation review, interviews, questionnaires, data analysis and physical observation. The main control points entail the monitoring and quality assurance arrangements for the audit.

**Guidance:** Check whether the audit plans prepared for a suitable sampling of recently completed audits:

1. include a brief summary of the background of the area or topic to be audited;
2. have identified the audit objective and scope of the audit;
3. have identified general questions or hypotheses;
4. have identified criteria, scope and period to be covered by the audit, and methodology (including techniques to be used for gathering evidence and conducting the audit analysis);
5. incorporate an overall activity plan which includes staffing requirements and possible external expertise required for the audit;
6. set out the estimated cost of the audit, the key project timeframes and milestones, and the main control points of the audit.
7. **Requirement:** *After having formulated the general audit question[[18]](#footnote-18), the auditor shall break it down into specific and testable sub-questions[[19]](#footnote-19) to be answered by the study. (ISSAI 3000/Appendix 1, 2)*

**Explanation:** After determining the audit problem the audit objective and the audit scope, the team should break the audit down into smaller pieces by defining specific audit questions. By answering these questions, the team should be able to reach the audit objective within the audit scope.[[20]](#footnote-20)

**Guidance:** Check using a suitable sampling of recently completed audits whether during the planning stage the general objectives/questions identified have been broken down into specific and testable sub-questions/sub-objectives to be answered during the audit conduct. This could be derived by review of the audit plans of the sampling audits which should form part of the working paper file.

1. **Requirement:** *When laws, regulations, and other compliance requirements pertaining to the audit entity have the potential to significantly impact on the audit questions, the auditor shall design the audit to address these issues in order to conclude on the audit questions. (ISSAI 3100/14)*

**Explanation:** Audited bodies usually have certain requirements to comply with, most of which are outlined in legislations and regulations. It is important that the audit team consider such requirements when designing the audit particularly when the requirements have the potential to significantly impact on the audit questions. Such requirements can be integrated in the audit plan as part of the sub-questions of the main audit question.

**Guidance:** Using audit plans of a suitable sampling of recently completed audits, establish whether the audit have been designed to incorporate laws, regulations and other compliance requirements pertaining to the audited entity. This could be provided in the form of sub-audit question or inclusion in the form of criteria under specific audit areas to be examined.

The audits involved should have some linkage back to the laws, regulations and other compliance requirements relating to the audited body for the requirements to be applicable.

1. **Requirement:** *The auditor shall use criteria that are relevant, understandable for users, complete, reliable, reasonable, attainable and objective in the context of the subject matter and audit objectives. (ISSAI 300/27; ISSAI 3100/13 and ISSAI 3000/3.3.2)*

**Explanation:** Audit criteria represent good practice, a reasonable and informed person’s expectation of what should be. The following outline definitions of each of the characteristics of audit criteria:

1. Relevant – the criteria should have a logical and sensible relationship to the findings.
2. Reasonable – the criteria is logical and practical.
3. Attainable – the criteria should be achievable.
4. Reliability – reliable criteria result in consistent conclusions when used by another auditor in the same circumstances.
5. Objectivity – objective criteria are free from any bias of the auditor or management;
6. Usefulness – useful criteria result in findings and conclusions that meet users’ information needs.
7. Completeness – completeness refers to the development of all significant criteria appropriate to assessing performance.

**Guidance:** Check using the report of a suitable sampling of recently completed audits check whether the criteria used meet the above requirements. The facilitator may need to use his/her professional judgment in assessing compliance with some characteristics.

1. **Requirement:** *The auditor shall be transparent regarding the sources used to identify criteria. (ISSAI 300/27; ISSAI 3100/13)*

**Explanation:** Audit criteria reflect a normative or desirable control model for the subject matter under review. They represent good practice a reasonable and informed person’s expectation of ‘what should be’. The SAI will need to identify or develop audit criteria that are valid for the nature of the activity under review. This may include quantitative and/or qualitative measures. To avoid disagreements with the audit clients on the criteria used it is important that the source of all criteria used are identified.

Since the audit methodology and criteria may have been developed specifically for a single engagement, the auditor carries a special responsibility to make his reasoning transparent. (ISSAI 300/34)

**Guidance:** Check for a suitable sampling of recently completed audits whether the sources of audit criteria included in the audit plans were identified.

1. **Requirement:** *When the audited entity disagrees with the audit criteria, the auditor shall weight the facts and arguments presented by the audited entity against other relevant facts and arguments. (ISSAI 3000/Appendix 2)*

**Explanation:** It is important that the SAI uses criteria that are accepted by the audited entity. If the audit criteria are not acceptable to the agency then findings against those criteria will have little credibility with them. The most acceptable criteria are those which the agency has already endorsed. It is difficult for an agency to argue that its own. In instances where SAI uses criteria whose source are outside the agency being audited then disagreement may be expected from the audited entity. In such instances the facts and arguments presented by the audited entity needs to be considered, and weighed against all relevant facts and arguments.

**Guidance:** Using a suitable sampling of recently completed audits, check whether:

1. correspondences exist that the audited entity have disagreed with the criteria. Evidences of correspondences may be included in the working papers or maintained in a separate file by the performance audit group;
2. the SAI has taken actions to weigh the arguments presented against other relevant facts and arguments. Documentation of this may be included in a working paper or some other file maintained by the performance audit section. In some instances this may have been discussed between the performance audit sections and would not be in any way documented.
3. **Requirement:** *The audit shall choose methods which best allow audit data to be gathered in an efficient and effective manner. (ISSAI 300/37; ISSAI 3100/17; ISSAI 3000/Appendix 3, 5)*

**Explanation:** Performance audit can draw upon a large variety of methods to gather audit data. While the aim of auditors should be to adopt best practices, practical reasons such as availability of data may restrict the choice of methods thus the auditors may have to settle for the second best solution. Therefore as a general rule, it is advisable to be flexible and pragmatic in the choice of methods. For this reason, performance audit procedures should not be standardized in all their terms.[[21]](#footnote-21) Auditors have to be creative in trying to find data that at least reasonably well describes what they are after.[[22]](#footnote-22) The chosen method should be the most suitable for the needs and circumstances of the particular audit and should be cost effective.

**Guidance:** For a suitable sampling of recently completed audits, check whether at the planning stage the SAI has considered various methods for the audits and have made decisions on the appropriate methods to be used with consideration of costs involved, available resources and other relevant factors. Such conclusions may have been reached following discussions between the performance audit teams. The audit plan should contain the methods selected by the audit team conducting the audits.

1. **Requirement:** *The auditor shall establish the nature, location, and availability of files at the outset of a performance audit so that they can be examined cost effectively. (ISSAI 3000/Appendix 1, 5.1)*

**Explanation:** File examination is likely to form the basis of any performance audit. Files contain a wide range of types of information that can be used for the audit. Examining files is time-intensive, and it is usually not possible to examine all documents. Judgment must be exercised whether to examine a random selection or a selection based on the purpose of the investigation.[[23]](#footnote-23) Thus at the planning stage the nature, location and availability of the files needs to be established such that they can be examined cost effectively.

**Guidance:** For a suitable sampling of recently completed audits, check whether at the planning stage the audit team had assessed the nature, location and availability of files that they would require during the audit. The working paper file should contain evidence of the assessment. In some instances, the decision on the requirement would have been made through a discussion between the audit team.

1. **Requirement:** *The auditor shall make a professional judgment as to whether sampling is an appropriate way of obtaining some of the audit evidence required. If sampling is used, then the following factors must be considered: (ISSAI 300/37; ISSAI 3000/Appendix 1, 4.3)*
2. *population is exactly defined;*
3. *specific audit objective that testing with the aid of the sample is designed to achieve is clearly defined;*
4. *sample size is determined;*
5. *that the sample is representative of the population from which it is drawn;*
6. *results are evaluated and documented.*

**Explanation:** Sampling is often used to obtain evidence in performance audits. In performance audits, sampling techniques are mostly used when essential facts cannot be obtained in other ways and where there are demands for structured comparison and well-founded generalizations.[[24]](#footnote-24) In planning for performance audits judgments thus needs to be made if sampling needs to be used to obtain required audit evidence.

As the auditor seeks to draw conclusions about a whole population by testing a sample of items selected from it, it is essential that the sample is representative of the population from which it is drawn. A sample may be statistical or non-statistical both require the use of professional judgment. The first stage in planning the sample is to make exact definition of the population. It is also essential that the auditor clearly defines specific audit objective that testing with the aid of the sample is designed to achieve. Moreover the sample size must be determined. Throughout the selection procedure, the auditor should regularly review whether the sample selected is likely to adequately represent the population. As much as possible testing should follow pre-determined questionnaire. As errors and omissions are found it is necessary to consider their cause and nature. The results must be evaluated and documented.[[25]](#footnote-25)

**Guidance:** Check using a suitable sampling of recently completed audits whether at the planning stage sampling has been considered and if it is then establish whether the population is defined, specific audit objective that testing with the aid of the sample is designed to achieve is clearly defined, sample size is determined and that the sample is representative of the population from which it is drawn and results are evaluated and documented. The working paper file should provide evidence of sampling if conducted.

1. **Requirement:** *The auditor shall indicate in the audit procedure the nature, source and the means for gathering evidence to conclude against the objectives and answer audit questions. (ISSAI 3100/16; ISSAI 3000/5.3; ISSAI 3000/Appendix 3, 1.2)*

**Explanation:** Audit procedures refer to the action steps to be taken to execute an audit technique. For example, in undertaking a “documentation review” (which is one type of audit technique) for testing the criterion “A formal needs definition should be carried out prior to the commencement of the project,” the following audit procedures or action steps may be carried out:

1. review the project needs definition segment of the project appraisal report;
2. obtain information to verify whether survey of users was conducted and relevant statistics were collected;
3. if verification at Step 2 above is positive, determine whether the data was gathered and reported in a systematic manner supported by appropriate methods;
4. conclude whether the criterion has been met.

**Guidance:** Check whether, for a suitable sampling of recently completed audits, their audit plans include audit procedures and the procedures indicate the nature, source and means for gathering evidence to conclude against the objectives and audit questions. The audit plans should be included as part of the working paper documents.

1. **Requirement:** *The auditor shall notify the audited entities of the key aspects of the audit, including the audit objective, questions, criteria, scope and methods before the start of the data collection phase or after the completion of the audit planning. (ISSAI 3100/18; ISSAI 3000/4.1; ISSAI 3000/Appendix 4)*

**Explanation:** The SAI needs to inform the authorities concerned (head of the entities/senior officials) of the aim, objectives, and scope and methods of the audit as soon as possible after the decision to start an audit. This will facilitate the process and help avoiding misunderstandings. SAIs may also find it important to discuss the audit criteria. In some SAIs a document is sent to the audited entity prior to the commencement of the audit which contains all the above information. Some SAI’s inform the audited entity of the details during the meeting prior to the commencement of the audit conduct.

**Guidance:** Check, in audit plans of a suitable sampling of recently completed audits, whether the audited entities were notified of the key aspects of the audit as outlined above. Evidence that may exist to support this communication includes correspondences between the SAI and the audited entity and/or minutes of the meeting at the commencement of the audit.

1. **Requirement:** *The auditor shall assess the risk of fraud. (ISSAI 300/37)*

**Explanation:** The nature of fraud and corruption prevalent in the public sector has persuaded the SAIs to integrate considerate fraud and corruption into the overall audit process. Therefore, auditing for fraud is not separated or standalone that has somehow been added to the existing audit process[[26]](#footnote-26). If the risk of fraud is significant within the context of the audit objectives, the auditors should obtain an understanding of the relevant internal control systems and examine whether there are signs of irregularities that hamper performance.

During the audit planning stage, the auditors should assess risk of fraud and corruption at the entity or program level in order to decide the nature, extent of specific and further audit procedures[[27]](#footnote-27).

**Guidance:** Check, in a suitable sampling of recently completed audits, whether:

1. during the understanding of entity, the auditors have assessed the internal control systems in order to evaluate the risk of fraud;
2. examined the measures taken by management to mitigate the risk of fraud;
3. the auditors have designed adequate procedures to address the risk of fraud.
4. **Requirement:** *The auditor shall determine whether the entities concerned have taken appropriate action to address any recommendations from previous audits or other examinations that are of relevance to the audit objectives. (ISSAI 300/37)*

**Explanation:** One of the purposes of the follow-up is to provide input to the planning of performance audits. The auditor needs to examine whether recommendations made in previous audit reports have been addressed by the audited entity. If significant recommendations, especially those which are still relevant for the audited entity have not been addressed, then this areas should be considered when designing the audit. Probably they will indicate areas of high risk for the performance of the audit object. This analysis will be useful to define the audit objectives and to focus the audit.

**Guidance:** Check, in a suitable sampling of recent audits, whether the auditors:

1. during the planning, have identified recommendations that have not been addressed by the audited entity;
2. have identified the risk associated with the areas not addressed by the audited entity;
3. have included those possibly high risk areas in the planning of the current audit.
4. **Requirement:** *The auditor shall seek contact with stakeholders, including scientists or other experts in the field, in order to build up proper knowledge regarding, for instance, good or best practices. (ISSAI 300/37; ISSAI 3000/2.2, 2.3, 3.3; ISSAI 3100/2.4.2, Appendix 1/3.3)*

**Explanation:** Good communication with the audited entities, experts and other stakeholders from different backgrounds is important during the entire audit process. The auditors need to identify key stakeholder groups and establish effective two-way communications with them from the planning phase to ensure that the factual basis of informations, descriptions, analyse and recommendations presented in the report is accurate. One way to examine the subject matter is by conducting interviews with major stakeholders and experts and analysing potential problem indications from various viewpoints.

Experts are often used in performance auditing. Before using experts, the auditor should ensure that the expert has the necessary competence required for the purposes of the audit. An expert is a person or firm possessing special skills, knowledge, and experience in a particular field other than auditing. Although the performance auditor may use the work of an expert as evidence, the auditor retains full responsibility for the conclusions in the audit report. Other important external stakeholders are representatives of the academic community. They have expert knowledge in specific audit areas, and may provide a more objective view, less restricted by personal interest. Academics may thus serve as suitable discussion partners, co-readers and sometimes also consultants at all stages of an audit.

**Guidance:** Examine the working papers to asserting whether the auditors had communicated with the key stakeholders during designing the audit. Examine whether the information gathered from the key stakeholders and experts were reflected in the design matrix.

* + 1. **Summary**

ISSAIs 3000 and 3100 cover all the aspects of the performance audit process. Selection of topics and designing the audit are part of the performance audit process included in the two standards. The two entail pivotal stages of the entire performance audit process. Selection of topics ensures the proper selection of the audit object. Designing an individual performance audit allows for the proper identification of audit objectives, scope, methodology and criteria to carry out an audit. Overall, both types of planning ensure the proper use of resources of the SAI in the conduction of performance audits.

**Chapter 4**

**Conducting**

**4.1. Introduction**

Performance audit is conducted in the field with the objective of implementing the audit work plan. During this phase, the audit team should obtain sufficient, appropriate (valid, reliable and relevant) audit evidence to satisfy the audit objective and questions; interpret the audit evidence; and to be able to draw audit conclusions. While evidence in financial audits tends towards being conclusive (yes/no or right/wrong), this is seldom the case in performance audits. More typically, performance audit evidence is persuasive. Different techniques are used to collect and analyze audit evidence.

Conducting a performance audit is both an analytical and a communicative process. In the analytical process, data is collected, interpreted, and analysed. The communication process begins when the audit is first presented to the audited entity, and continues as the audit proceeds, as audit findings, arguments and perspectives of the audited entity are exchanged between the audit team and the audited entity.

**4.2 Requirements on conducting the audit**

1. **Collecting and analyzing evidence**

* + - 1. **Requirement:***The auditor shall obtain sufficient, appropriate (valid, reliable and relevant) audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations. (ISSAI 300/38, ISSAI 3000/4.2, 4.3, 5.2, 5.3, ISSAI 3000/Appendix 3/1, 1.2, 2, 2.1, 2.2, 3.9, ISSAI 3100/20, 21)*
1. ***Sufficient***

**Explanation:** Evidence should be sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) i.e. it is relevant, valid and reliable. Evidence is sufficient when there is enough relevant and reliable evidence to persuade a reasonable person that the performance audit findings, conclusions and recommendations are warranted and supported. Evidence should always be placed in the context before drawing conclusions.

**Guidance:** Some possible indicators of sufficiency are:

1. SAI has a policy/procedure manual for collection of sufficient evidence.
2. Discuss with management as to how check for sufficiency of evidence is ensured.
3. Working papers contain proof of review of audit evidence.
4. Check working papers to find whether:
5. Evidence is from multiple sources;
6. Evidence is not based on isolated occurrences;
7. If documentary evidence is used, the status of the document has been considered in determining sufficiency. For instance check whether the document is a draft or formally approved by competent authority, is it internally generated or from outside;
8. Observation of a physical condition, critical to achieving the audit objectives, is corroborated (ISSAI 3000/Appendix 3, 2.1, 3.9);
9. Oral evidence is corroborated if it is used as evidence rather than as mere background information (ISSAI 3000/Appendix 3, 2.2).
10. ***Appropriate (Valid, reliable and relevant)***

**Explanation:** Evidence is valid and reliable if it actually represents what it purports to represent.

**Guidance:** Some indicators of valid and reliable evidence are:

1. SAI has a policy/procedure manual for collection of valid and reliable evidence.
2. Discuss with management as to how check for validity and reliability of evidence is ensured.
3. Working papers contain proof of review of audit evidence.
4. Check working papers to find whether:
	1. Oral evidence is supported by documentation (for instance confirmation of minutes of the interview) for greater reliability;
	2. Source of evidence does not have a vested interest in the outcome (reliability);
	3. Evidence does not conflict with other evidence or within parts of itself (reliability);
	4. Evidence is from multiple sources (reliability);
	5. General conclusions are not based on evidence from isolated occurrence (validity);
	6. Evidence is complete (reliable).

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

**Guidance:** Some indicators of relevant evidence are:

1. SAI has a policy/procedure manual for collection of relevant evidence.
2. Discuss with management as to how check for relevance of evidence is ensured.
3. Working papers contain proof of review of audit evidence.
4. Check working papers to find whether:
	1. Evidence is time-sensitive, i.e. not too old and reflects changes;
	2. Samples are representative;
	3. Evidence is not too expensive relative to the benefits.
		* 1. **Requirement:** *The auditor shall place all audit findings and conclusions in context, and consider all relevant arguments, pros and cons and different perspectives before drawing conclusions (ISSAI 300/38).*

**Explanation:** When conducting audit, the auditor would have to ensure that evidence of poor/unsatisfactory performance as well as evidence of good work done by the audited entity are collected. This would enable a balanced and fair conclusion to drawn later. The nature of the audit evidence required to draw conclusions in performance auditing is determined by the subject matter, the audit objectives and the audit questions.

**Guidance:** Some indicators of compliance are:

1. SAI policy provides for all evidence gathered to be maintained in the working papers.
2. Examine working papers to check whether:
3. evidence is collected from different sources and by using different evidence gathering techniques;
4. all collected evidence were analyzed (both positive and negative) while drawing audit conclusions;
5. challenges faced by the audited entity are considered and where appropriate included in the audit findings. For example, if the audited entity had explained that the targeted number of beneficiaries could not be covered under Water Supply Scheme in a particular year due to severe drought, then the audit finding and conclusion should be drawn after duly considering this fact.
	* + 1. **Requirement:** *The auditor shall exercise professional judgment to reach conclusion (ISSAI 300/38).*

**Explanation*:*** The auditor should try and collect sufficient and appropriate evidence to base audit conclusions in response to audit objectives. However, the auditor should be pragmatic as collection of some evidence may be expensive or time consuming, In such situations, the auditor should exercise professional judgment and weigh the need for further evidence against the cost and time needed to collect it. This would also depend upon the sensitivity and materiality of the audit issue under consideration.

**Guidance*:*** Some indicators of compliance are:

1. Randomly select few audit conclusions from a recently published audit report and verify the working papers for the evidence related to the audit conclusions. Check whether the audit evidences support the conclusions. If you are of the view that the evidence is inadequate or inappropriate, check whether the working papers contain reasons for not collecting further evidence.
2. Discuss with the auditors to verify their understanding of the relationship between sensitivity and materiality of audit issue and the strength of audit evidence needed to draw audit conclusions.

**4. Requirement:** *The auditor shall use powers of access to information tactfully and with due regard to the ongoing operational responsibilities (ISSAI 3000/Appendix 4).*

**Explanation:** The SAI should use its powers of access to information diplomatically and must not appear overpowering or intimidating. The SAI should endeavor to give the audited entities reasonable notice of its intention to commence an audit and should discuss the general scope of the study with relevant officers.

**Guidance:** Some indicators of compliance are:

1. Check whether the policies/procedures of the SAI prescribe the minimum period of notice to be given to an audited entity about the commencement of audit engagement.
2. Verify whether the prescribed minimum period has been complied with in the performance audit engagements.
3. If such minimum period is not prescribed, discuss with the management as to how they ensure compliance with this requirement.
4. From the engagement files check whether the audited entity audited entity has sought changes in the period of audit engagement on justifiable grounds and if these requests have been considered.
5. In case interviews are conducted, check whether the interviewee has been given adequate advance notice.
6. In case survey/questionnaires are used on employees/customers of the audited entity audited entity, verify whether the audited entity audited entity has prior intimation about it.

**5. Requirement:** *The auditor shall obtain a list of files from audited entity’s registry systems when collecting evidence. (ISSAI 3000/Appendix 3/3.4, 3.5)*

**Explanation:** A registry system contains list of files/records maintained in an organization.

**Guidance:** The indicators of compliance with this requirement are:

* + 1. Examine the working papers to check whether the audit team made efforts to obtain a list of files from the audited entity’s registry system;
		2. Internal reports or reviews that summarize for senior management the issues at the time, or propose courses for action are located and analyzed by the auditor (ISSAI 3000/Appendix 3/ 3.5)
1. **Requirement:** *The auditor shall analyze policy statements and legislation against the background leading to their promulgation and changes (ISSAI 3000/Appendix 3/ 3.1).*

**Explanation:** In addition to studying the legislation and policy statements, it is necessary that the audit team knows the background for the promulgation and changes to the legislation and policy. Such a background study help the auditor in the following ways:

* + 1. The rationale or the real intent of the legislation or policy change can be appreciated by the audit team. This will help the audit to check for compliance not only with the letter but with the spirit of the legislation/policy.
		2. Auditor can gather details on the various options considered before selecting a policy.
		3. Auditor can also examine whether correct input was provided to promulgate the policy/legislation and whether the prescribed procedure for enacting/amending legislation or for formulating policies has been followed.

The challenge in examining the background to the policy/legislation is that the source documents are not likely to be available with the audited entity, but with the Government Ministry/Department. However, in view of the various benefits listed above, the audit team should study such background material.

**Guidance:** Some indicators of compliance are:

* + 1. SAI has a stated policy on audit work regarding formulation of policy and legislation, which at least requires background research on general intentions behind such formulations.
		2. Identify any major legislation enacted/amended or policy formulated during the period covered under performance audits selected for review. Check the working papers for background information on such legislative/policy changes.
		3. Discuss with the management on the practices followed on background study on policy formulation.

**7. Requirement**: *The auditor shall make detailed assessments of the need for information both before and during the audit to avoid getting caught up in details and a flood of data (ISSAI 3000/4.4; ISSAI 3000/Appendix 3/2.3, 3).*

**Explanation:** A performance audit may run for a long time, and there may be changes in knowledge and reality from the point in time when it started. In performance auditing it is often difficult to make a choice between the directions set out in the work plan and the description of the audit’s structure on the one hand, and the interest in studying questions that arise at a later date on the other. To avoid getting caught up in details and a flood of data, detailed assessments of the need for information must be made both before and during the audit. Based on experience, this makes it easier to eliminate extraneous detail and irrelevant approaches, and to sort or structure the information gathered. However, the audit team must not be rigid and avoid all unplanned data.

**Guidance:** Some indicators of compliance are:

* + 1. SAI has policies, procedure manual which details the action to be taken in case new information comes to the knowledge of the audit team after approval of audit work plan.
		2. Check whether the working papers provide justifications for changes (inclusion/deletion of audit questions/objectives, increase/reduction in the scope of audit etc.) or for not making changes to the work plans.
		3. Examine working papers for information/details neither planned for nor used. This will indicate wasteful audit efforts in collecting superfluous information.
		4. Discuss with management on how proposals for changes in audit plan due to new knowledge is handled.

**8. Requirement:** *The auditor shall when using interviews (ISSAI 3000/Appendix 1, 5.4):*

*a) interview people with different positions, perspectives and insight;*

*b) compile results of the interviews and document it in a way that facilitates analysis and quality assurance.*

**Explanation a:** Interviews may be used both in the planning phase and in the examination itself, to obtain documents, opinions and ideas that relate to the audit’s objectives, to confirm facts and corroborate data from other sources, or to explore potential recommendations. However, to obtain the broadest possible view of reality, it is important to interview people with different positions, perspectives and insights.

**Guidance a:** This requirement could be considered met if a wide variety of people as detailed below (not exhaustive) are interviewed:

1. Employees at both central and local level.
2. Employees from different levels in the hierarchy.
3. Different stakeholders like customers, beneficiaries and non-government agencies in case of a social service program.
4. Experts.

**Explanation b:** While interviews are a useful means for collecting information, auditors must be conscious of the fact that interviews can produce disparate information, which by themselves would only be of limited use. Therefore, it is essential to compile and document the results of interviews so as to facilitate meaningful analysis.

**Guidance b:** Some indicators of compliance are:

* + 1. The SAI has policy/manuals which describe the manner in which the results of interviews are to be analyzed;
		2. Check working papers to verify if results have been categorized in any of the possible ways:
1. Problems, causes and consequences.
2. Conditions, causes, effects and potential recommendations.

***9.* Requirement:** *The auditor shall, when analyzing data (ISSAI 3000, Appendix 1, 6):*

1. *First review the audit objectives and the audit question;*
2. *put information in perspective, by comparing the results to audit criteria or to what is generally expected.*

**Explanation a:** When the collected information is to be analyzed and interpreted, the audit team must first focus on the audit question and objectives. This will help to organize data and also provide the focus for analysis. Auditors should always remember that main purpose of collecting information is to conclude on the audit question and objectives. The auditors could in exceptional cases consider reformulating the audit questions to fit the evidence obtained and thus arrive at a position where the questions can be answered (ISSAI 300/39). However, revising the audit question after collecting evidence should be an exception and not the norm.

**Guidance a:** Some indicators of compliance are:

1. discuss with management/focus group members on the manner in which data is analyzed and how the linkages between audit objectives, questions and evidence is maintained;
2. evidence in the working papers to demonstrate that at the time of completion of field audit, the audit questions and objectives are revisited and the evidence related to each question/objective is assessed;
3. compiling/grouping of data according to the audit objective and question;
4. there is a clearly laid down policy/procedure for making changes to the audit question later in duly justified cases;
5. when changes are made, reasons for changes to audit questions after collection of evidence are well justified in the working papers and they are approved by the appropriate authority;
6. Check number of instances of changes made to audit questions after planning phase to know whether changes are made often.

**Explanation b:** Audit findings are the specific evidence gathered by the auditor to satisfy the audit objectives, in order to be able to answer the audit questions and verify the stated hypothesis, etc. Conclusions are statements deduced by the auditor from those findings relating to the audit objectives. Audit findings contain the following elements: *criteria* (‘what should be’), *condition* (‘what is’), and *effect* (‘what are the consequences’ – observed as well as ‘reasonable and logical future impact’), plus *cause* (‘why is there a deviation from norms or criteria’), when problems are found. Thus audit findings are arrived at by comparing ‘what should be’ (criteria) with ‘what is’ (condition).

**Guidance b:** Some indicators of compliance are:

* + 1. SAI procedure manual requires the comparison of collected information with the criteria or expected results.
		2. Working papers contain proof that against each criterion listed in the work plan, the collected information (condition) is compared.

***10. Requirement:*** *The SAI shall arrange that the work delegated to the auditor is carefully directed, supervised and reviewed (ISSAI 300/38; ISSAI 3000/2.3, 4.4; ISSAI 3000/Appendix 4; ISSAI 3100/2.5, 19, 38).*

**Explanation:** The work of the audit staff should be properly supervised during the audit, and the work should be reviewed by a senior member of the audit staff. The audit manager directs/guides the audit team members in performing their work; and reviews their work to check compliance.

**Guidance:** Some indicators of compliance are:

* 1. The SAI has internal policies/procedures in compliance with ISSAI regarding supervision and review of work by audit managers;
	2. Discuss with audit managers on how compliance is ensured with the standard;
	3. Some possible proof of compliance in working papers are:
		+ 1. approval of audit enquiries by the audit manager;
			2. review of team member’s work by the audit manager;
			3. audit procedures are adequate and properly carried out;
			4. international and national auditing standards are followed.

**11. Requirement:** *The auditor shall not be involved in the practical work of implementing changes at the audited entity (ISSAI 3000/4.4).*

**Explanation:** While the audit team should establish a friendly relationship with the audited entity to facilitate free exchange of information and views, members of the audit team should not get too closely involved with the audited entity. This will impair the auditor’s independence to work objectively.

**Guidance:** Some indicators of compliance are:

* + 1. SAI has a policy regulating the auditors working with the audited entity;
		2. Check for compliance with such a policy;
		3. Discuss with managers on how compliance with this requirement is ensured.

**Summary**

In this chapter, we had described briefly the key performance audit tasks relating to the conducting phase and the ISSAI requirements that needs to be complied with. In next chapter on iCAT, the discussions would cover the requirements relating to reporting phase.

**Chapter 5**

**Reporting**

**5.1. Introduction**

The primary audience for performance audit reporting is the parliament and government agencies. A good performance audit enables the parliament to effectively scrutinise government and agency performance, and influence decision-makers in government and the public service to make changes that lead to better value for money outcomes. However, there are also other stakeholders such as citizens, the private sector and the media who all can have an interest, but possibly a different focus, in the outcome of a performance audit.

Written reports must communicate the results of audits to all levels of government. The performance audit report is the product on which the government, the legislature, and the public judge the SAI performance audit function. In a performance audit, the SAI reports on the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are met. Such reports may vary considerably in scope and nature, for example 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.

**5.2 Requirements on reporting the audit**

1. **Requirement:***The SAI shall, before publishing a performance audit report, give the audited entity(ies) the opportunity to examine its content and comment on the audit findings, conclusions and recommendations, unless prohibited by legislation or regulations. (ISSAI 3000/4.5, 5.3; ISSAI 3100/34).*

**Explanation:** The audit report must be **balanced** i.e., it must reflect the view of the auditor but must also show the perspective of the audited entity. The audited entity may not always agree with all aspects of the report. That is why the auditor must give the audited entity an opportunity to respond to any findings highlighted in the report. Usually the auditor would determine the amount of time that is given to the audited entity to provide feedback, but care must be taken to ensure that sufficient time is provided for feedback.

**Guidance:** Some indicators of compliance are:

1. The SAI’s policy clearly contain a requirement for communicating the draft audit report to the audited entity before finalizing the report.
2. Examine the working papers to check whether the draft report was sent to the audited entity for their comments.
3. Examine the working papers to check whether adequate time was given to the audited entity to comment on the draft report.
4. An exit meeting was held to discuss the draft report with the audited entity.

**2. Requirement:***Where responses from audited entity provide new information, it is assessed and the draft report modified, provided the usual standards of evidence are met (ISSAI 3000/4.5).*

**Explanation:** It is possible for the audit team to modify the audit report based on the feedback received from the audited entity. The Audited entity may provide evidence which the auditor did not have. The auditor therefore would have to ensure that the new information is assessed in the same manner as was done during the examination stage. If the auditor is satisfied after assessing the new information, then the draft report will be modified. The examination of feedback received should be recorded in working papers so that any changes to the draft audit report, or reasons for not making changes, are documented. SAI’s may have the flexibility to determine the length, relevance or tone of the response to be included in the report.

**Guidance:** Some indicators of compliance are:

1. The SAI has a policy or procedures for handling new information provided by the audited entity in response to the draft report.
2. Examine the working papers and note whether new information provided by the audited entity has been duly examined and reasons for inclusion/non-inclusion of the same in the final audit report are available.
3. Additional audit work was performed to verify the correctness of the new information.

**3. Requirement:** *The auditor shall ensure that the information given is relevant to the topic, the audit question or the problem studied (ISSAI 3000/5.3).*

**Explanation:** The information included in the audit report should be **material** (important that the effect of its presence or absence can have a great impact) and **relevant** (connected to or pertaining to) the topic; the audit question or the problem studied.

**Guidance:**  Some indicators of compliance are:

1. The SAI has an **established review process** to identify and correct any weaknesses in linking the information gathered to the audit topic, questions etc.
2. The facilitator can examine the SAI’s **procedures manual** to identify the process and determine whether it is followed.
3. The facilitator can take a sample of the working paper files for the assessment period and note whether there is evidence of this process.

**4. Requirement***: The auditor shall put the audit findings into perspective and ensure congruence between the audit objective, audit questions, findings and conclusions (ISSAI 300/39, ISSAI 3000/5.2 and ISSAI 3100/30).*

**Explanation:** The audit report must always show congruence (agreement, harmony or conformity) between the objectives, audit questions, findings and conclusions. As audit evidence is collected to answer the audit objectives and questions, it is essential to establish a clear forward and backward linkage from audit objective to audit conclusion through audit questions and audit findings.

**Guidance:** Some indicators of compliance are:

1. Select few paragraphs from published audit reports and try to link it with the audit objectives and questions contained in the Design matrix.
2. Similarly select a few audit questions from the design matrix and check whether there are relevant audit findings and conclusions relating to them in the published audit report. Check reasons for not including findings against the audit questions in the report.
3. Discuss with the audit managers/QCA personnel to check the manner in which they ensure this congruence.

**5. Requirement:** *The auditor shall provide accessible and up-to-date information (ISSAI 3000/5.3).*

**Explanation:** Government, parliament, and government entities should be able to use the report to improve the way they function, i.e. the information provided should add value. It is essential to strike a fine balance between producing a concise report and a report that is voluminous but contains useful information for those charged with governance or the audited entity. This can be done by keeping the body of the report concise and by including additional information as appendices or annexes. This will enable access to vital information to those responsible for taking corrective action. The report must be current i.e. as far as possible extending up to the current time. For instance, if the scope of audit is to cover activities of the audited entity up to the end of a year and if important events take place after the year and the time of publishing the report, it must be ensured that suitable references are made to the important events in the report even though they occurred outside the scope of audit period in order to ensure that the report contains updated information.

**Guidance:** Some instances of compliance are:

1. SAI has clear policies and procedures on:
	* 1. information to be included in the body of the report and in the appendices and annexes;
		2. inclusion of material information outside the scope of the audit period but still relevant to the audit objectives;
2. Select a few recommendations from the published reports and check whether the report contains adequate information necessary for those responsible for taking corrective action;
3. Check working papers for details of latest material information relating to the audit and verify whether these are referred sufficiently in the report.

**6. Requirement:** *The auditor shall provide audit reports which are (ISSAI 300/39; ISSAI 3000/5.2, 5.3; ISSAI 3100/31):*

*a) comprehensive;*

*b) convincing;*

*c) timely;*

*d) reader-friendly;*

*e) balanced.*

**Explanation a:** Being comprehensive means that the audit report should contain all information and arguments needed to fulfil the audit objective and provide answers to the audit questions.

**Explanation b:** The report must be logically structured and present a clear relationship between audit objectives, findings and conclusions and recommendations. All relevant arguments must be addressed.

**Explanation c:** Being timely requires that the report should be issued on time in order to make the information available for timely use by management, government, legislative officials and other interested parties. Some SAI’s control the timing of their work by setting specific tabling dates (T-) to coincide with the sitting of parliament. Therefore, the tabling date of a report is set in advance.

**Explanation d:** The auditor should use simple language to the extent permitted by the subject matter. Technical terms and unfamiliar abbreviations must be defined. Graphs and pictures must be used to facilitate reader’s understanding.

**Explanation e:** Being balanced means that presentation of the report should be impartial in content and tone. All evidence should be presented in an unbiased manner. Auditors should be aware of the risk of exaggeration and overemphasis of deficient performance. The audit report should only present arguments that are logically valid. Good practices, if any, followed by the audited entity should also be highlighted in the report.

**Guidance:** Some indicators of compliance are:

1. The SAI has a review strategy, policy or system/procedures in placeto ensure that audit reports are up to date and the information contained in the report meets various characteristics described above.
2. Discuss with focus group members/managers on the report approval process, particularly focusing on balanced reporting.
3. Checking working papers for proof of review and approval of report by people independent of the audit engagement.
4. SAI uses the services of professionals to check for language and presentation of report.
5. Report contains good practices followed by the audited entity.

**7. Requirement:** *The auditor shall provide audit reports that are clear and concise as the subject matter permits, accurate, phrased in unambiguous language, not suggestive, constructive and contribute to better knowledge. (ISSAI 300/39; ISSAI 3000/5.2, 5.3; ISSAI 3100/31).*

**Explanation: Clear and concise –** Being clear means that the audit report should be easily understandable, while being concise requires the report to be no longer than needed to convey and support the message. The report must be written to suit the capabilities, interests and time constraints of the readers. The language should be as simple as the subject matter allows. Tables, charts and photographs should be used where appropriate to present and summarise complex information. Clarity is improved when the report is concise.

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

**Unambiguous language and not suggestive –** The language should not be tendentious or suggestive and the information presented sufficient to convince the readers to recognize the validity of the findings. The report must be persuasive and language that generates defensiveness and opposition must be avoided. The report should state the audit findings directly and not hint/suggest certain conclusions. The report should not leave scope for readers to arrive at divergent conclusions.

**Constructive and contribute to better knowledge –** Being constructive means that the report should be geared towards improvement of the audited entity. The aim of the report should not be to vilify or malign the audited entity or its personnel. It should help the audited entity, those charged with governance and the other stakeholders to get better knowledge about the subject matter of audit.

**Guidance:** Some indicators of compliance are:

1. SAI has reporting standards and/or policies on reporting that explain the language to be used in audit reports and the importance of accurately reporting findings supported by sufficient appropriate evidence
2. Check working papers to verify accuracy, particularly where lots of detailed analysis and calculations are involved.
3. The report has been subject to quality assurance wherein language used and check of accuracy is covered.
4. Feedback of experts/external stakeholders is obtained before publishing report to verify that the report is clear, unambiguous, balanced, constructive and adds value.
5. Discuss with the senior management of the SAI to understand the process followed by them to ensure accurate, clear, concise and balanced reports.

**8. Requirement:***The auditor shall refer in the report all significant instances of non-compliance and abuse that were found during or in connection with the audit.* *(ISSAI 3000/3.3.3, 5.2; ISSAI 3100/33).*

**Explanation:** Instances of non-compliance and abuse are **s**ignificant if it would severely prevent the organization from meeting its objective. For example, if water supply schemes are chosen arbitrarily without following the prescribed guidelines of assessing the available schemes in terms of their likely impact and cost, it is possible that government may not derive maximum value for money from new schemes. This could hinder the government from meeting the target of covering a certain number of beneficiaries under water supply schemes. Such an instance of non-compliance must be covered in the report so that it attracts the attention of those charged with governance to take corrective action.

The SAI must, within the audit objectives, report all significant instances of non-compliance *(Failure or refusal to do what is required*) and significant instances of abuse (*the improper usage or treatment for a bad purpose, often to unfairly or improperly gain benefit*)that were found during or in connection with the audit. Where such instances are not pertinent to the audit questions and objectives, it is envisaged that they would nevertheless be communicated to the audited entity preferably through a management letter at the appropriate level.

**Guidance:** Some indicators of compliance are:

1. The SAI has policies or guidelines for identifying significant issues of non-compliance to be included in the report. If they exist, determine whether they are followed.
2. Examine the working papers for the assessment period and determine whether significant findings were taken up in the report.

**9. Requirement:** *The auditor shall refer in the report the source and quality of the data, particularly when it contains estimations (ISSAI 3000/Appendix 3/2.3, 5; ISSAI 3100/22).*

**Explanation:** Performance auditors should be resourceful, flexible and systematic in their search for sufficient evidence. They must also be receptive to alternative views and arguments and seek data from different sources and stakeholders. Auditors should always try to be practical in their efforts to collect, interpret and analyse data. It is important, that the reader of the audit report be informed about the source and quality of the data, particularly when it contains estimations.

**Guidance:** Some indicators of compliance are:

1. The SAI has a policy on the collection and use of data, particularly relating to estimations and from external sources.
2. Examine audit reports to determine whether sources of data used in the report are consistently disclosed.
3. The reliability of the internal control systems of the audited entity are assessed before relying on the data or document that emanate from the system. While it may not be possible to assess reliability of all control systems, at least those control systems from which significant/substantial number of information/documents are generated must certainly be assessed (ISSAI 3000/Appendix 3/2.3).
4. Working papers contain sufficient evidence of measures taken to verify the reliability of data taken from external sources. For instance, if survey results are to be quoted from a website, then care has to be taken to verify the credibility of the agency that conducted the survey.

**10. Requirement:***The auditor shall clearly distinguish facts, audit findings and conclusions in the report (ISSAI 3100/31, ISSAI 3000/5.2).*

**Explanation:** It is important for the SAI to ensure that the report is written in such a manner that the facts and audit findings and conclusions are clearly distinguished. The reader should be able to clearly identify whether what is being described in the report is what was noticed/observed (fact), the comparison of criteria and fact (finding) or what is inference/ interpretation of the fact (conclusion).

**Guidance:** Randomly select a few paragraphs of the performance audit report selected for the purpose of review. Check whether facts and findings can be clearly distinguished.

**11. Requirement:***The auditor shall include in the audit report information about the (ISSAI 300/19, 27, 39; ISSAI 3000/5.2; ISSAI 3100/28, 30):*

1. *Audit objectives*
2. *Audit questions and answers to those questions*
3. *Subject matter*
4. *Criteria*
5. *Methodology*
6. *Sources of data*
7. *Limitations on the data used*
8. *Audit findings, conclusions and recommendations.*

**Explanation*:*** Brief description of the above terms are given below**:**

1. Audit objective –what does the auditor want to determine at the end of the examination;
2. Audit question and answers to those questions – the audit objective is broken down into number of questions, answers to all of which put together will help in arriving at an overall audit conclusion;
3. Subject matter – The subject matter is determined by the objective and formulated in the audit questions. It need not be limited to specific programme, but can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences) (ISSAI 300/19);
4. Criteria – Criteria are the benchmark used to evaluate the subject matter. It can be qualitative or quantitative, general or specific. It focuses on *what should be* according to laws, regulations or objectives; *what is expected* according to sound principles, specific knowledge and best practice; or *what could be* (given better conditions) (ISSAI 300/27);
5. Methodology – the different evidence gathering and analyzing techniques used by audit;
6. Sources of data – quoting the sources from which data was gathered adds credibility to the audit report;
7. Limitations on the data used – it is probable that the entire gamut of data needed by audit was either not made available by the audited entity or the entire data could not be collected due to time and cost constraints. Any such limitation on the data must be highlighted in the report to enable the reader to place the audit findings in the right context;
8. Audit findings – what the auditor found at the end of the examination;
9. Conclusions – the decision reached or the opinion formed by the auditor;
10. Recommendations – what corrective actions are needed.

**Guidance:** Some indicators of compliance are:

1. The reporting standard/policies on reports require the above elements to be mandatorily covered in the audit report.
2. Check sample reports to verify whether above elements are included in the report.
3. Check few quality assurance reports to verify whether any of these elements were missing in the audit reports.

**12. Requirement:***The auditor shall ensure that findings clearly conclude against the audit question, or explain why this was not possible (ISSAI 3100/30).*

**Explanation:** The report must generally contain the auditor’s conclusion against the audit question. Conclusions are the Statements deduced by the auditor’s from the audit findings. If it is not possible to arrive at conclusions for a particular question, the reasons for the same must be explained.

**Guidance:** Some indicators of compliance are:

1. SAI reporting standards, performance audit manuals require audit conclusions to be formed against audit questions.
2. Discuss with the managers on the actual practice on the inclusion of above components in the report.
3. The facilitator can review the audit reports to verify whether all of the elements mentioned above can be identified.
4. The facilitator should also check whether there is an audit conclusion on the questions, or whether the report simply stops with audit findings. Check whether reasons for not forming conclusions are explained.

**13. Requirement:***The auditor shall explain in the report why and how problems noted in the findings hamper performance in order to encourage the audited entity or report user to initiate corrective action (ISSAI 300/39, ISSAI 3000/4.3).*

**Explanation:** The auditor has to determine what effect if any, an inefficient process such as idle resources or poor management, may have in terms of time delays or wasted physical resources. If the effects are not readily identified, the performance auditor may need to assert potential effects. Only when effect/impact of problems are explained in the report will the reader understand the significance of the problem. This will in turn force corrective action.

**Guidance:** The facilitator can enquire the SAI procedure manual for provisions regarding inclusion of ‘effect’ as part of audit findings. Check for compliance with the manual. Seek management views on the inclusion of effect and its linkage with recommendations for corrective action.

**14. Requirement:** *If relevant and allowed by the SAI’s mandate, the auditor shall provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit (ISSAI 300/40, ISSAI 3000/5.2, ISSAI 3100/32).*

**Explanation:**A recommendation will be constructive if it is well-founded, add value are practical and linked to audit objectives, findings and conclusions. The recommendations must follow logically or analytically from the facts and arguments presented i.e. the reader must be able to connect what was examined, what was found, what was the impact and how can it be fixed. The recommendation must in fact have a direct link with the ‘cause’ for shortfall in performance contained in the audit findings. If this is not ensured, implementation of the recommendation may not address the weakness. Similarly, recommendations however, well founded they are, will lose their value if they are not practical and require huge time and cost for implementation.

**Guidance:** Some indicators of compliance are:

1. Guidelines are available for writing audit recommendations.
2. The SAI has a system of review/approval/communication of recommendations by a senior member.
3. Discuss with members of senior management as to how they comply with these requirements.
4. Call for details of the number of recommendations made by the audit team and those actually accepted by the management of the audited entity and those that have actually been implemented for a few selected performance audit engagements. This would provide an indication of whether the recommendations were constructive, practical and added value.

**15. Requirement:***The auditor shall phrase recommendations in such a way that truisms are avoided or audit conclusions are not simply inverted and management’s responsibilities are not encroached (ISSAI 300/40).*

**Explanation:** Recommendations should not be facile as they would not add value. However, at the same time auditor should be careful not to provide very detailed recommendation, which would restrict the freedom of the management of the audited entity while taking corrective action. The auditor should always bear in mind the proverb ‘say what to do and not how to do’.

**Guidance**: Some indicators of compliance are:

1. Guidelines are available for writing audit recommendations.
2. The SAI has a system of review/approval/communication of recommendations by a senior member.
3. Discuss with members of senior management as to how they comply with these requirements.
4. Call for details of the number of recommendations made by the audit team and those actually accepted by the management of the audited entity. This would provide an indication of whether the recommendations were restrictive or too simple.

**16. Requirement:***The auditor shall provide recommendations that clearly refer to who and what is addressed, who is responsible for taking any initiative that will contribute to better performance (ISSAI 300/25, 40; ISSAI 3000/5.3; ISSAI 3100/32).*

**Explanation:** The recommendations to be effective must be addressed to the agency or entity that has the specific responsibility or mandate to implement the recommendations.

**Guidance:** Some indicators of compliance are:

1. Guidelines are available for writing audit recommendations.
2. Randomly select some recommendations from the published report and check whether there is a clear mention of the authority responsible for corrective action.

**Communicating Audit findings and reports**

**17. Requirement:** *The auditor shall establish open co-operation and interaction and an atmosphere of confidence with the audited entity at the earliest opportunity (ISSAI 3000/ 4.4).*

**Explanation:** The two key activities to be performed at the field are to collect and interpret evidence and to maintain effective communication with the audited entity. It is desirable if the communication process is started right at the beginning of the field work.

**Guidance:** Some indicators of compliance are:

1. SAI policies/procedures require entry meetings/contacts with audited entity at the beginning of the field work and this has been complied with;
2. Discuss with management on how interactions are carried out with the audited entity at the beginning of field audit;
3. Working papers contain details of regular meetings/correspondence with the audited entity during audit engagement.

**18. Requirement:** *The auditor shall maintain good professional relationships with the audited entity, experts and all other stakeholders involved, promote a free and frank flow of information in so far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding of the respective role and responsibilities of each stakeholder (ISSAI 300/29, ISSAI 3100/ 25; ISSAI 3000/ 2.2, Appendix 4).*

**Explanation:** To conduct an effective performance audit it is essential that the auditor maintains a good professional relationship with the audited entity. The auditor should not view the audited entity as an adversary. In addition to interacting with the audited entity, the auditor must identify and establish healthy relationships with other stakeholders and exchange information with them to the extent permitted by confidentiality requirements. The SAI must set up clearly the roles and responsibilities of the various stakeholders and the SAI regarding the exchange of information, views etc. Using communication channels to explain the purpose of performance audit to the stakeholders also increases the likelihood that audit recommendations will be implemented. However, care shall be taken to ensure that communication with stakeholders does not compromise the independence and impartiality of the SAI. If experts are to be involved actively in the audit process, the auditor must establish a healthy relationship with the expert. The auditor and expert must mutually trust each other.

**Guidance:** Some indicators of compliance are:

1. SAI policy requires identification of key stakeholders for each performance audit engagement and working papers prove involvement with different stakeholders during audit engagements;
2. The SAI has clearly laid down policies and procedures on engaging experts and in communicating with them;
3. The SAI policies and procedures stipulate conditions under which views/information can be sought from experts and other stakeholders;
4. Working papers demonstrate that roles and responsibilities of the stakeholders have been clearly agreed to before exchange of information/views. For instance, the academia may agree to offer their views on a performance audit engagement provided they are not quoted as a source of evidence in the report;
5. Discuss with management about relationship with various stakeholders and on understanding of respective responsibilities;
6. Working papers indicate that a coordinator/liaison person from the audited entity has been agreed upon at the beginning of audit process to facilitate easy interaction between the audited entity and the auditor;
7. In case the SAI has a policy of obtaining feedback from the adited entity about the audit engagement, check the feedback to verify the views of the audited entity on the nature of relationships with the auditors.

**19. Requirement:** *The auditor shall be receptive to alternative views and arguments and seek data from different sources and stakeholders (ISSAI 3100/22; ISSAI 3000/ 4.2, 4.4).*

**Explanation:** Performance auditors should be resourceful, flexible and systematic in their search for sufficient evidence. When working in areas where evidence is persuasive rather than conclusive, it is sometimes useful to hold discussions in advance with the experts in the field on the nature of the evidence to be obtained and the way it will be analysed and interpreted by the auditor. This approach reduces the risk of misunderstanding and may speed up the process. It is also important that the auditors seek information from different sources, since organizations, individuals in an organization, experts, and interested parties have different perspectives and arguments to put forward.

**Guidance:** Some indicators of compliance are:

1. SAI policy/manual requires relationships to be maintained with various stakeholders during performance audits.
2. Discuss with management on the stakeholders the SAI engages with during performance audits.
3. Working papers support the collection of evidence from various sources (internal and external source; documentary and oral evidence; evidence from employees, beneficiaries and experts etc).
4. Divergent views and opinions emanating from different sources/ stakeholders are collected and documented in working papers.

**20. Requirement:** *The auditor shall in case of conflicts with the audited entity, air contradictory opinions with a view to making the final picture as true and fair as possible (ISSAI 3000/4.4).*

**Explanation:** It is probable that during the conduct of audit, the audited entity might disagree with the audit team about the audit criteria, methods, the audit findings etc. When such conflicts occur, views and opinions of the audited entity must be heard and assessed objectively so that the audit findings are true and fair.

**Guidance:** Some indicators of compliance are:

1. SAI policy/ performance audit manual provide for handling of disagreements with the audited entity.
2. Discuss with managers on how disagreements with the audited entity are handled.
3. Check working papers for proof of efforts made to resolve/understand disagreements with the audit team. The efforts could include:
	1. interim meetings/ written correspondence to on points of disagreement;
	2. seeking the views of an independent expert on the points of disagreement.

**21. Requirement:** *The auditor shall not communicate information obtained in the course of audit work to third parties, neither in writing nor orally, except where doing so is necessary to discharge the statutory or otherwise prescribed responsibilities of the SAI in question (ISSAI 3100/26).*

**Explanation:** Any communication of information to third parties should be governed by the statutory or other rules of procedure in force in the SAI. Auditors however, may exchange information regarding management deficiencies with internal auditors, should this information not be of confidential nature, for the purposes of ensuring that any identified shortcomings are addressed.

**Guidance:** Some indicators of compliance are:

1. Existence of SAI/Government orders, rules and regulations requiring sharing of audited entity information collected during audit with third parties, including the conditions to be followed for sharing information and compliance with such policies/procedures.
2. If information was shared with third parties under specific conditions, proof to suggest that satisfaction of these conditions were monitored and met.
3. Discuss with management on how requests for sharing audit information is handled.

**22. Requirement:** *The auditor shall communicate important audit findings made during an audit to those charged with corporate governance in a timely manner (ISSAI 3100/25).*

**Explanation:** It is probable that during the field audit, the team may come across audit findings that are significant and on which urgent action is warranted. For instance, a performance audit of internal security arrangements may disclose a glaring weakness which if not set right immediately could compromise the territorial integrity of the country. Another example is a fraud committed by a senior official noticed during audit which if not reported immediately, could lead to tampering of evidence fraud or further financial loss to the entity. In such instances, findings are to be communicated immediately to the authority charged with governance, which could be the head of the office audited or the Ministry/Department having control over the audited entity.

**Guidance:** Some indicators of compliance are:

1. SAI has policy/procedure regarding nature of important interim audit findings that needs to be communicated to those charged with governance. Check for compliance with such policies/procedures.
2. Evidence in the working papers to suggest that important audit findings were brought to notice of the superior of the audit manager for further communication to people charged with governance.
3. Discuss with management on how important audit findings that emerge during audit are handled.

**23. Requirement:** *The auditor shall report any financial irregularities to the authorities concerned in the course of audit work, where appropriate (ISSAI 3100/26).*

**Explanation:** In case financial irregularities are noticed during audit, it may be necessary for the SAI to report such matters to the designated authorities responsible for pursuing such irregularities. The designated authorities vary in different jurisdictions and could include Attorney General, Public Prosecutor, Vigilance, Public Service Commission, Anti-corruption unit etc.

**Guidance:** Some indicators of compliance are:

1. Government/SAI policy/procedure regarding what constitutes financial irregularities and the authorities to whom such issues are to be reported.
2. Check for compliance with such policies/procedures.
3. Evidence in the working papers to suggest that financial irregularities were brought to the notice of the superior of the audit manager for further communication to designated authorities.
4. Discuss with management on action taken on financial irregularities.

**24. Requirement:** *The SAI shall not be forced to withhold findings and is within its legal mandate, free to decide what to publish and how (ISSAI 3000/5.3).*

**Explanation:** The mandates of most SAI’s provide for a high level of independence to the SAI on finalisation and distribution of audit reports. For example SAI’s shall not be under the control or direction of any other person or authority. In that regard, SAI’s should be free to report their findings without fear or favour and not be forced to withhold findings especially if they can have a significant impact on the operations of the organization.

**Guidance:** The facilitator can look at the **mandate of the SAI** and determine whether there are any legal obstacles which would prevent the SAI from being free to decide what to publish in the report and how. Discuss with management on whether there has been pressure on the SAI to withhold audit findings. Compare draft audit findings and the published report to check whether any significant finding has been left out in the published report. Check whether there are justifiable reasons for the same.

**25. Requirement:***The SAI shall make their reports widely accessible in accordance with the mandate of the SAI (ISSAI 300/41, ISSAI 3100/35, ISSAI 3000/5.4).*

**Explanation:** Comprehensive reports and wide distribution of every report are essential for audit work to have optimal impact. Each SAI must decide on how to best serve its own and the public interest in distributing the audit reports, both in general and for each report. If possible, all relevant audit findings should be made public (in individual performance reports or in the annual report from the SAI). The report should, if possible, be distributed to the audited entity, the executive, legislative officials, the media and other interested parties. Appropriate officials who may be included in the distribution include those designated by law or regulation to receive such reports, those responsible for acting on the findings and recommendations, those of other levels of government who have provided assistance to the audited entity and legislators.

**Guidance:** Some compliance requirements are:

1. The SAI has a communication or distribution policy in place for reports and the policy has been followed in the cases checked.
2. The SAI, may not have a policy, but maintains a distribution list of all recipients of their reports. The facilitator can obtain the list and determine how wide the distribution is by matching the recipients to those mentioned above.
3. Discuss with management on dissemination of audit reports.
4. Working papers contains copies of press briefs prepared immediately after the tabling of the report.
5. Digest/summary of report is prepared for distribution to media and key stakeholders.

**Documenting working papers**

***26.* Requirement:***The auditor shall document the audit in accordance with the particular circumstances thereof. The working papers shall contain (ISSAI 3100/23, 24; ISSAI 3000/4.2, Appendix 3/3.9 and 4):*

1. *Details of audit planning.*
2. *Results of the field work.*
3. *Audit evidence to support all audit findings, conclusions and recommendations.*

**Explanation a:** The working papers must contain all the planning documents and the decisions taken during the planning stage of a performance audit.

**Guidance a:** Some indicators of compliance are:

1. SAI policy/performance audit manual lists the planning documents to be included in the working papers and this has been complied with.
2. Working papers must generally contain:
3. Background information about the entity/program.
4. Memos/notes containing decisions regarding the finalization of audit question, objective, criteria and methods.
5. Approved audit work plan containing audit question, objective, criteria, methods, staffing requirements, estimated cost of audit, timelines for conduct of audit, control points, etc.

**Explanation b:** The working papers must contain details of all the work done in the field.

**Guidance b:** Some indicators of compliance:

1. SAI policy/performance audit manual lists the documents related to field work to be included in the working papers and this has been complied with.
2. Working papers not only contain details of evidence to support the audit findings but also information collected in execution of work plan
3. Working papers generally include:
4. Audit enquiries issued to the management during field work and their response to the same.
5. Reports, extracts of files, minutes of meetings, copies of vouchers/challans/registers and other documents collected.
6. Physical observation reports, photographs, video clippings, tapes of interviews, completed survey questionnaires.
7. Details of analysis and interpretation of the collected data – including calculation sheets, tabulation of responses to surveys, summary tables, regression analysis results, etc.

**Explanation c:** It is essential that all findings, conclusions and recommendations appearing in the draft report are supported by audit evidence. The reputation of the SAI will be adversely affected if it is unable to provide evidence to support/justify its findings, conclusions and recommendations.

**Guidance c:** Some indicators of compliance are:

1. SAI has policy/procedures for inclusion of audit evidence relating to findings, conclusions and recommendations in the working papers.
2. Check for evidence of supervisory review and/or peer review of the audit evidence relating to audit findings, conclusions and recommendations.
3. Randomly select a few audit findings, conclusions and recommendations and verify whether there are working papers to support them.

**27. Requirement:** *The auditor shall examine the feedback received and recorded it in working papers so that any changes to the draft audit report, or reasons for not making changes, are documented. (ISSAI 300/34, ISSAI 3100/34; ISSAI 3000/4.5).*

**Explanation:** In a properly conducted performance audit, the audited entity is provided opportunity to put forward his arguments against the audit findings and conclusions and these are then balanced against the best possible counter arguments. Various contrasting views are weighed against each other before arriving at a final conclusion. A complete trail of the audited entity’s feedback, counter arguments and the reasons for accepting or not accepting the audited entity’s arguments must be available in the working papers.

**Guidance:** Some indicators of compliance are:

1. The working papers contain letters/minutes of meetings/other documents containing all the arguments put forward by the audited entity relating to the audit findings randomly chosen from the performance audit assignments selected for review.
2. Memos/notes/other document containing decisions taken on the arguments put forth by the audited entity.
3. The working paper contains sufficient counter arguments to rebut the audited entity’s arguments, if changes are not made to the draft audit findings based on the audited entity’s arguments.

**28. Requirement:***The auditor shall file and cross-referenced the working papers to facilitate supervisory review (ISSAI 3000/4.2).*

**Explanation:** The working papers must be arranged in such a manner that even a person not involved with the audit engagement will be able to trace the evidence. This is done by filing the papers according to applicable standards and cross-referencing them.

**Guidance:** Some indicators of compliance are:

1. SAI has well laid out policy/procedure relating to filing, indexing and cross-referencing of working papers.
2. Check for compliance with such policy/procedure.
3. Working papers are arranged in files with appropriate file title and number.
4. Files are indexed and contain details of the contents of the file.
5. Cross reference in the audit report to supporting working paper.
6. If working papers are in electronic media, then all documents relating to an audit are stored together with easily identifiable file names.

**29. Requirement:** *The auditor shall maintain the confidentiality and safe custody of the working papers (ISSAI 3000/Appendix 3, 4).*

**Explanation:** It is the responsibility of the members of the audit team to safely keep the working papers and maintain its confidentiality till the completion of field audit work. Generally the audit team is required to keep custody of the papers till the transfer of working papers to the performance audit unit or other unit responsible for preparing the final audit report.

**Guidance:** Some indicators of compliance are:

1. SAI policy/procedure regarding custody of the working papers by the audit teams.
2. Proof of compliance with the SAI policy.

**30. Requirement:** *The audit shall retain the working papers for a period sufficient to meet the needs of the legal and professional requirements of record retention (ISSAI 3000/Appendix 3, 4).*

**Explanation:** The working papers support the conduct of performance audit as per standards; substantiate the findings appearing in the audit report; and facilitate quality assurance reviews. Hence, they need to be preserved for a minimum period of a time as prescribed by law or by SAI policy/procedure. Availability of working papers may also be necessary until the Parliamentary Committee completes discussion on the performance audit report.

**Guidance:** Some indicators of compliance are:

1. The SAI has policy regarding preservation of working papers. Check for compliance with such procedure.
2. Check whether working papers are electronically archived or approved for destruction by competent authority.

**Summary**

In this chapter, we had described briefly the key performance audit tasks relating to the reporting phase and the ISSAI requirements that need to be complied with. In next chapter on iCAT, the discussions would cover the follow-up audit procedure and quality control issues.

**Chapter 6**

**Follow-up and QCA (Quality control and assurance)**

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**6.1. Introduction**

Two words than conveys the main ideas of this module are effectiveness and quality. This module covers the sections of the iCAT that refers to follow-up of PA and the systems of quality control and assurance (QCA) to which this activity should be submitted. These are elements to assure the quality and effectiveness of the SAI work on PA.

The requirements of this module were extracted from ISSAIs 300, 3000 and 3100. However, ISSAI 3000 is written in an argumentative way, which causes some repetition in requirements. Besides, ISSAIs were written over many years, incorporating advances in understanding. For this reason, there are some inconsistencies among documents.

To make the iCAT more clear and operational, we clubbed or separated some requirements and gave preference to definitions of more recent ISSAIs. Some requirements are repeated in for different steps of the audit process. We have kept them in just one. Requirements that are too broad to be checked were comprised by more detailed ones. We tried to keep the original wording and made reference to ISSAI documents, so that it is possible to trace the source of the requirement.

In the following sections you will study some basic definitions that will enable you to understand the meaning of the ISSAI requirements on both follow-up and QAC. This way, you will be able to fill these two sections of the iCAT.

**6.2. Basic concepts on follow-up**

The PA cycle covers several steps. Broadly speaking, it comprises planning, conducting, reporting and follow-up (ISSAI 300/35, ISSAI 3000/3.1). The follow-up is the auditor’s examination of corrective action taken by the audited entity. During the follow-up, the auditor assesses whether the audited entity has adequately addressed the problems identified in the main study and implemented the recommendations (ISSAI 300/42, ISSAI 3000/5.5).

Following up on whether the SAI adequately addressed the problems identified and implemented the recommendations may serve four main purposes:

1. Increasing the effectiveness of audit reports – the prime reason for following up audit reports is to increase the probability that problems will be adequately addressed and recommendations will be implemented;
2. Assisting the government and the legislature – following up may be valuable in guiding the actions of the legislature;
3. Evaluation of SAI performance – following up provides a basis for assessing and evaluating SAI performance; and
4. Creating incentives for learning and development – following up provides the auditors with useful lessons and may contribute to better knowledge and improved practice (ISSAI 300/42, 3000/5.5).

The existence of effective follow-up mechanisms of audits is both a principle of independence for SAIs and a requirement for transparency and accountability of the SAI. This way, SAIs should report on their recommendations to ensure that the audited entities properly address their observations and recommendations as well as those made by the Legislature (ISSAI 10/principle 7, ISSAI 20/principle 3).

**6.2.1 Requirements on follow-up**

**1.** **Requirement:** *The auditor shall follow-up previous audit findings and recommendations wherever appropriate (ISSAI 300/42, ISSAI 3100/2.4.4, 36).*

**Explanation:** Follow-up of the audit report is part of the audit process, therefore follow-up mechanisms should be in included for every single PA. Follow-up timetables and the level of detail of follow-up procedures will be decided taking into account the SAI’s available resources. It can be implemented through different mechanisms and/or procedures. For example, the SAI can do a follow-up, in the field by way of a separate PA or by using simplified procedures such as inspecting electronic systems and/or exchanging letters with the audited body.

**Guidance:** Firstly, the facilitator should know the follow-up policy of the SAI. For example, a SAI can have a specific schedule to follow-up audits, say after one year of publishing the audit report. Secondly, the facilitator should select a sample of those audits which have been published and the established period has passed. The requirement will be met if the sampled audits had been followed-up or if the audits had been formally scheduled to be followed up.

**2.** **Requirement:** *The SAI shall prioritize the follow-up as part of the overall audit strategy (ISSAI 3000/5.5, ISSAI 3100/2.4.4, 36).*

**Guidance:** Check if the SAI’s overall audit strategy document gives an assessment of the priority of the follow-up process. For example, check if resources are defined or if there are criteria to select the follow-up procedures to be applied when the audits are followed-up (complete or simplified procedure).

**3.** **Requirement:** *The SAI shall allow sufficient time for the audited entity to implement appropriate action (ISSAI 3100/2.4.4, 36).*

**Guidance:** Select a sample of audits that has been followed-up. Check if the audited entity was asked to give their opinion on the follow-up schedule. For example, some SAIs asks the audited entity to send an action plan, which comprises actions to be implemented and the timelines thereof. Check if the follow-up is then planned based on the schedule in the action plan.

**4.** **Requirement:** *The auditor shall focus the follow-up not to restrict it to the implementation of recommendations but also on whether the audit entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time (ISSAI 300/42, ISSAI 3000/5.5, ISSAI 3100/2.4.4, 37).*

**Guidance:** Select a sample of audits that should have already been followed-up. Check the follow-up report or any other related documentation as to how the auditors analysed the information and/or feedback received from the audited entity. Check whether the auditor concentrated on the problems and recommendations that are still relevant at the time of the follow-up. For example, if a recommendation is not applicable anymore because a division within the audit entity closed, such will not be followed-up. If the focus of the follow-up has been mainly on the implementation of the recommendations, the requirement of this ISSAI is not met. Conversely, if emphasis was placed on adequately addressing the problems and remedied the underlying situation then this requirement is met.

**5.** **Requirement:** *The SAI shall report the follow-up appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective actions (ISSAI 300/42, ISSAI 3000/5.5 and ISSAI 3100/2.4.4, 37).*

**Guidance:** Select a sample of audits that should have already been followed-up, considering the SAI’s follow-up policy. Check whether a follow-up report was issued to the legislature. If so, check whether the report includes the conclusions and impacts of all relevant corrective actions taken by the audited entity.

**6.3. Basic concepts on quality control and assurance**

Quality control and assurance (QCA) system is a set of elements put in place to respond to risks to the quality of audits (ISSAI 40/4). The elements of a system of quality control are:

1. Leadership responsibilities for quality,
2. Relevant ethical requirements,
3. Acceptance and continuance of client relationships and specific engagements,
4. Human resources,
5. Engagement performance,
6. Monitoring (ISSAI 40/4).

QCA refers to policies, systems, and procedures established by SAIs to maintain a high standard of audit activity. It refers to the requirements applicable to the day-to-day management of audit assignments. QCA also refers to reviews conducted to assess the quality control and assurance system or the executed audit projects (ISSAI 3000/appendix 4).

So, there is a distinction between ex ante (on going quality arrangements while work is in progress for example through peer review, ‘co-readers’, use of expert panels, special committees and specialists or experts in the field concerned, and techniques such as issue analysis) and ex post arrangements (such as independent reviews of published reports to identify lessons learnt and how reports are received by key stakeholders and the benefits they drive from them). Some SAIs have engaged individual academics or academic institutions to conduct ex post assessments. Both ex ante, intermediate and ex post arrangements have to be planned (ISSAI 3000/3.3.3).

QCA activities include:

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

Performance auditing is a knowledge-based activity, and due to its special features – and its close links to politics – high quality work is perhaps the most important single factor for recognition. To ensure high quality work, the SAI should pay particular attention to creating an environment for performance auditing that ensures incentives for good quality and quality improvements. A properly functioning system for quality assurance is one of the important elements in this context (ISSAI 3000/2.4).

Performance auditing is an investigatory work that requires creativity in analytical skills. Consequently, standards and quality assurance systems that are too detailed should be avoided (ISSAI 3000/1.8). At the same time, a proper quality assurance system is essential to manage risks to the credibility of the SAI work. In PA, motivated and competent staff that learns from experience is a very important element for the quality assurance of the work (ISSAI 3000/1.8, 2.1). Another important element for quality control and assurance in PA is the use of high quality methods and practice (ISSAI 30/32). The set of objectives, problems, audit questions, and selected areas largely determine the quality of the audit. The process of planning, and the various stages that make up the decision-making process in the audit, ensure that quality is regularly assessed, since certain conditions must be met before the audit can move forward (ISSAI 3000/2.1).

In order to assure credibility, SAIs should implement a system of quality control and assurance over their audit activities and reporting and subject such system to periodic independent assessment (ISSAI 20/principle 3). By enhancing the quality of their work, the SAIs could contribute to the improvement of professional capacity in financial management (ISSAI 20, principle 9).

The iCAT comprises many activities considered requirements in a QCA for PA. After completing the iCAT, you should be able to conclude if the SAI establishes and supports adequate systems of quality control and assurance activities (SSAI 3000/appendix 4).

**6.3.1 Requirements on quality control and assurance**

**6.** **Requirement:** *The SAI shall support systems of QCA activities that are (ISSAI 300/32, SSAI 3000/Appendix 4):*

*a) Adequate,*

*b) Flexible,*

*c) Not too sophisticated.*

**Explanation:** 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. In addition, p PA is a process in which the audit team gathers a large amount of audit-specific information and exercises a high degree of professional judgement and discretion concerning the relevant issues. For these reasons, it may entail applying quality control and assurance procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received from quality control (ISSAI 300/32).

**Guidance a:** Adequate – Check if the SAI provides systems and personnel and other resources to enable daily and ex-post QCA activities. For example:

a.1) An element of quality assurance is the professional competence and responsibility. Check if the SAI supports auditors to acquire and keep the skills needed to carry out their work. It may be a procedure to detect skills development needs, combined with a continuous training programme. Check if the SAI, for example, provides scholarships or allows leave or reduces the daily working hours for periods of study;

a.2) The SAI should have external revision arrangements. Possible procedures are to use an expert panel or to engage academic institutions to revise the audit plan and/or published report Check if the SAI provides resources to pay for per diem, travel or has equipment for teleconference;

a.3) Ex-post review of reports is a good practice in QCA. If it exists, check if the SAI have a specialized unit or a team formally appointed to perform ex post quality control and if they apply a quality control checklist to ensure compliance with the quality policy.

If the QCA comprises of all three elements above, the requirement is met. If it comprises only one or two of them, the requirement is met to a certain extent. If it does not comprise any, the requirement is not met. If the SAI conducts PA, then the compliance status “not applicable” should not be used.

**Guidance** **b:** Flexible – Check if the quality control and assurance arrangements are fully integrated to the audit activities. The controls should neither be excessive nor hamper the learning process and the development of skills through experience. Ask for the auditors’ and audit managers’ opinions.

**Guidance** **c:** Not too sophisticated – Check if the quality control and assurance activities are not excessively costly and time consuming. Ask for the auditors’ and audit managers’ opinions.

**7.** **Requirement:** *The auditor shall apply procedures to safeguard quality and ensure that the applicable requirements are met. The auditor shall provide reports that (ISSAI 300/32; ISSAI 3000/3.3.3, Appendix 4; ISSAI 3100/30):*

a) *Is appropriate,*

*b) Is balanced and fair,*

*c) Adds value,*

*d) Answers the audit questions,*

*e) Includes relevant viewpoints.*

**Explanation:** The first part of the requirement is very broad and is already covered by different requirements such as “The SAI shall support systems of QCA activities that are adequate”.

**Guidance** **a:** Appropriate – Check if the QCA system provides for checks for appropriateness of the report. For example:

a.1) check if the QCA has procedures in place to check if the conclusions in the report are based on evidence that is updated;

a.2) Check if the QCA has procedures in place to check if the conclusions in the report are based on information that, when produced by the audited entity, had the source systems evaluated to ensure that the information is trustworthy;

a.3) check if the QCA has procedures in place to check if the conclusions in the report are based on information that were corroborated by different sources or obtained from by using different methods.

If the QCA comprises all three elements above, the requirement is met. If it comprises only one or two of them, the requirement is met to a certain extent. If it does not comprise any, the requirement is not met. If the SAI conducts PA, then the compliance status “not applicable” should not be used.

**Guidance** **b:** Balanced and fair – Check if the QCA system comprises procedures to check if the report is balanced and fair. For example:

b.1) check if there are procedures in place to check for exaggeration and overemphasis of deficient performance, as well as for suppression of shortcomings;

b.2) check if there are procedures in place to check if the auditor gave the audited entity an opportunity to respond to any findings highlighted in the report and if all disagreements were analyzed and if possible, taken into account.

If the QCA comprises the two elements above, the requirement is met. If it comprises only one, the requirement is met to a certain extent. If it does not comprise any, the requirement is not met. If the SAI conducts PA, then the compliance status “not applicable” should not be used.

**Guidance** **c:** Add value – Check if the QCA system checks if the report is likely to add value. For example:

c.1) check if the QCA system comprises of procedures to check if the report refers to current issues or problems and issues of interest to the stakeholders;

c.2) check if the report contains a constructive analysis or recommendations that can be used by stakeholders to improve the performance of the audited entity.

If the QCA comprises the two elements above, the requirement is met. If it comprises only one, the requirement is met to a certain extent. If it does not comprise any, the requirement is not met. If the SAI conducts PA, then the compliance status “not applicable” should not be used.

**Guidance** **d:** Answers the audit questions – Check if the QCA system comprises procedures to check if in the report the findings clearly conclude against the audit questions, or explain why this was not possible (ISSAI 3100/30).

**Guidance** **e:** Includes relevant viewpoints – Check if the QCA system comprises of procedures to check if the report includes relevant viewpoints. For example:

e.1) check if there are procedures in place to check if the auditors identified relevant experts and other stakeholders (from for example, the civil society and academia) and obtain their opinions or perspective;

e.2) check if there are procedures in place to check if the auditors reviewed relevant literature on the subject matter;

e.3) check if there are procedures in place to check if the auditors balanced their position against the best possible counter arguments in the report.

If the QCA comprises all three elements above, the requirement is met. If it comprises only one or two of them, the requirement is met to a certain extent. If it does not comprise any, the requirement is not met. If the SAI conducts PA, then the compliance status “not applicable” should not be used.

**8. Requirement:** *The SAI shall include support for audit teams as part of quality management (ISSAI 300/32, ISSAI 3000/Appendix 4).*

**Explanation:** Guidance and assistance should be provided to the audit team to support learning by doing, professional development, team work and the use of methods and techniques that are necessary for the attainment of audit objectives.

Examples of support procedures are the appointment of a team of specialists across the SAI or a specialized unit to provide methodological and technical support on specific areas, for example sampling, linear models and focus groups.

Examples of guidance are manuals, model working papers files, and technical notes, tutorials to support the use and application of methods and audit tools.

**Guidance:** Check for the existence of procedures of guidance and support. Check documentation where guidance and support was provided by the team of specialists or a specialized unit. The requirement is met if there are QCA procedures that cover both aspects.

**9. Requirement:** *If there is a difference of opinion between supervisors and the audit team, the SAI shall take appropriate steps to ensure that sufficient consideration is given to the audit team’s perspective and that the SAI’s policy is consistent (ISSAI 300/32).*

**Explanation:** It is probable that during the audit different opinions arise among team members, between the audit team and audited entity as well as between the audit team and the supervisor. Those different opinions and the open discussion thereof are part of the process of building a common understanding about the subject matter. When the process of discussion is not enough to build such a common view, the SAI’s policy may prescribe different actions depending on its context and legal framework (for example, issuing of a separate note by the supervisor without changing the report or change the report and keep record of the disagreeing opinion of the team). In any case, the working papers have to register both views and the SAI’s policy has to be clear and allow for an objective assessment of the conflict.

**Guidance:** Some indicators of compliance are to:

1. Check if the SAI’s policy/ performance audit manual provide for handling of difference of opinions between the audit team members, the audit team and the audited entity and the audit team and the supervisor;
2. Check for the existence of working papers for proof of efforts made to resolve/understand the difference in opinions. Such proof could include minutes of interim meetings/ written correspondence on points of disagreement and notes of independent experts on the points of disagreement.

**10.** **Requirement:** *The SAI shall define clearly what constitutes a high-quality report (ISSAI 300/32).*

**Explanation:** The SAI needs to clearly state the standards for a high-quality report for the sake of transparency and to set a basis for elements of the QCA system. Quality standards for reports can be used to help identify the need for competency development, to support peer reviews and external reviews of the reports and to communicate the stakeholders the level of quality they can expect.

**Guidance:** Check if the SAI has clear and public standards for audit reporting.

**11. Requirement:** *The SAI shall establish systems to confirm that integral QCA processes secures quality improvements and avoids repetition of weaknesses (ISSAI 3000/Appendix 4).*

**Guidance:** Check quality assurance reports to verify whether similar mistakes are repeated in several audits and repeated year after year. Check if there are procedures in place to identify weaknesses leading to such mistakes and for the adoption of corrective action to avoid reoccurrences.

**12. Requirement:** *The SAI shall communicate the general quality assurance policies and procedures to its personnel in a manner that provides reasonable assurance that they are understood (ISSAI 3000/Appendix 4).*

**Guidance:** Check if auditors are aware of the quality control and assurance policies and procedures. Check if auditors acknowledge and apply these to improve the quality of their audit work and contribute to SAI credibility. Ask for the auditors’ and audit managers’ opinions.

**13. Requirement:** *The SAI shall establish a system of quality control that incorporates processes for supervision of quality (ISSAI 3000/2.3, Appendix 4; ISSAI 3100/2.5, 38).*

**Explanation:** Supervision of the audit team involves directing, supporting and monitoring their work to ensure that the audit objectives are met. This involves ensuring that:

1. all team members fully understand the audit objectives;
2. audit procedures are adequate and properly carried out;
3. international and national auditing standards are followed;
4. audit evidence is relevant, sufficient, appropriate and documented, and supports the audit findings and conclusions; and
5. audit budgets, timetables and schedules are met (ISSAI 3000, 2.3).

**Guidance:** Check if the SAI has a system of quality control that incorporates supervision. Check whether all the activities included in the explanation above was covered.

**14. Requirement:** *The SAI shall establish a system of quality control that incorporates external quality and peer reviews (ISSAI 3000/3.3.3, Appendix 4; ISSAI 3100/2.5, 38,).*

**Explanation:** External reviews may comprise independent reviews of published reports, survey on the quality of audits among key stakeholders, engagement of individual academics or academic institutions to conduct ex post assessments, expert panels. Peer review is any evaluation made by people of the same or similar field. For example, ‘co-readers’, revision of procedures by other bodies of control (sub-national external control organizations or other countries’ SAIs) (ISSAI 3000/3.3.3).

**Guidance:** Check for the existence of documentation on external quality reviews. Check for the existence of documentation on peer reviews. The requirement is met if the QCA comprises both activities.

**15. Requirement:** The SAI shall have quality assurance procedures that incorporate integrity related objectives (ISSAI 3000/Appendix 4).

**Explanation:** Integrity means that auditors should 1) adhere to high standards of behaviour (e.g. honesty and candidness) in the course of their work and in their relationships with the staff of audited entities, 2) be above suspicion and reproach, 3) observe both the form and the spirit of auditing and ethical standards, 3) observe the principles of independence and objectivity, 4) maintain irreproachable standards of professional conduct, 5) make decisions with the public interest in mind, and 6) apply absolute honesty in carrying out their work and in handling the resources of the SAI. Integrity can be measured in terms of what is right and just (ISSAI 30/12, 13).

**Guidance:** Check awareness of supervisors, audit managers and auditors about ethics requirements by interviewing them. Also, check whether the audit teams make a formal commitment to abide to the codes of ethics.

**16. Requirement:** *The SAI shall have quality assurance procedures that incorporate client evaluation (ISSAI 3000/Appendix 4).*

**Explanation:** Client evaluation means an evaluation done by the audited entity of the audit conducted by the SAI. This may be done by means of a survey, formal feedback from the audited entity and/or by the evaluation of a service level agreement signed between the SAI and the audited entity prior to the commencement of the PA.

**Guideline:** Check for the existence of mechanisms and/or procedures for the audited entity to evaluate the audit conducted by the SAI. Select a sample of audit reports that was published and check for documentation where the audited entity evaluated the audit. The requirement is met if mechanisms and/or procedures are in place and applied.

**17. Requirement:** *The SAI shall have quality assurance procedures that incorporate allocation of administrative and technical responsibilities (ISSAI 3000/Appendix 4).*

**Guidance:** Check if the administrative and technical responsibilities for the PA are clearly allocated to the auditors.

**18. Requirement:** *The auditor shall report the results of the quality assurance review program to the SAI management at least annually (ISSAI 3000/Appendix 4).*

**Explanation:** The quality control and assurance review program is a series of external and internal reviews of activities undertaken by the SAI. It assesses the overall quality of the work performed and covers various issues and perspectives.

A quality control and assurance review may examine adherence to policy and procedures and identify areas where there is opportunity for improvements in these policies and procedures, or it may assess the quality of work performed to meet specified objectives or specific stakeholders’ perspectives. Quality assurance reviews will generally address both adherence to specified processes and the quality of the work performed.

**Guidance:** Check for the existence of communication to the SAI management on the quality of the PA activities. If the SAI have a quality assurance review program, inspect the report that was provided to the SAI management. This report should comprise of the results of all the quality assurance reviews conducted during the period, including the tasks selected (number and type), the findings and recommendations. If the SAI do not have a quality assurance review program, examine other documents that provide evidence of an analysis of quality, comprising of findings and recommendations

**19. Requirement:** *The auditor shall inform the SAI management on the progress of the audit, with recommendations for corrective action if needed (ISSAI 3000/Appendix 4).*

**Explanation:** The audit manager is responsible for the day-to-day management of the PA, including detailed planning, conducting of the audit and supervision of staff, reporting to SAI management and overseeing the preparation of the audit report. Where more complex PAs are concerned (which comprises different audit offices or different spheres of government or countries, for example), the SAI may consider appointing a group of supervisors or audit managers to guide the audit team and to monitor the progress of the audit (ISSAI 3000/3.3.3).

**Guidance:** Check if the audit manager informed the supervisor regularly on the progress of the audit throughout the entire audit process (from planning to report). Also check whether recommendations for corrective actions were communicated to mitigate any risks.

**20. Requirement:** *The auditor shall monitor progress against budget and timetable. (ISSAI 3000/3.3.3, Appendix 4).*

**Guidance:** Check if the audit manager reports the progress against the budget and timetable to the supervisors on a regular basis. This is to ensure the PA is completed timely and within the budget.

**21. Requirement:** *When conducting the QCA, the auditor shall review whether factors such as quality, resources, and timing were considered in planning the audit (ISSAI 3000/Appendix 4).*

**Guidance:** Check the planning documents to determine whether factors such as quality, resources, and timing were considered.

**6.4. Summary**

The follow-up provides feedback to the SAI management and key stakeholders, including the legislature, with the impacts of the corrective actions taken by audited bodies. It can provide indicators of the value added by the PA work. Consolidated follow-up reports may enable an analysis of common trends and themes across a number of areas in public administration. At the same time the follow-up can contribute to identify opportunities for improvement of the PA function.

Performance Auditors should seek to develop good and effective practices to safe guard audit quality. Control mechanisms need to be complemented by support, such as training and learning on the job and guidance to the audit team. Good quality is vital in performance auditing; but no quality management system on the engagement level can alone guarantee high quality PA reports. It is equally important to have competent and motivated staff as it is to have rigorous control mechanisms in place.

This module covered requirements, background and guidance for the iCAT completion relating to follow-up and QCA. You must be able now to acknowledge the meaning and peculiarities of those issues to performance audit in order to properly complete the iCAT.

**External Web Links**

<http://www.psc-intosai.org/>

[**http://www.issai.org/composite-347.htm**](http://www.issai.org/composite-347.htm)

**Chapter 7**

**Writing the ISSAI Compliance Assessment Report**

The end product of an iCAT is an ISSAI Compliance Assessment Report that the iCAT team prepares and presents to the SAI top Management. The report is based on the iCAT format filled by the iCAT team and all the information that the team has collected from various sources while conducting the iCAT.

This report aims to present a comprehensive picture of the state of matters in the SAI in relation to the requirements of level 2 and Levels 3 and 4 ISSAIs. The report will also bring out the SAI level and individual audit level issues in implementing the framework. The report is envisaged to provide SAI management with the necessary information to decide on the ISSAI Implementation Strategy.

Before writing the ISSAI Compliance Assessment Report, the iCAT team needs to complete the following two procedures:

Findings from the iCAT at Levels 3 and 4 need to be categorized in terms of the stages of the audit.

For each stage of the audit the issues should be grouped on the common causes as identified from Level 2.

In earlier part of this document we have ascertained the status of Level 2 requirements and linked that with Levels 3 and 4 compliance findings. The ISSAI Compliance Assessment report will highlight this issue as well. By doing this the iCAT team will be able to identify main compliance issues that the SAI needs to focus at the strategic level.

**Format of the ISSAI Compliance Assessment Report**

The following format is recommended for writing the ISSAI Compliance Assessment Report:

|  |
| --- |
| **STRUCTURE OF THE ISSAI COMPLIANCE ASSESSMENT REPORT** |
| **1. Executive Summary highlighting the key messages from the iCAT.****2. Introduction – Purpose, scope and timing of the iCAT**Why the SAI took up the iCAT, does the iCAT cover Level 2 and all Level 4 requirements (Financial, Performance and Compliance audit) or has the SAI chosen to conduct the iCAT for Level 2 and only one audit stream. The time period of conducting the iCAT.**3. About the SAI** 3.1 Description of the environment that the SAI operates in.  3.2 Description of the SAI’s legal and institutional framework and organizational structure.**3. Description of the iCAT process*** iCAT team
* Data gathering process
* Quality control mechanism used

**4. SAI Compliance Status on Level 2 ISSAI Requirements**(Category wise description of the status, mechanisms of compliance and reasons for non-compliance)Also describe significant ongoing initiatives for ISSAI Implementation**5. SAI Compliance Status on Level 4 ISSAI Requirements (Financial, Performance, Compliance Audit)**(Category wise description of the status, mechanisms of compliance and reasons for non-compliance)Also describe significant ongoing initiatives for ISSAI ImplementationThe causes of Level 4 deficiencies should relate to items listed in Level 2. E.g. If planning is not properly done (Level 4), it could be linked to non-compliance with Level 2 requirements.**6. Description of Strategic ISSAI Implementation Issues**Overall SAI Level and Individual Audit Level compliance gaps and reasons**7. Response of SAI Top Management** **Signatures of the iCAT team****Annex 1:** ISSAI Requirements Level 2 **Annex 2:** iCAT Format Levels 3 and 4**Annexe 3 :** Data gathering tools used for collecting information  |
|  |

**Guiding principles in writing ISSAI Compliance Assessment Report**

***Highlight key messages***

As the report is meant for the top management of a SAI, key messages from the iCAT should be highlighted in the executive summary, so that the SAI management can get a good overview of the status of compliance and the issues that need to be sorted out in areas where the SAI does not comply.

***Involve the entire team in developing the report***

At the end of the iCAT process the team would have gathered a lot of information about different requirements. As compliance issues are interrelated, the iCAT team needs to work together to determine the categorisation of the issues and their causes.

***Distinguish between high impact institutional issues and operational issues***

When the iCAT team reports on compliance status of the SAI, it should distinguish between compliance gaps that are central to the audit practice and compliance gaps that are more at the procedure level than at an institutional level. In order to become ISSAI compliant it is the institutional issues at level 2 that need to be addressed. The iCAT team would also find that the compliance gaps observed at the level of the audit practice at levels 3 and 4 have their roots in institutional level issues at level 2 of the ISSAI framework. After ascertaining the status on level 2 requirements these would be highlighted in the report for the SAI top management.

***Ensure that the causes are correctly identified***

The strategy for implementation will be based on the identified causes of the compliance gaps. As such it is important for the iCAT team to highlight the right causes. E.g. in some cases non implementation of an ISSAI compliant practice may not be due to knowledge and skills gap but be a management issue.

1. **Conclusion**

In this chapter we have identified status of level 2 requirements and the linkage between the Level 2 ISSAIs and the Levels 3 and 4 ISSAIs. In preparing the ISSAI Compliance Assessment Report, which is the end product of the iCAT, we also considered how the three Levels of ISSAI are interrelated. The report highlights the strategic issues at level 2 that would be considered to address the issues of non-compliance at levels 3 and 4.

**Annexe – Data collection tools to fill the iCAT**

The following five tools can be used for gathering data to fill the iCAT format. These are:

**Document review:** Process to gather/organise information contained in various documents to achieve pre-defined objectives.

**Interview:** Data and information collection procedure in the form of a carefully planned set of questions that is asked through a conversation to obtain in-depth ideas and perceptions on a topic of interest.

**Focus group:** Group of interacting individuals having some common interest or characteristics, brought together by a facilitator, who uses the group and its interaction as a way to gain information about a specific or focused issue. Discussion method centres on key limited questions.

**Physical observation:** Site visit by observers who record what they see/hear on site, using a checklist.

**Survey:** Systematic process that uses standardised questionnaires to obtain information from a large number of respondents.

This document lists various aspects of these tools in a table.

| **Tools** | **Purpose** | **Skills required** | **Target** | **When to conduct** | **How to conduct / Steps** | **Strengths** | **Limitations** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Document Review** | * Understand functioning of SAI
* Understand environmental forces influencing an SAI
* Identify areas of focus
* Identify information to be gathered
* Validate gathered information
* Find weaknesses/ their causes
 | * Language proficiency
* Ability to assimilate large amounts of information
* Speed reading
* Structured/systematic approach
* Analysis, evaluation, synthesis
* Subject matter knowledge
* Writing skills
 |  | * Initial review-at the very beginning of planning
* Continuous process as/when need/opportunity arises
 | 1. Input
2. Processing
3. Output
 | * Provides overview of SAI, its activities and the environment in which it operates
* Allows to reduce volume of information to be probed
* Can be a credible source of information
 | * Time consuming
* Difficult to find a skilful person
* Lack of relevant written materials or availability of too many documents
* Documents may not match with actual situation
 |
| **Interview** | To obtain views/opinions of the interviewee on development needs of the SAI, such as;* Key result areas
* Challenges to be addressed
* Capacity building strategies
* Support required
* etc.
 | * Language fluency
* Listening skills
* Good observation skills
* Discussion leading skills
* Time management skills
* Ability to remain neutral
* Good writing skills
* Ability to take notes quickly
* Analytical and synthesising skills
* Knowledge and experience on the subject
 | Depends on the interview purpose:* From within SAI
* From among external stakeholders
 | * After obtaining an understanding of the SAI
* After survey / document review
 | 1. Planning
2. Conducting
3. Concluding
4. Documenting
 | * Provides flexibility to explore new ideas / issues
* Facilitates expression of diverse opinions / ideas
* Allows respondent to elaborate
* Allows probing / clarification
* Facilitates common understanding
* Provides opportunity to obtain sensitive / confidential information
* Provides opportunity to obtain information from non-verbal communication
 | * Not appropriate for quantitative data
* Risk of gathering unreliable information
* Information provided may not be representative
* Susceptible to interviewer bias
* Difficult to prove findings
* Not easy to quantify/ analyse information gathered
* Can be time-consuming
 |
| **Focus Group** | * To gain an insight into certain issues through a ‘group thinking’ process
 | Knowledge: * Group interaction and dynamics
* Topics of discussion

Skills: * Active listening / effective summarising
* Asking questions
* Giving feedback
* Observing behaviours
* Focusing attention
* Leading discussions
* Stimulating and sustaining interest

Attitudes: * Empathy
* Acceptance
* Flexibility
* Not dogmatic, opinionated, rigid, or authoritarian
* Dealing with another person at his/her pace
* Objectivity and impartiality
* Freedom in expressing ideas and opinions
* Displaying faith and trust in the group
 | * Composed of people who have something in common on some specified criteria of interest
* Level of homogeneity depends on purpose of FG
* Not more than 12 if discussions in plenary
* As many as 30 if discussions will be held in sub-groups
 | At any stage of the NA process:* before other tools are used
* In preparation for other tools
* After having gathered data
 | **Before** Focus Group:* Define purpose
* Specify participants
* Develop questions
* Check the settings

**During** Focus Group:* Set the environment
* Set expectations
* Ask questions and get responses
* Encourage full participation
* Keep the group on track
* Summarize and close the session

**After** Focus Group:* Make conclusions
* Write brief summary and analysis
 | * Group thinking process can enrich ideas of individual participants / quality of discussions.
* Can interact directly with participants (allow clarification, follow-up questions, probing)
* Can gain information from non-verbal responses to supplement verbal responses.
* Very flexible
 | * Difficult to bring everyone together
* Requires financial and material resources
* Limited ability to generalise to larger populations
* May bias results by providing cues about what types of responses are desirable
* Results may be biased by dominant/ opinionated member
* Data analysis is often complex and time-consuming
 |
| **Physical Observation** | * To verify / appraise SAI’s infrastructure, technology and support services
* To check existence of documents
* To have more confidence, accuracy, reliability and validity of the results of prior NA tools used
 | * At least two observers to maximise objectivity
* Observers not working at the site to ensure impartial / external view point
* Experienced observers on the subject to enhance appraisals and credibility
 | * Physical infrastructure (premises, offices, facilities, utilities)
* People working on site, their interaction
* Interpersonal relations
* Work climate
* Stakeholders relations
 | * As preliminary task before interviews / document reviews
* As validating tool to confirm results of prior NA tools.
 | 1. Planning
2. Conducting
3. Concluding
4. Documenting
 | * Reveals real conditions of natural settings
* Time saving tool
* Provides quick appraisal of the conditions/ things or people
* Requires no expertise when analysing the results
 | * Not relevant for generalisation
* Observer bias
* May affect behaviours and reduce reliability of results
 |
| **Survey** | * To obtain feedback on SAI environment
* To gather information on SAI structures, operational frameworks, and employees
 | * Formulating questions
* Analytical skills
* Ability to synthesize
* Data analysis skills
* Subject matter knowledge
 | Depends on focus area:* For HR: employees at all levels
* For external stakeholder relations: external stakeholders
* For audit methodology and standards: field auditors and senior / middle management
* etc.
 | * At the beginning of NA to gain overall understanding of SAI’s operations
* At a later stage to focus on specific areas
* Where information is required from a wide range of geographically dispersed employees
* When intention is to arrive at aggregated quantified information
 | 1. Developing the survey
2. Implementing the survey
3. Data entry
4. Data analysis
5. Recording results
 | * Information can be obtained from a large number of respondents
* Wide range of information can be collected at one time
* Consistency of data
* Easy to administer
* Cost effective
 | * Dependent on respondents’ motivation, memory, ability to respond effectively
* Respondents not motivated to accurately answer, but present themselves in favourable light
* Doesn’t facilitate in-depth examination of causes
* Errors due to non- response may exist
* Could have subjective responses
* Can be time consuming
* Doesn’t allow probing for more detailed information
 |

1. ISSAI 3000, Appendix 3.3.3 [↑](#footnote-ref-1)
2. Comptroller and Auditor General of Bangladesh Performance Audit Manual- paragraph 3.23 [↑](#footnote-ref-2)
3. Handbook in Performance Auditing RRV (Sweden), 1999- paragraph 5.4 [↑](#footnote-ref-3)
4. Comptroller and Auditor General of Bangladesh Performance Audit Manual- paragraph 2.16 [↑](#footnote-ref-4)
5. ISSAI 300/1.1 [↑](#footnote-ref-5)
6. ISSAI 3000 Part 3 Paragraph 3.3 [↑](#footnote-ref-6)
7. ASOSAI Performance Audit Guidelines paragraph 3.4 [↑](#footnote-ref-7)
8. ASOSAI Performance Audit Guidelines paragraph 3.15 [↑](#footnote-ref-8)
9. AFROSAI-E Performance Audit Template- paragraph 4.2.1 [↑](#footnote-ref-9)
10. ISSAI 3000, 3.3.2 [↑](#footnote-ref-10)
11. In some SAI’s this is referred to as Preliminary Surveys or Preliminary study [↑](#footnote-ref-11)
12. Handbook in Performance Auditing RRV (Sweden), 1999- paragraph 3.1 [↑](#footnote-ref-12)
13. AFROSAI-E Performance Audit Template- paragraph 3.4 [↑](#footnote-ref-13)
14. Handbook in Performance Auditing RRV (Sweden), 1999- paragraph 3.1 [↑](#footnote-ref-14)
15. ASOSAI Performance Audit Guidelines paragraph 3.11 [↑](#footnote-ref-15)
16. ISSAI 3000, Appendix 1, 2 [↑](#footnote-ref-16)
17. AFROSAI-E Performance Audit Template- Note 18 [↑](#footnote-ref-17)
18. Some SAI refer to this as general objectives [↑](#footnote-ref-18)
19. Some SAI refer to this as sub-objectives [↑](#footnote-ref-19)
20. AFROSAI-E Performance Audit Template- paragraph 3.5.4 [↑](#footnote-ref-20)
21. ISSAI 3000/1.8 [↑](#footnote-ref-21)
22. ISSAI 3000 Appendix 3, 5 [↑](#footnote-ref-22)
23. ISSAI 3000, Appendix 3, 3.3.4 [↑](#footnote-ref-23)
24. ISSAI 3000, Appendix 1, 4.3 [↑](#footnote-ref-24)
25. ISSAI 3000, Appendix 1, 4.3 [↑](#footnote-ref-25)
26. ASOSAI Workshop on dealing with fraud and corruption, 2012. [↑](#footnote-ref-26)
27. ASOSAI Workshop on dealing with fraud and corruption, 2012. [↑](#footnote-ref-27)