PERFORMANCE AUDIT HANDBOOK

NOVEMBER 2013

AFROSAI-E

African Organisation of English-speaking Supreme Audit Institutions

Performance Audit Handbook

November 2013

Table of Contents

PREFACE

Public sector auditing is essential in providing information and independent and objective assessments of the stewardship and performance of government policies, programmes or operations, to legislatures, oversight bodies, those charged with governance and the public. The Supreme Audit Institutions (SAI) are important pillars of their national democratic systems and governance mechanisms and play an important role in enhancing public sector administration by emphasising the principles of transparency, accountability, governance and performance. Performance auditing focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. This is accomplished by examining performance against suitable criteria and by analysing causes of deviations from criteria or problems. The aim is to answer key audit questions and to provide recommendations for improvement.

The *Performance Audit Handbook* is issued by the African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E). The Handbook is based on ISSAIs[1], experiences in the region and AFROSAI-E course materials, handbooks, manuals, guidelines and other methodological materials available to the organisation. The Handbook is developed for the use in AFROSAI-E activities and by member SAIs in the region. With the consent of AFROSAI-E, it can also be used by other SAIs and non-profit organisations for the purpose of public sector auditing.

During the last 15 – 20 years, there has been a significant development of performance auditing in the region and performance auditing is now firmly established. The development and strengthening of performance auditing is one of the strategic imperatives for AFROSAI-E for the period 2009 – 2014. Currently, 22 out of 24 member SAIs have established, or are in the process of establishing, performance auditing.

For many years, the International Organisation of Supreme Audit Institutions (INTOSAI) has developed standards and guidelines for performance auditing. The time has come to develop a modern performance audit handbook specifically for the region, as a complement to other guiding materials available and the courses AFROSAI-E provides to member SAIs, with support from SAIs in the region and institutional partners.
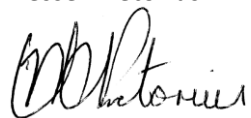
The main author of this Handbook is Mr. Lars Florin, Senior Manager for performance auditing at the AFROSAI-E Secretariat, supported by a group of performance auditors from SAIs in the region: Ms. Judite Ali, Mozambique; Mr. Paulos Zerihun Atalel, Ethiopia; Mr. Lawrence Ayagiba, Ghana; Ms. Mary Combey, Sierra Leone; Ms. Botho Entaile, Botswana; Mr. Jacob Essilfie, Ghana; Mr. Alan Hansen, Namibia; Mr. George Haule, Tanzania; Ms. Ingabire Goretti, Rwanda; Ms. Christina Kachingwe, Malawi; Mr. Benson Kariuki, Kenya; Ms. Chipo Magada, Zimbabwe; Ms. Wendy Massoy, Tanzania; Mr. Timothy Matsebula, Swaziland; Mr. Aggrey Mukalasha, Zambia; Ms. Liz Nambuya, Uganda; Ms. Grace Nelwamondo, Namibia; Mr. James Pilly, Tanzania; Mr. Corrie Pretorius, South Africa; and Ms. Manako Ramonate, Lesotho.

The SAIs in the region, as well as AFROSAI-E's institutional partners, have been given time to comment on an exposure draft and make contributions to the Handbook.

The intention is to revise the Handbook at regular intervals. Corrections and additions to the Handbook may also be published at the AFROSAI-E website www.afrosai-e.org.za.

November 2013

Wessel Pretorius   Lars Florin

Chief Executive Officer   Senior Manager Performance Auditing
AFROSAI-E   AFROSAI-E

---

[1] International Standards of Supreme Audit Institutions issued by INTOSAI.

INTRODUCTION

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

Learning to conduct performance audits is like learning how to drive a car: you may need knowledge from books on the principles of driving and traffic regulations, as well as technical descriptions and advice on maintenance of the car from the car manual; in order to actually learn how to drive the car, however, you need to practice driving (learning by doing).

The Handbook provides the basics for performance auditing as presented at the AFROSAI-E courses and as in general practiced by most SAIs in the region. It does not go into depth in describing the social sciences and evaluation theory, the methods used in these disciplines, or how to design and carry out performance audits in different sectors. AFROSAI-E has developed a performance audit template manual that details the processes for performance auditing, and guidelines for auditing certain sectors/topics or guidelines for using certain methods in perform-ance auditing. A rich methodological guidance material is also available through the AFROSAI-E website www.afrosai-e.org.za, for staff employed by the SAIs in the region and institutional part-ners. A list of guidance materials from AFROSAI-E that is fully or partly relevant for performance auditing is provided in Chapter 2.

The conditions for performance auditing vary between SAIs in the region. While the Hand-book provides examples of experiences from SAIs in the region, the main focus is on general topics. Each SAI needs to decide how to approach, organise and conduct performance auditing. As illustrated in Figure 1, the Handbook aims at providing understanding and knowledge of a theoretical and practical nature. Manuals have a more normative ambition; they contain princi-ples and procedures that need to be considered or complied with in the audit process. The AFROSAI-E template manual can be customised to the national context, as well as to the national choices, needs and processes of each SAI. AFROSAI-E guidelines contain generally accepted guidance and good practices, and cover on a more detailed level performance auditing in differ-ent sectors, or certain methods used in the performance audit process. AFROSAI-E also provides guidance regarding issues on the institutional level, not only relevant for performance auditing.

Figure 1. The relation between AFROSAI-E Handbook, template manual and guidelines
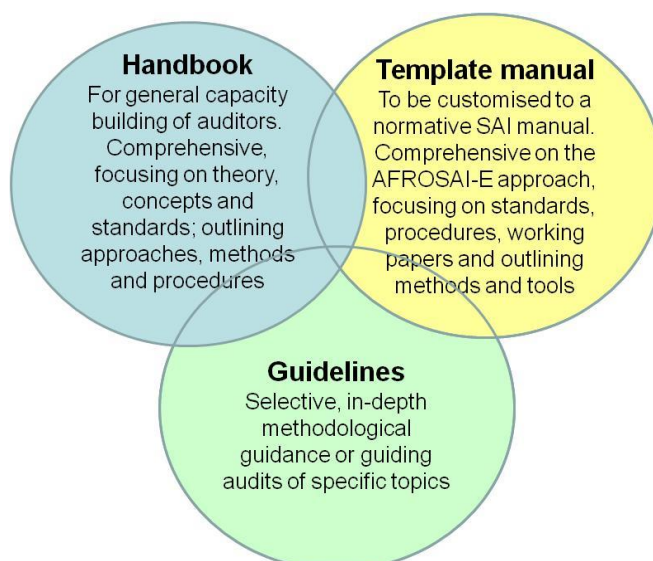
1 WHAT IS PERFORMANCE AUDITING?

Definition of performance auditing

According to the Fundamental Principles of Performance Auditing as stated in ISSAI 300, performance auditing carried out by SAIs is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance auditing seeks to provide new information, analysis or insights and where appropriate, recommendations for improvement. Performance audits provide new information, knowledge or value by:[2]

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

Subject matters are not limited to specific programmes, entities or funds, but can include topics like service delivery or the effects of regulations, thereby placing special focus on citizens, as well as issues cutting across many entities.

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

Objectives of performance auditing[3]

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

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

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

The development of performance auditing in the AFROSAI-E region

In the AFROSAI-E region, performance auditing was introduced Africa in the late 1980s and in countries such as Botswana, Lesotho and Zimbabwe in the early 1990s. The Auditor-Generals of AFROSAI-E have decided on performance auditing as one of the strategic imperatives of the organisation for the period 2009 - 2014. AFROSAI-E has taken a number of steps to promote the development of performance auditing within the region. In total, 22 out of the 24 SAIs in the

---

[2] ISSAI 300:9-10.
[3] ISSAI 300:12; ISSAI 3100, Appendix 2.2.

region have established, or work on establishing performance auditing. During 2012, AFROSAI-E provided basic performance audit training to 130 performance auditors from 20 SAIs in five three-module course programmes, covering four weeks of training with practical work on a performance audit engagement in the home SAI between the modules.

Since 2008, a prize sponsored by SAI Sweden[4] has been awarded to the best performance audit report in the AFROSAI-E region, as assessed by an international jury based on criteria. The following countries have been awarded the prize:

- 2008: Ghana;
- 2009: Namibia;
- 2010: Botswana and Tanzania;
- 2011: Uganda; and
- 2012: Kenya.

A variety of topics have been addressed with performance auditing in the region. A few examples are:

• Efficiency in health care services	• Management of water distribution
• Distribution of medical drugs	• Management of solid waste
• Distribution of school books	• Construction and maintenance of roads
• Distribution of teachers	• Management of public debt
• Processing time of passports	• Management of national parks
• Forest management	• Maintenance of government vehicles
• Traffic inspections	• Government use of consultants

Performance auditing and other types of auditing

ISSAIs define three main types of government auditing:[5]

- Financial auditing;
- Performance auditing; and
- Compliance auditing.

In the AFROSAI-E region the concepts of regularity auditing and performance auditing are used, where regularity auditing covers the term financial auditing as well as aspects of compliance auditing. In performance audits, the auditors may use compliance with legislation, regulations and standards as audit criteria. Compliance is in this case only fully relevant when it contributes to good performance – not as an end in itself. The use of audit criteria has an important role in the AFROSAI-E approach to performance auditing. One of the most legitimate sources of audit criteria is the legislation for the audit area, see Section 6.3.1.

In compliance auditing the compliance with rules and regulations is an aim in itself. In performance auditing, the compliance or non-compliance with rules and regulations is a tool to assess the performance of the audited entities. However, performance auditors must also always pose another question: would compliance with the rules and regulations improve the performance? If the answer to this question is no, the auditors need to indicate the non-compliance in the report, at the same time as they may recommend the regulations to be changed to enable better performance. When it is the legislation that creates hindrance for good performance, the SAI can report the observations to Parliament with the recommendation to consider if there is a need to change the legislation.

---

[4] For the full name of the SAIs, see the *Abbreviations and glossary of terms*.
[5] ISSAI 100:22.

Regularity auditing is by far the largest audit discipline in SAIs in the AFROSAI-E region. As accounting, internal control, financial reporting and financial management improves, the SAIs may focus more on performance auditing. Some SAIs in the OECD countries now uses around 40 − 50% of the external audit resources in central government for performance auditing.

Performance auditing is based on a different logic than regularity auditing. There are differences in the time allocated for the audit as well as how it is planned, executed and reported (see the table below). There are also similarities. The role and the ethics for the auditors are the same. So is the mandate to get access to the information needed from government entities, and other fundamental principles of public sector auditing. Both types of auditing are also based on international standards developed by INTOSAI.

COMPARISON BETWEEN PERFORMANCE AND REGULARITY AUDITING IN THE AFROSAI-E REGION		
Aspects	**Performance auditing**	**Regularity auditing**
Purpose	Assess the economy, efficiency and effectiveness of government undertakings, and whether there is room for improvement.	Provide assurance for the financial statements' true and fair representation of the financial performance & position and assess if financial operations have been carried out in accordance with regulations.
Frequency	Ad hoc based on indications or risks for performance weaknesses or problems.	Done on an annual basis.
Focus	The performance of undertakings, policy, programmes, organisations, activities and management systems.	Financial statements by assessing: accounting, financial transactions, and key control procedures.
Academic basis and relevant experience	Economics, political science, sociology etc. Experience from research, professional investigations or evaluations; and from methods used in social sciences.	Accountancy (and law). Professional audit skills.
Methods	Vary from audit to audit.	A combination of verifying reliance on internal control, analytical approach and test of detail.
Audit criteria	More open to the auditors' professional judgement. Unique criteria for each main audit question, developed from legitimate sources and logical reasoning.	Less open to the auditors' judgement, with standardised criteria set by legislation and regulation for all audits. Professional judgement needed to determine the seriousness of identified misstatements.
Reports	Special reports published throughout the year. Varying size and content, depending on objectives, but often with similarities in the overall structure.	Standardised auditor's report combined with other non-standardised reports.
Purpose of documen-tation	To document the audit process and substantiate the audit evidence presented in the report.	To document that the auditor has designed and performed audit procedures that enable him/her to obtain necessary and sufficient evidence to draw conclusions on which to base an audit opinion.
Inspired by ISSAI 3100, Appendix, page 4		

Elements of performance auditing can be part of a more extensive audit that also covers compliance and financial audit aspects. In case of overlaps between audit types, all relevant standards should be observed. When this is not feasible, the primary objective of the audit should guide the auditors in the application of relevant standards.[6]

---

[6] ISSAI 300:14.

2 STANDARDS AND APPROACHES IN THE REGION

The Handbook provides the theories, concepts, standards and overall working methods for performance auditing, based on the ISSAIs and the experience of performance auditing in the AFROSAI-E region. ISSAIs aim to promote independent and effective auditing and support the members of INTOSAI in the development of their own professional approach in accordance with their mandates and with national laws and regulations.[7] The following ISSAIs are the most important for performance auditing.

NUMBER	NAME	CONTENT
Founding principles and prerequisites for the functioning of SAIs		
ISSAI 1	The Lima Declaration (1977)	The founding principles, calling for independent government auditing, and establishes goals for achieving this.
ISSAI 10	Mexico Declaration on SAI independence (2007)	States eight core principles for independence flowing from the Lima declaration.
ISSAI 12	Values and Benefits of SAIs (2013)	12 principles based on three objectives for how SAIs make a difference to the lives of citizens: Strengthening the accountability, integrity and transparency of government and public entities; Demonstrating ongoing relevance to citizens and other stakeholders; and Being model organisations through leading by example.
ISSAI 20	Principles of Transparency & Accountability (2010)	Principles about the availability of information about the SAI, transparency in work processes and products, open communication with media and others and about being visible in the public arena.
ISSAI 30	Code of Ethics (1998)	A statement of the values and principles guiding the daily work of auditors; ethical requirements embodied in the key words: Integrity, Independence and Objectivity, Confidentiality and Competence.
ISSAI 40	Quality Control for SAIs (2010)	Assists SAIs to establish and maintain a system of quality control, covering leadership, ethical requirements, what work that can be accepted, human resources, engagement performance and monitoring of the quality control system.
Fundamental principles relevant for performance auditing		
ISSAI 100	Fundamental Principles of Public Sector Auditing (2013)	Provides the fundamental principles for all public sector auditing, covering the purpose of the ISSAIs, the framework for and elements of public sector auditing, organisational requirements relating to quality control and ethics, the objectives of public sector audits, the types of auditing, the roles of the auditor, intended users, suitable criteria and how to make reference to the ISSAIs.
ISSAI 300	Fundamental Principles of Performance Auditing (2013)	Fundamental Principles of Performance Auditing provides the framework for performance auditing, general principles for the performance audit engagements and principles related to the audit process.
Performance audit guidelines		
ISSAI 3000	Standards and Guidelines for Performance Auditing (2004)	Describes the features & principles of performance auditing, assists in managing and conducting performance audits, provide a basis for good performance audit practices and establish a framework for the further development of the methodology and professional development.
ISSAI 3100	Performance Audit Guideline – Key Principles (2010)	Outlines a common understanding of what defines high quality work in performance auditing. Summarises the key principles for performance auditing.

---

[7] ISSAI 300:1.

A SAI can adopt national standards for performance auditing based on or consistent with ISSAI 300, read and understood in conjunction with ISSAI 100, which also applies to performance auditing. An alternative is to adopt the INTOSAI General Auditing Guidelines as the standards for the SAIs work. In such cases the auditor must comply with all ISSAIs relevant to the audit. A pre-requisite is in both alternatives to maintain procedures for ethics and quality control, guided by ISSAI 30 and 40.[8] See further about standards in Section 5.4.1.

The ISSAIs are available on www.issai.org. Different INTOSAI committees have also developed general guidance materials as well as guidance directly relevant for performance auditing, see the box below. The most relevant committees are:

- The Professional Standards Committee with its Performance Audit Sub-committee, www.psc-intosai.org/subcommittees/performance-audit;
- The Capacity Building Committee, http://cbc.courdescomptes.ma; and
- The Committee on Knowledge Sharing and Knowledge Services with its Working Group for Environmental Auditing, www.environmental-auditing.org.

GUIDANCE DEVELOPED BY INTOSAI COMMITTEES, DIRECTLY RELEVANT FOR PERFORMANCE AUDITING

- Good Practice Guidance from the Performance Audit Sub-committee
  – Selecting performance audit topics (2012)
  – Designing performance audits: setting the audit questions and criteria (2012)
  – Communication in the performance audit process (2012)
  – Safeguarding quality in the performance audit process (2012)
  – Making performance audit reports reader-friendly (2012)

- Guideline from the Capacity Building Committee
  – How to Increase the use and impact of audit reports (2010)

- Guidance developed by the INTOSAI Working Group for Environmental Audit (WGEA)

The AFROSAI-E guideline Performance Audit of government's response to environmental problems provides an overview of guidance developed by WGEA. The materials is also available on: www.environmental-auditing.org/Home/WGEAPublications/StudiesGuidelines/tabid/128/Default.aspx

---

AFROSAI-E guidance for performance auditing

The AFROSAI-E guidance materials in the box below can be downloaded by registered users from the AFROSAI-E website at http://afrosai-e.org.za/performance-audit, together with the ISSAIs and guidance from INTOSAI most important in performance auditing. The purpose of the AFROSAI-E guidance materials is to assist SAIs in implementing ISSAIs.

GUIDANCE FOR PERFORMANCE AUDITING DEVELOPED BY AFROSAI-E
- Performance Audit Handbook (2013)
- Quality Assurance Handbook (2012)
- Performance Audit Template Manual (2010)
- Performance Audit Template Manual (Exposure Draft 2013)
- Toolkit for SAIs communication with and reporting to PAC (2012)
- Guideline on performance audit report writing (2012)
- Guideline on performance audit of environmental topics (2011)
- Guideline on performance audit of public procurement (2011)
- Guideline on performance audit of maintenance of assets (2010)
- Guideline on performance audit of waiting time (2008)

---

[8] ISSAI 100:35.

AFROSAI-E also provides guidance on the institutional level, also relevant for performance auditing, regarding the institutional capacity building framework (2011), strategic planning (2009), annual planning (2011), communication (2010) and human resources management (2012).

Through the AFROSAI-E website, registered users can access methodological guidance for performance auditing provided by the courtesy of SAI U.K., and a data base with performance audit reports from a number of English-speaking SAIs, provided by the courtesy of CCAF-FCVI.

The AFROSAI-E approach to performance auditing

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

- A result-oriented approach, which assesses whether outcome or output objectives have been achieved as intended or whether programmes and services are operating as intended;

- A problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria; and

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

All three approaches can be pursued from a top-down or a bottom-up perspective. Top-down audits concentrates 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.[9]

At least one normative statement is necessary to assess performance, for example an objective, statements in the legislation or overall human values based on United Nations Declaration of Human Rights. In principle, additional audit criteria is not necessary in a problem-oriented performance audit, where the audit use an audit problem as the point of departure, verifies the problem and analyses the causes to the problem. Conclusions and recommendations are primarily based on the process of analysing and confirming causes, even though they are always rooted in normative criteria.[10]

In the system-oriented and results-oriented approach, on the other hand, the assessment of performance is made against pre-defined objectives or audit criteria.[11] The criteria provide a basis for evaluating the evidence (on performance), developing audit findings and reaching conclusions on the audit objectives.[12] The audit may focus on different issues and include an analysis of causes to the performance problems related to each issue, sometimes called root-cause analysis. The different issues may be thematically related rather than linked to each other in cause-effect relationships.

AFROSAI-E uses the same definition of performance auditing as in ISSAI 300:9, defining it as an "...independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement." The _AFROSAI-E approach_ is a _combined approach_ where aspects of _problems_, _systems_

---

[9] ISSAI 300:26.
[10] See ISSAI 300:27.
[11] See the guideline _Designing performance audits – Setting audit questions and criteria_, INTOSAI Performance Audit Sub-committee to the Audit Standards Committee, page 1.
[12] ISSAI 300:27.

and _results_ are considered. The _main AFROSAI-E approach_ is to focus the audits on areas or government undertakings where there are reasons to believe that there are material performance problems. During the planning phase the auditors narrow down the selected topic and recommend an audit problem as the main focus of the audit. The formulation of the audit problem is either derived from _shortcomings in the outputs and results_ (from a government or citizen perspective) or _shortcomings in the government systems and processes_. The audit will then verify the problem and analyse the causes to them.

When the audit problem is formulated in terms of results, the auditors look into the government systems and processes to identify the main causes to the problem. When the audit problem is defined as the systems or processes, on the other hand, the auditors need to consider the implications for the results (to stay relevant), as well as to analyse the underlying causes to the problems. Audit criteria are used to assess the performance of audited entities related to the issues covered in the audit, in order to develop findings by comparing conditions with criteria. In this approach, the ideal is to verify the audit problem, analyse the main causes contributing to the problem and assess them based on criteria and identify realistic and practical recommendations to reduce or solve the problems identified.

Even if some parts of the Handbook are relevant for all approaches to performance auditing, the focus is on the main AFROSAI-E approach.

SAIs may sometimes identify clear needs or requests for independent and objective information on whether the intended results of government undertakings have been achieved as planned, or whether management or operational systems in government function as intended. Such information may for example be requested or needed by Parliament or the general public. As _a complement_, this means that the SAI may choose to initiate a performance audit even without any specific reasons to believe that there are material performance problems in a certain area. Such audits are also based on audit criteria. If material performance problems are observed, the SAI needs to consider whether this motivates the SAI to make more in-depth analysis of the causes to such problems.[13]

The readers expect reliable reports which set out the SAIs' evidence based position on the subject examined. Thus, performance auditors should in all cases provide findings based on sufficient appropriate evidence and actively manage the risk of inappropriate reports. The level of assurance that a performance audit report provides should be communicated in a transparent way.[14]

In most countries in the region there is no strong tradition of evaluating programmes or public sector entities. Performance auditing can play an important role in analysing problems and causes to problems in order to come up with recommendations for improvement. The problem-oriented approach to performance auditing is challenging as it can be difficult to present sufficient appropriate evidence for the cause-effect relationship between different factors and the audit problem. The combined AFROSAI-E approach enables performance audits focusing on performance problems and their causes, without entirely depending on strong evidence for the cause-effect relationships. This is because each finding is expected to be based on explicit audit criteria (which make them stand as findings by themselves), as well as be logically linked to the audit problem.

---

[13] Some SAIs mainly select performance audit topics based on the materiality of the audit area and risks for not achieving the intended objectives, not on information or indications of performance problems. Examples are the SAIs in Canada and United Kingdom, carrying out around 25 and 60 audits per year respectively. In the AFROSAI-E region, the volume of performance audit reports produced by SAIs is usually in the range of 1 – 10 reports per year, even if one or two SAIs may produce more reports. At the same time there are many material performance problems in the public sector. This makes it logical to use an orientation towards performance problems as the main approach in the region.

[14] ISSAI 300:21–22.

Performance auditing can vary between SAIs and over time

While there may be variations in the approach to performance auditing between SAIs in the AFROSAI-E region, the core is to assess the performance of government undertakings, analyse problems and the causes to them, and recommend actions for improvements. Performance auditing may also vary over time due to the needs of society, resource constraints, political considerations and, not the least, because of the development of different academic disciplines.

The AFROSAI-E approach to performance auditing is influenced by the support provided by SAI Sweden since the early 1990's, and has developed over the years and adjusted to the conditions in the region and other influences. While SAI Sweden remains the most significant actor supporting the development of performance auditing in the region, the importance and influence from other SAIs and actors has increased. SAI Norway provides bi-lateral support to some countries in the region and technical support to AFROSAI-E courses, development work and quality assurance reviews. The Canadian Comprehensive Auditing Foundation (CCAF-FCVI) and SAI USA have fellowship programmes, inviting performance auditors from the region to be seconded to audit offices in the respective country and be trained abroad for a period. CCAF-FCVI also assists AFROSAI-E with quality assurance reviews, trainers in courses and other measures. SAI U.K. provides bi-lateral support to some SAIs in the region, and has made its internal methodological guidance materials available for AFROSAI-E members. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) of Germany provides support for some AFROSAI-E training courses and guidelines, and SAI India invite performance auditors for training in India. SAI Netherlands also contribute to quality assurance reviews and have provided other support to performance auditing in the region.

The table on page 11 gives an overview comparing the approach to performance auditing of some of the actors influencing the region. While there is a core of how to approach performance auditing that is similar, there are also differences between countries. Some of the variations are linked to differences in the role or mandate. One example is that SAI Norway mainly focuses on effectiveness audit, while the SAI of Canada not has a mandate to audit programme effectiveness directly in other areas than environment. Some variations are more an issue of terminology or technical solutions than differences in substance.

It is important that the SAIs in the AFROSAI-E region are aware of the variations in the approach and implementation of performance audit that may exist for actors influencing the region. Each SAI should take its own decision on how to implement performance auditing, within the framework and requirements of ISSAIs.

Table Differences and similarities in the approach to performance auditing between some actors influencing the AFROSAI-E region

	AFROSAI-E	SAI Canada	SAI Norway	SAI Sweden	SAI U.K.	SAI USA
Who to audit	Acknowledges the variations in the region	Central government and "Crown Corporations" (parastatals) at least every 10 years	Central government & companies owned more than 50% by the state	Central government and selected government owned companies	Central government and parastatals	Federal government (all federal money) and certain protocols, e.g. UN
Main focus	Three Es: – Economy – Efficiency – Effectiveness In practice elements of compliance with regulations	Economy, efficiency and indirectly effectiveness (how departments measure their own effectiveness). Also a mandate to audit Environ-ment (a fourth E) and Sustainable Development Strategies	Covers economy and efficiency, but focuses on effectiveness – actual effects compared to the intentions in decisions and policy of Parliament; also analysing policy instruments. (Costs are rarely addressed)	Three Es: – Economy – Efficiency – Effectiveness/cost benefit of government policy and undertakings	Outcomes/£ or Value /Money (costs always considered). The three E's interpreted as ratios: – Inputs per £ (economy) – Results per input (efficiency) – Outcomes per output (effectiveness)	Three Es: – Economy – Efficiency – Programme effectiveness and results audits
Object for audit	Whole of government approach; programmes or projects; whole, part or group of organisations	Can be a single organisation or programme, government-wide, sector-wide, or thematic.	Mainly policy areas, but often resulting in audits of one or more organisations	Whole of government approach; programmes or projects; whole, part or group of organisations	Wide range, often oriented to an organisation	Evaluating federal programmes, agency performance, and actions
Point of departure	Indications on, or risk for, problems with the three Es	Risks to three E's, non-compliance or other significant matters noted in org. scanning/long term planning	Risk for problems with the three Es in implementation of policy and decisions by Parliament	Indications on problems with the three Es	Analysis of optimal arrangements - the most desirable possible, given constraints	Problem as identified by the Comptroller General or congressional requester
Planning process	Acknowledges the variations in the region	5 year Strategic Audit Plan, a risk-based assessment of entities &and cross-governm. themes, resulting in planned audits for the period	Sector risk assessments identi-fying ideas for audit, overall risk assessment for selection of audit topics in annual plan	3 – 5 year thematic audit programmes identified in annual plans. Topics selected within the programmes	Identified audit proposals are assessed and put together in an annual audit plan	Prepared for 5 years but reviewed after 3 years, based on broad themes that may influence congressional actions
Audit questions	Aiming at verifying the audit problem and address the causes	Audit objectives coined around what the entity must do to mitigate identified risks and meet criteria. Aim to cover root-cause analysis	Important questions related to the economy, efficiency and effectiveness of implementation of Parliamentary policy/decision	Verifying the audit problem and address the casus of the problem	Important issues related to an optimal position	Descriptive, comparative, impact or prospective researchable questions to address the cause of the issue/problem
Audit criteria	Criteria obtained from all available sources relevant to the audit objectives, considering their legitimacy	Criteria obtained from all available sources relevant to the audit objectives (based on a hierarchy of authoritative sources)	Criteria based on decisions/ policy by Parliament; when not sufficient further specified by criteria from other sources	Problem orientation, analysing causes and effects. Some use of criteria from multiple sources	Criteria based on comparisons; whether VFM is optimised, taking account of reasonable constraints and what can be expected	Criteria obtained from policy, and standards (regulations, proce-dures, expert opinions, expectations)
Add value through	Mainly recommend what to do, and exemplify how it can be done. Varies how specific the recommendations are	Often recommendations on what to change, some studies to improve knowledge. Recommendations are not mandatory	Knowledge for Parliament & governm. relevant for decisions, recently started to sometimes incl. overall recommendations	Knowledge for Parliament. Varying degree of specific recommendations to different actors	Specific recommendations improving value for money (who, what, how and when things should be done)	Recommendations for improving programme implementation and agencies' performance
Clearance of reports	Consider comments from the audited entities, describing differences of opinion in the report (if any)	Consider comments from the audited entity, describing differences of opinion (on audit conclusions) in the report (if any)	Consider comments from the audited entity. Full final response from the Minister included in the report.	Comments from the audited entities on a draft report are considered	Facts and presentation agreed with the Accounting Officers before publication	Consider comments from the audited entity and publish comments on recommendations in the report
Reporting to	Acknowledges the variations in the region	Public Accounts Committee in Parliament	The Standing Committee of Scrutiny and Constitutional Affairs in Parliament	Different committees in Parliament and/or the audited entity	Public Accounts Committee in Parliament	Congress

3 ECONOMY, EFFICIENCY AND EFFECTIVENESS

Economy, efficiency and effectiveness, often known as the three Es, form the theoretical platform for the perspectives and the types of problems that are addressed in performance auditing. INTOSAI describes the concepts as follows:[15]

CONCEPT	DEFINITION
Economy	The principle of *economy* means minimising the costs of resources. The resources used should be available in due time, in and appropriate quantity and quality and at the best price.
Efficiency	The principle of *efficiency* means getting the most from available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.
Effectiveness	The principle of *effectiveness* concerns meeting the objectives set and achieving the intended results.

The different concepts direct the interest to different aspects of government activities and programmes, and represent different purposes and perspectives in the audits. Some SAIs in the world use additional Es in their performance audit practice, such as environment (e.g. Canada and the Netherlands), equity (e.g. Brazil) and efficacy (e.g. Brazil) - the organisation's ability to achieve short-term targets.

We have chosen to use the three E's as presented in the ISSAIs, which also encompasses audits addressing environmental topics, equity or efficacy. The meaning of the three Es is in this Handbook illustrated taking traffic inspections as an example.[16]

Performance audits often include an analysis of the conditions that are necessary to ensure that the principles of economy, efficiency and effectiveness can be upheld. These conditions may include good management practices and procedures to ensure the correct and timely delivery of services. Where appropriate, the impact of the regulatory or institutional framework on the performance of the audited entity should also be taken into account.[17]

3.1 The input-output model and the three Es

Government uses different measures to reduce the number of road accidents, in particular accidents with serious or fatal consequences. The Traffic Police is one of several public organisations involved. Ultimately, the government's objective is to reduce the number of road accidents, in particular accidents with serious or fatal consequences, a goal shared between all involved public entities.[18]

In Figure 2 the work by the Traffic Police ("the black box") is described using an input-output model. In this model, the Traffic Police has the overall goal of reducing the number of road accidents, in particular accidents with serious or fatal consequences. This is the main rationale for having the Traffic Police and the overall goal clarifies what effects in society the operations are expected to lead to. The goal is supposed to guide all operations of the Traffic Police. In order to carry out any operations, the Traffic Police need to acquire and use different types of resources, e.g. staff, vehicles, speed radars, alcohol testers, stationary and computers (inputs). The inputs are all the resources acquired and used by the Traffic Police.

[15] ISSAI 300:11. See also ISSAI 3000:1.5.

[16] The example of traffic inspections is inspired by an audit by SAI Tanzania and have been adjusted to the purpose of the Handbook.

[17] ISSAI 300:11.

[18] This example is also used in Section 6.2, illustrating the selection of the focus for the audit - the audit problem – and in Section 6.3.1, illustrating the formulation of audit questions and sub-questions.

Figure 2. The input-output model
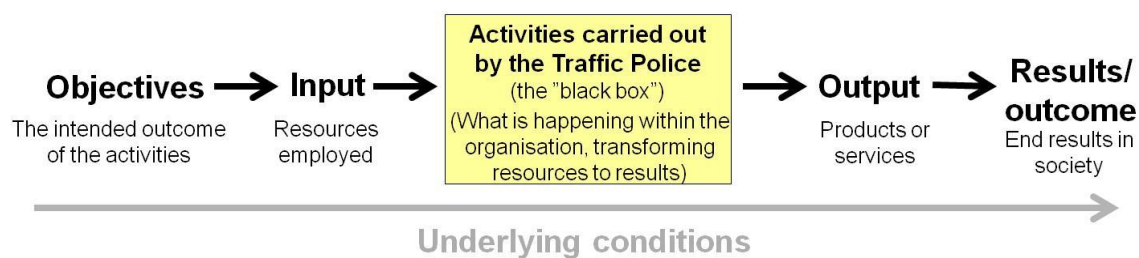
Economy, in this case is about not spending more than necessary to acquire the resources needed to produce the traffic inspections, e.g. using the right quantity and quality of vehicles, which are delivered at the right time, at the right place and at the lowest cost. See Figure 3.

Figure 3. The input-output model and the three Es
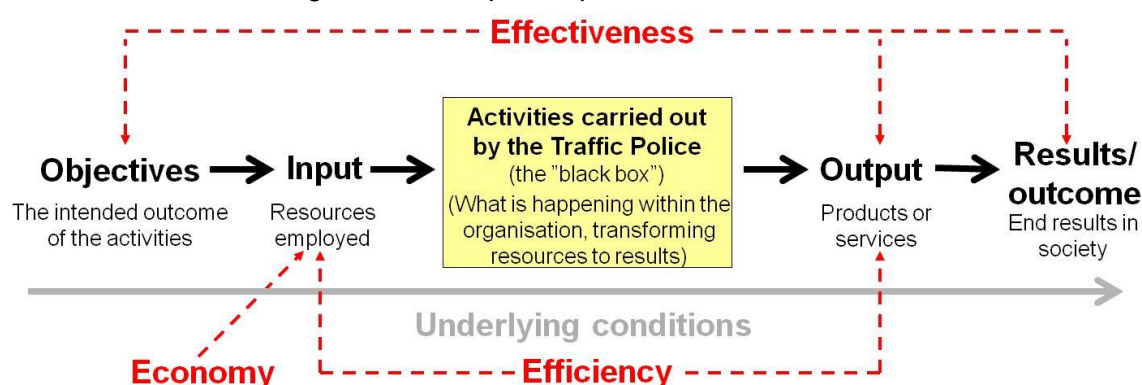
Efficiency can be described in terms of the relation between the outputs and the resources used. Usually measures of efficiency are partial, as it is difficult to include the costs and the different dimensions of the outputs, volume and quality of outputs, in the same measure. One way to measure efficiency is to relate the produced volume of outputs to the total cost of producing them (cost-efficiency). Another way is to related the produced volume of outputs to the volume of labour used to produce it (labour efficiency). In our example with traffic inspection, efficiency could for example be measured as:

- *Cost-efficiency:* For instance the number of traffic inspections carried out in relation to the total costs for the inspections (given similar kind of inspections). The more similar the type of inspection are, the easier it is to measure and compare the cost-efficiency, for instance between various district offices.

- *Labour efficiency:* For instance the number of traffic inspections carried out in relation to the man-hours spent to manage and execute them.

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

- As a relation between the existing *"capacities"* and the *"utilization of available resources"*;

- Comparing what is *actually done* with *"doing things right"* (using the right means, conducting the services in the right place, at the right time and using best practice to manage and execute the services); and

- Comparing the *actual time* used for reach inspection with *best practice*.

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

Effectiveness can also be described or measured in various ways. A more direct approach is to measure whether the Traffic Police has been able to influence the behaviour of drivers - driving carefully, not over-speeding and not drinking alcohol before driving - in order to meet the intended effects of reducing the number of road accidents, in particular accidents with serious or fatal consequences. A partial approach is usually used when effectiveness is addressed in performance audits, assessing some aspects, as it often is difficult to make a comprehensive analysis. Even if there are challenges in describing and measuring effectiveness, it is often possible to find some indications or compare the results of using different working methods, for example different methods for traffic inspections like using speed radar and alcohol testers, and checking on vehicle conditions or insurances, formal permits and required equipment.

The definition of the audited entity determines the three Es

The concepts of economy, efficiency and effectiveness are directly related to the definition of the services, programme or organisation to be audited, "the black box". If the audit entity is defined as the Department of Planning, it is likely that the outputs will be to deliver plans to the rest of the Traffic Police, ideally of a good quality so that the plans will guide the Traffic Police properly. The intended results (outcome) of the audited entity will, in other words, be that the plans should contribute to the efficient functioning of the inspections. If, on the other hand, the organisation is defined as the Traffic Police as a whole, the plans will be internal products that are not likely to be mentioned in the objectives for the Traffic Police.

This means that the concepts of economy, efficiency and effectiveness will change if the definition of the organisation is altered. This has been illustrated in the AFROSAI-E performance audit guideline on public procurement as follows.

> "The meaning of the three E's depends on how the auditors choose to define the audited entity. In for example an audit of procurement in the Ministry of Health, the Ministry as a whole can be defined as the entity for audit. Such an audit would allow the auditors to analyse economy aspects of the Ministry as a whole. More common, however, is to define the procurement functions within the Ministry as the entity for audit, which allows the auditors to analyse the efficiency and effectiveness of the procurement function. Of course the economy of the procurement function itself can also be audited, but usually this is a too limited perspective for a performance audit."
>
> *Performance Audit Guideline Public Procurement, AFROSAI-E 2011, page 13*

Another example is that the Traffic Police may carry out a special programme to reduce the costs by 10% in the different districts. The programme would be deemed to be effective if this objective is met. At the same time it is obvious that cost savings does not tell us anything about the effectiveness of the Traffic Police as an organisation. To know that, we need to look into the outcome actually achieved, in terms of a reduced number of accidents and deaths caused by road accidents, in relation the intended outcome according to the objectives.

Measures of efficiency and effectiveness – an illustration

An example of the distinction between measures of efficiency and effectiveness is illustrated in the box below. Appendix 1 discusses some challenges in defining outputs and measuring the efficiency.

ASSESSING EFFICIENCY AND EFFECTIVENESS

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

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

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

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

The calculations indicated that the South Region is doing better than the Central Region. What we don't know, however, is to what extent the police inspections targets the behaviour of drivers related to the accidents, or if they look into formal matters such as payment of taxes, having a road license, absence of a triangle or fire extinguisher. It is easier to look at formalities than to address over-speeding, the use of alcohol and careless driving, offences related to accidents according to scientific studies in the country.

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

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

While the auditors were not able to measure effectiveness directly, they found clear indications that the South Region was more effective. Not only did they in a far higher degree address factors related to accidents in their inspections, the relative number of accidents had also been reduced during the period. This makes it likely that the Traffic Police in the South Region is more efficient as well as more effective.

3.2   Causes to poor or varying performance

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

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

In the AFROSAI-E approach to performance auditing, the auditors typically choose a main focus for the audit in terms of an audit problem related to economy, efficiency or effectiveness (e.g. high costs, low quality, not achieving goals, inappropriate function of systems). The idea is that the audit should verify the audit problem and address causes to the problem within the organisation. The box below provides examples of functions in organisations that are commonly addressed by performance auditors in their analysis of causes to performance problems.[19]

FUNCTIONS IN THE "BLACK BOX" THAT MAY CAUSE PROBLEMS

In analysing causes to problems with economy, efficiency or effectiveness the audited entities are responsible for, performance auditors may for example need to address functions in the organisations related to:

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

The audit problem, and the causes to it within the control of the audit entity, is the focus in performance audits. It can also be important, however, to take external factors into account in order to understand the conditions under which the audited entities operate. External factors are those outside the control of the audited entities (e.g. legislation, funding and operations by other actors) influencing the organisations.

There may be many reasons for an entity not meeting its objectives. Reasons for low effectiveness can be that the programme is poorly designed so that it is not possible to meet its objectives; the objectives can be unrealistically high (or low); external factors may have changed and had a negative impact on the outcome; or the entity may not have implemented the programme of activity in an appropriate way. A key purpose of an effectiveness analysis is for the auditors to be able to distinguish between such different explanations.

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

3.3   Applying the concepts of the three Es in performance auditing

A basic understanding of the concepts of economy, efficiency and effectiveness in public administration forms the foundation for performance auditing. The concepts clarify what from a performance perspective can be considered to be problems or weaknesses that may be addressed by performance audits. The concepts can also help auditors to orient themselves and avoid

---

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

commenting on the effectiveness of government entities, if the audit has focused on aspects of economy. Examples of different focuses of performance audits linked to the three E's are provided in the box below.

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

The importance in terms of the practical use of the concepts should not be overestimated. It is not always easy to draw a clear line between economy and efficiency, on the one hand, and between efficiency and effectiveness, on the other. This is natural as the concepts are related to each other.

It is rare that one performance audit can include all aspects of economy, efficiency or effectiveness. At the same time it is common that audits cover aspects related to more than one of the three Es. More important than putting the "correct label" on the audit, is to select a focus of the audit related to material performance problems – i.e. the three Es – and properly address causes to such problems in order to contribute to change and improvement.

The three Es represent different perspectives in the audit, even if they can be combined, and therefore leads to a focus on different questions. We will now use the traffic inspections to give examples of typical questions related to the different perspectives.

The economy perspective

In an audit focusing on economy, it is usually important to define and try to measure the costs. As with the other Es, however, audits of economy can also be partial, e.g. look at if the audited entities acquire the appropriate quantity and quality of resources. An audit of the Traffic Police based on the economy perspective may deal with questions such as:

- Have the Traffic Police contracted officers with an appropriate competence for the tasks that are assigned to them?

- Is the necessary equipment for traffic inspections of the appropriate quantity and quality, and procured at the lowest cost?

- Is the mix of different resources appropriate, so that the available resources can be used without leaving some of them idle?
- Are expenditure kept within budget?

The efficiency perspective

When the efficiency perspective is used, the main question is whether the resources deployed have been put to optimal or satisfactory use, or whether the same or similar output in terms of quantity, quality and/or turn-around time could have been achieved with fewer resources. The question could be: *Are we getting the most output – in terms of quantity and quality – from our inputs and actions?* The question refers to the relationship between the quality and quantity of services provided, and the activities and cost of resources used to produce them, in order to achieve results.[20]

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

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

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

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

The concept of cost-effectiveness is sometimes used to refer to the ability or potential of an audited entity, activity, programme or operation to achieve certain outcome at a reasonable cost. Cost-effectiveness analyses are studies of the relationship between project cost and outcomes, expressed as cost per unit of outcome achieved. Cost-effectiveness is just one element in the

---

[20] ISSAI 3000, Section 1.5, page 15.

overall examination of efficiency, which might also include analysis of, for example, the time in which outputs were delivered.[21]

The effectiveness perspective

Effectiveness is concerned with whether an organisation, programme or project is achieving its objectives. It does not only cover whether the objectives have been achieved, but also whether the impacts observed are the results of the implementation of the policy or other circumstances.

If the auditors focus on effectiveness, they will start by identifying the objectives of the organisation, programme or project and make them operational to assess the effectiveness. While the assessment ideally is done by comparing the situation before and after introducing the policy, and relate to a control group not subjected to the policy, this is rarely possible. The auditors often have to choose a less ambitious design. One alternative is to assess the assumptions on which the policy or programme is based, see further *Goal-attainment, outcome-oriented studies and impact studies* in Section 6.3.1. The auditors can also identify the target group for the programme and search for answers to questions such as:

- Does the reduction in accidents and deaths caused by road accidents meet the intentions expressed in goals and objectives?
- Do the inspections target offences related to accidents?
- Do sanctions have a deterrent effect, making drivers change their behaviour because of the inspections and the sanctions in case of offenses?
- Is the achieved outcome in terms of the number of accidents and deaths caused by road accidents significantly affected by factors other than the programme (i.e. better roads)?

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

Different perspectives may be used in the same audit

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

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

---

[21] ISSAI 3000, Section 1.5, page 16.

Considering the risks for fraud and corruption in performance auditing

According to the 16th INCOSAI[22], SAIs can and should try to create an environment that is unfavourable to fraud and corruption. Auditors should make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives. They should maintain an attitude of professional scepticism and be alert to the possibility of fraud throughout the audit process.[23]

Among all government activities, public procurement is the activity that is most vulnerable to waste, fraud and corruption. OECD points out the complexity in public procurement, the size of the financial flows it generates and the close interaction between the public and the private sectors as the main reasons for this vulnerability.[24] Looking at public services in general, the risk for fraud and corruption increases with a high complexity, financial flows between government and citizens or the private sector, inadequate management, inadequate mechanisms of monitoring and prevention of misconduct, and inadequate accountability and control. Partly inspired by the principles for enhancing integrity in public procurement elaborated by OECD, we can indentify 10 principles that in general reduce the risk for fraud and corruption in the financial flows between government and citizens or the private sector, see the box below.

PRINCIPLES REDUCING THE RISK FOR FRAUD AND CORRUPTION IN GOVERNMENT OPERATIONS

1. Mechanisms are put in place to *prevent risks to integrity* in public operations, including mechanisms to ensure that public officials meet high professional standards of knowledge, skills and integrity.

2. There are *clear procedures* to follow and *clear criteria* to be used in decisions on benefits or obligations for, or delivering of services to, clients.

3. There is a *clear chain of responsibility* and effective supervision and control.

4. As far as possible, there are *no manual handling of cases without registration* and follow-up through IT systems and there are *no payments of cash* to officers providing services.

5. There is *no unnecessary complexity* in the administrative systems.

6. There is *adequate co-operation between government entities and clients and stakeholders*, to maintain high standards of integrity.

7. There are specific *mechanisms to monitor decisions* on obligations or benefits for, or *delivering of services* to, clients as well as to *detect misconduct* and apply sanctions accordingly.

8. *Complaints* from clients are *handled in a fair and timely manner*, with the possibility of an independent second opinion.

9. There is adequate *transparency* regarding the procedures, criteria and performance of public services.

10. Clients, civil society organisations, media and the wider public are *empowered to know their rights and obligations as well as what services to expect* and are encouraged to scrutinise public services.

Many of these principles are equally important for, or clearly related to, what is required of public organisations to operate economically, efficiently and effectively also in other respects than avoiding fraud and corruption.

Fraud and corruption is a serious threat to the performance of government systems and entities. The methodology of performance auditing is in general not well designed to identify and/or investigate individual cases of fraud and corruption - even if such observations may be made, or suspicions arise, in performance audits. On the other hand, performance auditing is highly appropriate for analysing the functioning of administrative and management systems in order to better prevent fraud and corruption.

---

[22] The INCOSAI congress every third year is the supreme organ of INTOSAI, composed of all members.
[23] ISSAI 100:47; 300:37.
[24] OECD principles for integrity in public procurement, OECD 2009.

Each audit must be governed by the audit objective, which may make the risk for fraud and corruption more or less relevant in the audit. Performance audits may specifically address systems where fraud or corruption is known or believed to be significant. The risk for fraud and corruption may also need to be considered in other performance audits, as it may be an important factor for poor performance relevant to the audit objective. There are many opportunities to consider the risks for fraud and corruption in performance auditing, for example:

- To select _audit topics_ that addresses systems where fraud and corruption is known or perceived to be significant – for example systems with a high risk of corruption like procurement, services where citizens inappropriately may need to pay extra money to get the services delivered or studying whether systems for inspection and control focuses on major risks for corruption, rather than compliance with less important regulations.

- To define _audit questions_ targeting factors or systems likely to explain poor performance as well as enabling fraud and corruption.

- If relevant to the audit objective, to _collect data_ directly providing evidence for that fraud and corruption are likely to be a cause to poor performance (for example asking selected clients if they have ever paid bribes – guaranteeing anonymity).

- To _consider in the analysis_ if fraud and corruption may be underlying reasons for observed performance problems, even if no direct evidence has been obtained; without evidence the suspicions cannot be presented in the report, but the risks can explicitly or implicitly be considered in the analysis.

- In _developing recommendations_, to consider how the performance can be improved at the same time as the recommended measures are designed to have a preventive effect on fraud and corruption.

- To _separately report observations or suspicions_ of fraud and corruption to appropriate authorities or regularity auditors as appropriate, regardless of whether the information has been used in the performance audit report or not.

4 THE AUDIT PROCESS AND AFROSAI-E COURSES

The audit process and AFROSAI-E three-module courses

Training in performance auditing should be based on a combination of theoretical training and practical exercises. The model used for AFROSAI-E three-module courses was originally developed by SAI Sweden in the 1990s and has since then undergone continuous adjustments. The main structure of the courses, however, remains the same, see Figure 4.

Figure. 4 Structure of AFROSAI-E three-module courses in performance audit
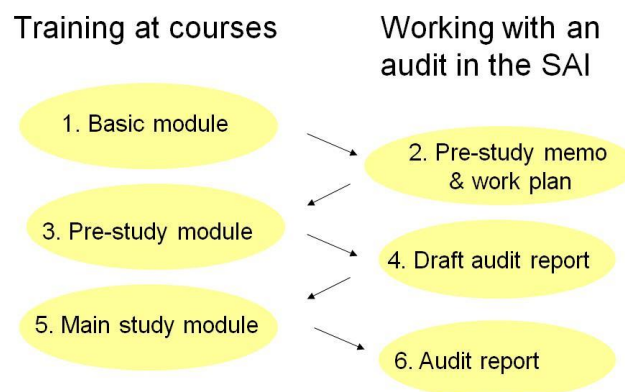
Different types of studies in the performance audit process – pre-studies and main studies

In order to carry out a performance audit, the SAI needs to select a topic, plan the audit and carry out the audit resulting in a performance audit report submitted to Parliament and the audit entity. The selection of audit topics is based on the SAIs strategy and overall planning of performance auditing. As a basis for the selection of topics, the SAI collects information through area watching.

The planning of the audit is mainly carried out in a pre-study, even if elements of planning also are needed during the execution of the main study. The purpose of the pre-study, is to develop a sufficient knowledge of the audit topic and the problems in the area, in order to focus the main study on an appropriate audit problem, design the audit and plan how to carry it out. The pre-study results in a pre-study memorandum and a work plan, usually presented as different chapters in the same document. This document forms the basis for peer review and for review and decision by management on whether to carry out an audit or not. Usually, SAIs do not present the full pre-study memo and work plan to the audited entities.

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

The time needed for an audit is affected by the complexity of the topic and the selected audit problem, as well as the ambition of data collection and analysis. A requirement for participating in the contest for the *Prize for the Best Performance Audit Report in the AFROSAI-E Region*, is that the performance audit engagement, consisting of a pre-study and a main study, have been completed within one year. Often, pre-studies in the region can be carried out within 3 months, while main studies usually are possible to carry out within 6 months.

Different steps in the performance audit process

The audit process may be divided into four main steps: planning, execution, reporting and follow-up; steps used to structure Chapter 6 – 9. According to ISSAI 300:35, these steps may be iterative. For instance, new insights from the execution stage may necessitate changes to the audit plan, and important elements of reporting (e.g. the drawing of conclusions) may be sketched out during the planning stage. Figure 5 presents the main activities performed.

Figure 5. Main activities in performance auditing (partly over-lapping each other)
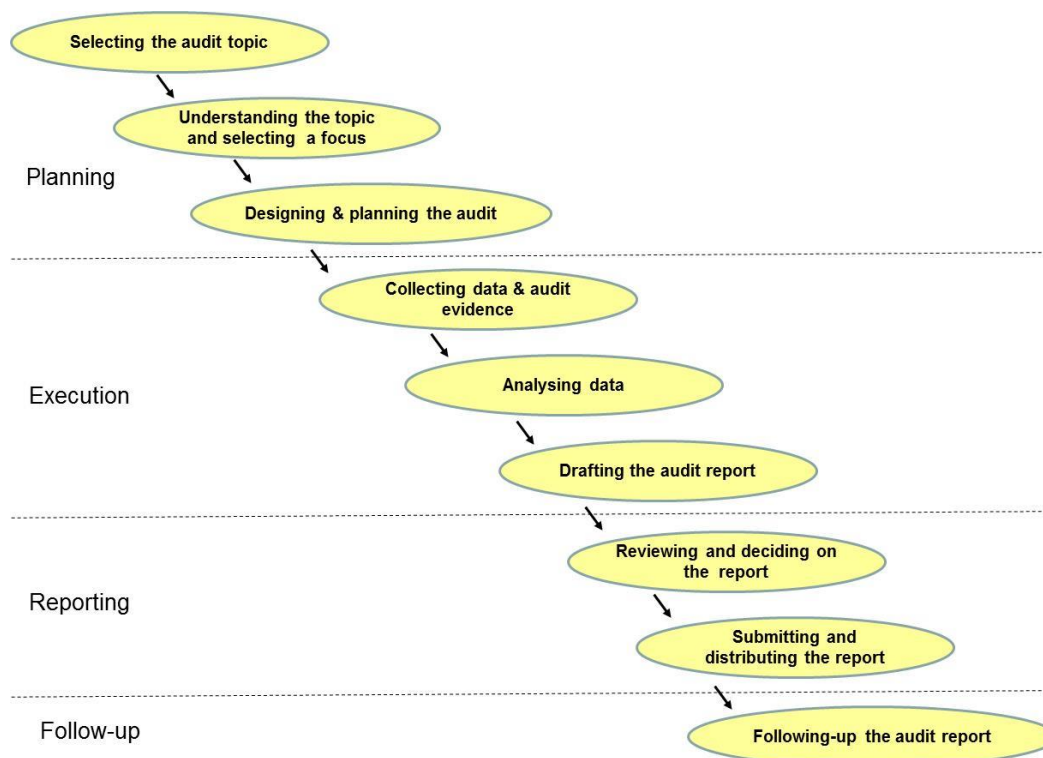
Some main activities are relevant in different steps of the audit, when the auditors carry out different types of studies. The overall planning involves development of a strategy and annual plans. Planning of the audit engagement is mainly carried out during a pre-study, resulting in a pre-study memorandum and work plan. The audit is then executed in a main study, resulting in an audit report. After some time the auditors may follow-up how the audited entities have addressed observations and recommendations in the audit, and report this to Parliament.

The table below show how some main activities presented in Chapter 6 – 9, are relevant to more than one type of study and in which section this is presented in the Handbook.

ACTIVITY	SECTION	OVERALL PLANNING	PRE-STUDY MEMO AND WORK PLAN	MAIN STUDY	FOLLOW-UP
Selecting the audit topic	5.2.4	X	(X)	—	—
Understanding the topic & selecting a focus	6.1 – 6.2	(X)	X	—	—
Designing & planning the audit	6.3	—	X	(X)	—
Collecting data and audit evidence	7.1	—	(X)	X	(X)
Analysing data	7.2	—	(X)	X	(X)
Drafting the report	7.3	—	(X)	X	(X)
Managing the audit engagement	7.4	—	X	X	X
Documenting the process & evidence	7.5	—	X	X	X
Reviewing & deciding on the report	8.1	—	—	X	—
Characteristics of a good report	8.2	—	—	X	—
Submitting & distributing the report	8.3	—	—	X	—
Following up audit recommendations	9	—	—	—	X
X = Relevant	*(X) = Partly relevant*		*— Not relevant*		

5 INSTITUTIONAL CAPACITY FOR PERFORMANCE AUDITING

This Chapter is structured after the five domains in the Institutional Capacity Building Framework (ICBF), developed by AFROSAI-E. ICBF covers, but is not limited to, the requirements on the quality control systems of SAIs according to ISSAI 40.

The reader with limited previous knowledge of performance auditing may benefit from reading Chapter 6 – 9 before this chapter on the institutional capacity for performance auditing. This will give a better understanding of the performance audit process and what is required to carry out high-quality performance audits.

A quality framework for SAIs in ISSAI 40[25]

ISSAI 40 outlines the quality framework for SAIs with six elements: leadership, relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance and monitoring.

It is important to the quality system that top management of the SAI develops and communicates a _vision on quality of performance audit_ work, and describes how it ensures that the organisation operates according to that vision.

The SAI should ensure that the employees comply with the _professional ethics_: integrity, independence, objectivity and impartiality, professional secrecy and competence, as well as other ethical requirements. Possible measures are for example to present a booklet about the Code of Ethics and having staff to sign a declaration that ethical requirements will be followed, that they don't have personal or external impairment, as well as declaring their financial interests. Employees can also be required to obtain approval to engage in outside activities.

A key element of the quality system is also that SAIs _should only carry out audits where it is competent_ to perform the work and comply with relevant ethical requirements. The risks to quality must be considered already when the auditors develop a proposal for an audit.

Sufficient resources, including performance auditors and management with the right competence, are of outmost importance for the quality of performance audits. To be effective, recruitment and training require a clear understanding of the desired knowledge and skills needed. For performance auditing, one has to be familiar with methods in social sciences, reporting and presentation. Many SAIs have an introduction training programme. SAIs must assure that all employees keep their professional skills up to date.

A SAI should establish policies and procedures to _safeguard that performance audits are carried out in accordance with standards and good practices_, see further Section 5.4.2.

It is also necessary to _check if procedures and policies are working effectively_, which is done through quality assurance reviews.

AFROSAI-E Institutional Capacity Building Framework

AFROSAI-E _Institutional Capacity Development Framework (ICBF)_ can be used:

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

---

[25] Together with Section 5.4.2, this presentation summarises the content of _Safeguarding quality in the performance audit process,_ INTOSAI Performance Audit Subcommittee.

This Chapter is structured along the five domains in ICBF:

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

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

According to decisions taken by the Auditor-Generals, AFROSAI-E also carries out quality assurance reviews of the SAIs operations, including reviews of the performance audit practices. For the reviews, AFROSAI-E uses performance audit experts from SAIs in the region, institutional partners and the AFROSAI-E Secretariat. The reviews are based on the methodology presented in AFROSAI-E Quality Assurance Handbook (2012), available for registered users on www.afrosai-e.org.za.

In the beginning of Section 5.1 – 5.5 and Chapter 6 – 9, a summary of the requirements in the ISSAIs most relevant for performance auditing are presented in blue boxes. These criteria are used in AFROSAI-E quality assurance reviews of performance auditing in the region.[26]

5.1   Independence and legal framework (ICBF Domain 1)

> INTERNATIONAL STANDARDS REQUIRE THAT:
>
> 1.1 The SAI has and make use of unrestricted <u>access to information</u> and a <u>mandate to independently carry out and separately report</u> audits of economy, efficiency and effectiveness to Parliament and the audited entity as well as making the reports public. *ISSAI 1:4-5,10,16; 10:3-4*

5.1.1   Different systems of accountability for SAIs in the region

In the AFROSAI-E region 22 out of 24 SAIs operate within what is commonly referred to as the Westminster system of accountability, based on the system originating from the U.K. Figure 6 demonstrates the typical relationship in the Westminster system between Parliament with its Public Accounts Committee (PAC), the SAI and the executives of government, or accounting officers.

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

---

[26] Many of the criteria AFROSAI-E uses are identical to those used in the *Performance Measurement Framework (PMF),* Pilot Version, 12 July 2013 developed by INTOSAI Development Initiative (IDI). The performance audit criteria in PMF were largely developed by AFROSAI-E based on the Quality Assurance Handbook (2012). AFROSAI-E has aligned the criteria for quality assurance review to PMF, but chosen a slightly different structure, some shorter formulations and have excluded criteria in PMF not flowing logically from ISSAIs. See further references to PMF in the blue boxes in Chapter 5 – 9.

officers are followed-up. Effective oversight in a Westminster system relies heavily on a well-functioning relationship between the SAI and the PAC.[27]

Figure 6. The Westminster system for accountability and oversight in government
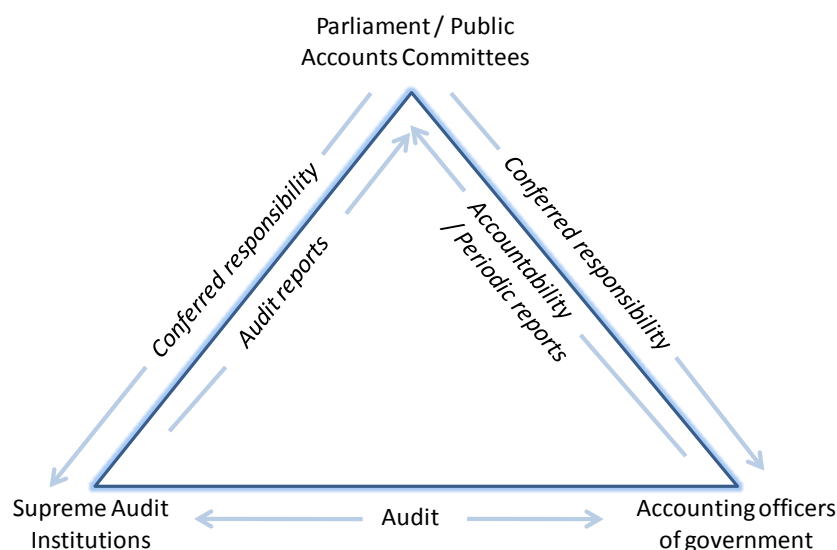
Angola and Mozambique have an accountability system where an administrative court with judges makes rulings and are empowered with sanctions that can be applied to government officials. What this means for the reporting and follow-up of performance audit is described in the box below.

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

The administrative court of Mozambique has three Sections. All audits are processed by the Public Accounts Sub-section. This Section has three judges, each one of them assigned to oversee a number of audits. Any performance audit must be authorised by one of the judges before commencement of the audit process. During the execution of the audit the judge is not involved.

When the report is ready it is submitted to the judge. The judge works with two counsellors, one economist and one lawyer. The counsellors analyse the audit procedures, the evidence gathered, the comments of the audited entity and the recommendations made by the audit team. If clarifications are needed the counsellors consult with the audit team. Once the report is properly analysed, the judge in charge of the audit presents it to the other two judges of the Public Account Section, for them to appreciate it. The three judges together decide on approving the report.

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

After approval by the judges, the report is submitted to government and Parliament for divulgation.

5.1.2 Independence and a mandate for performance auditing for the SAI

In December 2011, the General Assembly of the United Nations (UN) adopted a resolution recognising that SAIs can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. The UN also recognised the important role of SAIs in promoting the efficiency, accountability, effectiveness and

---

[27] See further the AFROSAI-E Toolkit for SAI's on communication with and reporting to PAC (2012).

transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals, including the Millennium Development Goals.[28]

In the resolution, the UN encourages member states to apply the principles in ISSAI 1 (the Lima Declaration) and ISSAI 10 (the Mexico Declaration on independence) in a manner consistent with their national institutional structures.

According to principle 3 in ISSAI 10, the mandate for the SAI should among other things include the right to audit the use of public resources, the collection of revenue and the economy, efficiency, and effectiveness of government or public entities operations. Performance auditing does not question the intentions and decisions of the legislature, but examines whether possible shortcomings in the laws and regulations or the way of implementation have prevented the specified objectives from being achieved.[29]

While respecting the laws enacted by the legislature that apply to them, SAIs are also free from direction or interference from the legislature or the executive in the:[30]

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

The right of the SAI to have discretion in the selection of audit issues, and freedom to decide the content and timing of reports, are of particular importance in performance auditing. SAIs should also have adequate powers to obtain timely, unfettered, direct, and free access to all the necessary documents and information. Other important aspects is the requirement for audited entities to comment on findings within an established period of time, the right to separately report performance audits to Parliament and make the reports available for the general public.[31]

SAIs cannot be absolutely independent, as they are part of the state as a whole. They should, however, have the functional and organisational independence to effectively carry out performance auditing.[32] In the AFROSAI-E region it is common that there are limitations to the SAIs independence, for example in terms of recruitment of staff and involvement of the executive in the allocation of resources to the SAI. Such limitations can influence how the SAI can apply performance auditing.

Many SAIs in the region have an explicit mandate to audit the economy, efficiency and effectiveness of government. In some cases the mandate is interpreted to allow for performance auditing, even if it is not explicitly mentioned. There are examples where SAIs in the region interpret their mandate as giving them limitations in separately reporting performance audits to Parliament or actively work for making their performance audit reports well known and widely distributed.

Each SAI must operate within the limitations the legislation provides. On the other hand, the UN resolution makes it clearly legitimate for SAIs to try to influence the legislation to better meet the expectations in ISSAI 1 and 10.

---

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

[29] ISSAI 300:12.

[30] ISSAI 10, principle 3.

[31] See ISSAI 1, Section 4 – 5 and 16; and ISSAI 10 principle 3 – 4.

[32] ISSAI 1, Section 5.

5.2   Organisation and management (ICBF Domain 2)

> **INTERNATIONAL STANDARDS REQUIRE THAT:**
>
> 2.1 The SAI has a sustainable <u>performance audit unit</u> with <u>clear responsibilities</u> for key players, well established and <u>documented procedures</u> and principles for <u>internal communication.</u> *Compare ISSAI 3100, Appendix, 3.1, 3.4, 5.1, 5.3*
>
> 2.2 Management has <u>set quality requirements</u> and promotes adherence to adopted standards, high quality reports and <u>continuous improvement.</u> *ISSAI 40:1, 5; 300:32;*
>
> 2.3 The SAI has an encouraging management culture and uses <u>sound management practices</u>, incl. performance management, direction and supervision (including coaching) of staff and time management. *ISSAI 20:6; 3100:22, 24*
>
> 2.4 Objective and Selection of Performance Audits. *Covers parts of PMF SAI-3(i)*
>
>   a) The SAI has set priorities for performance auditing based on the notion that <u>economy, efficiency and effectiveness are audit objectives of equal importance to the legality and regularity of financial management and accounting</u>. *ISSAI 1:4*
>
>   b) The audit practice <u>focuses on improving performance</u>, by "examining whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements." *ISSAI 100:22*
>
>   c) Auditors participate in the <u>strategic planning</u> of a SAI by <u>analysing potential audit topics</u> and conducting research to <u>identify risks and problems</u>, using professional judgement and possibly techniques such as risk analysis or problem assessments and when appropriate considering requests from the legislature. *ISSAI 1:8; 300:36. (E.g. resulting in a strategy and operational plan.)*
>
>   d) In selecting audit topics, the SAI consider that <u>topics should be significant</u> (considering financial, social and/or political materiality), <u>reflect the SAI's mandate and be auditable</u>, taking into account audit capacities (e.g. human resources and professional capacities). *ISSAI 300:33, 36*
>
>   e) The selection process for audit topics aims to <u>maximise the expected impact</u> from the audit (improving the conduct of government operations and programmes, e.g. by lowering costs, simplifying administration, enhancing quality and volume, or improving impact or benefits for society). *ISSAI 300:36, 40*

In this Section we discuss:

- Development of a performance audit practice (Section 5.2.1);
- Further development of performance auditing (Section 5.2.2);
- Organisation for performance auditing (Section 5.2.3);
- Overall planning – selecting audit topics (Section 5.2.4); and
- Management of the performance audit process (Section 5.2.5).

5.2.1   Development of a performance audit practice[33]

There are a number of issues that the Head of an SAI needs to address when developing a sustainable capacity for performance auditing. Successful implementation of performance auditing requires political support, appropriate regulations, leadership and active management involvement. The Head of the SAI needs to ensure sufficient funding and seek partners that may assist in capacity building and quality control.

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

---

[33] This Section mainly summarises the Appendix to ISSAI 3100, page 6 - 13.

- A mandate to carry out performance auditing on the economy, efficiency and effectiveness of government programmes and entities;

- Freedom to select what to audit, when to audit and how to audit, conclude and report on findings;

- Freedom to place the audit results in the public domain;

- Access to all information needed to conduct the audit; and

- Freedom to decide who to recruit.

It is important that the Head of the SAI takes into account that performance auditing is different, demanding and takes time to implement. The Head of the SAI needs to communicate a clear vision of the purpose for performance auditing and the desired outcomes to be achieved. The introduction of performance auditing requires a personal _commitment from the Head of the SAI_, and it is also important _to get management actively involved and professionally trained_.

HOW TO GET STARTED WITH PERFORMANCE AUDIT[1]	
Beginning on a small scale, with a pilot and focused theme	Look for audits that can lead to quick wins and are not too complicated, so that they are within the SAIs capacity to carry out. Examples can be audits related to performance management, time & resources management, systems for inspection and control, public procurement and service delivery (for example waiting time).
Determining the resources needed for performance auditing	The SAI needs to take into account the costs related to building up the necessary competence and conducting the audits. While initial performance audits can be done using $3 - 5$ full time staff, a good ambition might be for the performance auditing cadre to grow to perhaps 15 staff within $18 - 36$ months. While initial performance audits might be staffed by regularity auditors, the SAI could in due course recruit people with solid experience from research and analytical work. Eventually the performance audit function might consist of people with academic backgrounds from a variety of disciplines. The SAI may seek partnerships with donor organisations, academic institutions other SAIs and AFROSAI-E to support the development.
Raising awareness about performance audit within the SAI	One of the key messages to pass on to staff is that the Head of the SAI considers developing performance auditing to be an important priority.
Not setting up detailed systems and procedures at the initial stages	Work on developing audit manuals and quality assurance arrangements can be prohibitive for starting with performance auditing. Initially the SAI can use the AFROSAI-E template manual, or adopt INTOSAI Performance Audit Guidelines, to direct the audits. Approaching the first performance audits with a 'pilot mentality' can be quite helpful in terms of all parties understanding what needs to be learned, and that mistakes might be made. The capacity can then be built stepwise, starting with capacity for the production itself (including management control), further development of systems for quality control and once this is properly established develop systems for quality assurance.
[1] Based on advice on how to get started provided in the Appendix to ISSAI 3100, page 11-13.	

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

It is important that the SAI _build relationships with stakeholders_ regarding performance auditing. The Head of the SAI should be prepared to promote the value of performance auditing to

a number of stakeholders. The SAI needs to identify its key stakeholder groups and establish effective two-way communication with them. One reason for doing this, is 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. The importance of the communication with the _legislature, PAC, audited entities, citizens, media and other stakeholders_ is a theme that is discussed in most chapters of the Handbook.

Performance auditing requires special competencies, flexibility, imagination and analytical skills. The ability to _recruit the right staff_ is a critical factor. It is well understood by SAIs with long experience of performance auditing, that conducting performance audits requires different skills from regularity auditing. It is generally required that performance auditors should hold a university degree. Experience in qualified investigative/evaluation work is an advantage. Personal competencies like creativity, receptiveness, integrity and oral and written skills are vital. It is also necessary to be familiar with methods applied in social sciences, as well as other relevant methods and skills. Sound knowledge of organisational management also helps to ensure that performance auditors make realistic and achievable suggestions for improvements.

It is important to ensure that _competence is built up step-by-step_, and to stimulate knowledge sharing and learning in the organisation. Recruiting a _competent operational manager_ is also a strategic issue. The manager is a key factor for sustainable capacity building. In the longer term, how to develop capacity for methodological, analytical and professional _in-house training_ should be considered. Setting conditions, _standards and guidelines that will safeguard quality_ and sustainability are also issues that will need to be addressed. This includes a well-functioning process for efficient production of performance audit reports.

5.2.2 Further development of performance auditing[34]

The capacity for performance audit needs to be built progressively over a number of years. The keys to success will lie in being realistic about the SAIs ambitions and flexible in its approach.

The following provides a high-level outline of some issues that the SAI will need to consider as it works to build its performance auditing capability.

A key factor to the sustainability of the performance auditing function in the SAI will be establishing an _operational manager_ role with responsibility for development and oversight of the function. Ideally, the operational manager, and the performance auditing function, should be supported by a member of the SAIs top management who can act both as a manager with accountability for the function and as a 'champion' to help promote its benefits and ensure that it has the necessary resources to help build its on-going success.

It is the quality of the staff undertaking performance audits that will be a large contributor to the success of the function. Performance auditing covers the full spectrum of public administration and therefore it is important that the skills and competencies of staff reflect this. _Recruitment of performance auditors_ often targets people with:

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

There may also be a need to contract experts in the area of a particular audit on a short term basis to support the auditors. Besides increasing the quality of the audit itself, this can contribute to the professional development of the auditors.

There is a need for initial training in performance auditing and the processes of the SAI, as well as _continuous professional development_ in areas that will improve the auditors' skills and the SAI's

---

[34] This Section is largely based on the Appendix to ISSAI 3100, page 14 – 16.

performance auditing capability. A combination of internal and external training can be used to improve personal abilities (such as writing, communication and analysis) as well as technical skills (such as interview techniques, descriptive statistics and using certain IT software). From a sustainability perspective, developing a balanced internal training capacity covering methodological, analytical and professional areas will assist in building a strong learning environment. The more a learning culture can be developed and promoted within the SAI, the greater in-house knowledge sharing can be utilised to both improve staff skills and experiences and the overall quality of performance audits being produced.

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

In the performance audit department SAI Lesotho has established a system with in-house training sessions for all managers and auditors every second week. The sessions are scheduled and are continuously updated with topics and presenters. As no one is allowed to be absent from these in-house training, unless for pre-approved reasons, the schedule of sessions have to be considered in the planning of audit activities.

Staff members identify the needs for training and propose topics to a senior auditor who coordinates the sessions. Sessions can also be based on materials from local or regional courses and cover other topics that may be of interest for the auditors, for example time management, facilitation skills and team building. The senior auditor identifies someone in the department who can facilitate each session.

The Head of department also hold 'Staff Development Talks' with each member of staff at the beginning of every year to craft their developmental plans according to their professional development needs. The talks include goals for the year, needs for development and development plans for the next six months and for another six to twenty-four months. During a year, a maximum of two officers are encouraged to pursue senior degrees in fields such as finance and audit, public policy and development, project management, project monitoring and evaluation and other relevant fields.

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

Part of developing a mature and sustainable performance audit practice within a SAI is to *establish a framework for performance auditing supported by manuals, policies*, stable quality control procedures, as well as procedures for quality assurance. This framework should be progressively developed as the performance audit practice matures. SAIs that initially directly used INTOSAI Guidelines on Performance Auditing or AFROSAI-E template manual, are recommended to develop a customised manual reflecting the SAI's mandate, policy, division of responsibilities and processes for performance auditing.

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

5.2.3 Organisation of the performance audit practice

SAIs in the region have in general chosen to organise performance auditing in a separate department or unit. This makes it easier to establish a professional performance audit environment and culture. Another argument to have different units for performance and regularity audit is that the nature of the work is so different. Regularity audit is mandatory and often needs to be carried out under high pressure of completing the audits in a rather short time. The nature of performance audit is different, with longer working processes and usually no clear requirement on the volume of audits to be carried out.

The organisation and staffing of performance audit units need to be developed stepwise. According to ISSAI 3100, it would be possible to conduct a competent initial performance audit using three to five full time equivalent staff, while a good ambition might be for the performance auditing cadre to grow to perhaps 15 staff within 18-36 months. In order for the performance audit function to have sufficient professional weight, an even larger number of staff would be very useful.[35] According to the AFROSAI-E Institutional Capacity Building Framework, a SAI needs at least ten performance auditors to have established a unit that can be sustainable (which in the framework is called level 3). On that level the SAI is also expected to regularly produce at least three reports per year.

While it is not possible to state how large a performance audit practice should be in a SAI, it is worth noting that the Lima Declaration states that economy, efficiency and effectiveness are audit objectives of equal importance to the legality and regularity of financial management and accounting.[36] Based on this notion, each SAI needs to set priorities.

The draft Performance Measurement Framework, developed by IDI, states that this normally means that on average in the past three years, at least 10 performance audits have been reported and/or 20 % of the SAI's audit resources have been used for performance auditing. Some SAIs in OECD countries use 40 – 50 % of the audit resources on performance auditing.[37]

In early stages of the development there is a need for a hands-on operational manager that can guide and assist the performance audit teams. As long as a close and hands-on supervision is needed, because of the auditors' limited skills and experience, it is usually difficult for an operational manager to supervise more than three to four teams. In a very well developed performance audit practice, on the other hand, highly experienced team leaders may be able to also take the role of an operational manager – reducing the number of hierarchical levels.

A need for cooperation between performance and regularity auditors

Separate organisational units for performance and regularity auditing call for cooperation between auditors in the different units. This is necessary for the SAI to use the available resources efficiently in producing good audit reports that are followed up and result in improved performance. Some topics that may be addressed in performance audits are also of core interest in regularity auditing, for example procurement. Regularity audits always target individual entities, even if some transversal themes are often chosen for audit across the audited entities. It can be easier to lift common problems to the level of systems in performance audits, and consider if regulations are appropriate. Examples of links between performance and regularity auditing that need to be considered are that:

- Performance auditors may find the *AFROSAI-E Regularity Audit Manual* useful in developing their understanding of financial risks and controls in relevant areas and possibly make use of elements in the checklists.

- Regularity auditors may have country specific checklists, e.g. regarding procurement, which may be considered.

- There may be findings from regularity audits that indicate common problems across the public sector, for example regarding the use of consultants, use or maintenance of property, which can be considered as topics for performance audit.

- Regularity auditors may have useful documents and findings about different processes in the entities to be addressed by a performance audit.

- In planning regularity audits there is a need to consider if findings and recommendations made in a performance audit should be followed up, to ensure that identified problems are addressed and actions taken to improve performance.

---

[35] ISSAI 3100, Appendix, page 12.

[36] ISSAI 1, Section 4.

[37] 40% of the audit resources should be used for performance auditing to reach level 4 in the ICBF.

Regularity auditors visit the audited entities more frequently than performance auditors. This makes it possible for them to assist performance auditors in explaining the differences between performance and regularity auditing as well as to follow-up on specific requests for information made by performance auditors. This is in particular important when the audited entities do not respond to requests and are far from where the performance auditors are posted.

5.2.4 Overall planning – selecting audit topics

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

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

During the year all performance auditors in SAI Namibia spend some time on area watching – staying updated with what is going on in the public sector, the debate in Parliament, reading literature etc. The SAI has not allocated particular sectors to individual auditors. Therefore the auditors would have to conduct area watching on the public sector in general.

As part of the annual planning process, auditors discuss the situation in different sectors in society with the whole department, what is going on and what topical issues there are. Auditors also consider the SAI's strategic plan, ideas provided by top management, requests or information from PAC and other stakeholders, information from regularity auditors as well as our database with potential audit topics.

Based on these discussions, the performance audit management assigns each auditor to probe further into one or two topics and develop a proposal/motivation for a pre-study. The auditors spend up to one week on each topic, doing further reading, consult and research minimal yet relevant information available on the Internet and within the SAI, such as different documents and information from regularity auditors and the SAI's management. The proposals they write should follow a standard structure and not exceed 2 – 3 pages.

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

The proposals are presented in a meeting with the Deputy Auditor-General and the whole department, discussing and anchoring the selection of possible topics. The proposed topics are ranked according to the criteria on relevance, auditability and potential for change. The meeting recommends topics for inclusion in the annual plan for the coming year.

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

The first step in the performance audit process is to decide what to audit. Performance auditing should be directed towards topics or areas where an external, independent audit may support the oversight function in promoting accountability, economy, efficiency and effectiveness in the use of public resources. The aim is to select audit topics that are significant, auditable and can be

expected to lead to important benefits for public finance and administration, the audited entities, or the general public.

According to ISSAIs, auditors should select audit topics through the SAIs strategic planning process by analysing potential audit topics and conducting research to identify risks and problems. If appropriate, auditors should contribute to this process in their respective fields of expertise. They may share knowledge from previous audits, and information from the strategic planning process may be relevant for the auditors' subsequent work. In this process, auditors should consider that audit topics should be sufficiently significant as well as auditable and in keeping with the SAI's mandate. The topic selection process should aim to maximise the expected impact of the audit while taking account of audit capacities (e.g. human resources and professional skills). Formal techniques to prepare the strategic planning process, such as risk analysis or problem assessments, can help structure the process but need to be complemented by professional judgement to avoid one-sided assessments.[38]

The auditors need to conduct some research to identify risks and problems and to be able to understand the topics and why potential audit entities seem to operate or perform as they do. The ISSAIs also recognises the opportunity for the legislature to request audits. It may be appropriate to have meetings to establish performance audit topics that are of interest for the legislature.[39]

The selection of audit topics is made in the overall planning in the SAI. SAIs in the region use different tools to provide input to the selection of topics such as area watching, discussions with experts, discussions with the PAC and observations in financial audits.

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

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

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

SAI Zambia uses area watching as a primary basis for conducting performance auditing. The objective of area watching is to assess areas in the various sectors where there are reports of dissatisfaction by the public with services or goods provided by public entities, or where there are performance-related problems by entities. We also use regularity audit reports to identify potential areas for performance audit investigation.

We allocate the responsibilities for area watching of certain sectors to groups of three auditors, at most. The task for the auditors is to keep abreast of developments and problems in the sector during the year. Area watching is a continuous process where the auditors collect information through, for example, strategic and annual plans, debates in Parliament, decisions made by the executive, allocations in budgets, the media, as well as public discussions by subject matter experts and other stakeholders.

The sector assessments are later compiled into an Overall Risk Assessment, where selected possible performance audit topics in different sectors are presented and prioritised.

Depending on the results of the assessments, we determine whether the areas are auditable or not considering the materiality, availability of information, potential for change, issues of public interest, etc.

---

[38] ISSAI 300:36.
[39] ISSAI 3100, Appendix, page 7.

Performance audit topics should be chosen without outside pressure. The SAI must maintain its political neutrality. The SAI's independence does not preclude the executive from proposing matters for audit. Nevertheless, to maintain its independence the SAI must be able to decline any such request.[40]

There are many problems in a society, many of them largely affected by circumstances out of the direct control of the government, such as human behaviour, international markets and weather conditions. The purpose of government policy is to a large extent to address problems in society, even when there are other factors influencing the problem.

Performance auditing does not address problems in society as such, for example environmental problems, but the government's response to them. Situations or events in government undertakings where the performance of government entities are not satisfactory, may be defined as "problems" relevant for performance audit. It is important to distinguish between "dilemmas" and "problems"; "dilemmas" being difficulties that are natural in the sector and thus impossible or difficult to change for the public entities involved; and "problems" being shortcomings that could be avoided, as it is within the ability of the public sector entities to improve the situation. The topics suitable for audits need to encompass performance problems of public undertakings that are linked to one or more of the concepts of economy, efficiency and effectiveness, see Section 3.3. Thus, having found a problem of great importance in society does not necessarily mean that the auditor has found a suitable audit topic.

Political decisions and goals established by the legislature forms in general the basis of the audit criteria used in performance auditing. It is not the role of a SAI to question these decisions and goals. However, a SAI may, as a result of its findings, comment on the goals, for example if they are inconsistent or if it proves impossible to follow-up the extent to which they have been achieved. The goals or objectives may be too vague, in conflict with other objectives, or based on insufficient information making it impossible or difficult to achieve them. The policy may be inefficient and ineffective, and changes might be required if existing shortcomings are to be overcome. Performance audits can also highlight the consequences of a given policy as well as identify and illustrate shortcomings resulting from conflicting goals, for example because of lack of coordination between different systems.[41]

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

The relation between the criteria for selecting the audit topics identified by the INTOSAI Performance Audit Sub-committee to the Audit Standards Committee, and the criteria presented at AFROSAI-E performance courses are described in the table below. In addition to the criteria, the Sub-committee presents an idea for detailed questions and a scoring matrix that may be used in selecting audit topics. A simplified scoring model for selecting the focus in the audit, the "audit problem", is presented in Section 6.2.

The criteria commonly used in the AFROSAI-E region are similar to those identified by the Sub-committee, even if often described in five main groups.[42] The five groups cover the need for the audit to be within the *SAI's mandate*, the need for a *material* topic and *risks for performance*

---

[40] ISSAI 3000, Section 3.2, page 44.
[41] See ISSAI 3000, Section 2.1, page 34 – 35.
[42] The concept of "Relevance" have in the AFROSAI-E region often been used as a label for the three groups Mandate, Materiality and Risk for the 3 E's.

problems (problems related to the three E's), the need for an *auditable* topic (considering the SAI's capacities to carry out a high quality audit, but also the timeliness, other work in progress and the political sensitivity) and the need for *potential for change* (the audit need to be likely to contribute to the improvement of the functioning of government and its entities).

CRITERIA FOR SELECTING THE AUDIT TOPIC	
Selection criteria used in the AFROSAI-E course material	*Selection criteria described by the INTOSAI Performance Audit Sub-committee[1]*
1. Mandate	
2. Materiality	1. Materiality
	5. Legislative or public interest
	8. Relevance
	14. Request for performance audits
3. Risk for the three Es	7. Departmental issues
4. Auditability	6. Risks to the SAI
	9. Auditability
	10. Timeliness
	11. Previous audit work
	12. Other major work planned or in progress
	13. Developments likely to affect assessment
	15. High political sensitivity
5. Potential for change	2. Public accountability
	3. Possible impact
	4. Improvement
[1] *Selecting performance audit topics*	

Factors that may indicate higher risk or uncertainty regarding the economy, efficiency or effectiveness, could be the following:[43]

- The financial or budgetary amounts involved are substantial, or there have been significant changes in the amounts involved.

- Areas traditionally prone to risk (procurement, technology, environment issues, health, etc, or areas of unacceptable risk) are involved.

- New or urgent activities or changes in conditions (requirements, demands) are involved.

- Management structures are complex, and there might be some confusion about responsibilities.

- There is no reliable, independent, and updated information on the efficiency or the effectiveness of a government programme.

SAIs may let strategic choices influence the selection of topics, for example with regard to the type of performance audit, policy spheres and relationship with reforms within the public sector.

When introducing performance auditing, SAIs should not try to do too much too quickly. Performance auditing is particularly time-consuming for SAIs new to it. SAIs should look for some quick wins in one or two subjects that are likely to be of interest to stakeholders, but which SAIs have some experience and confidence in dealing with.

Applying a thematic approach may be helpful for the initial performance audit work as it enables SAIs to learn in a structured way. It creates possibility to recognise similar problems in public administration and to use experiences from one area for new audits in another area. This in turn may have positive impacts on the efficiency of production and provide opportunities for focused

---

[43] ISSAI 3000, Section 3.2, page 45.

capacity building. The Appendix to ISSAI 3100, Section 4.1, mentions the following potential topics (themes) for initial performance audits:

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

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

There is no shortage of potential performance audit topics in the region. There are many examples throughout Sub-Saharan Africa of severely delayed or abandoned capital projects, overambitious development of IT systems, a lack of clearly defined objectives and performance measures, poorly planned operations and similar problems. The challenge is to select topics where the audits can also contribute to reduce such problems in the future, addressing the causes to the problems. Still, the biggest challenge for performance auditors all over the world, and regardless of previous experiences, is to actually design and execute performance audits resulting in high quality reports.

5.2.5 Managing the performance audit process

In this Section we summarise the need for an active role of managers in the performance audit process discussed in Chapter 6 – 9, as well as discuss the operational management of efficiency in the audit process.

An active role for managers in the audit process

Managers play an important role in the performance audit process, the less skilled and experienced the team leader and team members are, the greater are the importance of the managers. In particular, managers are important in terms of:

- Participating in identifying appropriate audit topics;
- Reviewing and deciding on pre-studies and work plans for main studies, approving the audit design, activity plan, budget, principles for monitoring and communication with the audited entities as well as the assessment of risks in the audit;
- Regularly reviewing progress of the audit;
- Supporting the audit teams when needed;
- Ensuring appropriate supervision of teams;
- Ensuring an appropriate quality control;

- Reviewing draft reports;

- When appropriate, participating in presenting the report;

- Ensuring appropriate follow-up ex-post of the implementation of the audit engagement and the lessons learned;

- Ensuring appropriate follow-up of recommendations; and

- Ensuring quality assurance of the performance audit practice, when the SAI has reached a certain level of development.[44]

Supervision of the performance audit team by senior members of staff involves directing, supporting and monitoring their work to ensure that the audit objectives are met. This involves ensuring that:[45]

- All team members fully understand the audit objectives;

- Audit procedures are adequate and properly carried out;

- International and national auditing standards are followed;

- Audit evidence is relevant, sufficient, appropriate and documented, and supports the audit findings and conclusions; and

- Audit budgets, timetables and schedules are met.

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

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

Operational management of efficiency[46]

The adopted standards and the SAIs performance audit manual, outline the framework and maps out the main concepts, the requirements and the audit process. In addition to be a reference material for staff, it can add value by: establishing clarity of the purpose and promote consistency in the process; support compliance with legislation and standards; provide an overview of performance auditing for new staff members; and make work practices more efficient.

As performance auditing is time-consuming and expensive, it is essential that it is properly planned – with a clear audit design, a budget and activity plan – and that the implementation of the plan is regularly monitored and corrective action taken when appropriate. Planning of performance audits is a tool to guide the audit in situations with varying degree of uncertainty. It is a challenge to make realistic plans of performance audits, since the knowledge initially is limited. This calls for flexibility in revising plans when necessary, as the knowledge has increased and the initial planning possibly turns out to be inadequate.

---

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

[45] ISSAI 3000, Section 2.3, page 40.

[46] This Section is identical to Section 4.4 in the AFROSAI-E *Toolkit on SAI's communication with and reporting to PAC (2012), Module 4, Meeting PAC's expectations for performance audit reports.*

Many SAIs in the region face difficulties with delays in the production for performance audits. While the time needed to complete a performance audit usually is long, there are frequent delays that can be avoided. Some important factors that may contribute to delays are:

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

Unnecessary delay of performance audits is a serious problem, reducing the value of the audit (not publishing reports timely) and increasing the already high cost of performance auditing. Currently there are examples in the region where unrealistic activity plans become obsolete as they are not revised, leaving auditors without guidance and without any pressure to be accountable for implementing a realistic plan, as well as leaving management without a tool for monitoring the progress. Some measures that can be taken to reduce the processing time for performance audits are:

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

Resource-intensive performance audits also call for SAIs to have a sound knowledge of how the resources are used and constantly questioning how activities are prioritised and how the available

resources can be used more efficiently. It is of particular importance to monitor the use of staff for different activities. This requires a time reporting system.

Quality control and quality assurance processes have an important role to play in ensuring consistency and efficiency in audits. SAI management should set criteria to evaluate the quality of audits, as well as targets to measure efficiency. In addition, mechanisms should be put in place to provide information periodically on the progress of the audits to management.

5.3 Human resources (ICBF Domain 3)

<div style="border:1px solid">

INTERNATIONAL STANDARDS REQUIRE THAT:

3.1 The SAI has <u>career paths, recruitment, promotion and retention</u> of performance auditors with a multidisciplinary background based on assessments of the SAI's need for professional performance auditors to produce high quality reports. *ISSAI 40:4; 100:40; 300:30; 3100:Annex 5.2*

3.2 The SAI evaluates the current level of knowledge and skills on a regular basis to <u>determine training needs</u> as well as current and future personal and organisational needs. *ISSAI 40:4*

3.3 The SAI captures training needs in a <u>training plan that is successfully implemented using a variety of methods</u> for capacity building, such as continuous professional education, on-the-job training, in-house training, and coaching. *ISSAI 10:3; 40:4; 300:32;*

3.4 The SAI to appoint teams (possibly incl. experts) with the <u>necessary professional competence</u> to perform the audit; i.e. have good knowledge of performance auditing, research design, methods applied in social science, investigation or evaluation methods; and personal skills in communication, writing, analytical capacity, integrity, creativity and receptiveness. *ISSAI 300:30. Consistent with PMF SAI-15(iv).*

3.5 The SAI to ensure (e.g. by requiring declarations from staff and avoiding long-term relations with the same auditee) that the auditors and contractors <u>comply with the ethical requirements of</u> integrity, independence, objectivity, impartiality, professional secrecy and competence. *ISSAI 30:12-33. Consistent with PMF SAI-15(i)*

</div>

The SAI needs to recruit, train and retain qualified auditors. The SAI must also ensure that the audit teams have the professional skills to perform the audit and that the auditors apply professional judgement and scepticism and comply with the ethical requirements in each engagement.

Ensuring appropriate competency for performance auditing

Auditors in performance audits typically work in a team offering different and complementary skills.[47] A performance auditor must be well educated, and in general it is required that the auditor has a university degree and experience in investigative/evaluation work.[48]

Collectively, the audit team should according to ISSAI 300:30 have the necessary professional competence to perform the audit. This would include sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills. Specific skills that also may be needed are personal abilities such as creativity and receptiveness. Auditors should have sound knowledge of government organisations, programmes and functions. This will ensure that the right areas are selected for audit and that auditors can effectively undertake reviews of government programmes and activities.

---

[47] ISSAI 300:16.
[48] ISSAI 3000, Section 2.2, page 37-38.

There may also be specific ways of acquiring the necessary skills. For each performance audit the auditors need to have a full understanding of the government measures which are the subject matter of the audit, as well as the relevant background causes and the possible impacts. This knowledge must frequently be acquired or developed specifically for the engagement. Performance audits often involve a learning process and the development of methodology as part of the audit itself. On-the-job learning and training should therefore be available to auditors, who should maintain their professional skills through ongoing professional development. An open attitude to learning and an encouraging management culture are important conditions for enhancing individual auditors' professional skills.[49]

In specialised areas, external experts can be used to complement the knowledge of the audit team. Auditors should evaluate whether and in what areas external expertise are required. The SAI should ensure that the expert is independent of the government undertaking and has the necessary competence required. The experts should also be informed about the conditions and the ethics required. The work of experts may be used as evidence, but the SAI retains full responsibility for the conclusions in the audit report.[50]

The SAI needs to review their need for performance auditors and what background and skills the SAI needs to carry out high quality performance audits. It varies to what extent the SAI is independent in their recruitment of performance auditors. Some SAIs are restricted by establishments decided by a Civil Service Commission, or similar, and may only be able to recruit

---

[49] ISSAI 300:30.
[50] ISSAI 300:30; ISSAI 3000, Section 2.3, page 40.

accountants. While working towards increased independence in recruitment and management of staff, the SAI needs in such situations to seek close cooperation with the Commission. It can be important information for the Commission that performance auditing, according to the Lima Declaration (ISSAI 1), is of equal importance as the traditional types of audits (financial and compliance) and often needs auditors with another academic background and different skills.

EXPERIENCES IN THE REGION – SAI UGANDA

INDEPENDENCE ENABLES RECRUITMENT OF AUDITORS WITH A MULTI-DISCIPLINARY BACKGROUND

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

With the operational and financial independence gained through the Audit Act, the SAI has opened up the skills base of the staff required for performance auditing, and have recruited staff who have degrees in Law, Procurement, Statistics, Economics, Social sciences, Environment, Engineering, Geology and Information Technology.

Currently, the Value for Money and Special Audit Directorate has a technical staff strength of 41 and of these; 24 have an accounting background, 5 are of engineering background, 3 of Information Technology, 3 are lawyers, 2 are economists, 2 have a social science academic background, 1 is a statistician and 1 is an environmentalist.

In addition to this, where the need to contract an expert arises, the SAI has gone ahead to do so. For example, an audit on the Budget Process of the Government required an Economist. Under financing arrangement with the Development Partners, the SAI was able to have an Economist from NAO UK to support the audit team on a short term basis.

It may not always be possible for a SAI to recruit people who meet all the requirements. The required skills may therefore be developed once a person is in service, as long as candidates for appointment have clearly demonstrated the potential and attitude for the kind of work that performance auditing entails. The SAI should have a programme to ensure that staff maintains professional proficiency through continuous education and training. A key factor in the development process is learning through practical audit work.[51]

EXPERIENCES IN THE REGION – SAI NAMIBIA

PERFORMANCE AUDITORS ARE NOT BORN, BUT THEY ARE BRED.

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

A three-year degree in social sciences is normally enough for someone that applies for a post as performance auditor in SAI Namibia. Once new auditors have been appointed, they are inducted and undergo the Internal Functional Training Course of the Office. Here they are taught on how government works as well as on basic principles in regularity and performance auditing. Continuous on-the-job training, refresher courses and other training interventions are at the order of the day. All performance auditors we currently employ have undergone the AFROSAI-E regional 3-module course.

Performance auditors are not born, but they are bred. So, the SAI makes sure to continuously analyse the needs and provide the training accordingly. Two workshops are arranged yearly, where the auditors have a retreat and discuss issues related to performance auditing and how to function better as a unit. At least once a year the performance auditors also visit another SAI and learn from how they do things. This is very helpful in broadening the knowledge and experience of the auditors in our SAI. We are also actively involved in AFROSAI-E activities, which enrich the individuals as well as the performance audit unit and the SAI as a whole.

---

[51] ISSAI 3000, Section 2.2, page 37.

The background, skills and experiences of performance auditors determines the needs for training. The variety of topics and methods that may be relevant for performance auditing means that performance auditors are never fully trained.

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

Experience proves that introducing performance auditing will often require changes in attitudes, management style, organisational behaviour, recruitment practices etc.[52] While living up to high standards and requirements on professional skills and ethical behaviour, performance auditors need to be encouraged to develop critical (but constructive) thinking, creativity in finding ways to overcome challenges and obstacles, curiosity in learning about government undertakings and methods for performance auditing. The attitude to work need to include a strong personal commitment, honesty and openness within the office, persistence, promoting team work and sharing knowledge and assisting colleagues to overcome challenges.

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

- Encourage/support academic education relevant for performance auditing;

- Provide induction training;

- Provide basic training in performance auditing;

- Organise the work to promote learning: allocate challenging tasks under supervision;

- Provide on-the-job training supporting the auditors;

- Use an encouraging and supporting management style for professional auditors;

- Provide regular further training, internal or external, in relevant subjects;

- Arrange in-house seminars
    − sharing knowledge acquired by auditors participating in external training and conferences;
    − discussing and developing methodological skills;
    − sharing the lessons learned from completed audits;

- Encourage auditors to obtain knowledge from subject matter experts in the audits; and

- Encourage contacts with academic institutions and professional organisations.

Learning on-the-job and through training should be available for performance auditors. A learning attitude of individual performance auditors and an encouraging management culture are important conditions for enhancing professional skills.

Professional judgement and scepticism

According to ISSAI 300:31, performance auditors should exercise professional scepticism, but also be receptive and willing to innovate. The standard further explains that it is vital that auditors 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, they should be receptive to views and arguments. This is necessary in order to avoid errors of judgement or cognitive bias. Respect, flexibility, curiosity and a willingness to innovate are equally important. Innovation applies to the audit process itself, but also to the audited processes or activities.

---

[52] Appendix to ISSAI 3100, Section 3.1, page 6.

The standards also state that the auditors are expected to consider issues from different perspectives and maintain an open and objective attitude to various views and arguments. If they are not receptive, they may miss important arguments or key evidence. As auditors work to develop new knowledge, they also need to be creative, reflective, flexible, resourceful and practical in their efforts to collect, interpret and analyse data. A high standard of professional behaviour should be maintained throughout the audit process, from topic selection and audit planning, via the audit proper, to reporting. It is important for auditors to work systematically, with due care and objectivity and under appropriate supervision.

The concepts of professional judgement and scepticisms are further elaborated in materials from CCAF-FCVI, Canada. Applying professional judgement includes, but is not limited to:

- Selecting audit objectives, audit questions and scope;

- Determining audit criteria against which actual performance will be judged;

- Determining what constitutes sufficient, appropriate audit evidence;

- Synthesising and analysing evidence to produce accurate and appropriate audit reports;

- Identifying when significant problems or differences of opinion warrant additional information or opinions being sought;

- Formulating appropriate recommendations to improve performance;

- Preparing reports that are fair, concise, complete, pertinent, logical, and provide the right emphasis on individual issues; and

- Communicating with the audited entities about the audit process, findings, conclusions, and recommendations.

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

- Does the information reflect the substance of what has happened?

- Does it make sense?

- Is the evidence too weak?

- Are we focusing on the things that are there but missing the things that are not there – but should be?

- Are there limitations on the scope of our procedures?

- What evidence is there besides what management has provided to us?

- Do we need more time to complete our audit?

Ethical requirements

According to ISSAI 100:35, a SAI should establish and maintain procedures for ethics and quality control on an organisational level that will provide it with reasonable assurance that the SAI and its personnel are complying with professional standards and applicable ethical, legal and regulatory requirements. ISSAI 30 Code of Ethics and ISSAI 40 Quality Control for SAIs contain

guidance in this regard. The existence of these procedures at SAI level is a prerequisite for applying or developing national standards based on the Fundamental Auditing Principles.

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

The key principles of ethics in ISSAI 30 are briefly explained in the table below.

KEY CONCEPT	MEANING
Integrity	To observe standards, conduct professionally and act honestly in the public interest
Independence	To be independent of the audited entities, interest groups, avoid conflict of interest and personal interest
Objectivity	To be neutral and objective in dealing with topics under review and only express opinions in reports based on evidence
Impartiality	To make use of information from different parties in an impartial way
Professional secrecy	Not to disclose information from the audit, other than in line with SAI procedures
Competence	To apply high professional standards, follow standards and procedures, exercise due care, continuously update skills

The SAI needs to ensure that the auditors comply with the ethical requirements in each audit engagement. One recommended tool to achieve this is to request auditors to sign a declaration before each main study.

Auditors should be honest, reliable and truthful when conducting an audit. Auditors should remain independent so that their opinions/conclusions/findings will be impartial and be seen as such by third parties. Independence is freedom from situations and relationships which could impair the auditor's objectivity. Independence is an attitude of mind and appearance. It safe-guards the ability to perform an audit without being affected by influences that might compromise professional judgement.

5.4 Audit standards and methodology (ICBF Domain 4)

> **INTERNATIONAL STANDARDS REQUIRE THAT:**
>
> 4.1 Performance Audit Standards and Guidance. *PMF SAI-15(i)*
>
> a) The SAI has developed national <u>audit standards</u> consistent with ISSAI 300 and taking into account the INTOSAI Performance Audit Guidelines, or has adopted the INTOSAI's Performance Audit Guidelines as the authoritative standards for their work, for example meeting the following sub-criteria: covering general principles, planning, execution and reporting of performance audits. *ISSAI 20:3; 40:5; 300:4*
>
> b) The SAI has developed and communicated to staff <u>policies or principles</u> to ensure implementation of adopted standards or general principles for performance auditing, for example meeting the following sub-criteria: covering an interpretation of the mandate, the organisation and working processes, the selection of audit topics and the quality control system. *ISSAI 20:3; 40:5; 300:36*
>
> c) The SAI provides <u>support to its auditors</u> to implement the adopted audit standards and ethical requirements and develop their professional skills, for example meeting the following sub-criteria: guiding materials, promotion of professional development in the daily work, access to experts when needed, exchange of professional experiences with other performance auditors, feedback and individual development plans, access to in-house and external training and possibly academic courses. *ISSAI 40:4-5; ISSAI 300:30*
>
> 4.2 The SAI implements an appropriate system with <u>independent quality control review</u> of draft reports before issuance. *ISSAI 40:5. Covers elements in PMF SAI-15(iii)*
>
> 4.3 The SAI implements an appropriate system with independent <u>review of the quality control systems for performance auditing</u> (quality assurance), incl. ex post review of a sample of completed audits. *ISSAI 20:3; 300:32; 3100 :38*

In this Section we discuss:

- Standards and guidance (5.4.1);
- Safeguarding quality in the performance audit process (5.4.2);
- Independent quality control review and quality assurance (5.4.3); and
- Confidence and assurance in performance auditing (5.4.4).

5.4.1 Standards and guidance[53]

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

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

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

---

[53] The five first paragraphs in this Section refer to ISSAI 10, principle 3, ISSAI 100:1-2, 7 and ISSAI 300:1-6 and 8. See Section 8.2 on how to reference to ISSAIs in performance audit reports.

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

AFROSAI-E recommends SAIs in the region to adopt INTOSAI's General Auditing Guidelines for performance auditing as their authoritative standards for their work. In such cases the auditor must comply with all ISSAIs relevant to the audit.[54] The purpose of AFROSAI-E handbooks, manuals, guidelines and other materials is to help member SAIs to implement ISSAIs. In early stages in the development of performance auditing, the SAI can use the INTOSAI guidelines or AFROSAI-E template manual to guide performance auditing. When performance auditing is firmly established, SAIs can develop a national manual either by customising AFROSAI-E template manual or by developing their own manual. There are two advantages with a customised manual:

- The standards become more clear by reflecting the SAI's mandate, approach to performance auditing and the national conditions; and
- The standards can include the specific performance audit processes in the SAI, as well as elements of the policy relating to performance auditing that is necessary as a complement to INTOSAI standards.

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

Policies needed as a complement to INTOSAI standards are for example clarification of the SAIs approach to performance auditing, interpretation of the SAIs' mandate for performance auditing and how to use it and establishing the organisation and working processes of the SAI, including processes for selection of audit topics and processes in the quality control system.

One of the largest challenges for SAIs in the AFROSAI-E region is to support the performance auditors in developing the skills and experiences necessary to enable them to produce reports of a high standard and to follow the adopted standards and comply with the ethical requirements.

Principles for performance auditing

The fundamental principles of performance auditing in ISSAI 300 give an overview of key aspects covered specifically for performance auditing in the standards. Additional requirements in the standards cover the institutional level and general requirements for public sector auditing. ISSAI 300 presents ten general principles in ISSAI 300:25 – 34, giving guidance on aspects of performance auditing that are relevant throughout the audit process. The principles are further elaborated in the standards. The principles are briefly presented in the box below, and further elaborated in different parts of the Handbook.

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

- *ISSAI 300:25 - Audit objectives*: Auditors should set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness.
- ISSAI 300:26 – *Audit approach*: Auditors should choose a result-, problem- or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.
- ISSAI 300:27 – *Criteria*: Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.
- ISSAI 300:28 – *Audit risk*: Auditors should actively manage audit risk, which is the risk of obtaining

---

[54] ISSAI 100:10.

incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.

- ISSAI 300:29 – _Communication_: Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.

- ISSAI 300:30 – _Skills_: Collectively, the audit team should have the necessary professional competence to perform the audit. This would include sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills.

- ISSAI 300:31 – _Professional judgement and scepticism_: Auditors should exercise professional scepticism, but also be receptive and willing to innovate.

- ISSAI 300:32 – _Quality control_: Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced and fair reports that add value and answer the audit questions.

- ISSAI 300:33 – _Materiality_: Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much added value as possible.

- ISSAI 300:34 – _Documentation_: Auditors should document the audit in accordance with the particular circumstances thereof. Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.

ISSAI 300:36 – 42 also presents seven principles related to the audit process. These principles form the basis for Section 5.2.2 and Chapter 6 – 9 in the Handbook.

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

- _ISSAI 300:36 – Planning - Selection of topics_: Auditors should select audit topics through the SAI's strategic planning process by analysing potential topics and conducting research to identify risks and problems.

- ISSAI 300:37 – _Planning - Designing audits_: Auditors should plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management.

- ISSAI 300:38 – _Conducting – Evidence, findings and conclusions_: Auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations.

- ISSAI 300:39 – _Reporting – Content of the report_: Auditors should strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced.

- ISSAI 300:40 – _Reporting - Recommendations_: If relevant and allowed by the SAI's mandate, auditors should seek to provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit.

- ISSAI 300:41 – _Reporting – Distribution of the report_: Auditors should seek to make their reports widely accessible, in accordance with the mandate of the SAI.

- ISSAI 300:42 – _Follow-up_: Auditors should follow up previous audit findings and recommendations wherever appropriate. Follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective action.

5.4.2 Safeguarding quality in the performance audit process[55]

The presentation of the requirements on quality control in audit engagements have in the Handbook been integrated in the audit process described in Chapter 6 − 9. The *Performance Measurement Framework* developed by IDI[56], summarises the quality control requirements on the audit engagement level as follows.

> "Quality Control in Performance Audit. *PMF SAI-15(iii)*
>
> a) "All <u>work carried out should be subject to review</u> as a means of contributing to quality and promoting learning and personnel development" *ISSAI 40: pg11 (i.e. including review of the draft audit plan, working papers and the work of the team, supervision and review of the audit file and regular monitoring of progress of the audit by appropriate levels of management)*
>
> b) "Where difficult or contentious matters arise, SAIs should ensure that appropriate resources (such as <u>technical experts</u>) are used to deal with such matters" *ISSAI 40: pg11*
>
> c) "...any <u>differences of opinions</u> within the SAI are clearly documented and resolved before a report is issued" *ISSAI 40: pg12*
>
> d) "SAIs should recognize the importance of <u>engagement quality control reviews</u> for their work and [where carried out] matters raised should be satisfactorily resolved before a report is issued". *ISSAI 40: pg12 (i.e. review by experts not involved in the audit)*
>
> e) "Procedures are in place for authorizing reports to be issued" *ISSAI 40: pg12 (i.e. Carry out <u>quality control review of draft reports;</u> normally including review by different levels of management and possibly discussions with staff in the unit and/or external experts)."*
>
> *Performance Measurement Framework, Pilot Version, developed by IDI* 12 July 2013

According to ISSAI 300 auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced and fair reports that add value and answer the audit questions. ISSAI 40 offers general guidance on the system for quality control at the organisational level. In the conduct of performance audits the following specific issues need to be addressed:[57]

- Performance audit team gathers a large amount of information and exercises a high degree of professional judgement and discretion, which needs to be taken into account in quality control. The need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams should be seen as part of quality management. This may entail quality applying control procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received. If there is a difference in opinion between supervisors and the audit team, appropriate steps should be taken to ensure that the audit team's perspective is given sufficient considerations and that the SAIs policy is consistent.

- Even if the report is evidence-based, well-documented and accurate, it might still be in-appropriate or insufficient if it fails to give a balanced and unbiased view, includes too few relevant viewpoints or unsatisfactorily addresses the audit questions. These con-siderations should therefore be an essential part of measures to safeguard quality.

---

[55] Together with the quality framework in the beginning of Chapter 5, this Section summarises the content of the guide *Safeguarding quality in the performance audit process issued* by the Performance Audit Subcommittee, with additional references to the Pilot version of the *Performance Measurement Framework* developed by IDI and ISSAI 300:32 - 33.

[56] Pilot version 12 July 2013. The criteria specific for performance auditing were largely developed by AFROSAI-E, based on the Quality Assurance Handbook (2012).

[57] ISSAI 300:32.

- As audit objectives vary widely between audits, it is important to define clearly what constitutes a high-quality report in the specific context of an audit engagement. General quality control measures should therefore be complemented by audit-specific measures.

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

The quality framework in ISSAI 40 is presented in the beginning of Chapter 5. Quality management systems need to be sufficient to ensure that the audit has been conducted in accordance with standards, regulatory and legal requirements as well as that the reports are appropriate, balanced and fair, add value and answer the audit questions. Control mechanisms need to be complemented by support, such as training and learning on-the-job and guidance to the audit team. A clear understanding of what constitutes high quality in the specific settings of an audit (with respect to materiality, objectives, etc.) should be defined. Performance auditors should follow the principle of materiality in all stages of the audit process in order to add the most value possible. 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 reports. In performance audits, materiality may be defined in financial, social and political terms and the perspective may vary from one audit to another. [58]

The credibility and effectiveness of SAIs is highly influenced by the extent a SAI can establish and maintain a high level of quality in its audit products. ISSAI 40, 3000 and 3100 also offer guidance on ensuring quality in performance auditing.

According to the ISSAIs, the SAI should establish systems and procedures to ensure that audits are conducted in accordance with relevant policies. The Head of the SAI is responsible for the setting and functioning of the overall quality framework (from recruitment, planning, quality control and reporting to ex post control). The audit manager is responsible for the day-to-day management of the audit and the quality of the audit work at the engagement level.

Quality at the engagement level

Many steps and measures can be taken to ensure high-quality audits. Such measures are covered more in detail in Chapter 6 - 9.

In summary, the following measures are important during the planning stage:

- A comprehensive research is needed, to find indications of problems and design the audit;

- The audit objective, scope, questions and criteria need to be defined;

- Various perspectives and study designs have to be examined, assessing what strategy and methods to use for data collection and analysis;

- Scientists and subject matter experts have to be consulted and perhaps engaged; and

- The SAI need to ensure that the work plan proposals are critically examined, in particular the context and motive for the audit, the audit design, and the administrative planning (competence, resources, activity planning, monitoring of progress, assessing risks and planning communication).

---

[58] ISSAI 300:33.

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

- Provide the audited entities with a proper introduction;
- Involve the audited entities and find arguments from various stakeholders;
- Be creative in finding evidence, check the quality and reliability of data but be flexible and find smart solutions; less precise figures or estimates may be sufficient, even if no other conclusion should be drawn than what is permitted by the data;
- A well-functioning supervision and well informed management, reviewing the quality of the report and checking if the design and work plan has been followed and tools used properly, if data and analysis are balanced and sufficient and if there are significant dis-agreements with audited entities;
- Carry out focus group meetings;
- Have experienced colleagues within the office to review drafts;
- Get critical external examination by scientists and subject matter experts;
- Conduct a proper clearance process with the audited entities;
- Submit a properly processed draft report to top management;
- Write a solid and reader-based report;
- Consider an exit conference with the audit entity to go through the report again; and
- Before publication, let managers check if the report meets requirements in standards.

5.4.3 Independent quality control review and quality assurance[59]

Most of the SAIs in the region are in the process of developing performance auditing with an ambition to stepwise increase the volume of production and/or the quality of the reports. The first priority in this phase is to develop capacity to produce performance audit reports and to establish quality control procedures to ensure that they are of a high quality. All SAIs working with performance auditing are expected to aim for developing the performance audit discipline to at least level three in ICBF (which among other things means, to have a unit with at least 10 performance auditors and submit at least three reports per year). SAIs that have reached level three should also aim for developing quality assurance for performance auditing.

Reviews taking place before the report is issued are part of the SAIs quality control system, with the objective of ensuring that the reports are of a high quality when they are issued. Besides reviews by line managers and external reviewers, the SAIs in the region have established processes for in-house review involving people not involved in the audit (neither as auditors nor as line managers). While independent quality control reviews in other audit disciplines are made selectively, AFROSAI-E recommends SAIs in the region to carry out such review of all performance audits. The reason is that the risk for insufficient quality is rather high in performance audit, and that insufficient quality in a single performance audit report can create significant risks for the SAIs reputation. Such reviews are part of the quality control system, as they aim at improving the quality of the reports before they are published.

Quality assurance, on the other hand, involves checking if the appropriate quality control systems have been put in place and if they are appropriately implemented. It includes reviewing already published reports (ex post).

It is a challenge for SAIs to establish a quality assurance function. Regularity audit is the dominant audit discipline in all SAIs, usually with only a small fraction of the auditors working with performance auditing. AFROSAI-E recommends SAIs to start with developing quality assurance for

---

[59]This Section is based on AFROSAI-E Quality Assurance Handbook (2012), Section 3.2.2 & Chapter 6.

regularity auditing. In the meantime the SAI has to rely on rigorous procedures for quality control review before issuing reports and on AFROSAI-E's external quality assurance reviews of performance auditing practices. Once a SAI has a well-established quality assurance function, making independent reviews of already issued regularity audits, the next step can be to start with quality assurance review of performance audits. AFROSAI-E's *Quality Assurance Handbook* provides recommendations for how quality assurance reviews can be carried out depending on the level of development for the performance audit practice in the SAI.

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

5.4.4 Confidence and assurance in performance auditing[60]

As in all audits, the users of performance audit reports will wish to be confident about the reliability of the information which they use for taking decisions. Consequently, performance auditors should in all cases provide findings based on sufficient appropriate evidence and actively manage the risk of inappropriate reports.

The level of assurance that a performance audit report provides should be communicated in a transparent way. Performance auditors are not normally expected to provide an overall opinion, comparable to the opinion on financial statements, on the audited entities' 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:

- Through an overall view on aspects of economy, efficiency and effectiveness, where the audit objectives, the subject matter, the evidence obtained and the findings reached allow for such conclusions; or

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

The decisions made in drawing up a balanced report, reaching conclusions and formulating recommendations frequently need to be elaborated upon in order to provide sufficient user information. Performance auditors should specifically describe how their findings have lead to a set of conclusions, and - if applicable - an overall conclusion. This means explaining which criteria were developed and used and why, and stating that all relevant viewpoints have been taken into account so that a balanced report can be presented. See further Chapter 8 on deciding on and reporting the audit.

---

[60] This Section is based on ISSAI 300:21 - 23, which in turn draw on the principles in ISSAI 100:31 - 33.

5.5 Communication in performance auditing (ICBF Domain 5)

> **INTERNATIONAL STANDARDS REQUIRE THAT:**
>
> *5.1* Publication and Dissemination of Performance Audit Reports. *Covers parts of PMF SAI-3(ii)*
>
>   a) The SAI has <u>identified its key stakeholder groups</u>, established effective two-way communications with them and understand the needs and expectations of the relevant stakeholders in each audit. *ISSAI 300:29; 3100, Appendix 3.3*
>
>   b) The SAI <u>submits</u> performance audit <u>reports in a timely manner</u>, to ensure that the information is not obsolete, to the main recipients (the auditee and the executive and/or the legislature) according to regulated procedures and timeframes. *ISSAI 20:8; 300:39*
>
>   c) The SAI <u>communicates timely and widely on performance audit activities and results</u> through the media, websites and by other means, and where relevant make performance audit <u>reports accessible to the general public</u>, unless prohibited by legislation and regulations. *ISSAI 20:8; 300:41*

ISSAIs expect SAIs to communicate timely and widely on their activities and audit results through the media, websites and by other means. SAIs need to communicate openly with the media or other interested parties on their operations and audit results and be visible in the public arena. SAIs should also encourage public and academic interest in their most important conclusions. SAIs make public their conclusions and recommendations resulting from the audits unless they are considered confidential by special laws and regulations.[61]

Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.[62] A pre-requisite for developing effective communication with the stakeholders, are that they have been identified and their needs considered. This is needed both on the institutional level and in each performance audit engagement.

Communication as part of the audit process is mainly dealt with in Section 7.4.3 and mentioned in other parts of Chapter 6 – 9.

One of the challenges in performance auditing is that it takes a relatively long time to produce reports. This is largely a consequence of the nature of the audit – the fact that each audit is unique in terms of the topic, the questions, criteria and methods used. For each audit, the auditors need to learn about the topic and problem that is audited. It takes time to build this knowledge.

On the other hand, there are many other factors in the control of the SAI that may contribute to delays in production of performance audits. Thus, SAIs need to take action to reduce unnecessary delays, see further Section 5.2.5. In order to be relevant the audits must be completed, submitted and made available in a timely manner. Within the provision of the legislation and regulations, the SAIs also need to be active in communicating the results of the audit, not only to the audited entities and Parliament, but also to the general public through media, the SAIs website and through other means.

The objective of making the results of the audit easily available to different stakeholders and general public calls for a special attention to make performance audit reports reader-friendly. SAIs also need to encourage the interest of for example academic institutions in the results of performance auditing.

---

[61] ISSAI 20, Principle 7-8.
[62] ISSAI 300:29.

6 PLANNING THE AUDIT

The presentation of planning focuses on auditing topics where there are reasons to believe that there are material performance problems. The SAI may also face situations with demand for information on whether government has achieved specific results as planned, or whether government systems operate as intended. Such information may for example be requested for large and topical infrastructure projects. Performance audits can meet such demand by providing independent and objective information on whether the expectations have been met or if there are problems with the performance. If material performance problems are identified, the SAI may also decide to analyse the causes to those problems.

The purpose of carrying out a pre-study is to plan the audit engagement. This include to:

- Develop an understanding of the audit topic and the problems in the area (Section 6.1);
- Select an audit problem, or use a similar technique to create a clear focus in the audit focusing on performance problems with possibilities for improvement (Section 6.2);
- Design and develop a methodological plan for the audit (Section 6.3.1); and
- Develop an administrative plan for the audit (Section 6.3.2).

Issues related to management of the audit and documentation are discussed in Section 7.4 – 7.5, even if they are also relevant for the execution of the pre-study.

6.1 Understanding the audit topic and identifying problems in the area

According to ISSAI 300:37, performance auditors should plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management. Background knowledge and information is 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. To ensure the audit is properly planned, the auditors need to acquire sufficient knowledge of the subject matter. Performance auditing generally requires audit-specific, substantive and methodological knowledge to be acquired before the audit is launched ("pre study"). However, planning should allow for flexibility, so that the auditors can benefit from insights obtained during the course of the audit.

The pre-study is an exploratory phase where the auditors learn about the topic and area for the audit to test different ideas on how to focus the audit. A lot of information needs to be collected from the audited entities and sources such as clients, subject matter experts, consultants, former employees and others. The auditors will also need to study the legislation, documents from the audited entities (strategies, plans, budgets, work procedures) and from other sources (literature, reports from government, international organisations and NGOs).

The purpose of the pre-study is to:

- Collect information to increase the auditors' knowledge of the audit topic;

- Make preliminary observations and find indications on problems in the audit area;

- Structure problems in the area for audit to understand how they are related to each other;

- Identify possible audit problems as alternative focus for a main study;

- Recommend to management whether to start a main study or not, as well as what audit problem to focus on; and

- Plan the main study, define the audit objective, audit scope, audit questions and sub-questions, audit criteria, strategy and methods for data collection and analysis and administratively plan the audit – all documented in a work plan.

When planning an audit, auditors should assess the risks of fraud.[63] If this is significant within the context of the audit objectives, the auditors should obtain an understanding of the relevant internal control systems and examine whether there are signs of irregularities that hamper per-formance. They should also determine whether the entities concerned have taken appropriate actions to address any recommendations from previous audits or other examinations that are of relevance to the audit objectives. Lastly, the auditors should seek contact with stakeholders, including scientists or other experts in the field, in order to build up proper knowledge regarding, for instance, good or best practices. The overall aim at the planning stage is to decide, by building up knowledge and considering a variety of strategies, how best to conduct the audit.[64]

Understand and map out the actors and the processes
In general, the auditors have to familiarise themselves with the relevant:

- Legislation and relevant policies;

- Parts of the state budget, including levels of expenditure and revenue;

- Strategies and overall plans for the audited entities, including objectives and expected results;

- The internal and external environment, including external constraints and the role of involved stakeholders;

---

[63] See Section 3.3 on considering the risk for fraud and corruption in performance auditing.
[64] ISSAI 300:37.

- Work and management processes and procedures for activities of interest for the audit;
- Existing statistics within the audited entities as well as in other organisations such as the national statistical office;
- Current developments; and
- Other on-going or recently completed studies.

In the pre-study, the auditors should present an analysis of the topic or area selected for audit. A common mistake is to include too much information about this in the pre-study, by copying and pasting long texts from documents from the audited entities. The result is often a long text that is not relevant for the purpose of the pre-study.

The challenge is to analyse the topic, present the information that is necessary to get a general understanding of the area, a more detailed understanding of relevant systems and processes in order to be able to assess and structure observation of problems in the area, select an appropriate audit problem and design the audit.

It is important that the auditors understand the audit area and are able to describe the involved actors, processes and activities. This is often called a systems description, where auditors often use a flow chart to map out the relevant actors and the processes as they are supposed to work. Sometimes inputs and outputs from different steps in the process can also be included in the graph. This creates a foundation for checking if the entity/system functions as intended. The description will facilitate the collection of audit evidence and the results of the pre-study can later be linked to different actors or processes within the system.

Flow-charting can be done in several ways depending on the purpose. Figure 7 illustrates a flow chart for the procurement process in local government, covering the key actors in the local authorities (but not actors such as suppliers and central regulatory authorities).

Figure 7. Example of a system graph – Procurement in local authorities
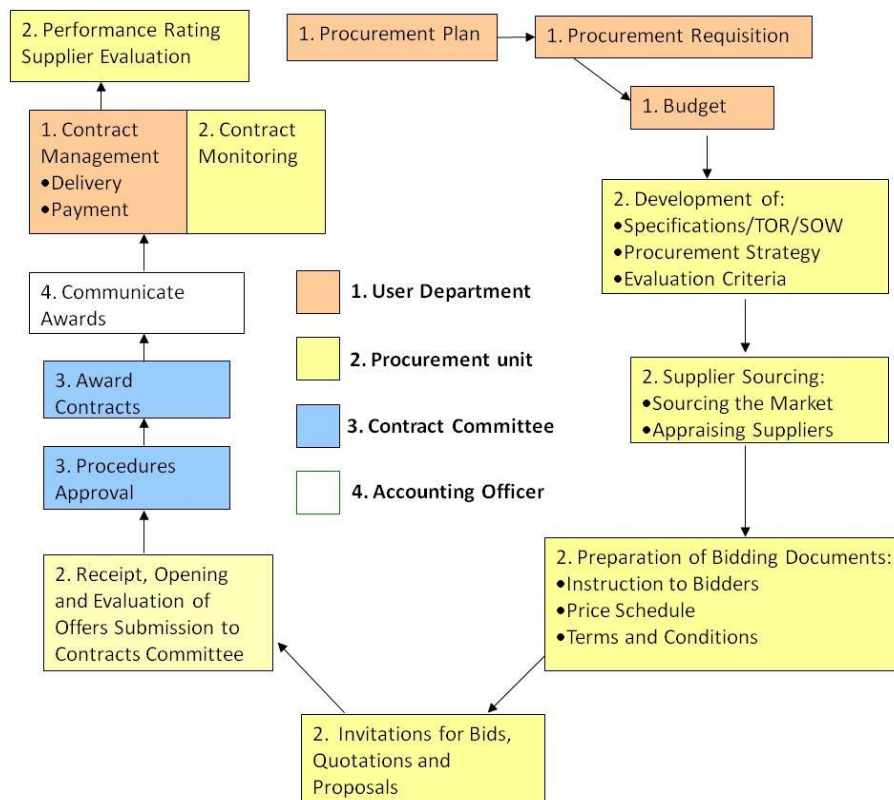
Source: Value for money audit on procurement system in local governments – A case study of 7 Districts, OAG Uganda 2011

There is a general need to further elaborate on the processes and activities in a narrative description in the pre-study memorandum. Very complex and detailed processes may be difficult to illustrate in flowcharts. The auditors may then have to use more than one flowchart, or when processes are too complex to capture graphically, settle for narrative descriptions only.

A flow chart is a graphic presentation of the audit topic or area. The purpose is to describe how important actors, processes and/or activities are related to each other. Flowcharts can also be used to identify bottlenecks, time-consuming activities and resources used for the different steps in the work. The level of detail and which activities to include in a flowchart depend on what is critical in the audit. The appropriate time for mapping out the audited entities, system and processes are during the pre-study. As the auditors' knowledge increase during the main study, however, the initial descriptions of relevant systems and processes may need to be revised.

The responsibilities and the workflow may be simple and easy to grasp, as shown in Figure 7, or more complex including many more detailed activities.

To understand the workflow the auditors need to collect data from written documents, interview staff and management of the audit entities as well as representatives for clients and other stakeholders. When the auditors have produced a first draft flow chart describing the process, it is a good idea to ask the audited entities to comment on it.

The auditors may encounter situations where there is one official process documented in manuals and guidelines, and another process for how the operations are actually carried out. Discrepancies between the official and the unofficial processes are interesting findings that may form the basis for the further work in assessing problems in performance and the causes to them.

Make observations of performance problems and their causes (preliminary findings)

One of the most important tasks for the auditors during the pre-study is to identify problems related to the audit topic and the likely causes to such problems. Often this can be done simultaneously with developing the understanding of the audit area.

There is a need to collect information and document evidence for the observations made in the audit. The requirements on the evidence in a pre-study are not as strict as during a main study, as the auditors are still in a planning phase. As the pre-study usually does not have a distinct focus on a specific problem, it can be relevant to briefly present many observations on problems in the pre-study, even if all of them are not clearly linked to each other. When the auditors have developed sufficient understanding of the audit topic, it is often possible to predict a few potential audit problems. At that stage, it is advisable to start narrowing down the information in the pre-study to what may be relevant for a coming main study.

The issue at task is to preliminary observe problems and causes in order to plan the main study. This means that the auditors should collect and document sufficient information to convince themselves and SAI management that material performance problems exist and that they have identified the most important factors causing the problems. They must also be convinced that the performance of public sector entities are important in order to address the causes to the problems. The auditors need to develop a sufficient understanding of the area, the problems and causes and the data available, to be able to design and plan the main study. Once this is done, it does not necessarily add much value to collect more data or make more analysis in the pre-study. The auditors know enough when they are able to convince management about the audit and able to plan the main study with a high quality.

In the pre-study it is even possible for auditors to make reasonable and logical assumptions on likely causes to problems, even if the indications collected are not clear. On the other hand, the auditors must remain open-minded during the main study, and be prepared to reject assumptions made during the pre-study if it turns out that there is not sufficient appropriate evidence to support them.

6.2 Selecting a focus for the audit – "the audit problem"

Once the auditors have a fair understanding of the audit area and the problems in it, they need to choose an appropriate focus of the main study. We will call this "the audit problem".[65] There is in principle nothing stopping the auditors from selecting more than one main problem in the audit. The reason to be careful with this is the risk that the audit becomes more complex and takes a longer time.

The audit problem is usually selected in the pre-study and documented in the pre-study memorandum (see Appendix 2). The same criteria as for selecting the audit topic can be used, but the selection of the audit problem is based on the understanding of the audit area developed in the pre-study and the preliminary observations of the problems related to the topic and their causes.

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

To select an audit problem, the auditors need to get an overview of the observations made and understand how different problems are related to each other. One technique for structuring problems is using a problem tree. Here problems are defined hierarchically according to how they influence each other.

Example: Serious injuries and deaths in road accidents – Traffic inspections

Using the example from Section 3.1, we note that government have assigned different responsibilities to a number of public organisations to try to reach the goal of reducing the number of road accidents, in particular accidents with serious or fatal consequences. All involved public entities share this goal, even if they are likely to have additional goals. [66] An agency under the Ministry of Works is responsible for road construction and road maintenance. The Traffic Police carry out inspections in order to promote safe driving and reduce the number of road accidents. There may also be an organisation responsible for information campaigns on road safety. As some accidents occur anyway, the Ministry of Health is responsible for emergency services and treatment in hospitals once an accident has taken place, to try to save the injured people.

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

---

[65] The terminology varies between SAIs. After selection of the audit topic, the AFROSAI-E terminology includes the selection of a focus of the audit – an "audit problem". The "audit problem" is an analytical concept that is rephrased neutrally in an audit objective, also encompassing the causes to the problem and broken down into audit questions. SAI Norway formulate a neutral overall objective and audit questions, but does not use the concept of an "audit problem". SAI Sweden formulate the purpose of the audit, or an overall audit question, based on a description of the problem area and breaks this down into sub-questions. SAI Canada selects main "issues" for performance audits, analysing performance problems within each issue and aims at carrying out root-cause analysis. While there are differences in the approaches to performance auditing, these terminological differences are of limited significance.

[66] The example has been simplified, excluding some organisations influencing road safety for example entities issuing driving licenses and regulating speed limits or other traffic regulations.

Figure 8. Overall problem-tree for the problem of serious injuries or deaths in road accidents
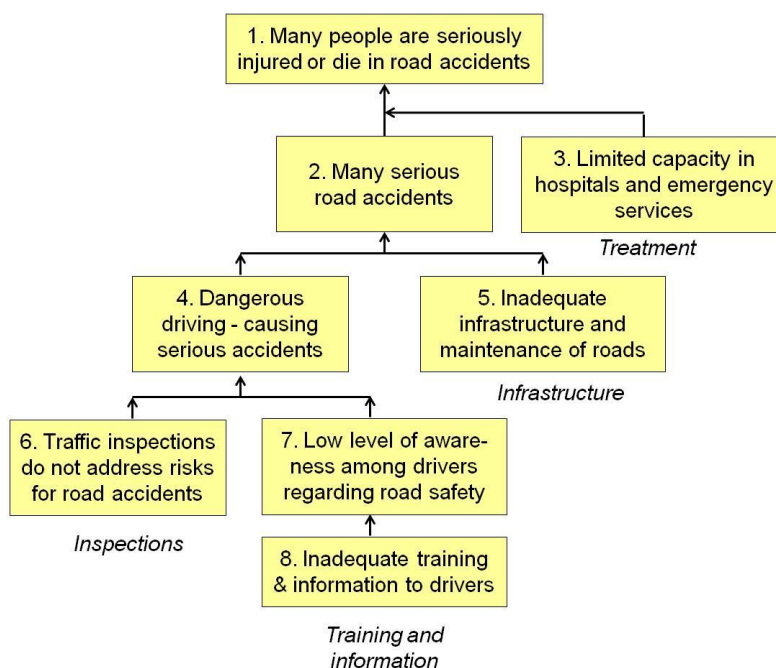
The overall problem tree in Figure 8 identifies one main problem in society: many people are seriously injured or die in road accidents (1). The main reasons are that there are many serious road accidents (2) and that there is limited capacity for emergency services and at hospitals (3). The many serious road accidents, in turn, are caused by dangerous driving (4) and that the infrastructure and maintenance of roads is inadequate (5). The dangerous driving causing serious accidents, can in turn be explained by that the traffic inspections do not address the risks for accidents in order to prevent dangerous driving (6), and that there is a low level of awareness about road safety among drivers (7), which in turn is affected by the training of drivers and information campaigns.

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

As is clear from the overall problem tree, government uses different tools to try to reduce the number of serious or fatal road accidents. It may be tempting for auditors to select the top problem, in order to address all the causes. Selecting an audit problem on a higher level in the problem tree generally means a more relevant problem, but also a problem that is more difficult to audit as it is influenced by many different factors. In this case, the boxes 1, 2, 4 and 7 in Figure 8 represent societal problems, which in general are affected by many factors beyond the direct control of government. It can also be taken as a general rule that government operations usually turn out to be more complex than envisaged at first sight, once the auditors make in-depth analysis. It may be sufficient to focus a main study on one of the major factors in Figure 8 the government is in control of (box number 3, 5, 6 and 8), and maybe even limit it further in the planning process. Covering several major factors may make the audit too complex.

There are other techniques that can be used for the same purpose as the problem tree, such as "mind mapping" or illustrating the problems in any type of graph. See http://en.wikipedia.org/wiki/Mind_map.

In our example, the SAI decided to focus on the audit problem that the inspections of the Traffic Police do not focus on the factors creating risks for serious road accidents (box number 6 in Figure 8). Once the audit problem has been selected, the auditors need to plan how to carry out the audit. The problem tree technique – or a question tree – can also be used on a more detailed level to guide the further planning of the audit in terms of defining the audit questions and sub-questions, see further Figure 10 in Section 6.3.1.

The technique narrowing down general problems in society to audit topics and to a suitable audit problem are steps in a process which we can call the audit funnel, see Figure 9. In the audit design the auditors further specify and narrow down the audit, see Section 6.3.

Figure 9. The Audit Funnel
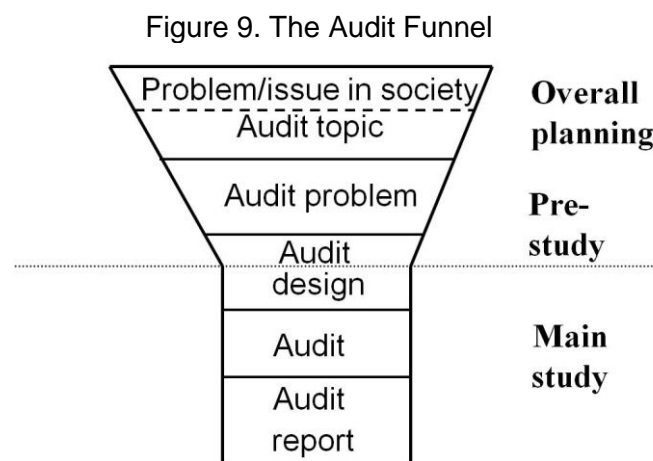
Using criteria to select the audit problem

Since it is often not obvious what audit problem to choose within an area, the auditors usually apply criteria in the selection. The criteria for selecting the audit problem among alternatives described in the AFROSAI-E template manual, are the same as for selecting the audit topic; the difference is the level of detail in the assessment.

Based on the ISSAIs the following criteria can be used for selecting the audit problem:

1. **Within the SAI's audit mandate.**

2. **Materiality of the subject matter;** money involved, importance for the citizens, the public administration or the economic development, legislative of public interest or request for audit).

3. **Risks for performance problems;** risks of not meeting overall objectives, i.e. risks of not meeting the principles of economy, efficiency or effectiveness in government or public sector organisations.

4. **Auditability** (possibility to carry out an audit);
   – Relevant data available and audit methods applicable;
   – Resources available (budget, transport, time);
   – Relevant audit skills available;
   – Relevant audit criteria;
   – Risks to the SAI;
   – Political sensitivity; and
   – Timeliness, considering major changes or studies in progress by other bodies.

5. **Potential for adding value and promote change;**
   - Improvements or solutions are possible (in principle excluding increased budget allocation of resources);
   - Importance for public accountability;
   - No major factor (political, financial or other) limits the potential for change;
   - Interest in change shown by the audited entities or the government; and
   - The potential value added (the potential contribution to improved performance and better services to citizens).

According to ISSAI 300:33, auditors should consider _materiality_ at all stages of the audit process. Thought should be given not only to financial but also social and political aspects of the subject matter, with the aim of delivering as much value as possible. Materiality can be understood as the relative importance of a matter within the context in which it is being considered. An issue will be considered material where the topic is considered 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. Auditors should bear in mind that what is socially or politically significant varies over time and depends on the perspective of the relevant users and responsible parties.

The problem with serious injuries and deaths in road accidents are likely to be material in different ways, for the welfare of citizens as well as for the economic development and public finance.

When ministries, agencies or programmes do not perform well they put the economy, efficiency and effectiveness of the public sector at _risk_. Observations should have been made in the pre-studies of problems with the performance of public entities putting the three Es at risk, as a basis for selecting the audit problem and designing the audit.

Problems that are mainly caused by a _shortage of resources_ are normally _not suitable_ as audit problems and the main focus of an audit. The reason is that the auditors by looking in one area will not get sufficient knowledge about the allocation of resources by government. Thus, it will not be possible to recommend government or Parliament to reallocate resources between areas or sectors. The resource situation may need to be considered as a complement in audits focusing on performance problems. There are in general some possibilities to reallocate resources within a sector, which is the responsibility of the audited entities to decide or propose. In some cases it may also be possible to generate more resources in the area that are audited – resources that may be used to solve problems.

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

According to ISSAI 40, element 3, a SAI should ensure that it carries out audits where the SAI is competent to perform the work, and has the capabilities, including time and resources, to do so. These are some of the main aspects when considering the criterion of _auditability_ in the selection of audit problems. The relevant audit skills and methodology must be available. The auditability can also be affected by other recent audits or other studies, the current development in the area of interest, the political sensitivity and the risk the audit may pose to the SAIs reputation. If the timing of an audit is not right, for example because the programme has just started or gone through major changes, it can be a good idea to wait a few years before once again considering to

carry out an audit. In other words, it is not sufficient that the problem is important; it must be practically auditable as well.

<div style="border:1px solid; background:#ffffcc; padding:10px;">

USING CRITERIA TO SELECT THE AUDIT PROBLEM

Selection criteria can be used with or without scoring the alternative audit problems. Based on the example on injuries and deaths in road accidents, different potential audit problems can be identified:

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

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

The alternative problems can be _scored according to a scale_ indicating the extent the alternative meets the criteria, for example 0 (not meeting the criterion) 1, (low), 2 (medium) and 3 (high).

Criteria	Identified alternative audit problems					
	A	B	C	D	E	F
1. Mandate	2	2	3	3	2	3
2. Materiality	3	3	3	3	3	3
3. Risk for the three Es	2	2	2	3	2	3
4. Auditability	1	1	3	3	2	2
5. Potential for change	2	2	2	3	2	2

From the table, problem D – traffic inspections seems to be the best choice. C, E and F also seem possible, while alternative A and B scores very low on auditability. The table gives a good overview of how alternative audit problem meets the criteria. To be understandable, however, there is a need to _write a narrative_ about the strengths and weaknesses of different alternatives in relation to the criteria.

It is not recommended to summarise the scores, as it implies that the alternative getting the highest total score should be selected. All criteria need to get a satisfactory rating. Consider for example a situation where one alternative scores very high on all criteria except that it is not within the SAI's mandate. Even if the total score may be the highest, it is obviously not possible to select that alternative.

The alternative audit problems can also be _analysed against the criteria by developing a narrative_ on strengths and weaknesses of each alternative, without any scoring. The result is likely to be the same as if a scoring system is used. The difference is mainly the overview a table with the scores for the different alternatives can give.

</div>

According to ISSAI 3100:7, performance audit aims at leading to improvements. That is the reason why the _potential for change_ is the third major criterion used in the AFROSAI-E region for selecting audit problems. The objective is to contribute to a more economical, efficient and effective public sector. Trying to solve problems by just allocating more resources will usually not improve the efficiency or effectiveness of the organisations involved. When selecting the audit problem, the SAI also needs to consider the interest of taking action on the report once it has been published, to avoid wasting resources. If there are reasons to believe that an audit will not attract interest in neither Parliament, among citizens, in media or within the audited entities, it is likely that the resources are used better in another audit.

6.3 Designing and planning the audit engagement

Designing and planning of the audit engagement is mainly done as part of the pre-study and elaborated in the work plan. Auditors should plan the audit in a manner that contributes to a high quality audit carried out in an economic, efficient and effective way, in a timely manner and in accordance with the principles of good project management. 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 assure that skills, resources and capacities are in place to address the audit objective and the audit questions.[67] A standard structure of a pre-study memorandum and work plan is presented in Appendix 2.

Performance audits must be carried out thoroughly, with the aim of collecting relevant, valid, reliable and sufficient evidence in order to enable anyone else to arrive at the same conclusions as the performance audit report. This calls for exercising sound judgement when deciding the audit objective, the scope of the audit, the audit questions and criteria, the strategy for data collection and analysis, the methods to be used, the issues to be reported and the overall audit conclusion.[68]

The purpose of the work plan is to ensure that the audit is properly designed. A draft work plan forms the basis for management to approve the audit design, the team composition, the budget and activity plan for the audit enabling allocation of resources to the engagement. The approved work plan will guide the team in the audit and provides a basis for management to regularly monitor the progress of the main study.

The auditors should explicitly identify the elements of a public sector audit (auditor, responsible party, intended users, subject matter and criteria) as defined in ISSAI 100, and let this guide their execution of performance audit engagements, see the box below.[69]

THE ELEMENTS OF PERFORMANCE AUDITS	
The auditors	Refers to the Head of the SAI and other persons in the SAI delegated to conduct the audit, typically including an audit team with complementing skills and audit managers.
The responsible parties	Are defined in the audit scope. These are the entities responsible for managing the subject matter, in this Handbook referred to as the audited entities or the auditees.
	There can be other responsible parties in a performance audit. Some parties may be responsible for providing the auditors with information, which is planned as part of the methods for data collection. The audit may also address recommendations to other parties responsible to initiate change, e.g. the Parliament, something that not always can be foreseen in planning the audit.
The intended users	Refers to the persons for whom the auditor prepares the performance audit report, e.g. the Parliament, government agencies and the general public. The responsible party can be one of the intended users, but is usually not the only one. Are preliminary defined in the work plan, and presented in the audit report.
Subject matter	Refers to the information, condition or activity that is measured or evaluated by applying criteria. In performance auditing, the subject matter is defined by the audit objective and audit questions in the work plan - unique for each audit.
Criteria	Are the benchmarks used to evaluate the subject matter of an audit, defined by audit criteria in the work plan unique for each audit.
Subject matter information	Is the result of the evaluation of the subject matter using the criteria, presented in the performance audit report.
Source: Based on ISSAI 100:25-27, 30; 300:15-20	

---

[67] ISSAI 300:37.
[68] ISSAI 3000, Section 2.2, page 38. See also ISSAI 300:37.
[69] ISSAI 300:15-20. See also ISSAI 100:25-27, 30.

The work plan should clarify:[70]

- The audit objective;
- The subject matter and how the audit shall be scoped (Who? − What? − When? − Where?);
- The audit questions and sub-questions to be answered;
- Suitable criteria for the audit;
- A suitable strategy for data collection and analysis, the need for data and methods of collecting and analysing data in the audit to be able to answer the audit questions;
- A realistic plan in terms of the needed budget and a timed activity plan;
- If the team has sufficient time, knowledge and skills to carry out the audit design, using the methods described, possibly supported by subject matter experts;
- How the progress of the audit should be monitored and how the communication with the audited entities should be organised; and
- What risks there are for problems during implementation of the audit as well as the reputational risks for the SAI.

6.3.1 Methodological planning – audit design

As performance audits can address many different topics, and within a topic many different questions, it is not possible to use any standardised design. The audit methods chosen should be those which best allows audit data to be gathered in an efficient and effective manner. While the auditors should aim to adopt best practices, practical considerations such as the availability of data may restrict the choice of methods. It is therefore advisable to be flexible and pragmatic in this respect. For this reason, performance audit procedures should not be overly standardised. Excessive prescriptiveness may hamper the flexibility, professional 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.[71]

What is standardised in performance auditing is what to plan, and partly how, while the content of the plan needs to be tailor-made for each audit. The methodological planning deals with establishing an audit design which further specify and narrow down the audit. The methodological design covers the:

- Audit objective;
- Audit scope;
- Audit questions and sub-questions;
- Audit criteria; and
- Strategy and methods for data collection and analysis, the need for data and a combi-nation of study design, methods and techniques for data collecting and analysis to enable the auditors to answer the audit questions.

When planning the audit, the auditors should design the audit procedures to be used for gathering sufficient appropriate audit evidence. This can be approached in several stages: which questions to ask; determining the level of observation (studying a process and/or individual files); deciding whether to analyse the whole population or a sample; what techniques for data collection to use. Data collection methods and sampling techniques should be carefully chosen. The planning phase

---

[70] ISSAI 300:37; however, ISSAI 300 does not directly use "scope" as a planning concept.
[71] ISSAI 300:37.

should also involve research work aimed at building knowledge, testing various audit designs and checking whether the necessary data is available. This makes it easier to choose the most appropriate audit method.[72]

The different parts of the audit design will be discussed in this Section, with the exception of methods of data collection and analysis (and partly the strategy for data collection and analysis) which is discussed in Section 7.1 - 7.2. In practice, the different steps may not fully be carried out in the logical sequence they are described here.

Auditors should notify audited entities of the key aspects of the audit, including the audit objective, audit questions and subject matter. Notification will usually take the form of a written engagement letter and regular communication during the audit.[73] Audit criteria should be discussed with the audited entities, but it is ultimately the auditors' responsibility to select suitable criteria.[74]

Audit objective

According to ISSAI 300:25, performance auditors should set a clearly defined objective that relates to the principles of economy, efficiency and effectiveness. The objective determines the approach and design of the engagement.[75]

In the main AFROSAI-E approach, the formulation of the audit objective is based on the selected audit problem and encompasses the full audit including the causes to the problem. In audits aiming at finding out if certain results have been achieved, or if certain systems have been implemented, the audit objective may simply be to describe the situation. The auditors need to consider what the audit pertains to, which organisations and bodies are involved and for whom the ultimate recommendations are likely to be relevant. Well-defined audit objectives relate to a single entity or an identifiable group of government undertakings, systems, operations, programmes, activities or organisations.

The audit objective establishes the main focus of the audit formulated in a neutral way, providing directions to the auditors in determining the audit scope, audit questions, audit criteria, strategy and methods for data collection and analysis. A clear objective and a good plan helps the auditors to save time and costs as it limits what is relevant in the audit.

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

The word "assess", the type of the government undertaking and when appropriate the name of the audited entities are commonly found in the objective. One example of a potential audit objective for an audit of the traffic inspections could be:

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

Audit scope

The auditors need to further specify and possibly limit what they are going to audit. Scoping the audit involves answering the questions: "Who?" – "What?" – "When?" – "Where?" See the box below. The auditors should also consider to whom the ultimate recommendations are likely to be relevant.[76]

---

[72] ISSAI 300:37.
[73] ISSAI 300:29.
[74] ISSAI 300:27.
[75] ISSAI 300:25. Many objectives can be framed as an overall audit question. An alternative is to develop several objectives, which need not always be broken down into sub-questions.
[76] ISSAI 300:25.

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

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

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

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

Audit questions

The next step in the design of the audit is to identify the audit questions that need to be answered to meet the audit objective. The audit questions derive from the objective. Audit questions and sub-questions should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the audit objective (or overall audit question). All terms employed in the questions should be clearly defined. The formulation of audit questions is an iterative process in which questions are repeatedly specified and refined, account being taken of known information on the subject as well as feasibility.[77] The audit questions define and structure the audit. The questions are stated in a neutral form, even if the auditors normally expect to find problems in relation to the questions.

The questions will guide the auditors, as they will try to answer the questions by collecting data about the factual situation and compare this with audit criteria. With the coverage defined in the audit scope, all aspects of the audit objective should be covered by audit questions. In AFROSAI-E courses, participants are usually recommended to normally not use more than 4 – 6 audit questions in order to maintain a clear focus. It is better to use a few overall questions and further detail them into sub-questions or even sub-sub-questions.

When performance audits focuses on an audit problem, the audit problem needs to be veri-fied in the report. It makes no sense to analyse causes to why the Traffic Police does not address risk factors for accidents unless it can be proven that this is the case. For many readers, however,

---

[77] ISSAI 300:25.

it may not be sufficient to show how traffic inspections are carried out, without explaining the materiality of this in relation to the obvious problem of road accidents, i.e. elaborate on the consequences of the audit problem.

Sometimes sufficient and uncontroversial evidence for the audit problem may already have been provided by other studies, which the auditors then can refer to.

The rest of the audit questions would normally address the different factors causing the audit problem. Examples of such factors within "the black box" were listed in Section 3.2. In identifying what factors to address the auditors usually re-visit the problem tree. Often a more detailed problem tree starting from the selected audit problem can be drawn and converted into audit questions, and even depictured as a questions tree. This will clarify the structure of the audit.

Using the example of road accidents and the Traffic Police from Section 3.1 and 6.2, Figure 10 shows a question tree for an audit of traffic inspections.

Figure 10. Question tree for auditing traffic inspections
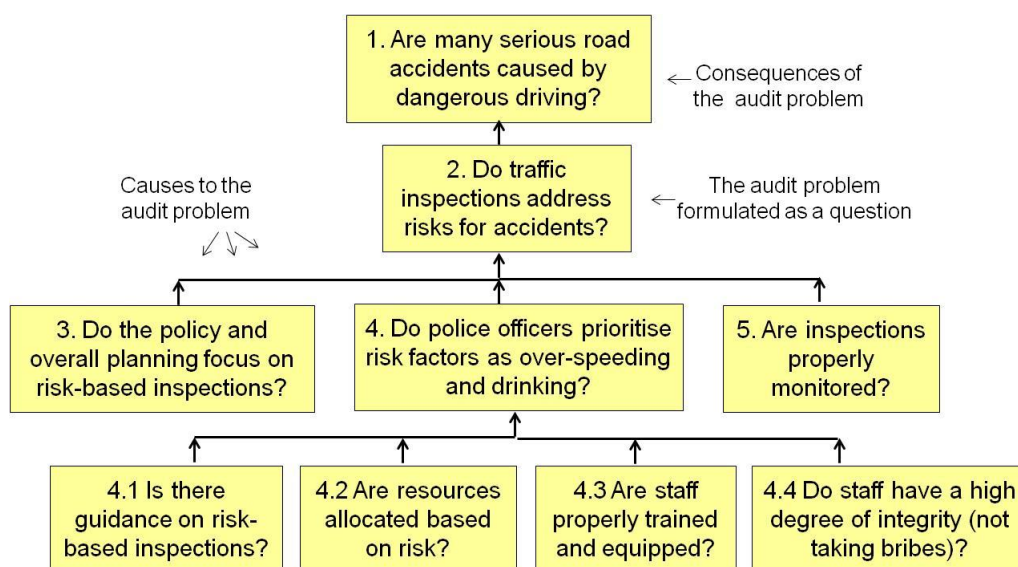
In this example the auditors had to verify the audit problem by looking into whether the traffic inspections address risks for road accidents (2). To be sure the readers will be convinced of why this is important they also analysed the causes of traffic accidents (1), so that the focus of traffic inspections could be compared with the factors causing accidents according to available statistics and research.

The main causes to the audit problem to be covered were related to the policy and overall planning (3), the actual priorities made by police officers (4) and monitoring mechanisms (5). Four sub-questions were designed to find causes to the priorities made by police officers, by looking into the guidance for how to carry out inspections (4.1), whether resources are allocated based on the risks for accidents (4.2), whether staff members are properly trained and equipped (4.3) and whether there are problems with traffic police officers taking bribes (4.4).

When it is not sufficient to consider the influence of external factors on an overall level, it can be appropriate to address them with a separate audit question. This is just a complement in order to take into account the conditions the audited entities operate under.

HOW TO FORMULATE AUDIT QUESTIONS

The Performance Audit Sub-committee to INTOSAI Audit Standard Committee describes the technique of using a problem tree as well as a technique called *The Situation-Complication-Cause-*

Consequence technique. The results of the two techniques are similar. The Sub-committee describes the following characteristics of the lower level audit questions. They should be:[78]

- Short and clear questions, i.e. unambiguous and easy to comprehend;

- Relevant and logically or causally linked to the problem on the level above;

- Mutually exclusive, i.e. different and distinct from one another, and not overlapping;

- Collectively exhaustive at each level, i.e. taken together, they should be sufficient to answer the higher-level question;

- Specific or testable (i.e. in principle capable of a "yes/no" response, even though an elaborated answer is often required), so that it is possible to identify what procedure and evidence is needed to provide an answer and to conclude against the question (e.g. "is a comparative analysis of projects undertaken?", rather than "how are projects selected?"; and

- Break down question on a higher level to a limited number of sub-questions (a maximum of 3 – 5) to assure clarity.

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

As already mentioned, auditors should not recommend re-allocation of resources between areas or sectors, based on analysis of just one area. Sometimes there are other opportunities to influence the resource situation for the audited entities, for example to:

- Reduce waste of resources, for example adjust the level of staffing to the workload, avoiding staff being idle;

- Change the mix of resources, in order to use them better, for example reduce the number of drivers to be able to afford fuel and maintenance of vehicles;

- Make investments that will be profitable in terms of leading to capital gain or reduction of future costs, for example proper maintenance of vehicles to increase their availability and prolong their life span;

- Improve the collection of revenue, for example municipal fees and taxes; and

- Improve or create new funding mechanisms, for example improving the services through contributions from users – in particular when the value of the improvements for the users exceeds their cost.

HOW TO FORMULATE AUDIT QUESTIONS

Here we use an example where the audit problem is poor maintenance of government vehicles to illustrate the formulation of audit questions.

AUDIT QUESTION	COMMENTS
Is the government's maintenance strategy clear?	*This question covers a wider issue.*
Do the drivers have sufficient training?	*Not relevant.*
Are inspections made after repairs?	*A relevant and answerable question.*
Do government give priority to purchase of vehicles?	*Too general and irrelevant.*
Are the stated service intervals complied with?	*A relevant and answerable question.*
Are government vehicles in good condition?	*A consequence (and wider than the problem.*

---

[78] *Designing Performance Audits – Setting audit questions.* Performance Audit Sub-committee.

Audit criteria[79]

According to ISSAIs, performance auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness. Criteria are the benchmarks used to evaluate the subject matter. Performance audit criteria are reasonable and audit-specific standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed. The criteria provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives. They also form an important element in discussions within the audit team and with SAI management and in communication with the audited entities.

The criteria can be qualitative or quantitative and should define what the audited entities 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).

Different 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 objective.

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 the 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.

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

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

As mentioned in Chapter 2, AFROSAI-E's main approach to performance auditing is a combined approach, mainly selecting audit topics where it is expected to exist material problems. When possible and reasonable, the audit problem is verified and the causes analysed. In doing this, the auditors strive for identifying audit criteria that can be used to assess each factor covered in the audit.

By collecting information on the factual situation (conditions) and comparing this with criteria, the auditors develop findings answering the audit questions. Findings are the discrepancies between conditions and criteria. The auditors can use many different sources to identify criteria, for example:

- Laws and regulations;
- Political goals or statements by Parliament;
- Decisions by the legislature or the executive;
- Detailed procedures for a function or activity;
- Standards from research, literature, professional and/or international organisations;
- International benchmarks of good performance;

---

[79] *The six first paragraphs of this Section are* based on quotations from ISSAI 300:27.

- Corresponding performance in the private sector;
- Benchmarks – same ministry, different years; different ministries same activity;
- Planning documents, contracts and budgets from the ministry;
- Standards, procedures and measures set by the audited entities;
- Standards set by the auditors, possibly after consultation with subject matter experts (necessary to agree with the relevant audited entities); and
- Identification of what could be (given better conditions).

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

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

To use criteria in analysing causes to performance problems, like in the combined AFROSAI-E approach, means that the auditors need to be prepared to be critical also to criteria used, regardless of the source. During the planning stage, the auditors should seek to identify criteria that would lead to good performance. During the execution of the audit and the analysis, however, the auditors need to re-consider whether meeting the selected criteria also would mean good performance. Legislation or regulations may be suitable to use as criteria. After assessing performance against such criteria, however, the auditors need to consider if adherence to the criteria would have resulted in better performance. While non-compliance with legislation and regulations should be described in the report, the main conclusions and recommendations may not address the non-compliance. The auditors need to consider appropriate action for solving or reducing the performance problems in the area. It is not uncommon that the analysis shows that performance can be improved if the legislation, objectives, strategies or procedures are changed, i.e. the criteria that may have been used to assess the performance.

Strategy and methods for data collection and analysis

An important part of the audit planning and the audit design is to develop a strategy for data collection and analysis. The auditors need to carefully think through how different study designs, methods and techniques can be combined in order to find evidence that can be compared to criteria and contribute to answering the audit questions. The strategy and methods for data collection and data analysis must be developed specifically for each audit, depending on the context. Besides the audit objective, questions and criteria the auditors need to consider the availability of data, what information that is needed to convince the reader, the skills of the auditors and the resources available.

It is also necessary to consider how data is going to be analysed already during the planning stage, even if the methods for data analysis are further specified during the execution of the audit. See further Section 7.2.

The Appendix 1 to ISSAI 3000 distinguishes between different study designs. With a slightly different grouping and description, the Handbook describes three study designs mainly linked to _what_ is studied, even if there are linkages to how this is done. In Section 7.1.2 the issue of the strategy for data collection and analysis is raised again, describing another five study designs mainly linked to _how_ the investigations are carried out. The different study designs provide different opportunities for developing analytical evidence, see further Section 7.1.3.

1. Goal-attainment, outcome-oriented studies and impact studies
Basic question: Are the programmes achieving their overall goals and intended effects?

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

This study design is most appropriate when the goals and objectives are reasonably well defined. It may or may not include more detailed analysis of problems and weaknesses in the operations of the audited entities.

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

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

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

Impact studies are used to assess the net effect (impact) of a programme by analysing how programme outcomes have contributed to the intended end results, excluding the influence from other factors that may have had an influence.

When it is not possible to directly assess impact and effectiveness, an alternative is to assess the assumptions the programme is built on – _assessing whether the programme theory is working_.[80] The outputs of a programme are designed to have certain outcome in society, often transformed through a chain of intermediate outcome before the intended results are achieved. In cases where it is difficult to assess actual outcome in society, auditors may assess if the programme theory is working as expected. If different steps of intermediate outcome the programme theory is built on are not achieved, it is not likely that the intended end results are achieved.

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

---

[80] Assessment of the programme theory is not explicitly discussed in ISSAI 3000.

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

2. Process-based studies

Basic question: How does the programme work?

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

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

- Mapping out work process and study their implementation, possibly comparing with best practice;
- Mapping out the processes from the client perspective, and how the clients are treated in the different steps;
- Mapping out stakeholders;
- Studying the organisational structure and responsibilities;
- Studying the design and use of management systems, possibly comparing with best practice;
- Studying the design and use of technical support systems (IT, equipment and materials);
- Study strengths and weaknesses in the programme from different perspectives, such as clients, management and staff;
- Study the design and use of performance measurement systems; and
- Study time management, resource-utilization and involvement of stakeholders.

3. Cost-benefit studies and cost-effectiveness studies

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

<u>Cost-benefit studies</u> are investigations of the relationship between the costs and benefits of government projects or programmes expressed in monetary terms. For example, a cost-benefit study might be used to audit the efficiency of investment projects (for instance road-building projects). The purpose of such a study is to determine whether the benefits of an entity, programme or project exceed its costs.[81] Cost-benefit studies may be used:

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

---

[81] Cost-benefit studies should normally consider not only the tangible (and relatively easily measurable) costs and benefits, but also the intangible (and difficult to estimate) costs and benefits.

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

All parts of the audit design need to be linked together

All parts of the audit design need to be linked to each other. This means that the audit objective, scope, audit questions, sub-questions and audit criteria must be congruent with each other. They must also be properly linked to the strategy and methods for data collection and analysis presented in Section 7.1.

Summarising the audit design in a matrix

After having elaborated on the methodological planning of the audit in the work plan, it is a good idea to summarise the design in a matrix, see Figure 11.

Figure 11. Example of a design matrix for "Delayed distribution of schoolbooks"

AUDIT QUESTION	AUDIT CRITERIA	DATA COLLECTION AND ANALYSIS		ANTICIPATED FINDINGS	RISKS TO THE EXECUTION
		AUDIT EVIDENCE NEEDED	METHODS FOR DATA COLLECTION & ANALYSIS[1]		
1. Are school books distributed on time	Ministry policy: Reach school before the term	The time the books are distributed and the period of delay	Questionnaire to schools Case study of schools with review of records	Average delay 3 – 5 months in different districts	Few responses on questionnaire
2. Are distribution plans realistic and based on schools' needs	Manual: Needs assessment and procedures	Shortcomings in needs assessments Repeated failure to follow the plan	Document review at the Ministry Case study of schools on needs	Needs in schools and time for distribution is underestimated	Poor documentation of plans
3. Is distribution coordinated between regional stakeholders	Manual: responsibilities for different actors	Delays and non-activity from stakeholders	Interviews of involved stakeholders Minutes from meetings	No or delayed activity from some stakeholders	Little documented evidence
4. Are staff in district stores trained on the distribution	Manual: skills requirements; Training plan	Actual knowledge and training	Interview store keepers Training records	Procedures are not known No training	None
[1] *Methods for data analysis have been excluded in this example to limit the size of the matrix.*					

A design matrix is structured after the audit questions and include a description of the audit criteria. It is also common to include a description of the audit evidence that is needed to answer the audit questions and the methods for collecting and analysing this evidence (data). In the example in Figure 11 we have also included a description of the anticipated findings as well as what can go wrong – the risks in the execution of the audit. The anticipated findings are what the auditors expect to be able to present as findings in the audit report, based on their knowledge at this stage of the planning.

If too many aspects are included in the matrix, it becomes complicated and the advantage of an overview of the audit design may be lost. The overview is also lost if the auditors write the full sentences used in the text in the work plan, rather than key words. A good idea is to limit the matrix to the most important aspects, which may vary between SAIs and audits. Examples of other factors that could be included in a design matrix are anticipated recommendations and measures to mitigate risks for the execution of the audit.[82]

---

[82] A partly different matrix is presented in the Performance Audit Manual of SAI Brazil, covering the audit questions, required information, information sources, methodological strategy, procedures for data

6.3.2   Administrative planning

This section will cover:

- Selecting a competent audit team and organising the audit;

- Developing a realistic activity plan;

- Developing a realistic budget;

- Planning the monitoring of the progress of the audit;

- Planning for managing the risks in the audit; and

- Planning the communication with the audited entities and other stakeholders.

Selecting a competent audit team and organising the audit

Collectively, the audit team should according to ISSAI 300:30 have the necessary professional competence to perform the audit. This would include sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills. See Section 5.3.

Carrying out performance audits should be a team effort, since the issues involved are complex.[83] A Team Leader with the main responsibility for the audit engagement should be appointed, supported by other team members. The normal size of the team is usually 2 – 4 auditors. If the team is too large it is normally less efficient, since many auditors need to learn about the topic and take part in a lot of team discussions. An exception is that some auditors may play a limited role in an audit by carrying a specific task only, for example collecting certain data in the provinces.

When appointing an audit team, management need to consider the team composition to ensure that the team as a whole has the necessary experiences and skills for the audit engagement. Management should also consider how the audit engagement can be used for further professional development of the auditors. By systematically considering how auditors can be allocated new challenging tasks under supervision, the SAI can enhance the professional skills of the auditors. This means, for example, that it is not necessarily the most experienced or most senior auditor who should be the Team Leader. It may well be a good idea to appoint a less experienced auditor as Team Leader, to promote the auditor's professional development. Quality can still be safeguarded by ensuring that the Team Leader is supported by sufficiently experienced team members.

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

<div style="border:1px solid black; background-color:#ffff99;">

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

The primary criteria we use for assembling teams are to have a balance of educational background, experience and special skills. However, a huge challenge is the fact that recruitment is done by a central government body which prioritises the recruitment of accountants. Therefore, getting a variety of educational backgrounds in a team is difficult.

A challenge is also that the SAI is currently not using temporary experts in the audits although it is mandated by the Audit Act to do so. This is due to budgetary constraints.

We hope to overcome these challenges in the future.

</div>

---

collection, procedures for data analyses, limitations to the methodological strategy and what the analysis will allow the auditors to say.

[83] ISSAI 3000, Section 2.2, page 38.

It is a good practice to require the performance auditors and their manager to sign a declaration of no conflict of interest for each performance audit engagement, combined with a declaration that the auditors understand the significance of the Code of Ethics in ISSAI 30 and the SAI's code of conduct. In case a potential conflict of interest exists for an auditor, it is up to top management to decide whether this affects the auditor's involvement in the audit or not. In performance auditing it is in many cases sufficient that any potential conflicts of interest have been made clear at the outset of the audit, in order for management to monitor that this does not influence the audit. Audits can also benefit from involving auditors with a previous knowledge of the subject matter.

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

Depending on the audit design and methodology, there may be a need for the team to consult subject matter experts in certain parts of the audits and as reviewers of a draft report. Some SAIs are able to contract consultants for limited tasks in an audit. There may also be experts in the public or the private sector that may be willing to share their knowledge with the auditors, without being contracted as consultants. Most professionals have a genuine interest in the sector where they operate, and may have an interest to contribute to improvements by supporting the SAI in addressing the problems. The auditors should, however, always take care and consider the risk for elements of self-interest among external experts.

There are examples where SAIs more or less systematically consult subject matter experts in certain step of the audit, and also ask them to comment on a draft audit report.

Before using experts, the auditors should ensure that this is necessary and that the experts are competent and independent. Although the auditors may use the work of experts as evidence, the auditors retains full responsibility for the conclusions.[84]

Developing a realistic activity plan

According to ISSAI 3000, the organisation of the audit should satisfy requirements of good project management.[85] Among other things, this means that the auditors need to plan how long the audit will take, and outline the dates when different key activities will be carried out. The activity plan should also specify different milestones when management decisions are needed.

Figure 12. Activity plan for a main study

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

---

[84] ISSAI 3000, Section 2.4, page 42.
[85] ISSAI 3000, Section 2.2, page 38.

In the activity plan, the auditors consider in what order different activities shall be carried out, and how much time is needed for them, see Figure 12. The activity plan must be realistic to add value in the audit process. It is difficult to plan a performance audit in detail - for example which date to have a certain meeting. While the activity plan needs to be more specific than the example in Table 12, it is often advisable to avoid being too detailed in the plan to avoid frequent revisions of the activity plan. Common mistakes are to be overoptimistic about how long time the audit will take, in particular analysis and report writing, the time needed for management processes, review by the auditees and other activities than the audit engagement, e.g. training and vacations. On the other hand, there is a risk that auditors overestimate the time needed for field visits, and maybe also the number of visits needed.

Regardless of how well planned the audit is, it is often difficult to estimate how long it will take. In the region it is common that un-anticipated factors delay the progress of the audit. Sometimes the activity plan is outdated even before the audit starts, as it for example may take longer time than expected to get the audit approved and resources allocated. Also during the audit there are other factors causing delays compared to the original plan. One reason is that the original plan is not always realistic and turns out to be too optimistic.

Many SAIs in the region face difficulties with long production time for performance audits. While the time needed to complete a performance audit usually is rather long, there are also frequent delays that can be avoided. See further Section 5.2.5.

Developing a realistic budget

Good project management, as required by the ISSAIs, also pre-supposes a realistic budget to be developed and approved by top management. The execution of the budget also needs to be monitored during the execution of the audit.

It is a common practice in the SAIs in the region to budget expenditure, such as travelling costs and allowances. It is less common to budget costs for staff, which normally is the major part of the costs for a performance audit. Staff resources are usually budgeted in terms of the number of working days.

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

Time recording systems may sometimes be misunderstood as an instrument to control staff. This is rarely the purpose of such systems, and they are in any case rarely effective for controlling staff.

Planning the monitoring of the progress of the audit

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

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

Planning for managing the risks in the audit

As part of the administrative planning, the auditors need to consider the risk that the audit cannot be executed as planned or that the result will not be a report of sufficient quality. When there are significant risks for the execution of the audit, the work plan should ideally elaborate on these risk and develop mitigation strategies, should they occur.

The auditors should also consider the reputational risks for the SAI in the audit. Such risks may be related to the audit problem and questions in themselves, for example when questions are politically sensitive. Management of risks in the audit is further discussed in Section 7.4.2.

Planning the communication with the audited entities and other stakeholders

According to ISSAI 300:29, Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.

Planning the communication involves how to present information before starting the main study as well as the communication during the execution of the main study. The SAI should also provide the audited entities the opportunity to review and comment on a draft report and discuss difference of opinions, if any, with the SAI before the reports is issued.

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

As professional secrecy is part of the ethical standards for auditors, it is important to identify the need for communication with main stakeholders so that top management can decide on how different actors can be informed during the audit, unless the SAI has a communication policy that clarifies this matter.

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

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

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

As audited entities may not have prior knowledge of performance auditing, it is important to introduce the purpose and process of performance auditing to them. It should be made clear that the audited entities will get an opportunity to read and comment on a draft report, although it is the SAI who decides on what should be written in the final report – meeting the requirements on performance audit reports, see Section 8.2.

Most SAIs in the region arrange an entry meeting when a new audit is initiated, to inform the management of the audited entity about the planned audit. Usually the audit team will be accompanied by a manager to the entry meeting. It is advisable to take minutes during the meeting and send to the audited entity. Usually the SAI request a contact person for the audit team during the audit. The contact person will have the role of assisting the team in finding

relevant documents, statistics and the right persons to interview. A good idea is to agree with top management of the audited entity that the audit team will keep the contact person informed about the progress of the audit, while it is an internal issue for the audited entity to decide when top management or other parts of the organisation need to be informed. The relation between the team and the contact person will also make it easier for the team to informally test ideas in the analysis or identify appropriate recommendations in the audit.

The communication with the audited entities is also covered in Section 7.4.3.

7 EXECUTING THE AUDIT

<div style="border:1px solid;">

INTERNATIONAL STANDARDS REQUIRE AUDITORS TO:

7.1 Executing performance audits *PMF SAI-16(ii)*

   a) <u>Notify the auditees</u> of the "key aspects of the audit, including audit objective, questions, criteria, and scope", and discuss audit criteria with the audited entities. *ISSAI 300:27, 29*

   b) <u>Establish good communication</u> with the auditees and stakeholders during the entire audit process, for example meeting the following sub-criteria: i.e. seek to maintain a good profes-sional relationship, constructive interaction, free and frank flow of information (respecting confidentiality) and discussions based on mutual respect; without compromising the independence and impartiality of the SAI. *ISSAI 300:29*

   c) Work systematically, with due care and an objective state of mind, for example meeting the following sub-criteria: to collect, combine and analyse <u>data from different sources</u> (developing documentary, testimonial, physical, and analytical evidence) and draft the audit report. *ISSAI 300:38*

   d) Collect and make an objective, fair and balanced assessment of <u>audit evidence</u> to ensure that the evidence is sufficient (quantity), for example meeting the following sub-criteria: to put evidence in context, consider all relevant arguments and perspectives, and persuade a knowledge-able person that the findings are reasonable, and appropriate (quality) i.e. it is relevant, valid and reliable to answer the audit questions and support the auditors conclusions. *ISSAI 100:49; 300:38*

   e) Develop a sufficiently complete and detailed <u>documentation</u>, for example meeting the following sub-criteria: of the plans, procedures, evidence (often cross-referenced to the report) and findings of the audit, to enable an experienced auditor to determine what work was performed in arriving at the audit findings, conclusions, and recommendations. *ISSAI 100:42; 300:34*

   f) Apply <u>sound management practices</u>, for example meeting the following sub-criteria: including timely execute the audit in line with the work plan, regularly monitor the progress by management (with major decisions on changing the plan explained and documented) and follow up lessons learned by the end of the audit. *ISSAI 20:6, 8; 40:5*

7.2 <u>Supervise and review all work</u> during the execution phase; normally this includes review of the team's work, to monitor the progress of the audit, to review working papers and the audit file by the appropriate level of management. *ISSAI 40:5; 300:32; 3100:38. Covers elements in PMF SAI-15(iii)*

</div>

According to ISSAI 300:38, performance auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusion in response to the audit objectives and questions and issue recommendations.

All audit findings and conclusions must be supported by sufficient appropriate evidence. This should be placed in context, and all relevant arguments, pros and cons and different perspectives should be considered before conclusions can be drawn. The nature of the audit evidence required to draw conclusions in performance auditing is determined by the subject matter, the audit objective and the audit questions. The auditor should evaluate the evidence with a view to obtain audit findings. Based on the findings, the auditor should exercise professional judgement to reach a conclusion. Findings and conclusions are the results of analysis in response to the audit objectives. They should provide answers to the audit questions.

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

to the audit questions. It is important for auditors to be goal-oriented and for them to work systematically and with due care and objectivity.[86]

7.1   Collecting data and audit evidence

AFROSAI-E plans to develop a guideline on audit evidence in performance auditing, including data collection and data analysis. It is still uncertain when such a guideline can be issued. Performance auditors employed by SAIs that are members of AFROSAI-E can also download the following more detailed methodological guidance relevant for data collection from AFROSAI-E website, www.afrosai-e.org.za.

- Evaluation and its use in value for money studies;
- Taking a survey; and
- Getting to the heart of the matter – How case studies can help.

These and other methodological guidance have been developed by SAI U.K., and been made available for AFROSAI-E members and their staff. See further AFROSAI-E website.

The main purpose of collecting data in performance audits is to develop audit evidence, in order to develop findings answering the audit questions by comparing the evidence to audit criteria. This is mainly done in the main study. Data is the primary observation, which is trans-formed into information when it is compiled. Information which is analysed and relevant to the audit objective and audit questions can be used as audit evidence. When the audit evidence, in turn, is compared to criteria the auditors can develop audit "findings" – the discrepancies between criteria and the factual situation substantiated by audit evidence.

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

7.1.1 Different types of data and audit evidence

A distinction can be made between quantitative and qualitative data. Quantitative data refers to numbers and numerical relations. Qualitative data may refer to descriptions of factual situations, processes, opinions and attitudes or general observations of the conditions at a work place.

It is sometimes appropriate to convert qualitative data into quantitative data, in order to enable quantitative analysis. This is for example common when answers to questionnaires are compiled. Answers given by interviewees can be categorised and transformed into quantitative data using expressions such as "ten out of fifteen interviewees stated that...".

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

Secondary data, on the other hand, is information that is already available and may be used as evidence in the audit. Since it is available, it is cheap to use it in an audit. On the other hand, there is a need to consider that the data has been collected for other purposes than the audit, which may limit its relevance. It is also important to consider how reliable the source of information is, which depends on the nature of the information. For example, routine statistics in a ministry that is important for the ministry's planning of their operations, can usually be considered to be more

---

[86] ISSAI 300:38.

reliable than the ministry's own descriptions of their performance; it is not uncommon that the latter reflects the intentions rather than the reality.

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

AUDIT EVIDENCE	METHODS OF DATA COLLECTION
Testimonial evidence	Interviews Questionnaires Focus groups Reference groups
Documentary evidence	Document reviews File reviews Using existing statistics Using existing databases
Physical evidence	Observation of people Inspection of objects
Analytical evidence	Computation, comparisons Logical reasoning and rational arguments

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

7.1.2   A strategy for data collection and analysis

A combination of qualitative and quantitative methods, and a combination of primary and secondary data, is used in performance audits to develop audit evidence. All methods have strengths and weaknesses and are complimentary in verifying the audit problem and analysing its causes.

The auditors can use a combination of different study designs, methods and techniques for data collection and analysis in the audits. It is important for auditors to establish an appropriate strategy for the audit, combining different methods for data collection and analysis in a way that enables them to answer the audit questions and meet the audit objective.

The collected data and analysis must provide sufficient, relevant, valid and reliable audit evidence that cover the audit questions. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding. The evidence must also be reasonable in terms of the time needed to collect it and the cost implications. This requires good judgement by the auditors as well as creativity. The strategy can be built on different methods for data collection, for example using:

- A survey or existing statistics to get an overall picture and verify the audit problem;
- File reviews combined with document analysis and interviews in local offices, to detail the understanding of the problem and identify main causes in a selected number of cases;
- Interviews with stakeholders to verify the problems they are facing;
- Document reviews and interviews at head office to analyse how the audited entities have, or have not, tried to influence the development through the management systems;

- Observation and walk-through studies of main aspects of the management systems, to identify opportunities for improvements; and

- Interviews with management and staff on different levels to verify findings and collect information on potential actions for improvement.

The auditors can also use a number of study designs in their audits, designs that may include the use of different types of methods for data collection and analysis. The different study designs can be used partially or fully in an audit, and different designs can be combined with each other and with additional elements.

The challenge is to establish an appropriate strategy for data collection and analysis, combining study designs, methods and techniques in the audit to suit the context, objective, questions, criteria and the availability of skills and resources as well as the availability of data.

EXPERIENCES IN THE REGION – SAI KENYA
SOME LEARNING POINTS FOR DATA COLLECTION

A good audit plan is indispensable in every performance audit, even if the audit may not always be executed as planned. Some of the planned sources of data may turn out not be as rich as expected, become hard to get or even be totally unavailable. New sources, not considered during planning, may pop up during the audit execution; promising to give the team the whole truth about the audit problem and answer the audit questions. But they may later turn out not to be as useful as they looked.

SAI Kenya recommends detailed planning and reasonable flexibility in implementing the plan. However, management should always formally decide on important deviations from the plan. Some of the lessons that learned over the years are:

1. Develop a coherent strategy to collect <u>and</u> analyse data. It is not enough to identity the methods for data collection and analysis in a matrix. The team needs to develop a clear strategy on how to collect and analyse the data in order to answer the audit questions and satisfy the audit objective. Otherwise the audit risk running into problems during the execution phase. Ideally the work plan should include a brief write-up, showing how the audit objectives will be achieved, and the audit questions answered by employing the data collection and analysis methods chosen. This also discloses weaknesses in the strategy, if any, for management.

2. A good work plan helps you structure your strategy. Having a good strategy is not good enough. A good work plan is also needed to successfully translate the vision into reality.

3. Make roles and responsibilities clear. The roles of each team member in the data collection and analysis process should be clear. It must be clear for management and team members who will collect, or lead in collecting data, and the amount of time required to collect the data on each question. The right person must also be assigned to the right task

4. Monitor and evaluate. Discussing and evaluating work done at regular intervals creates common understanding on progress made and challenges encountered. This helps the team to approach the data collection and analysis process collectively - from a common standpoint. Problems faced by team members also stand a better chance of being resolved early. So the team should meet often (at least once every few days) to evaluate progress and realign the data collection and analysis strategy in light of realities encountered. Management should also meet the team regularly to monitor the progress of the audit. Also top management should be regularly informed about key successes achieved and challenges encountered. They may often be in a position to offer insightful advice and place the matters in the right perspective.

5. Look for patterns not just incidents of performance. While incidents of under-performance may provide valuable evidence (as examples), it is not sufficient to conclude that the overall performance of the audited entity is not satisfactory by these alone. Even the most severe incidents may only be incidental, unless they represent a pattern or trend of poor performance. For example, while auditing waiting-time in provision of medical services in a local hospital, a record of prolonged wait by patients on a specific day, week or even month is not is not conclusive proof that the hospital does not provide services to patients in a timely manner.

6. Confirm that the relevant data also is reliable and valid. Test the data for validity before accepting it as good evidence! Think through what the risk for bias is and try to corroborate the data with other sources.

---

7. Have a clear and comprehensive means to record evidence. The team would achieve the common purpose more easily if it uses the best means to record the evidence. This should be done in audit working papers most suitable for capturing the data and analysing it.

8. Let the data fit the audit questions, not the other way round. When designing the audit questions the auditors need to identify factors that drive the problem and focus on those. If − with increased knowledge during the execution of the audit− the auditors discover that mistakes were made during planning, this should be brought up with management for decision on whether to modify the plan.

9. Be clear on what <u>not</u> to do. Be guided by the big picture: How does the task you are doing fit into the big picture, the overall audit objective and the key message that the audit intends to pass on?

Three study designs mainly linked to *what* is studied were presented in Section 6.3.1. In the following five additional study designs that can be used in performance auditing are presented, mainly linked to *how* the investigations and the analysis are carried out. The study designs are largely based on ISSAI 3000, Appendix 1, even if the structure of the presentation is slightly different.[87]

1. Comparative investigations and benchmarking

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

Benchmarking studies is a special form of comparative studies, where the b*asic question is whether things are being done in accordance with best practices?* Benchmarking is processes of comparing an organisation's (a programme's) methods, processes, procedures, products, and services against those of organisations (programmes) that consistently distinguish themselves in the same categories. Benchmarking may be used to:

• Stimulate an objective review of processes, practices, and systems;
• Develop criteria and identify potentially better ways of operating; and
• Lend more credibility to audit recommendations.

2. Before and after investigations

In a 'before and after' investigation, the situation before the programme was started is compared with that after programme implementation. A simple 'before and after' study is one in which one set of measurements is taken before programme participation, and a second set is taken on the same set of participants after sufficiently long participation. Impact is estimated by comparing the two sets of measurements. The main drawback to this design is that the differences between before and after measures cannot be confidently attributed to the programme without further investigation.

3. Surveys and sampling investigations

A survey is a systematic collection of information from a defined population, for example all primary schools in a country, usually using questionnaires sent by mail or using the Internet,

---

[87] ISSAI 3000, Appendix 1 describes seven study designs (approaches) and five investigation designs (audit programmes). In this Handbook these have been combined into eight study designs that may be used fully or partly, or in different combinations, to establish a strategy guiding data collection and data analysis. Three study designs linked to *what* is studies are presented in Section 6.3.1, while five designs linked to *how* the investigation is carried out are described in this Section. ISSAI 3000 describes on page 91 meta-evaluation as an approach to study the quality of evaluations. This is not covered in the Handbook.

telephone or personal interviews. They are particularly useful when one needs to quantify information from a large number of subjects on a specific issue or topic.

It is often not possible to collect information from the whole population. By using statistical probability sampling the auditors can get samples which allows for making estimates relevant for the whole population. Surveys focus on quantitative data. In a survey on the distribution of books to primary schools, for example, statistics on the quantities of books delivered, the time needed and the timing of the delivery compared to the start of the school term may be collected through a questionnaire to regional or district education offices.

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

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

As the auditors seek to draw conclusions about a whole population by testing a sample of 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 judgement.

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

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

Statistical sampling is often used to obtain evidence in performance audits, even if its use in the AFROSAI-E region is currently limited. While the objectives of the sampling exercise may be different, the underlying principles are the same. Statistical sampling techniques are mostly used when essential facts cannot be obtained in other ways and when there are demands for structured comparison and well-founded generalisations. Due to limited resources, the samples are seldom very large, and it is usually necessary to limit the number of questions to be answered. To obtain more in-depth knowledge, surveys may be supplemented with other information-gathering techniques, such as case studies.

4. Case study investigations

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

There are different types of case studies: exploratory case studies, case examples and evaluative case studies. _Exploratory case_ studies are an examination of very few cases, usually not more than three, to identify core questions, issues and problems that can be addressed in the audit. _Case examples_ are used in performance audits to illustrate findings in the report.

Evaluative case studies is the most important type of cases studies in performance auditing, as it examines a systematic selection of cases in order to understand an entity, programme, process or activity as a whole. Evaluative case studies can be described as building a theory about performance problems and their causes in government operations. What conclusions that can be drawn from an evaluative case study depend on the logic used for selecting the cases. If for example the "best case logic" has been used, and the cases for examination have been identified together with an audited entity in order to study the best performing offices, there are strong

arguments for that the problems observed are likely to be even worse in other offices. Surprisingly often, the best case logic is quite useful.

Another useful principle for selecting cases is to let the selections reflect an expected variation in performance – from the best, to the average and the not so good (but usually not the worst). This may enable auditors to analyse factors that are causing differences in performance. Surprisingly often, however, it turns out that the actual performance of different units substantially deviate from the assumptions made at the head office.

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

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

In our example on the distribution of school books, case studies may deal with all aspects of these activities in five schools each in three districts, where data is recorded and teachers, parents, pupils and administrators interviewed.

It is usually not possible to make statements regarding the frequency and extent of problems based on case studies, even when the cases are representative and selected to illustrate general problems. In order to make estimates for the whole population, statistical probability sampling methods need to used and a sufficient number of cases be investigated. However, in combination with other methods, case studies may allow some general conclusions to be drawn. Since such studies are preferable to large investigations, they are often used in performance audits.

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

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

The SAI decided to carry out a case study to investigate the right age and number of trees expropriated. That exercise required forestry skills which we did not possess. The SAI enlisted the support of an expert in forestry from the ministry of natural resources and designed an audit programme in order to determine:

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

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

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

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

5. Quasi-experimental investigations

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

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

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

7.1.3 Methods of data collection

Different types of audit evidence were in Section 7.1.1 linked to methods of collecting data. This Section elaborates a bit further on methods of data collection.

According to ISSAI 3000, the auditors may during a main study obtain sensitive information such as opinions on management or politics. Consequently, they should guarantee anonymity and not divulge people's opinions.[88] It is in general advisable not to disclose the name of informers in the audit report. If, for some reason, it is not possible to guarantee anonymity this must be clear to the informers before data is collected. It is usually difficult to guarantee anonymity for views of top management in an audited entity, as they are the ones representing the entity. Even if there is no reason to mention the individuals by name, it will often be clear from the context who has expressed management views about the operations or the audit.

In the following, the methods of collecting data shown in the box in Section 7.1.1 will be presented, along with their advantages and disadvantages. The different methods may provide both quantitative and qualitative data.

Testimonial evidence - asking people

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

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

---

[88] ISSAI 3000, Section 4.2, page 62.

INTERVIEWS

Interviews are used in all performance audits. During the planning stage, the auditors need to learn from people knowledgeable in the area about how operations are functioning, and what challenges and problems that exist (exploratory interviews). Interviews are also used to get explanations to documents, to map out procedures or actual behaviour in relation to established procedures and to collect opinions and personal preferences from the interviewees. Interviews are also frequently used to ask for and test ideas for actions to improve performance.

Interviews often generate interesting ideas on what is lacking and what could be improved. By interviewing people in different positions in the audited organisation, the auditors can sometimes in a short time learn more about the actual running of operations than what is known by top management. Usually, however, it is necessary with other supporting data to present convincing evidence for the need to improve performance; interviews rarely provide sufficient audit evidence.

Interviews are most suitable for collecting qualitative data. However, if the interviewee has been requested to prepare in advance, it may also be possible to collect some quantitative data. It is also possible to use a few highly standardised questions in interviews, in order to get answers according to pre-defined alternatives that can be compared across a number of interviews (which is similar to the use of questionnaires).

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

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

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

- Determining the purpose of the interview;
- Organising the interview team;
- Preparing for the interview by studying relevant documents;
- Structuring the interview;
- Preparing the interview guide; and
- Making practical arrangements.

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

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

QUESTIONNAIRES

Information collected through questionnaires is also qualitative, often with specific questions with pre-defined alternatives for the answers. Standardised answers can be presented and analysed as quantitative information by counting the number of different responses to a certain question. Questionnaires may also include open questions, where the respondents are requested to answer certain questions with their own words or provide other opinions.

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

- It requires a sound knowledge of the audit area;

- The questions must be precise, well prepared and tested so that they will be correctly understood; this both takes time and requires sufficient knowledge before developing the questionnaire;

- It is challenging to develop fixed alternative answers that makes senses for the respondents, and it is in general more difficult to motivate people to answer questionnaires;

- It may be difficult to distribute and receive questionnaires from the respondents; and

- Experts may need to be involved in the design, compilation and analysis of data.

FOCUS GROUPS AND REFERENCE GROUPS

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

A reference group is different in that it usually brings together a group of experts from within or outside the SAI, in order to assist the team with technical skills and knowledge important for the audit. Reference groups can be used during the planning stage of the audit, providing the team with knowledge and ideas for the audit design, as well as to test preliminary findings, conclusions and recommendations and comment on a draft report.

Meetings with focus groups and reference groups need to be carefully prepared, so that the group focuses its activities on what is relevant for the audit. It is also important to take detail minutes from the discussions in order to be able to use this as audit evidence.

Documentary evidence[89]

USING WRITTEN DOCUMENTS

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

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

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

FILE REVIEWS

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

It is important that the audit team realises that all relevant documents may not be contained on files that are registered. There may be other relevant documents of which the team is unaware. The team should, however, seek to ensure that the evidence obtained is complete enough to answer the audit questions.

File reviews can be used to collect qualitative as well as quantitative information. In order to make estimates for the whole population, provided that statistical methods for sampling the files for review have been used (see Section 7.1.2).

USING EXISTING STATISTICS AND DATABASES

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

---

[89] Based on ISSAI 3000, Appendix 1, page 96 - 97 and AFROSAI-E template manual (2010).

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

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

Use of existing statistics, or compiling statistical information from existing databases, requires knowledge and experience in quantitative analysis.

EXPERIENCES IN THE REGION – SAI SOUTH AFRICA
THE USE OF COMPUTER AIDED AUDIT TECHNIQUES (CAATS)

It is a challenge for performance auditors to illustrate the extent of the problem. Using conventional auditing techniques, performance auditors can normally only focus on a small sample of the population. Using CAATS, the performance auditor can interrogate the full population of data in a reasonable time.

During 2000, a committee of Ministers indicated that they were concerned about the salary expenditure of the government. Most of the salaries on national and provincial level are paid by utilising a salary system called PERSAL. For example the following data was obtained and analysed:

- PERSAL data was compared to the electronic population register generating deviations where deceased persons were still being remunerated;

- PERSAL data was compared between departments or ministries to identify persons on the payroll of more than one department; and

- Persons that were remunerated after their date of resignation were also identified.

As the data on the systems are not always 100% correct, the deviations generated from these comparisons had to be followed up and verified by the auditors. However, it gave the auditors an opportunity to look at the full picture and report on it to Parliament.

Many similar opportunities exist in government. Performance auditors should consider the possibilities to compare the data between different government systems. Specialists from Information Systems Auditing play an important role in this regard.

Physical evidence

OBSERVING PEOPLE

Observing how staff members of the audited entities carry out their activities can be a fruitful method to create a basic understanding of the operations, for example on how the Traffic Police act when carrying out inspections. It is more challenging and time consuming to use direct observation of people to collect evidence for findings in the main study, as this must be done systematically during a sufficiently long period or in planned intervals.

It is questionable from an ethical perspective to make observations undercover, unless this has been agreed with top management of the audited entity. Instead it is advisable to inform the relevant audited entity about that observations are made. A disadvantage of this, however, is that the behaviour of staff members are likely to be affected when they know that they are observed. As long as auditors are aware of this risk, it can still be useful to observe people. It is not easy to suddenly change behaviour even if you know that you are observed. As it can generally be expected that people perform better when they are observed, the problems observed are likely to be even worse when there is no one there to observe.

Observations can be used as a tool to understand the processes better, "walking through" the office to understand who is doing what and how different tasks are related. This may be the first step in conducting more systematic observations.

Usually it is easier to get solid audit evidence from observations if they are made systematically. Preparing a scheme for taking note of actions and behaviour enables structured observa-

tions. Systematic observations call for careful preparations, so that the activities and behaviour observed can be registered in a pre-defined systematic way.

INSPECTING PHYSICAL OBJECTS

Inspections of physical objects are more common in the region than systematic observations of people. Several SAIs have used this method in auditing construction activities, environmental problems and management of physical objects, such as markets, training facilities and government housing. As for observation of people, it is usually a need to make the inspections systematically and record the information in pre-defined categories, so that the results can be quantified. It is also possible, however, to use physical observations just as examples not providing any information of the occurrence of the conditions observed.

Inspections of physical objects should be corroborated when they are critical to achieving the audit objective. This may be achieved by having at least two auditors making the inspection, if possibly accompanied by a representative from the relevant audited entity.[90] This type of evidence can also be strengthened by photographs showing examples.

Analytical evidence

Analytical evidence includes computation, comparisons, separation of information into components, and rational arguments. The auditors use quantitative and qualitative analysis, and combine information from different sources, to develop new evidence relevant for the audit objective and the audit questions. Together with logical arguments interpreting the information this forms the fourth type of audit evidence recognised in ISSAIs – analytical evidence.[91]

The eight different study designs presented in Section 6.3.1 and 7.1.2 provides opportunities for different types of analyses and development of analytical evidence. The examples presented include outcome-oriented studies, process-based studies, comparative investigations, case studies and surveys.

Some techniques for data analysis, generating analytical evidence, will also be presented in Section 7.2.

7.1.4   Sufficient and appropriate (relevant, valid and reliable) audit evidence

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_. The auditor's assessment of the evidence should be objective, fair and balanced. Preliminary findings should be communicated to and discussed with the audited entities to confirm their validity.[92]

Evidence should be _placed in context_ and all relevant arguments, pros and cons and perspectives should be considered before conclusions are drawn. The nature of the audit evidence required to draw conclusions in performance auditing is determined by the subject matter, the audit objective, and the audit questions. Findings and conclusions are the results of analysis, which are linked to the audit objectives and provide answers to the audit questions.[93]

The evidence collected should be _complete_ in that it should enable the auditors to answer all the audit questions and enable them to draw conclusions against the audit objective. It must also be _reasonable_ and be possible to collect within reasonable cost. Corroboration of evidence is the process of using at least two different kinds of methods to measure and analyse a phenomenon and then to cross-check the results for consistency.

There is a need to have _sufficient_ evidence to answer the questions and conclude on the objective. What is sufficient is a matter of professional judgement. The evidence is sufficient when

---

[90] ISSAI 3000, Appendix 1, page 109.
[91] ISSAI 3000, Section 4.3, page 63 and Appendix 3, Section 2.4, page 111.
[92] ISSAI 100:49.
[93] ISSAI 300:38.

it is enough to support the audit findings. Evidence is sufficient when there is enough relevant and reliable evidence to persuade a knowledgeable and critical person that the performance audit findings, conclusions and recommendations are warranted and supported.

In determining how strong evidence that is needed, the auditors need to consider:[94]

- The importance of the observation;
- The risk if an incorrect conclusions is drawn;
- Previous knowledge of the reliability of the source used (for example the audited entities' records);
- The sensitivity of the observation; and
- The cost in relation to the benefits of seeking additional evidence.

What is sufficient is often affected by how the evidence is used in the report. It may be fully relevant to present evidence that include substantial uncertainties in a report, as long as this is presented accurately in the report and the uncertainties fully taken into account in the analysis. The inexperienced auditor, however, is recommended to be careful in using evidence that is not clear, as the risk for misinterpretation by the readers as well as by the auditors themselves is significant.

Most performance audits are carried out in relation to the responsibility of management of the audited entities. Auditors should remain critical to statements from management on the factual situation within their responsibility, and search for other corroborative evidence. However, problems the auditors have observed by using multiple sources of data, including a limited number of case studies, can be tested in interviews with management of the audited entities. If the problems observed by the auditors are confirmed by management, this can be used as findings in the audit. If management on the other hand claim that the observations of the auditors in the case studies are the exceptions to the rules, the evidence is not sufficient and the auditors need to collect additional information to find out if the claims of management may be correct.

It may seem obvious that the report should only include evidence that is _relevant_ for the audit questions. In practice, this is not always obvious as the auditors may make interesting observations they want to include in the report, even if it is not directly relevant for the audit objective and the audit questions. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding.

As the auditors' knowledge increases during the audit there may be a need to revise some audit questions, and sometimes even the more precise formulation of the audit objective.

This may make it possible to include findings and observations that are relevant for the problem the audit focuses on, even if it may not have been fully covered by the initial audit questions. On the other hand, it is not advisable to include observations that are not reasonably linked to the audit problem the audit focuses on, as this will be confusing for the reader. Possibly, such observations can instead be used in other audits, maybe in the regularity audit, or the observation may be reported separately to the relevant audited entity if significant enough.

SAIs should seek to get reasonable assurance on the quality of information obtained. A performance audit conducted in accordance with applicable auditing standards must examine the quality of the information provided. Performance auditing is increasingly dependent on the quality of information produced by the audited entities and others, often stored on electronic media. What is 'reasonable' depends on the situation, i.e. on the kind of evidence at hand and the conclusions that can be drawn from it.[95]

The data assembled during the audit must be of high quality if it is going to be used as evidence in the audit report. Audit evidence is _valid_ and _reliable_ if it is consistent with facts and actually represents what it supposed to represent:[96]


[94] ISSAI 3100, Appendix 3, page108.
[95] ISSAI 3000, Section 2.3, page 39.
[96] Evidence which is both valid and reliable is in ISSAI 3000 and 3100 called "competent" evidence.

- Validity: methods should measure what they are intended to measure.
- Reliability: findings should remain consistent if studies are made repeatedly in the same environment by different auditors, i.e. the results stay the same if repeated measurements are made of the same phenomena.

The concepts of validity and reliability are illustrated in Figure 13, showing the results of a shooting contest. The idea is that the shooters' ability to aim is fully valid if they hit the bull's eye. The shooters' ability to aim is reliable if they minimise the difference between the shots. Thus, for the ability of aiming to be both fully valid and reliable, the bull's eye should be hit every time.

Figure 13. Illustration of the concepts of validity and reliability

| Mediocre reliability | Good reliability | Good reliability |
| Decent validity | Poor validity | Good validity |
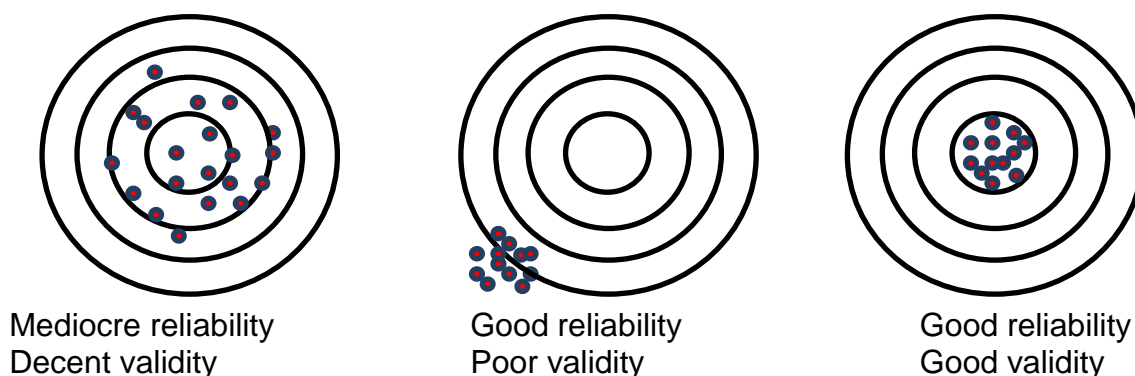
Source: *The Research Methods Knowledge base*, Trochim, 2002.

It is important that the auditors remain critical to the evidence they have collected, and consider the risk that it is not fully reflecting the reality. In fact, auditors should actively search for information that can falsify their findings. The auditors should strive for using different sources of evidence to support their findings and conclusions. Findings consistent with information from multiple interviews and multiple other sources of data are more likely to be valid and reliable, than findings depending on information from a single source.

Auditors need to be aware of potential problems or weaknesses with performance audit evidence. Potential problems include:[97]

- Evidence based on a single source (reliability, validity, sufficiency);
- Testimonial evidence from individual sources not supported by documentation or observation (reliability); however, testimonial evidence based on a large number of people in different positions and with different interests can usually be considered to be reliable;
- Evidence that is not time sensitive – i.e. too old and does not reflect changes (relevance);
- Evidence that is too expensive to obtain relative to the benefits (relevance and sufficiency);
- The source of evidence with a vested interest in the outcome (reliability);
- Samples collected are not representative (relevance, validity, sufficiency);
- Evidence related to an isolated occurrence (validity, sufficiency);
- Evidence that is incomplete in that it cannot be related to other findings in a cause and effect relationship (reliability, sufficiency); and
- Conflicting evidence (reliability); often what seem to be conflicting evidence can be an issue of different perspectives that all have their relevance without representing the full picture; it is an important task for performance auditors to resolve conflicting evidence.

---

[97] Based on ISSAI 3000, Appendix 3, page 109.

Testimonial evidence

Testimonial evidence is often answers to questions. The answers can be provided by employees of the audited entities, beneficiaries and clients of the programme being audited, experts and consultants contacted to provide corroborating evidence in relation to an audit as well as by members of the general public. Corroboration of oral evidence is usually needed if it is to be sufficient as audit evidence rather than mere background information.

In assessing the reliability and relevance of testimonial evidence, the auditor needs to assess the credibility of the interviewee; that is, the position, knowledge, expertise and forthrightness of the person being interviewed. Corroboration of oral evidence could be obtained by:[98]

• Written confirmation from the interviewee;

• Weight of multiple independent sources revealing the same facts; or

• Checking against records afterwards.

There are many factors that can affect the reliability of interviews, and auditors need to use their professional judgement and scepticism. It is a common feature that people in general, and managers in particular, explain what is supposed to be done rather than what is actually taking place in reality. Partly this may be a lack of knowledge of what is going on, and partly most people have good intentions and want to live up to them. This may cause interviewees to describe what they try to do rather than what they actually are doing.

It is also common that management explains shortcomings in performance with the lack of resources. While it is common in the region that the resources are scarce, it is also common that the resources actually available are not used efficiently and effectively. Performance auditing mainly focuses on how the available resources are used, in order to contribute to improvements. The auditors need to collect substantial audit evidence and do thorough analysis before even considering reporting on how a likely shortage of resources affects the performance of the audited entities. In most cases the available resources can be used better.

The reliability also depends on what information that is collected. Answers to questions about personal views should normally be considered to be reliable. Descriptions of own actions as well as other peoples actions may, or may not be reliable. There are often tensions and different interests in an organisation, for example between head office and regions, between different departments and between managers and staff. While this may motivate interviewees to share information with the auditors, it is imperative for the auditors to remain critical to the reliability of the information as it may represent vested interest rather than the factual situation.

Also when all the conditions are perfect and the interviewee describes the reality with full honesty, the information may not fully and correctly describe the real situation, i.e. may not be fully reliable. The reason is that different people may have different perspectives and preferences, and thus interpret the reality in different ways. The implication is that it rarely is sufficient to base audit evidence on statements in a single interview. Exceptions may be statements about opinions from official spokespersons for an organisation mandated to make statements on behalf of the organisation.

When using questionnaires the formulation and the respondents' understanding of the questions is crucial for the validity and reliability of the answers. What seems obvious and clear for the auditors, are often not clear at all for the respondents. The provided alternatives for answering them may also not be found relevant by the respondents.

To avoid answers that are not valid for what the auditors want to measure, the respondents understanding and the relevance of the alternative answers must be tested before the questionnaire is used.

---

[98] ISSAI 3000, Appendix 3, page 110.

Documentary evidence

Documentary evidence is considered to be more reliable than testimonial evidence. The reliability and validity of the information in written documents is, however, influenced by the purpose for which they have been produced. For example, a brochure may have been part of a promotional campaign and may not fully reflect the factual situation on the ground, i.e. not being fully reliable and valid. A budget request may be inflated, if the submitting organisation knows that whatever budget they request it will be cut down in the process regardless of the arguments provided. There is also a tendency that official documents in organisations describe what is supposed to take place inside the organisation rather than what is actually happening.

Usually the views and interests of special interest groups, such as patients, parents or students, are highly relevant in an audit. At the same time documents produced by stakeholders may have a specific purpose, affecting the validity of the information. The information may provide one relevant perspective, without necessarily reflecting all facts that are relevant in the audit. With proper analysis such information can be used as audit evidence, after combining it with evidence from other sources to develop audit findings.

Existing statistics or databases with quantitative data available at the audit entity is often useful as audit evidence. In general, data important for the functioning of the production process of the audited entities, such as the number of incoming applications and the number of decisions, are more reliable than information generated for monitoring or statistical purposes only. The data is usually registered by staff. There is a tendency that staff are more attentive in registering information necessary for processing matters, than information added for statistical purposes (for example categorisation of reasons explaining the processing time).

Sensitive data might not be available in monitoring information, while at the same time data indicating a well-performing ministry might be readily available. When using existing statistics or database the auditors must also be aware of that definitions of different groups, intervals, categories etc. may have changed over time or may not have been logically defined.

Physical evidence

When observing people, the auditors need to be aware of the risk that the behaviour is affected by the presence of the observers. The Traffic Police may for example do the inspections differently and treat drivers more friendly if they are observed. It is not easy, however, to consistently change a behaviour when you have become used to it. Further, problems noted through observations of people are likely to reflect the reality or be even worse when there is no one there to observe staff.

Inspection of physical objects can usually provide valid and reliable evidence, if the objects are properly selected and the inspections properly made. Inspections need to be systematically made by staff or experts with sufficient competence as well as properly documented. It is important to remember that individual examples, for example photos, rarely provide sufficient evidence in an audit. While a physical observation of a school building documented in a photo is likely to be fully reliable and valid, there is a need for systematic observations of a number of school buildings to develop sufficient evidence about the state of school buildings in a more general sense.

7.2   Analysing data

Analysing data is an important step in all performance audits. The role of analysis is illustrated in Figure 14. Analysis is carried out in order to use the data that has been collected as audit evidence and develop analytical evidence to assess and explain the performance of the audited entities by developing audit findings (comparing audit evidence to criteria). The purpose of the analysis is to enable the auditors to answer the audit questions by verifying the audit problem and analysing the causes to the problem.

When analysing data, the audit team should start by revisiting the audit objective and the audit questions. This will help them to organise their data and focus their analysis in line with the audit questions. To analyse and interpret information effectively will require time, communication, creativity and a systematic use of the extracted and summarised data.

Figure 14. The role of data analysis in performance auditing
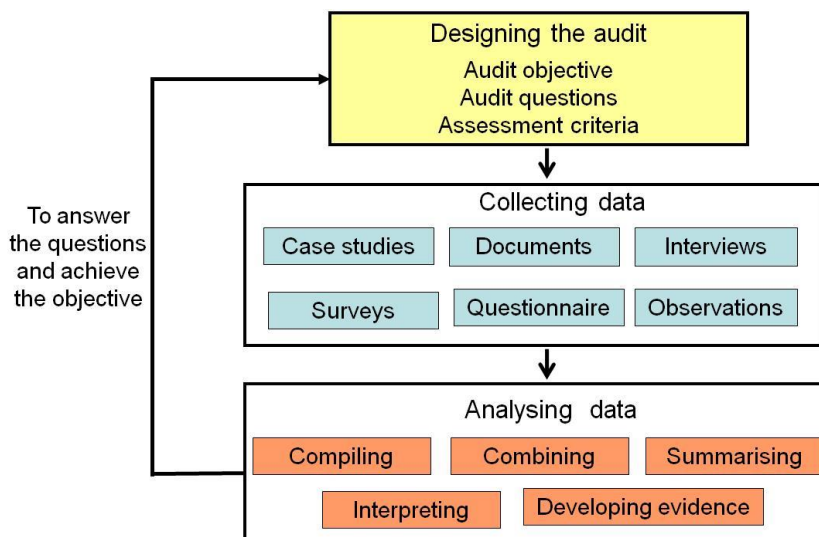
Data, information and knowledge are similar concepts linked together in a chain. Data is the primary observation. Data which has been compiled is thereby transformed into information. Information which is analysed has become knowledge.

Information analysis is an intellectual, creative, and iterative process, which includes both rational and irrational elements. It always involves reflections and discussions, brainstorming, and mostly non-quantitative techniques such as content analysis, comparative analysis and analysis with the aid of expert panels.[99]

It is important to study the data gathered both in-depth and extensively. Analysing and interpreting data is a process that requires the audit team to constantly move between the different stages as the analysis gives rise to new knowledge and new ideas. This process should go on until the auditors are satisfied with the result.

While there is a need to collect some data before it can be analysed, the processes of data collection and analysis largely runs in parallel during the audit. The type of data will determine what methods can be used to analyse it. The eight different study designs presented in Section 6.3.1 and 7.1.2, provide opportunities for different types of analyses. In addition we will discuss:

- Qualitative analysis of interviews and documents (Section 7.2.1);
- Quantitative analysis of statistics, analysing existing statistics or statistics produced by the auditors (Section 7.2.2);

In Section 7.3 the analytical process is brought a step further and different types of study designs, evidence and analysis are combined in order to draft findings, conclusions and recommendations for the report.

Performance auditors employed by SAIs that are members of AFROSAI-E can download the following more detailed methodological guidance on analysing data from AFROSAI-E website, www.afrosai-e.org.za:

- Getting beneath the surface – Using qualitative evidence;
- Evaluation and its use in value for money studies; and
- Measuring Evidence – Statistical Handbook.

---

[99] ISSAI 3000, Appendix 1, page 101.

These and other methodological guidance have been developed by the SAI U.K., and by courtesy been made available for AFROSAI-E members and their staff.

7.2.1   Qualitative analysis of data

Qualitative analysis is a broad term used to describe a wide range of methods for structuring, comparing and describing data. It is usually used for data of a qualitative nature and for combining different types of data and analysis. Qualitative analysis is based on logical reasoning and arguments. In general qualitative analysis means creating own ways of systemising data that convince the reader that the evidence is true. Common components of this systematisation are comparing, sorting after differences and sorting after similarities.

Qualitative analysis is commonly used when deriving analytical evidence from certain sources of data, such as interviews and documents. Developing findings, conclusions and recommendations is a special form of qualitative analysis that is discussed in Section 7.3.

Analysis of interviews

When analysing information or data from interviews, the main problem is to allocate what has been said into different categories or topics, often structured after the audit questions and sub-questions and possibly further sub-divided into different components. In analysing interviews, the auditors are looking for common threads of information, things that fit together, or examples of the same underlying problem, issue, or concept. In this sense, qualitative (non-numerical) analysis may be used to assess and explain performance of the audited entities.[100]

<div style="border:1px solid; background:yellow; padding:1em">

AN EXAMPLE ON HOW TO ANALYSE INTERVIEWS

- Choose a method for structuring the data from the interviews, using audit questions as the first choice; and sub-questions, actors, regions, etc. as the next choice if it is not meaningful to structure the data only in line with the audit questions.
- Read the interview notes again and focus on the structure. If interviews are to be organised according to audit questions, make a note in the margin when something is said that is relevant for question number one, two, etc.
- Go through all the notes regarding audit question number one. If there are many relevant remarks, make a written summary. If necessary, choose a new factor to structure the remarks. Key players could be used as such a structuring factor.
- Compile and analyse the opinions of each type of key player, one at a time.
- Compile and analyse the opinions of all types of key players together.
- Look for similarities and differences between the opinions of different categories of key players.
- Summarise the information (the interpreted data) and judge how the interviews can contribute to answering the audit questions and developing recommendations.
- Continue with the next audit question.

</div>

It is not uncommon that different actors have a different understanding or opinions about problems in an area. It is the responsibility of the auditors to be objective and do their analysis based on all available facts. Usually different actors have their own perspective, and are partly correct in their views of reasons for the problems. More often than not, however, no actor has the full picture and fully correct understanding of the situation. The auditors often have a unique opportunity to compile data from many different sources and listen to the knowledge and views of many different stakeholders and staff on many levels within the audited entities. This often enables auditors to come up with a more objective and comprehensive picture of the reality than the involved stakeholders have.

---

[100] ISSAI 3000, Appendix 1, page 101.

Examination of documents

There are many types of documents that may be analysed in a performance audit. Usually the audit questions and sub-questions means that a basic structure for analysing documents has already been established.

There is also a lot of information in documents from the audited entities or government that can be _used directly_, as it expresses the official plans or decisions that have been taken. Usually it is advisable to cross-check the understanding of documents through interviews or by other means.

Documents from the audited entities can also be _reviewed systematically, taking note of information_ relevant for different audit questions. As more documents are reviewed, or after initial analysis of them, is also useful to further subdivide the information into themes. Searching for information common threads, similarities or differences can be useful in the coming development of audit findings. This means a methodology similar to the analysis of interviews as described in the box above.

Analysing existing statistics means analysing electronic documents or hard copies. The statistics can be analysed as it is presented and be related to the audit questions and sub-questions. The auditors may also choose to make further quantitative analysis based on the existing statistics, making new calculations using different data made available.

Documents can also be analysed with the purpose of _establishing the chronological order_ in which a series of events have taken place, as well as what information was documented during different steps of a process.

In some cases it can be useful to _count the frequency of certain expressions or themes_ in documents, for example how often minutes from management meetings include discussions on the results of the operations as part of a monitoring system. This requires that a clear methodology has been developed before the review of the documents, for the reviewer to have clear definitions of what should be counted and how.

Systematic file reviews also need to be properly planned before the review starts. The same information must be collected from all files if it shall be possible to use it as audit evidence.

7.2.2 Quantitative analysis of data

Usually it is sufficient to use simple techniques of quantitative analysis. In this Section we will briefly mention:

- Descriptive statistics;
- Trend analysis;
- Scatter plotting;
- Correlation coefficient; and
- Cross tabulation.

More sophisticated statistical techniques such as variance analysis and regression analysis requires special skills to develop and also a certain level of knowledge for the reader to appreciate the information.[101]

Descriptive statistics[102]

Quantitative analysis is often equated with statistical analysis. More sophisticated techniques often require special skills to be carried out, and also a certain level of knowledge to understand and appreciate the information presented. What techniques for analysis to use depends on the data that has been collected. The difference between quantitative and qualitative analysis is often

---

[101] For description of variance analysis and regression analysis, see _Measuring Evidence- Statistical Handbook_, Chapter 5 – 6, NAO U.K.

[102] Partly based on AFROSAI-E performance audit template manual (2010).

described as the difference between analysing numbers (quantitative analysis) and analysing texts or statements (qualitative analysis). Information that has been collected as text or statements can, nevertheless, often be transformed into numbers. One can, for example, go through documents to see how many of them include a positive statement about a certain issue. A calculation can then be made, expressing the percentage of investigated documents that include this type of positive statement.

Descriptive statistics is the most frequently used type of quantitative analysis in performance auditing. The auditor can use descriptive statistics to describe the audit object or to present findings from the audit. Descriptive statistics can be used to present the produced output, outcome, achievements of performance targets, size of the audited entities' staff, resources, operations, finances, etc. If the sample on which the auditors have collected data is chosen with statistical methods, numerical estimates valid for the whole population can sometimes be made based on a rather limited sample.

Some basic concepts in descriptive statistics are presented in the table below.

BASIC CONCEPTS IN DESCRIPTIVE STATISTICS			
	CONCEPT	EXPLANATION	USEFULNESS
Measures of centrality	Mean	The sum of the values of all observations divided by the number of observations	When scores are more or less symmetrically distributed, e.g. height or weight
	Median	After arranging the observations progressively – the median is found in the middle of all observations.	When extreme scores distort the mean, e.g. income
	Mode	The most frequent observation	To describe dichotomous values and proportions, e.g. men and women, or to point out the 'typical' value, e.g. the typical number of children in a family
Measure of dispersion	Range	The difference between the highest and the lowest observation	To complement the mean/median as a measurement on how scores are distributed
	Variance	Average of the squared distance between the single observation and the mean value	To complement the mean as a measurement on how scores are distributed
	Standard deviation	The square-root of the variance	To complement the mean as a measurement on how scores are distributed
Percentage		(The part of the population/the total population) multiplied with 100	To see the size of part of the population. For example the number of yes in relationship to the total number of responses
Index		Relates the development of a variable to a base level a particular year, often 100.	Makes it easy to compare the development of variables over several years, or to compare different years with regards to e.g. inflation.

Figure 15 illustrates the measures of central tendency.

Figure 15. Income from trophy hunting in various farms
– measures of central tendency

TIGRESS	400,000	
NEWYARD	400,000	Mode = 400,000
KRUGE	400,000	
BRAZO	436,000	Median = 436,000
KUHMLA	890,000	
PLATO	990,000	
OLYMUS	1,270,000	

N = 7   = 4,786,000   Mean 4,786,000/7 = 683,714

When generalising from a sample to the whole population, attention has to be given to the level of certainty with which this can be done. This depends on the construction and the size of the sample and the size of the population. In the case of mean values, the degree of certainty can be calculated with statistical methods by establishing the confidence interval, i.e. the interval within which the 'true' mean of the population falls within reasonable doubt. See further the *Statistical Handbook* from SAI U.K. made available on AFROSAI-E website for registered users. [103]

Trend analysis

In our example of the traffic inspections it turned out that one of the regions – region B – since a number of years implemented a programme to change the traffic inspections to address the main risk factors for road accidents. This had not met any particular interest in head office or other regions. The auditors decided to study the development of accidents in region B in relation to a region with similar conditions but without any programme for addressing risk factors in the inspections, see Figure 16.

Figure 16. Road accidents in regions with different types of inspections
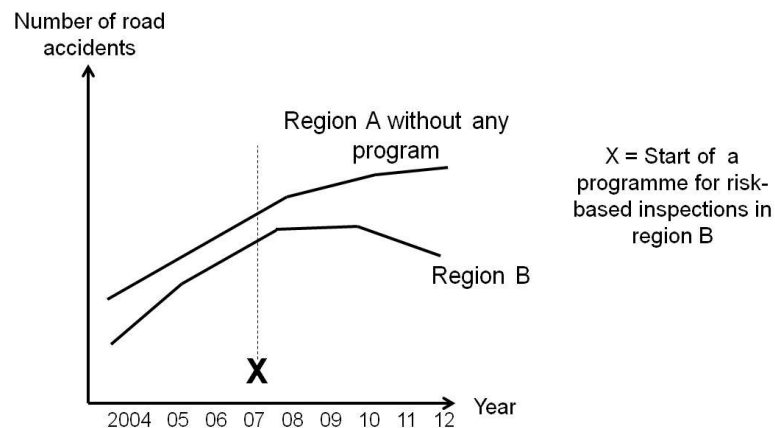
Soon after region B had started to implement the programme, the trend for the number of road accidents in region B changed. After a few years the number of accidents actually started to decrease. There was also a slight shift in the development of the number of road accidents in region A, in that the *rate* of increase went down even if the accidents still continued to increase year by year.

---

[103] *Measuring Evidence – Statistical Handbook*, page 56 -62, NAO U.K.

The auditors made further analysis to try to see if there were other factors that could explain the development and the differences between the two regions. Even after thorough investigations and analysis, the auditors were not able to find any other factor than the programme that could explain the differences in development between the two regions. They noted that the annual increase of accidents that had taken place for many years, and continued in region A, probably could be explained by an increased volume of traffic. It was also observed that a national information campaign on road safety was launched almost at the same time as the change in the principles of traffic inspections in region B. This could explain that the rate of increase for accidents in region A had gone down, which meant that the reduction of accidents in region B was likely to also have been influenced by the information campaign.

After further testing their analysis with subject matter experts and the audited entity, everyone involved agreed on the conclusion that it was most likely that the changed principles for traffic inspections had resulted in a reduced number of accidents. The Traffic Police decided to implement a similar programme in the whole country even before the audit had been completed.

The SAI reported the findings in the report to Parliament, including the common interpretation that had been reached together with experts and the Traffic Police. The SAI also acknowledged the actions already taken by the Traffic Police to change the principles for traffic inspections in the whole country.

Scatter plotting, correlation coefficient and cross-tabulation

In an audit of how government combats crimes, the auditors studied the relation between the crime rate and different factors that may explain the variation in crime rate between the municipalities in the country. The auditors managed to get statistics on the number of crimes in each municipality from the police. From the national statistical office they collected the unemployment rate in the municipalities. Already when plotting the data from the different sources in a scatter plot, it was clear that the variation in crime rate was correlated to the variation in unemployment, see Figure 17.

Figure 17. Number of crimes per 1000 inhabitants in municipalities 2012 in relation to unemployment rate in per cent of the work force[1]
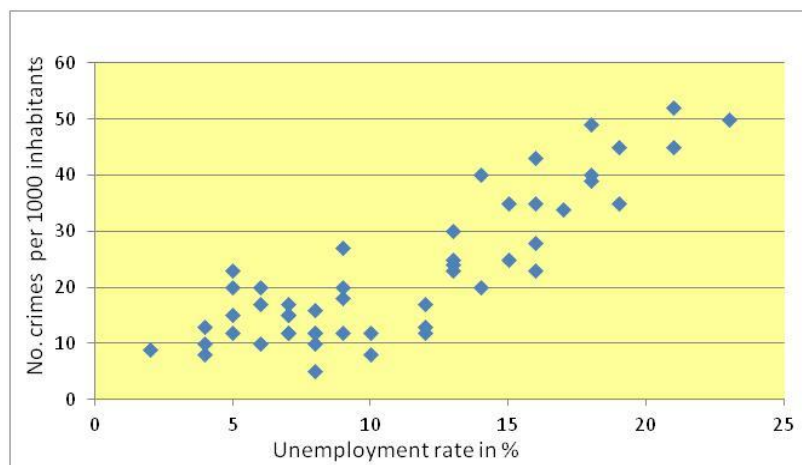
[1]Each dot represents one municipality, or more precisely the crime rate and the unemployment rate in it.

The auditors were well aware of, however, that the correlation between two variables not necessarily mean that any causal relationship exist between them. They interviewed a professor in criminology in a university, who explained to them that the relation between unemployment and crime rate is a well known phenomena worldwide and established in several research studies. The

auditors also borrowed a research study from a neighbouring country from the professor, to read and refer to in the audit report.

Convinced that there is a causal relationship between unemployment and crime rate, the auditors took a step further to calculate the strength of the relationship by calculating the correlation coefficient. This turned out to be easy, as the function CORREL in Microsoft Excel was easy to use. The correlation coefficient turned out to be 0.86, which means a strong correlation.[104] When squared, the correlation coefficient explains to what extent the variation in the crime rate can be explained by variations in the unemployment rate. In this case 73% of the variation in the number of crimes could be explained by the variation in unemployment.

The auditors discussed the result of their analysis with a statistician at the national statistical office, to be sure that they correctly understood and used the statistical concepts.

For a more elaborated example of exploratory data analysis, using among other things a scatter diagram and the correlation coefficient, see the *Statistical Handbook* from SAI U.K. made available for registered users on the AFROSAI-E website.[105]

Ordinal data, data that only can take certain values where the different values can be considered higher or lower (or better or worse), can be used to cross-tabulate different variables to analyse if there is any correlation between them. Even data that in principle can take any value (continuous data) can be grouped in order to allow for cross tabulation. This is for example useful when one of the variables is of an ordinal scale. Figure 18 indicates that there is some correlation between the income level and the attitude to energy conservation, with a tendency that families with higher income is less interested in energy conservation.

Figure 18. Cross-tabulation between the number of homeowners in families with different income levels and the family's attitude to energy conservation

Attitude toward energy conservation	Familiy income level			
	"Low"	"Medium"	"High"	Total
"indifferent"	26 %	34 %	44 %	35 %
"Somewhat positive"	33 %	36 %	32 %	34 %
"Positive"	41 %	30 %	24 %	31 %
Total	100 %	100 %	100 %	100 %

Co-variation between variable does not necessaily mean that there is a causal relationship between them. This may, or may not, be the case

7.3   Drafting the report – an analytical process

According to ISSAI 300:39, performance auditors should provide audit reports which are *comprehensive* (i.e. include all information needed to address the objective and questions and sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions), and *convincing* (i.e. are logically structured, and present clear relationship between the audit objective, criteria, findings, conclusions and recommendations). The report should also be *timely*, *reader-friendly* and *balanced*.

This Section deals with drafting findings, conclusions and recommendations in the audit report, which is a highly analytical processes. Chapter 8 covers the processes of deciding on and

---

[104] A perfect positive relationship have a correlation coefficient of 1.00. If this was the case, all the dots in the scatter plot would form a straight line. 100% of the variation in the crime rate would in that case be explained by the variation in unemployment.

[105] *Measuring Evidence – Statistical Handbook*, Dropout rates from Higher Education page 40–48, NAO UK.

reporting the audit, including elaborating on the requirements for good reports in Section 8.2.

The purposes of performance audit reports are in short to:

- Communicate the results of audits to Parliament, to government officials at various levels and to other stakeholders;
- Explain audit results so that they can be properly understood;
- Make audit results available for the general public;
- Promote improvement and change;
- Recommend measures to take for improvement; and to
- Facilitate follow-up to determine whether appropriate corrective actions have been taken.

Most SAIs with a history of undertaking performance audits, publishes individual performance audit reports separately. Performance auditors put in a lot of effort and time in writing audit reports. The eleven reports nominated for the *Prize for the best performance audit report in the AFROSAI-E region 2012* are on average 56 pages long, varying from 24 to 110 pages. There are several reasons for starting the writing process early in performance audits, for example drafting the background to the audit, the methodology and the description of the audit area. It allow the auditors to mainly focus on the more analytical chapters findings, conclusions and recommendations at the later stages of the audit. However, text written early in the audit needs to be checked again and usually partly revised towards the end of the process. It is common that there are periods with a low work load in performance audits, for example because expected meetings are delayed. This time can be used for drafting some sections of the report.

Developing findings, conclusions and recommendations in performance audit reports are highly analytical processes where all evidence and criteria are brought together, to answer the audit question and meet the audit objective.

7.3.1 Developing findings – comparing different data and analysis with criteria

Usually, audit evidence is developed by presenting data from different sources, collected and analysed with different methods. The final step in data analysis consists of combining information from the different types of data sources to gain information and knowledge about the actual conditions on the ground, in order to compare this evidence with criteria. This means that information from interviews may be combined with analysis of statistical records; information from case studies may be combined with information from surveys; some information may emanate from field studies in one province while other information refers to another province. Combining information from different sources can be compared with doing a jigsaw puzzle, where the pieces are the different elements of information and analysis.

There is no general solution on how to combine the different data and analysis. It is, however, of central importance that the auditors works systematically and carefully in interpreting the data collected. By combining multiple data sources, methods and analysis the auditors seek to overcome the bias that can come from using a single source of information. When three or more sources are used to verify and substantiate a finding it is called to triangulate the evidence, i.e. corroboration of evidence.[106]

---

[106] From AFROSAI-E performance audit template manual.

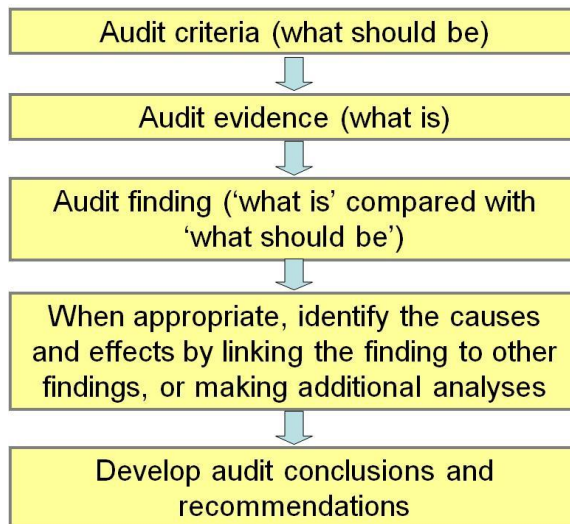Figure 19. Using audit evidence to develop findings,
conclusions and recommendations[107]

Audit criteria (what should be)

⇩

Audit evidence (what is)

⇩

Audit finding ('what is' compared with 'what should be')

⇩

When appropriate, identify the causes and effects by linking the finding to other findings, or making additional analyses

⇩

Develop audit conclusions and recommendations

Figure 19 illustrates the steps in using audit criteria and audit evidence to develop findings that leads further to the development of audit conclusions and recommendations.

Audit findings should be congruent with the audit objective and the conclusions in the audit and answer the audit questions. Audit findings are developed by comparing the factual situation (the _conditions_) with the audit criteria. The discrepancies are findings that may be considered to be "problems". When there is no discrepancy, the audited entity has in principle done what was expected based on the _criteria_.

In developing findings, the auditors should refrain from expressing opinions. All findings must be supported by sufficient appropriate (relevant, valid and reliable) audit evidence. The evidence should also be complete in covering the audit questions and be reasonable to collect in terms of time and cost, see Section 7.1.4. The recognition of analytical evidence in ISSAIs is important to enable auditors to make findings that are interesting and makes sense. If only hard facts are presented as parts of findings, it is usually difficult to know how the facts should be interpreted. By adding analysis, compiling, comparing, grouping and using objective and logical arguments – and comparing conditions with criteria – the auditors make the findings in a performance audit clear and interesting. This is to use analytical evidence in developing findings.

Audit criteria are used differently in performance auditing than in compliance auditing. While the purpose of compliance auditing is to check whether the audited entities comply with regulations or other standards, the purpose of performance auditing is to assess the performance and whether there is room for improvement. This means that when there is a deviation between conditions and criteria, performance auditors must take the analysis a step further and consider whether the audited entity realistically could have met the criteria and if this would have resulted in better performance. In other words, performance auditors must remain critical also to the criteria used in the audit, and be prepared to analyse whether meeting the criteria is sufficient to improve performance.

---

[107] Based on ISSAI 3000, Section 4.3, page 63 – referring to ASOSAI guidelines on performance auditing. The original figure includes a step of estimating likely impacts of the recommendations wherever possible. As it often is demanding to base such estimates on factual information, this step has been excluded.

During the planning phase SAI Kenya ask audit teams to develop a strategy on how to collect and analyse data. The data sought and the analysis conducted should answer the audit questions and satisfy the audit objective. The plan may not be possible to implement in full. Some of the sources of data may not be available, or they may not be as rich as expected. Doubts may arise about the effectiveness of the methods chosen. At other times the data needed for analysis may be stored in a form that is not suited to the preferred analysis method. Some of the points learned during the years are presented below.

1. Do not analyse data because it is interesting to do so – it is relevance that matters. Not every analysis is useful – it must add value to the problem-solving process and contribute to accomplishing the audit objective. So the team should strive to identify those analyses that are indispensable and those that are not and concentrate effort where necessary.

2. Don't bother about absolute precision at all times – corroborate data from different sources. The evidence you collect may not always be full-proof. You will occasionally need to obtain other evidence from another source or method to strengthen your observations. Identify what is important – the key drivers to performance – gather the right facts and capture insights about them.

3. Be aware of your own biases. Avoid both conscious and subconscious bias when analysing your audit evidence. It would help to list before hand the potential forms of bias, and strive to avoid them when the data collection and analysis work begins. Don't make facts fit your thinking – it should be the other way round! Also don't suppress facts that oppose your thinking/assumptions. Instead seek information that falsifies your thinking. If you cannot find it, there is a good chance that you are right.

4. Synthesize the messages of the analysis into insights that would solve the audit problem. Your data does not prove anything on its own. The analysis you conduct should provide insights into the entity's performance and lead to suitable recommendations for corrective action. Sort the wheat from the chaff – separate irrelevant facts from data that approve or disapprove your hypothesis and then piece together the story that the data tells. Asking yourself the 'So what?' question at every turn will prove helpful in the end. You have to draw the right inferences from analysis – data don't speak for themselves.

5. Compromise your goals – seek to be right and be quick. Again it needs no repeating that collecting too much data won't help answer the audit questions and accomplish the audit objectives. Neither would over analysis of the data provide the answers or the reasons and magnitude of the entity's performance. You have to cut it off at some point because, as they say, time is money! What you should strive for is being right in the shortest possible time.

6. Keep it simple, focused and brief. Put up a compelling narrative that leaves out facts that don't tell your story. Present your ideas in a structured way and tailor them for the audience. Use your data to create an overall theme. Be detached and let the data speak to the reader through your guiding analysis!

ISSAIs describe the analysis of _causes_ and _consequences_ as complementary analyses that may take place in an audit.[108] When audit criteria are used systematically in the framework of performance audits focusing on performance problems, the causes and consequences can either be described as separate findings or as parts of another finding. This often means that causes and consequences are largely a matter of the relationship between different findings. The auditors should preferably verify the existence of the audit problem (if this is not already done by other credible sources). This is done by comparing evidence with criteria in order to develop an audit finding about the existence of the problem. This will then normally be the main effect of all other factors addressed. In other words, other factors – or rather the other findings – are the causes to the audit problem, which is the logic of focusing on performance problems and analysing the causes to them.[109]

---

[108] ISSAI 3000, Section 4.3, page 64.

[109] Performance audits may address different issues that are thematically related, without having any cause – effect relationship. In such audits, the main problems are verified within each issue, preferably complemented by analyses of the root causes to and possibly the consequences of them.

The linkages between different findings should in general be explained and where possible the cause – effect relationship be supported by audit evidence. In some cases it is not sufficient to describe how the findings are linked together, as the effects or causes may not be sufficiently covered in other findings. In such cases additional evidence on effects or causes may be presented as an additional analysis of a particular finding.

It may for example not be obvious to the reader why the type of traffic inspections is important. By explaining the linkages between traffic inspections, risk factors and the consequence in terms of the number of road accidents, the reader can more easily understand the significance of the audit. Often it can also be necessary to indicate or include evidence of causes to audit findings on the lower level in the problem tree, as causes to these findings usually will not be addressed as separate findings in the audit.

FOCUSING ON PERFORMANCE MEANS TO REMAIN CRITICAL TO CRITERIA

In an audit of the construction of school buildings the auditors, among other things, used budget regulations and regulations for procurement as audit criteria. The finding was that the Ministry of Education did not comply with the regulations in several respects. The Ministry informally approved that the contractors started construction activities before the funds had been made available. They also pre-paid work that had not yet been completed before the end of the year, and signed incorrect statements on the work completed. There were also other regulations that more or less systematically were not complied with by the Ministry.

In their analysis the auditors took a step further and considered what the consequences would have been if the Ministry had complied with the appropriate regulations. It turned out that this would have caused even worse delays of the construction of school buildings than the Ministry already was facing. The reason was that the Treasury only made funds available in October, even if the budget year started in January. Funds that had not been spent during the calendar year had to be returned to the consolidated fund, and requested once again in the budget process the following year – requests that may not be approved. Complying with the regulations would have left the Ministry and the contractors with only three months per year for construction work.

While pointing out the non-compliance with regulations by the Ministry in the audit report, the auditors arrived at the conclusion that the budget system and release of funds by the Treasury was an even bigger problem – and the problem that required immediate action to resolve.

7.3.2 Developing audit conclusions and recommendations

Audit conclusions

Performance audit reports are not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness on the level of the audited entities in the same way as the opinion on financial statements. This is also not a requirement of the ISSAI framework. Whether economy, efficiency and effectiveness have been achieved may be conveyed either through an _overall view on aspects of economy, efficiency and effectiveness_, when the audit objectives, the subject matter, the evidence obtained and the findings reached allow for such conclusions, or by providing specific information in the report on different points, including the audit objective, the questions asked, the evidence obtained, the criteria used, the findings reached and the _specific conclusions_.[110]

---

[110] ISSAI 300:21-23. See also ISSAI 100:31-33.

Based on the example of traffic inspection, the two alternatives can be illustrated as follows.

Overall conclusion on aspects on the three E's:
The overall conclusion of the Auditor-General is that the Traffic Police has not been effective in using traffic inspections as a measure of reducing the number of road accidents, in particular serious accidents, as intended by Parliament. The main reasons are that the traffic inspections have not been planned to address the main causes to road accidents and that the Traffic Police does not have the appropriate policy, guidance and equipment in place to carry out such inspections. Instead the inspections have focused on formal requirements with no or weak linkages to road accidents.

Specific conclusions:
Based on the evidence presented in this report, the Auditor-General concludes that the performance of the Traffic Police has not met the expectations of Parliament in terms of:
- *Carrying out traffic inspections in order to address behaviour by drivers contributing to serious road accidents;*
- *Developing policy and plans and provide guidance to the police officers on how to focus and carry traffic inspections; and*
- *Providing equipment to the police officers to enable inspections of over-speeding and use of alcohol in the traffic, even if the financial resources have been available.*

Conclusions can be based on quantitative evidence obtained using scientific methods or sampling techniques. Formulating conclusions may require a significant measure of judgement and interpretation in order to answer the audit questions, due to the fact that audit evidence may be persuasive ("points towards the conclusion that ...") rather than conclusive ("right/wrong"). The need for precision should be weighed against what is reasonable, economical and relevant to the purpose. The involvement of senior management is recommended.[111]

The conclusions should be clearly linked to the audit objective. Often the conclusion is phrased in short statements summarising findings and reflecting the auditors' own assessment or opinion based on the findings. The conclusion is based on the evidence, since it should flow logically from the findings. Based on good arguments it also provides an opportunity for auditors to indicate overall problems lying behind the findings or make overall conclusions based on the findings, for example on the need for radical change.

Audit recommendations

If relevant and allowed by the SAI's mandate, auditors should seek to provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit.[112] While auditors can give recommendations, they need to take care that they do not assume the responsibilities of the responsible parties.[113]

Recommendations should be clear and presented in a logical and reasoned fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report, they should convince the reader that they are likely to significantly improve the conduct of government operations and programmes, e.g. by lowering costs and simplifying administration, enhancing the quality and volume of services, or improving effectiveness, impact or the benefits to society. The recommendations should:[114]

- Be well-founded, practical and add value;
- Address the causes of performance problems and/or weaknesses;
- Be phrased in a way that avoids truisms or simply invert the audit conclusions;

---

[111] ISSAI 300:38.
[112] ISSAI 300:40.
[113] ISSAI 300:16.
[114] ISSAI 300:40.

- Not encroach on the management's responsibilities;
- Be clear in who and what is addressed by each recommendation, who is responsible for taking initiative and what the recommendations mean, i.e. how they will contribute to better performance; and
- Be addressed to the entities having responsibility and competence for implementing them.

This means that recommendations depending on the context may be addressed to ministries, agencies, local governments, parastatals or even the legislature. For recommendations to be practical it is important that they are realistic, which in principle means that it should be possible to implement them within available resources. Auditors should in general avoid recommending increased budget allocation to an entity, unless this can be fully funded within the area of audit. Usually there is room for using the available resources better, reconsidering the mix of different resources or the prioritisation within the same entity/sector.

The views on how recommendations in performance audits should be formulated vary between countries, and also in the same country over time. For example SAI Norway, has recently started to issue recommendations on an overall level, while SAI U.K. expects the recommendations in their reports to be specific.

Performance audit reports in the AFROSAI-E region usually includes recommendations. Based on the ISSAIs, each SAI may make their own choice on how to issue recommendations. The suggestion in AFROSAI-E course materials is to avoid making recommendations too specific, as it risks taking over the management responsibility for the actions taken, and on the other hand avoid recommendations that are too general to provide directions or ideas for how the problems can be solved or reduced. While there are arguments for focusing recommendations on what needs to be improved, such recommendations may not be convincing without indicating that it realistically can be done.

One technique is to *recommend what should be done*, and as a complement more in detail *discuss how this can be done*, possibly indicating different alternative options. Questions that may be considered in developing good recommendations are:

- What needs to be done and why?
- Where does it need to be done?
- Who is responsible for doing it?
- What example(s) on how this can be done can be elaborated in detail, convincing the audited entities that it is doable without necessarily excluding other alternatives to address the problems?
- What impact of proposed actions is expected?
- Could the implementation have negative effects?

EXPERIENCES IN THE REGION – SAI GHANA
DEVELOPING AUDIT RECOMMENDATIONS

The most important aspect of the performance audit work is the recommendations that should bring about the desired improvement in the work of the audited entity. While considering the six questions suggested above, it is important to get a bye-in by the audited entity to guaranteed implementation.

SAI Ghana always try to involve the audited entity in formulating the recommendation. So the question is put to the heads of the entity during interview sessions. "What will you do different from what you are currently doing to improve the problems identified if asked to do so"? We also consider

- Thinking about the recommendation early and throughout the audit; and
- Using previous good examples.

7.3.3 How to draft better performance audit reports

There is perhaps nothing more daunting for an auditor than a blank sheet of paper on which he/she has to write the audit report. The worries can be endless. What kind of structure should the report have? What sort of language should I use? How do I present tables and figures (charts) in the report? How can I take advantage of the word processing software? Where do I start? What are the key messages?

The following paragraphs provide a brief summary of some guidance to beat "the blank sheet" problem.

Getting the thinking straight

Perhaps the most important piece of advice is that you cannot write a report unless you know what you are trying to say. Most people think they face a "writing block" when in reality they face a "thinking block". They cannot write the report because they do not know what they want to say. You have to get the thinking straight before you can begin to write any report. This begins with effective analysis of the issues to be addressed by the report.

Writing is a part of the analytical process. Often you cannot sit and think through what you want to say, but you need to start writing in order to come up with what you really want to say – and get your evidence sorted out to know what you will be able to verify. Analytical writing, however, rarely leads to a readable text. So once you have clarified what you want to say – partly through analytical writing - it is time to re-write the text for the reader using reader-based writing. Often the draft needs to be re-written more than once to become easy to read.

Identifying the main messages of the report

During analysis the audit team should begin to develop an appreciation of the main messages coming out of the audit. These are the big picture issues or headlines that summarise the most important findings (e.g. Government Departments are failing to achieve value for money, because only one third of contracts are awarded on a competitive basis.)

Compiling the report

Writing can be a lengthy process, which is why it should be started early in the audit. Considering the outline or the synopsis of the report will give opportunity for the auditors to identify the key findings. Areas where conclusions are not clear enough or more audit evidence is needed, may also be discovered. This also means that several drafts may be written before the report can be finalised.

Revision(s) to the previous drafts also become necessary after reviewing the document. It is good to subject the report to external review by auditors who are not part of the team. The final report should be proofread and cross-referenced to the supporting audit evidence to ensure that facts are correctly stated and that this is properly documented in the audit file.

Lastly, constant consultation with the audited entities is an important part of drafting the report. Auditors should provide the draft report to management in the audited entities for review. This will allow management to agree with the report or provide comments and/or further evidence where they feel it is necessary, see further Section 8.1.

7.4 Managing the audit engagement

Thorough planning of the audit engagement is a crucial part of good project management. As mentioned in Section 6.3.2 the administrative planning should include planning of monitoring of the progress of the audit, considerations of the risk in the audit and communication with the audited entities. This Section considers these issues during the execution of the audit engagement, which is an equally important part of good project management.

7.4.1 Monitoring the progress of the audit and taking the necessary actions

Performance audits are costly and time consuming as well as planned and partly carried out under uncertainty. This makes it particularly important to regularly monitor the progress of the audit.

According to ISSAI 3100:24, the organisation of the audit should in general satisfy the requirements of good project management. The managers should ensure that the audits are completed within budget and on time, extending the budget if justified. The audit manager must be aware of risks to timely audit completion and ensure that audit work is relevant to the objectives and scope of the audit. The development of the data-gathering process and the analytical work has to be monitored. The audit manager should ensure that the audit teams are able to maintain good and proper relations with the audited entities and other stakeholders. The audit manager should inform the SAI's management on the progress of the audit, with recommendations for corrective action if needed. The manager must also ensure that the audit reports meet the reporting standards.[115]

The monitoring needs to include the implementation of the activity plan, the use of the allocated budget and the relevance of the audit design and methodology.

In the AFROSAI-E region, it is not un-common that the activity plan turns out to be not fully realistic. Sometimes it happens that the original activity plan is outdated even before the audit has started. If the activity plan is not revised, the audit team as well as management will find themselves without any clear control points (milestones) to assess the progress of the audit against. A realistic and updated activity plan gives incentives to the auditors to meet planned milestones and enables managers to monitor what the team has achieved and provide the support the team may need. This can contribute to reducing the problem with lengthy audit processes in some SAIs.

A realistic and updated activity plan is no guarantee that it can be followed completely. Often situations out of the control of the audit team and management cause problems and delays in the audit. While this may be unavoidable, it is important that the team and the SAI regularly consider how to address the problems experienced in the audit.

As the audit process proceeds, the knowledge of the audit topic, the problems and their causes increase stepwise. The audit design and methodology need to be regularly discussed between the audit team and management. New knowledge may make it appropriate to modify or even exclude some audit questions. It may also turn out to be crucial to include an audit question that was not anticipated during the planning stage. The planned strategy and methods for data collection and analysis may turn out to be impossible or not practical to use in full, and needs to be revised.

The implementation and use of the budget allocated for a performance audit engagement must also be regularly monitored, considering important deviations and how they may be handled to avoid cost overruns (if possible).

The execution of a performance audit is not a fully rational and straightforward process. Instead, performance audit engagements are rather complex processes requiring a reasonable degree of flexibility in the implementation to be successful. For this reason performance auditors and the SAI should be prepared to adjust the plan for the audit to the best available knowledge, a knowledge that increases stepwise during the audit.

Not revising the work plan for performance audits when significant changes in conditions or delays has taken place, will usually lead to poor project management creating a high risk for uncontrolled delays of the project or, even worse, in uncontrolled focus of the collection and analysis of data and the content of the report. There may even be instances when management need to reconsider the audit objective or close down performance audit projects. Major changes of the work plan should always be assessed and decided upon by management.

---

[115] ISSAI 3000, Appendix 4, page 119 – 120.

If the audit is not completed timely, the conditions in the sector may change completely during the audit, for example changing the government programme or reorganising the audited entities.

<div style="border:1px solid black; background-color:#ffff99; padding:10px;">

EXPERIENCES IN THE REGION – SAI TANZANIA
GOOD PROJECT MANAGEMENT

SAI Tanzania puts a lot of emphasis on good project management of performance audits, as the audits are costly and time-consuming. A pre-requisite for high quality reports is that the SAI is able to allocate staff with the right competence and sufficient time and resources. After conducting the pre-study and proposing an audit problem, the audit team prepares the work-plan including the design of the audit, activity plan and the budget. The work-plan is reviewed by the Assistant Auditor General (AAG) as a first level reviewer to ensure that it meets the standard in terms of quality and it has a realistic implementation schedule (time) and cost. The Deputy Auditor General (DAG) is the second level reviewer who also check the three key issues: the quality, cost and time before the work plan is submitted to the Controller and Auditor General (CAG) for review and approval. The plan covers all steps of the audit process, including the management reviews and decision process.

The emphasis is on realistic and high quality planning, making it easier to implement the plan. Management on all levels is deeply involved during the planning stage, as well as during the whole implementation of the audit. Managers on all levels are well informed and have a clear buy-in in the project. The team is always free to bring issues up with management at different levels when they face challenges or the work does not proceed as they expected. A lot of efforts are also made to provide early and regular information to the audited entity about the content and methodology of the audit, the time schedule, the need for support from them as well as the progress of the audit. This reduces the incidents experienced causing delays in the audits.

Once the work plan is approved, the team will be bound to ensure that the audit is accomplished within the planned period and budget. The team is required to report on the progress of the project to the AAG weekly. The AAG in turn reports weekly on the progress of the project including the timeline and cost to the DAG. The DAG on a weekly basis reports to the weekly Executive Committee meetings on the progress of each individual performance audit project. Through this meeting, the CAG and other Executive members are being informed weekly on the status of each performance audit project that is in progress. Any deviation from the plan is reported including the reasons for deviation. Based on that, approval is granted by the Executive Committee members. This process continues until the report is finalised and tabled in Parliament.

There are a few instances when the audits are delayed. When deviations compared to the plan are observe, the SAI try to analyse what actions that can be taken to compensate the delay or cost overrun. If this is not possible, it is considered if the plan needs to be revised. Most of the performance audits are completed on time and within the allocated budget. An audit would not be delayed more than one month, without formally revising the plan.

</div>

7.4.2 Managing audit risks[116]

According to ISSAI 300:28, auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.

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

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

---

[116] This Section is a quotation of ISSAI 300:28.

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

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

7.4.3 Communication during the entire audit process[117]

According to ISSAI 300:29, performance auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.

It is stated in ISSAI 20, principle 3, that SAIs shall communicate which standards and methodologies they use, and how they comply with them. They shall also communicate the scope of their audit activities, the audit objective, criteria and findings. Findings are subject to procedures of comment and the recommendations to discussions and responses from the audited entities.

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

- Communication channels with certain entities and stakeholders may not exist. For example academic or business communities or civil society organisations may not have been engaged with previously;

- Often there are no predefined audit criteria, and thus an intensive exchange of views with the audited entities are necessary; and

- The need for balanced reports (see Section 8.2) requires an active effort to obtain insight into the points of view of the various stakeholders.

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

Good external relations is important, not only in the short term perspective of getting access to information and opinions and getting better understanding of the subject matter; it is equally important in the long term perspective for a SAIs to gain trust, respect and credibility with different stakeholders.

Auditors should maintain communication with audited entities throughout the audit process, by means of constructive interaction as different findings, arguments and perspectives are assessed.

The communicative process begins at the planning phase and continues until the report has been finalised and later when the results are followed up. Some methods that can be used to support the communication process are to:

---

[117] This Section is mainly built on ISSAI 300:29 and on *Communication in the performance audit process* from the Performance Audit Sub-committee, which in turn refers to ISSAIs.

- Send _letters_ to the head of the entities, to ensure the proper presentation of the pre-study and the main study;
- Present _a leaflet_ to stakeholders, presenting the purpose of audit and the process;
- Request the audited entity to appoint _a contact person_ that can assist the team and for the team to be kept informed about the progress of the audit;
- Make _an agreement with senior management_ of the audited entity on what stage there should be direct contacts between the SAI and senior management;
- Submit _a draft report to the audited entity_ to check the factual accuracy and comment on the report; and
- Have _an exit meeting_ with the audited entity to discuss any disagreements and outstanding issues.

Pre-study

It is generally a good practice to _inform senior management_ of the audited entities about the reasons for carrying out a pre-study, even if the level of detail may vary. A good idea is to request an audited entity to appoint a contact person. _Discussions with managers and staff_ at the responsible authorities are important to gain basic knowledge of the audit area and its functions and conditions. It is also important to seek knowledge from _other stakeholders_, e.g. clients, researchers, evaluators, scientists, and other experts; but it is wise to inform the authorities involved about this.

EXPERIENCES IN THE REGION – SAI ETHIOPIA
COMMUNICATION WITH THE AUDITED ENTITY AND OTHER STAKEHOLDERS

In performance auditing in SAI Ethiopia there is regular communication between the SAI and the audited entity and other stakeholders. The main communication points are to:

- Involve the Public Accounts Committee (PAC) in the design of the Strategic plan of the SAI to consider their strategic interest in the selection of topics for audit;
- Communicate and inform the audited entity officially before starting an audit;
- Hold an opening conference with the top management of the audited entity and brief them about the nature of the audit and how it is going to be conducted, as well as to listen to their view on problems in the area that may need to be considered during the audit;
- Officially send the selected audit problem, audit question (issues) and assessment criteria to the audited entity for comments; the comments are considered and may lead to adjustments of the audit design when there are reasonable arguments for this; if the SAI disagree with comments made, the audit will continue as planned and the disagreement will be reflected in the audit report;
- Send the major findings to the top management of the audited entity for comments, using a fact sheet, before writing the draft audit report;
- Conduct an exit conference on the draft report and, when needed, consider the points raised on the draft report
- Send the final draft report to the supervisory organ of the audited entity, for their written comments; and
- Hold an annual press conference by the Auditor General covering performance auditing.

The SAI also participates in the annual Accountability Conference, which mainly focuses on the audit findings and recommendations, organised by the PAC which compromises three parties, namely; all standing committees of the Parliament, all Ministers (executives/auditees) and the Auditor-General.

Some SAIs prepare a communication plan during the pre-study phase, in which all external stakeholders and experts to be contacted during the audit are listed.

When the audit team has reached sufficient subject matter knowledge to design the audit, it is advisable to hold discussions with senior management of the responsible authorities concerned by the audit. Issues like study design, potential audit criteria and other practical aspects of relevance for the audit should be addressed. Since it is sometimes advisable to avoid setting precise and detailed criteria in the design phase, a SAI must decide case by case, the extent of these discussions with the responsible organisations concerned or other external stakeholders.

Examples of topics to be discussed during the pre-study are the following:

- How the pre-study has been initiated;
- The objectives of the pre-study; and
- The kind of information the SAI will need to collect during the pre-study.

Main study

The SAI needs to _inform senior management_ of the audited entity about the audit objective, scope, questions, criteria and methods of data collection for the main study. This will facilitate the process and help avoid misunderstandings. Audit criteria should be discussed with the audited entities.[118] This is of particular importance when there is no external legitimate source of criteria.

If a _contact person_ has not already been appointed during the pre study phase, then this is the time to do so.

An _open and constructive dialogue_ is the ideal in performance audit. An audit may, however, provoke negative reactions and the auditors may face varying situations, from openness and willingness to cooperate, to evasiveness and secrecy. The auditors should aim at establishing a constructive process of interaction. As a rule, the assistance of individuals from the organisations concerned is essential to an effective audit. An active dialogue during the audit with the responsible authorities, experts and others makes it easier; for instance, to continuously verify the auditor's understanding and preliminary audit findings.

Evidence, findings and conclusions must be properly communicated externally. As the audit proceeds it is necessary to ensure that the factual basis of descriptions is accurate and fair and that the analysis is comprehensive and addresses the cause of identified problems. Various arguments need to be represented and findings put in perspective. Recommendations must be well founded and add value. All of these issues need to be communicated to the responsible authorities concerned by the audit.

A good practice besides having _meetings with senior managers or other government officials_ is to carry out _focus group meetings_, in which various stakeholders and experts are invited to discuss preliminary findings, conclusions and recommendations. Before publishing the report, the audited entities should always be given the opportunity to _comment on the audit findings, conclusions and recommendations_; and all comments need to be carefully considered before a report is issued. At the end of the process it is advisable to keep the responsible authorities _informed on the procedures_ and timetable for the publication of the final report.

It is advisable to try to _get feedback_ from the audited entities and stakeholders concerned on the quality of the audit report and how well the communication process functioned during the audit and if there is room for improvement.

Examples of topics to be discussed during the main study are:

- The audit objective, scope, criteria, methodology and the expected audit process;
- The need for documents and access to persons important for data-collection;
- How to keep management informed about findings and the progress of the audit;
- The opinion of the audited entities on the draft report; are the facts presented correctly, are the conclusions understandable, do the recommendations add value; and
- The procedures and timetable for the publication of the final report.

---

[118] ISSAI 300:27.

7.4.4 Follow-up the lessons learned

While knowledge of the theory and methods is highly useful, the experience gained in completing audit reports are invaluable. Successes, mistakes and failures in practical performance auditing, are the most important sources for learning. Important elements of good project management are to follow-up how the audit has been implemented in terms of whether it has been completed on time, within budget and what lessons that can be learned for future audits. At the end of the audit process, stakeholder feedback can also be obtained on the quality of the published reports. The audited entities' perception of audit quality may also be solicited.[119]

According to ISSAI 40, element 4, SAIs should promote learning and training for all staff to encourage their professional development and help ensure that personnel are trained in current developments in performance auditing.

One important tool to meet this requirement is to ensure that lessons learned in completed audits are shared and discussed within the SAI, to benefit all performance auditors in their professional development. This can be done by requesting all teams finalising a performance audit to summarise their experiences from the audit and arrange an internal seminar with their colleagues, to share and discuss these experiences and how the audits can be improved in the future.

Some SAIs also use external actors, for example a university, to review and comment on completed performance audits. The results of the reviews can be used in internal seminars with staff, discussing the comments and opportunities for improvements.

EXAMPLE OF TOPICS FOR INTERNAL SEMINARS ON EXPERIENCES OF COMPLETED AUDITS

1. What went well and less well in the audit in terms of

- Selecting the audit topic and problem;
- Designing the audit (scope, questions, criteria and methodology);
- Executing the audit (including collection and analysis of data, communication with the audited entity and stakeholders and cooperation with management in the SAI); and
- Writing and presenting the audit report?

2. What are the good practices you would like your colleagues to consider using in their audits?

3. With the knowledge you have now, what will you try to do differently in future audits?

7.5   Documenting the audit process and the audit evidence

Working papers are all relevant documents collected and generated during a performance audit. They should include: documents recording the audit planning; the nature, timing, and extent of the audit procedures performed; and the results and the conclusions drawn from the audit evidence obtained. Working papers should therefore contain at least three sections: planning, execution and reporting. Working papers serve as the connecting link between the fieldwork and the audit report and should be sufficiently complete and detailed to provide an understanding of the audit. Thus, they should contain the evidence accumulated in support of the opinions, conclusions and analysis supporting the recommendations in the report.[120]

According to ISSAI 300:34, auditors should document the audit in accordance with the particular circumstances thereof. Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.

---

[119] ISSAI 300:29.
[120] ISSAI 3000, Appendix 3, page 113 – 114.

As in all audits, performance auditors should keep an adequate documentary record of the preparation, procedures and findings of each audit. However, the purpose and context of documentation are somewhat specific in performance auditing:[121]

- Frequently the auditor will have acquired specialised knowledge about the audit topic that is not easily reproduced in the SAI. Since the audit methodology and criteria may have been developed specifically for a single engagement, the auditor carries a special responsibility to make his reasoning transparent.

- In performance auditing, as well as containing findings and recommendations the report describes the framework, perspective and analytical structure that was adopted and the process that was followed to arrive at the conclusions. To some extent, the report performs functions that in other types of audits are provided by general standards or audit documentation.

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

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

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

EXPERIENCES IN THE REGION – SAI MALAWI
USING ELECTRONIC WORKING PAPERS – THE PERFORMANCE AUDIT FLOW

SAI Malawi have, with the assistance of the Office of the Auditor-General of Norway, developed what is called the PA Flow – a tool to facilitate the work of the performance auditors and help them to follow the adopted standards. The system is based on HTML-code (as used on websites) with hyperlinks to documents in Microsoft Word and Excel. The practice of performance auditing has been structured in eight different processes including a number of activities. The descriptions clarify different officers' responsibility for the activities. References to the customised AFROSAI-E template manual and relevant policies in the SAI are also made. These documents are also easily available through hyperlinks. When it adds value in performance auditing, hyperlinks to electronic template working papers have also been included to facilitate the work of the auditors. A standardised folder structure for saving the electronic documents is used, a structure similar to the structure of the paper files.

The system has now been used during almost two years. Has it added value? Yes, clearly. It does take time for auditors to be comfortable in using it, but once they are, the system clearly adds value. Auditors regularly look in the process description, and are reminded on the template working papers the SAI expects them to use as well as were information on the standards can be found when needed. These reminders have improved the way the auditors use and comply with the manual and policies. It has also made it easier to find electronic versions of many documents, rather than always having to go to the paper file to find them.

The system has similarities with TeamMate, but is much more basic. On the other hand there is no cost involved in using it. For us, it is still a challenge to make full use of the advantages with the PA Flow. At the moment SAI Malawi work together with AFROSAI-E and other SAIs in the region to develop a regional template version of the PA Flow, to make it available for other SAIs in the region.

---

[121] ISSAI 300:34.

It is important to establish a system for documenting the audit process (decisions, activities and internal and external communication) as well as the audit evidence and analysis made in the audit. This will make it possible for the auditor to have easy access to the information. It will also enable supervisors to review the work done as part of the SAIs quality control procedures, as well as enable internal or external quality assurance reviews.

The filed information will also facilitate the preparation of the report and provide confirmation of the auditor's findings. Normally, the documentation needs to include:

- An index for the information included in the file;
- A project journal, recording the dates for decisions, performed activities and internal and external communication during the audit;
- Statements of non-conflict for the auditors and acknowledgement of their understanding of the requirements in the Code of Ethics (ISSAI 30 and the SAIs own);
- The pre-study memorandum and approved work plan;
- Minutes from meetings with the audited entity, in particular the entry and exit meeting;
- Sent and received letters;
- Interview forms and typed notes from interviews;
- Written documents and used statistics;
- Registration forms from file reviews, observations or inspections;
- Answers in questionnaires;
- Minutes from progress meetings, documenting major decisions about the audit, when appropriate changing original plans;
- Minutes from meetings with focus groups and reference groups;
- Special analysis made in separate working papers;
- Documentation of reviews of drafts reports;
- Drafts of the report with the comments received and changes made documented, including how differences of opinions with external stakeholders or within the SAI has been resolved or handled; and
- The final report cross-referenced to the evidence in the file, either by notes written in a copy of the final report or in a separate document explaining what evidence that was used for different main findings and where this evidence is available in the file.

Minutes from interviews and different kind of meetings need to include information on the purpose, time and place of the meeting, the names, positions and organisations for those who participated (in the case of interviews, including contact information) as well as the minutes of the meeting and the agreements made, if any.

Some documents, questionnaires and similar may be too bulky to include physically in binders. Such materials should never the less be part of the file even if stored separately.

Many countries have regulations on how government archiving should be followed. Many types of documents in an audit (but not all) are easier to retrieve when filed electronically in a clear folder structure for the project. To the extent allowed by the regulations, electronic documentation can replace physical copies of the documents, provided a solid system with backup of information is used.

EXPERIENCES IN THE REGION – SAI SOUTH AFRICA
USING ELECTRONIC WORKING PAPERS – TEAMMATE

The SAI of South Africa has been using electronic working papers (TeamMate) in performance auditing for the past 15 years. The biggest advantage is that all the team members can access the same documents and that all the working papers are kept in the same format and in one central location. There are many similarities to the PA Flow in Malawi, but TeamMate provides additional functionalities. Supervisors can track progress with the execution of the audit and identify working papers ready for review, as well as communicate with the team through the system. There is a record of all staff making changes to working papers and working papers can be linked and referenced electronically to supporting documents, evidence and the report.

There are however some pitfalls that SAIs need to be aware of:

- The licenses are expensive;

- Auditors and supervisors need to work in a structured way and have well developed computer skills;

- IT support must be readily available to help teams to recover corrupted files, it may be necessary to redo certain work;

- Auditors as well as supervisors need to be trained in using the electronic working papers;

- The report function, in our experience, is not a good tool to support the development of the performance audit reports; and

- The system becomes slower as the number of users and data increase.

8 DECIDING ON AND REPORTING THE AUDIT

> **INTERNATIONAL STANDARDS REQUIRE THE AUDITORS OR THE AUDIT REPORT**
>
> 8.1 The SAI has <u>reviewed the quality of draft reports,</u> resolving differences of opinion in the SAI before a report is issued; normally incl. review by two levels of management (above the team leader), possibly also incl. review and discussions with staff in the unit and/or external experts. *ISSAI 40:5; 300:32; 3100:38. Covers elements in PMF SAI-15(iii)*
>
> 8.2 Reporting in performance auditing. *PMF SAI-16(iii)*
>
>   a) Before issuing the report, the audited entities (and possibly other parties directly affected) were given the <u>opportunity to comment</u> on the audit findings, conclusions and recommendations; correcting errors and documenting changes made or not made to the draft report. *ISSAI 40:5; 300:29*
>
>   b) After assessing the significance and managing the risk of inappropriate audit findings or reports not adding value, the SAI issues a <u>report on the economy and efficiency</u> with which resources are acquired and used, and the <u>effectiveness</u> with which objectives are met – referring to the audit standards used. *ISSAI 300:7-8, 28, 39*
>
>   c) The report is <u>comprehensive</u>, for example meeting the following sub-criteria: "includes all information needed to address the audit objective and audit questions, and sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions" as well as the audit design (objective, questions, criteria, methodology and any limitations to the data used). *ISSAI 300:39*
>
>   d) The <u>findings</u> (when appropriate complemented by analyses of causes and consequences) are material, for example meeting the following sub-criteria: based on sufficient appropriate audit evidence, clearly answer the audit questions or explain why this was not possible, explain how performance is hampered, put into perspective and congruent with the audit objective, questions and conclusions. *ISSAI 300:33, 38; 3000:4.3*
>
>   e) <u>The report includes conclusions</u> (clearly distinguished from findings), for example meeting the following sub-criteria: conclude against the audit objective, linked to questions and findings, supported by sufficient and appropriate audit evidence. *ISSAI 300:30-31; 3100:31*
>
>   f) The report contributes to better knowledge and highlight improvements needed, for example meeting the following sub-criteria: <u>recommendations</u> when provided are constructive, are likely to significantly improve performance, address the causes of problems/weaknesses (without taking over management's responsibility), are linked to the audit objective, findings and conclusions, and are clear, practical and addressed to the entities responsible for taking initiatives. *ISSAI 300:39*
>
>   g) The report is constructive and <u>convincing</u>, as it is logically structured and presents clear relationship between the audit objective, criteria, findings, conclusions and recommendations; <u>timely</u>; <u>reader-friendly</u> and as clear and concise as the subject matter permits, and contain unambiguous language; and <u>balanced</u>, addressing all relevant arguments). *ISSAI 300:39*
>
> 8.3 The SAI has <u>assisted the relevant parliamentary committees</u>, to help them better understand the audit report and conclusions and to take appropriate action. *ISSAI 20:7*

8.1 Reviewing and authorising the audit report

Before issuing the report, the SAI needs to review the quality of the report internally as well as invite the audited entities, and possibly other stakeholders, to comment on a draft report.

8.1.1 Quality control review of draft reports

Quality control review of draft reports forms an important part of the SAIs quality control system. Ensuring quality in performance auditing is much broader than reviewing draft reports. Different aspects of quality control have been addressed in previous chapters. The quality control systems

of a SAI as a whole are discussed initially in Section 5.4.2. Here we let experiences from Tanzania in the box below illustrate how quality control review of draft reports may be organised.

EXPERIENCES IN THE REGION – SAI TANZANIA
QUALITY CONTROL REVIEW OF THE AUDIT REPORT, INCLUDING EXPERT REVIEWS

Quality cannot be imposed by reviewers, but is something embedded in the whole process of performance auditing. However, quality control review is one important part of this process. In SAI Tanzania, as in all other SAIs, the quality of performance audit reports is considered to be paramount. It takes a long time to develop trust, but it can easily be ruined by inadequate information or poor analysis in single reports. The purpose of quality control reviews are to enhance the quality of the reports and safeguard against insufficient quality of reports.

The SAI systematically uses three types of quality control reviews in all performance audits: peer review, review by subject matter experts and review by three levels of managers.

In the peer reviews, colleagues from other teams review the plans for the audit as well as the draft report. The draft pre-study and the draft audit report are discussed in meetings with all performance auditors. The SAI plans to expand the performance audit practice and may need to limit these review meetings to the different sections. The peer review provides an opportunity for the audit team to have their judgement tested against the collective experience and wisdom of their colleagues. Another benefit is that it keeps the reviewers and other staff members current with what other teams are doing and share innovative approaches (e.g. suitable techniques for data collection in a certain locality due to their cultural behaviour) and successful experiences. This contributes to uniformity and improvement in the performance audit practices.

The SAI also ask *subject matter experts to review* all draft reports before they are published. The experts are selected among the renowned experts in that field with extensive theoretical and practical experience on the subject matter under audit. It may for example be professors from higher learning institutions, retired civil servants or any other expert who have got no vested interest with the audited entity. The experts provide advice and counsel on the drafted preliminary findings, conclusions and recommendations and discuss difficult, ambiguous or contentious issues and alternative reporting strategies. This helps us to improve the quality of our reports. The Controller and Auditor General (CAG) personally participates in the review meetings with the experts. As a complement to the supervisory review, this means a lot to provide the CAG with assurance of the quality of the draft report.

The *supervisors' review* is intended to ensure that major decisions made by the team and the draft report are reviewed by the senior officials who can subject the team to rigorous challenge. Team leaders are supervised by their seniors, Assistant Auditor Generals (AAG) and the Deputy Auditor General (DAG) responsible for performance auditing. The responsibility of the managers is to ensure that audits under their jurisdiction are properly conducted according to the laid down procedures. The SAI recently got the current management structure in place. This structure means that all draft reports will be reviewed by the responsible AAG, as well as by the DAG and the CAG.

The quality assurance review by AFROSAI-E in October 2012 made us realise that the SAI doesn't fully meet the standards on independent pre-issuance quality control review. As there now are two sections headed by an AAG, it should be possible to adjust the review procedures to fully meet the standards.

A similar, but not identical, quality control review process is used in Sierra Leone, see the box below. The SAI has established an Advisory Committee with a role in the internal finalisation process of audits.

The SAI should ensure that any difference of opinion within the SAI are clearly documented and resolved before issuing a report.[122]

8.1.2 Letting the audited entities comment on a draft report

ISSAIs require the SAI to let the parties affected by the audit have an opportunity to comment on the draft report before it is finalised. It is important that the audited entities check the factual information in the report, to minimise the risk for disagreements about the factual situation in front of the PAC. The audited entities should also be given an opportunity to comment on the audit findings and conclusions. The recommendations should be subject to discussions and responses from the audited entities. Any disagreements should be analysed and factual errors corrected. The examination of feedback should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented. [123]

Usually SAIs in the region also arrange an exit conference with the audited entity, where a draft report is discussed. The purpose is not really to agree on the report, but to clarify if there are any differences in the understanding of factual information in the reports and if the audited entity can add important information that may have an influence on the audit conclusions and recommendations. The objective should be to reach a mutual respect for the standpoints of different actors. This may involve to "agree to disagree".

---

[122] ISSAI 40:5.
[123] ISSAI 20, principle 3, page 5 (on discussing recommendations); ISSAI 40, element 5, page 12; and ISSAI 300:29.

As far as possible, differences in understanding of the factual situation should be resolved before issuing the report. When this is not possible, the report should reflect the differences in understanding. The SAI may also choose to refer to the views of an audited entity regarding conclusions and recommendations – when they are supporting the statements in the report, as well as when there are differences in opinions.

8.1.3 Authorising the audit report

According to ISSAI 40, element 5, the SAI should establish procedures for authorising audit reports. In performance auditing this normally means that the report is decided by top management, usually the Head of the SAI. The ISSAIs require timely submission and publication of reports, within the requirement of the legislation. This means that the SAI should issue and make the report public as soon as reasonable once the audit is completed.

8.2 Requirements and characteristics of a good report[124]

In a performance audit, the SAI reports findings on the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are met. Such reports may vary considerably in scope and nature, for example assessing whether resources have been applied in a sound manner, commenting on the impact of policies and programmes, and recommending changes designed to result in improvements. Auditors should strive to provide audit reports which are _comprehensive_, _convincing_, _timely_, _reader-friendly and balanced_. Overall, the reports should be constructive and _contribute to better knowledge and highlight improvements needed_.[125]

These requirements and characteristics of good reports are reflected in the blue box in the beginning of Chapter 8 and discussed in more detail below.

According to ISSAI 100:8, SAIs should declare which standards they apply when conducting audits, and this declaration should be accessible to users of the SAI's report. SAIs are encouraged to make such declarations as part of their audit report, however a more general form of communication may be used.

SAIs that have adopted INTOSAI Performance Audit Guidelines as their standard may refer to this by stating in the performance audit reports:[126]

> _We conducted our [performance] audit[s] in accordance with the International standards of Supreme Audit Institutions [on performance auditing]._

Considering the needs of the audience

All written reports require an understanding of the audience. Who will read the audit report? How familiar will they be with the subject matter? What is their need for information? Moreover audit reports often speak to multiple audiences:

- PACs, with less knowledge and understanding of the subject and critical points raised, unless they are clearly explained or signposted;

- The management of the audited entity, who will know more about the subject matter but will want to be able to assess the weight of evidence supporting the auditors conclusions as well as the logic supporting key recommendations; and

---

[124] This Section is largely based on ISSAI 300:39 and Chapter 5 in the AFROSAI-E _Toolkit for SAI's on communication with and reporting to PAC (2012), Module 4_.
[125] ISSAI 300:39.
[126] ISSAI 300:8. See ISSAI 300:7 for references to national standards developed by the SAI.

- The media, who may know little about the subject but will want to identify the main messages and the possible headlines they can write.

The following points are general advice for addressing the needs of the audience:

- The topic dealt with should be significant and of interest to readers. Relevance of a performance audit report begins with a clearly defined and focused audit problem and objective. Given the audit problem and objective, the audit should be suitably designed, including audit questions, audit scope and choice of methods – and this should be described in the report.

- The report should give the reader an appropriate understanding of the organisations, systems and processes subject to audit and how they are expected to function. This makes it easier for the reader to understand the findings, conclusions and recommendations in the report.

- The report should clearly identify and address the target audience. The goal is to convey the information to the audience with the greatest clarity.

According to the INTOSAI Subcommittee for Performance Audit, the diverse audience for performance audit work suggests that SAIs should address different groups with different products. Performance audit work can lead to a number of separate products in addition to the report, including summaries, leaflets, brochures, press releases and presentations. Each of these should be written in a style tailored to its specific audience. To produce reader-focused, interesting, challenging and widely appreciated reports, the SAI should research among its audience groups in Parliament, government and the wider society to decide on the most effective format and style for achieving the desired impact. Preparing a communication plan can provide a structured way of thinking about how to effectively reach different audiences.[127]

> *Hints & Tips.* It is sometimes useful to think of the executive summary as being written for the PAC; the report as being written for the audited entities and the appendices as being written for those academics or specialist staff with an interest in the field.

Comprehensive (complete) reports

To be comprehensive, a report should according to ISSAI 300:39 include all information needed to address the audit objective and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions.

The standard further states that the report should include information about the audit objective, audit questions and answers to those, subject matter, criteria, methodology, sources of data, any limitations to the data used, and audit findings. It should clearly answer the audit questions or explain why this was not possible.[128] The audit findings should be put into perspective, and congruence should be ensured between the audit objective, audit questions, findings and conclusions. The report should explain why and how problems noted in the findings hamper performance in order to encourage the audited entity or report user to initiate corrective action. It should, where appropriate, include recommendations for improvements to performance.

---

[127] *Making Performance Audit Reports Reader-friendly,* INTOSAI Performance Audit Sub-committee.
[128] ISSAIs clarifies that audit questions may be re-formulated during the audit process, based on increased knowledge and the availability of data. See ISSAI 300:39 and 3000, Section 4.4, page 64 – 65.

Convincing reports

To be convincing, a report should be logically structured and present a clear relationship between the audit objective, criteria, findings, conclusions and recommendations. All relevant arguments should be addressed.[129]

Being convincing, requires that audit findings and conclusions are responsive to the audit objectives and presented persuasively. The report should have a logical flow with findings, conclusions and recommendations clearly linked to the identified topic and audit criteria. The conclusions and recommendations should follow logically or analytically from the facts and arguments presented. Facts should be presented separately from opinions, i.e. findings should be clearly separated from conclusions. The language used should not be suggestive, and the information presented should be sufficient to convince the readers to recognise the validity of the findings, the reasonableness of the conclusions and the benefits of implementing the recommendations. Different arguments and opinions should be represented.

The report should only include information that is relevant for the audit objective and the audit questions and sub-questions. Users should be able to trust the reliability and validity of the reported results, and the evidence provided should be sufficient to support findings and conclusions. The data collection methods applied, can contribute towards more reliable and valid reports. The audit design should be such that the conclusions arise from the findings and the analysis based on verified facts and other information from various sources.

For the report to be accurate, the evidence provided need to be true and comprehensive and all findings correctly portrayed. Auditors should question the reliability of data used and eliminate conflicting or rival explanations. One inaccuracy in a report can cast doubt on the validity of the whole report, which can damage the reputation of SAIs.

Timely reports

The report should be timely with the main information being up to date, to enable the report to be used by government, Parliament and government entities to improve the way they function. The points on which the SAI expects action to be taken, and by whom, should be clearly stated. The report should be produced on time to enable governments, Parliaments, officials and other stakeholders to act in a timely manner.

To participate in the contest for the *Best Performance Audit Report in the AFROSAI-E Region*, reports must be completed within 12 months from the commencement of the pre-study.

Reader-friendly reports

Performance audit reports should be as clear and concise as the subject matter permits and phrased in unambiguous language.[130] Reports should be easy to read and understand, avoiding jargon and with technical and unfamiliar terms being clearly defined. Auditors must keep in mind that one of their objectives is to be persuasive; this can be best done by avoiding language that generates defensiveness and opposition.

Being concise, requires reports to not be longer than needed to convey and support the message. Information that the reader really needs, should be included; redundant information omitted. However, if your reader needs complex, legal, or technical information, do not omit it just to make the document simpler. Sometimes, reports that are complete, but still concise are likely to achieve greater results. However, writers should bear in mind that reports are not only written for technical specialists, so more information and explanation may be required for the reader who does not have detailed knowledge to help them understand the subject.

---

[129] ISSAI 300:39.
[130] ISSAI 300:39.

Balanced reports

The presentation of the report should be balanced, both in content and tone and based on objectively performed audit work. All relevant findings, arguments, and evidence should be included. Facts must not be suppressed and the auditor must not exaggerate minor shortcomings. Different perspectives and viewpoints should be represented. Explanations from audited entities must always be sought and critically evaluated. Explanations or opinions of an audited entity may be relevant to include in the report even when the auditor disagrees with it. Presentation of such statements should be done in a factual manner i.e. stating that it represents the opinion of management.

The credibility of the report is significantly enhanced when the evidence is presented in an unbiased manner. The report should be fair and not misleading, and put the audit findings into perspective. It should present the audit results impartially without exaggeration. Even though auditing has its focus on shortcomings it is advantageous if the reports can make room for both positive and negative findings.

Reports contributing to better knowledge and highlighting improvements needed

As a whole, the report should be constructive, contribute to better knowledge and highlight any necessary improvements.[131] The report can provide new knowledge that is valuable in itself, as it may cause the responsible actors to initiate change. Usually recommendations are also identified to add value and promote change. See Section 7.3.2 on developing recommendations.

EXPERIENCES IN THE REGION – SAI ZIMBABWE
MAKING REPORTS READER-FRIENDLY

SAI Zimbabwe puts a lot of efforts in making the reports easy to read. Besides the normal management review, all reports are reviewed by other performance auditors as well as regularity auditors. Among other things they comment on if the message is clear and relevant, if the draft report is clear, easily understood and uses a neutral and simple language. The SAI wants the report to be understood by the ordinary citizen on the street.

The SAI has been working on how to best present the data collected, in order to communicate it also to the layman. Among other techniques, the auditors try to use pie charts, bar graphs and trend analysis, rather than writing long elaborated texts. This is an attempt to avoid making the reports boring for the reader.

We believe that we are doing rather well in this respect, and have received some positive feedback. Of course, we also face challenges. We have, for example, tried to make the executive summary very short in order to tempt the reader to go to the main report and find out more details. However, the PAC has requested the executive summary to be more detailed. There are also some other readers who want a more detailed executive summary, as they feel that the other parts of the report are too long and not of real interest.

We have even received the comments that we tend to lose focus on what we really want to bring out in the audit. Sometimes we present too much detail in the findings – details that are not always fully relevant for the audit objective and the audit questions.

Another challenge is that our audits tend to take too long time. In the worst cases, this can mean that that the report is almost obsolete when it is published. In other cases, the audited entity has already taken action for improvements. We realise that the actions taken need to be acknowledged in the report. Obviously this is good, and means that we have achieved something. At the same time, the feeling among some auditors is that this reduces the value of the report.

Sometimes it may be required to enter into detailed technical explanations to acquire credibility for the report among technical experts. A more comprehensive report might provide the reader with a better understanding of the basis for the conclusions drawn and thus add value and credibility to the audit report. Comprehensive reports may, therefore, strengthen a SAI's capacity

---

[131] ISSAI 300:39.

to serve the citizens' interest in openness and transparency. A useful technique to make the report itself more concise is to put detailed information that is only of interest for some readers in appendices.

WELL STRUCTURED AND WELL WRITTEN REPORT

How best can I tell the story of the audit, and make sure that readers understand the main messages? A good report should have a clear and logically linked structure summarising and guiding the reader to key messages. Many readers, in particularly members of the PAC and other Parliamentarians, have a shortage of time and need key messages to be summarised. An executive summary is an indispensable tool to provide key messages to readers with a shortage of time. It is also a good tool to convey the key messages to other readers. Similarly, it is often useful to summarise different findings as a key message in the beginning of each chapter or section.

A general structure of a report is included in Appendix 3. It is important to logically organise in particular the findings chapter and guide the reader through it, explaining how one finding is followed by or related to another. It is often advisable to place more important issues before less important ones in the report. There will often be many different ways of structuring an audit report. Some examples of common structures for findings:

- By issue or theme;
- By process, or system;
- By organisation; or
- By level or geographic location.

PRESENTING TABLES AND FIGURES IN AUDIT REPORTS

Using graphics and tables in audit reports can significantly increase the level of understanding of the reader of a report. The three reasons to use graphics and tables are:

- *Condensing text.* A graph or table showing the comparative performance of 10 organisations will take up significantly less text than a written summary and will be easier for the reader to understand.

- *Clarifying relationships.* Relationships are inherently difficult to describe in words, but relatively easy to present in a chart. (As an example, try explaining in words your own government's organisational structure.)

- *Highlighting patterns.* Graphics can be very useful in identifying patterns in both large and small quantities of data.

Keep graphs and tables simple – they should illustrate one idea and the reader should be able to understand that idea quickly. Think of a graph as a paragraph in the report.

Some of the benefits of using graphics (from a research project on corporate reporting sponsored by the Canadian Institute of Chartered Accountants, CICA, in 2008) are presented in the box below.

The CICA research also identified potential drawbacks in the use of graphics, mainly related to that readers may not understand the summarised information correctly.

It is important that the SAI keeps control over the publication of their audit reports especially those which include graphics. As the reliability of information in the reports rests with SAIs, it is important that editorial controls remain strong up until the point of publishing the report. Proofreading and checking information on the final report is vital.

8.3   Submitting and distributing the report

Performance auditors should seek to make their reports widely accessible, in accordance with the mandate of the SAI. Auditors should bear in mind that distributing audit reports widely can promote the credibility of the audit function. Reports should therefore be distributed to the audited entities, the executive and/or the legislature and, where relevant, be made accessible to the general public directly and through the media and to other interested stakeholders.[132]

EXPERIENCES IN THE REGION – SAI BOTSWANA
REPORTS ARE NOT ALWAYS DISCUSSED IN PARLIAMENT

We have produced performance audit reports since 1992 in Botswana. The reports are published and widely distributed to the audited entities, Parliament (policy makers), public and private media, and to other interested parties and public places such as the National and the University of Botswana Libraries. The reports are laid before the National Assembly or tabled before the Full Council, in event they are for Local Authorities. The Media shows a lot of interest in that they have a wide coverage.

Even if the reports have been tabled before the National Assembly and Local Authorities over a decade now, they have until recently not been discussed by any of the two public accounts committees. The reason is that the relevant Acts does not require such discussions. However, we have now made a breakthrough since the PAC for Central Government discussed the report on *Implementation of the State Land Integrated Management Systems* by the Department of Lands in September 2012. The members of PAC showed interest and took a step further and discussed another five performance audit reports in September 2013.

We are convinced that our reports have contributed to improved performance in the public administration, even if they until now not always have been used for that purpose by the PACs. In most cases the management of the audited entity concur with the findings, accept the recommendations and take action to improve the situation. With the interest showed by the PAC we hope that the impact of our performance audits will be even better in the future.

---

[132] ISSAI 300:41.

Audit reports always have one or more main recipients as well as other stakeholders that may be interested in the report. As mentioned in Section 8.1, it is important to analyse who the readers of a report are, and adjust the report to the needs of the main readers.

For most SAIs in the AFROSAI-E region, PAC and the audited entities are the main recipients for performance audit reports. There are examples where the reports are submitted to Parliament, and sometimes even tabled, but not discussed by any committee or the Main House. SAI Mozambique currently clarifies how to report performance audits in their court system.[133]

SAIs in the region in general make their performance audit reports publicly available. Many SAIs have a website where the reports are published and may send them to AFROSAI-E to make them available at the AFROSAI-E website. It varies how actively SAIs distribute the reports and make them known to the media and other potentially interested parties.

In order to make the audit reports known to citizens, SAIs usually rely on the media to spread knowledge about the reports. A tool to make media interested is to issue a press release immediately after the report has been handed over formally to the main recipients. This can also influence how media present the news about the audit report. Several SAIs in the region issue press releases, to inform about the audit. In some cases, SAIs may also invite media to a press conference to present a report.

EXPERIENCES IN THE REGION – SAI UGANDA
WIDE DISSEMINATION OF PERFORMANCE AUDIT REPORTS

After the report has been finalised and signed by the Auditor-General, it is submitted to the Speaker of Parliament and to the audited entity. Copies of the report are also sent to:

- The various accountability agencies in Uganda, including the Inspector General of Government and the Minister of Ethics and Integrity;

- The Head of Public Service and Secretary to Cabinet;

- The Permanent Secretary Ministry of Public Service;

- The Permanent Secretary Ministry of Finance, Planning and Economic Development;

- Sector Ministry within which the audited entity falls;

- Public Universities; and

- Some Development Partners.

This is done to ensure wide dissemination of our audit reports. The SAI also make the reports available on the SAIs website as well as send them to AFROSAI-E posting on the website.

At the end of every audit year, in March, the SAI compiles an annual report and submit it to Parliament. This report includes all the value for money reports finalised during the audit year and their findings. Copies of this report are also distributed to Members of Parliament, selected stakeholders and the Press (selected newspapers of wide circulation). This is to further communicate the results to the public.

In addition to just submitting the report to Parliament and the audited entities, and make the report publicly available, the SAI may be able to arrange presentation meetings with ministries, parliamentarians and members of special parliamentary committees.

It is particularly important that SAIs focus on supporting members of PAC to understand the reports submitted to them. A close professional relationship should be established between the SAIs and PACs, which will provide benefits to both parties.

---

[133] Angola also has a court system, but has not yet started to produce performance audits.

Generally, SAIs assists PAC by briefing members and providing relevant information regarding reported audit findings. In addition to prior communication, it is vital that representative(s) of the SAIs should attend the PAC hearings where audit reports are discussed. This will allow SAIs to assist where necessary during the hearing and also to better understand the follow-up actions recommended by PAC on the audit findings.[134]

SAIs in the AFROSAI-E region may also be requested to draft the PAC report. This could be due to capacity constraints on the part of the PAC and the fact that auditors understand the context of the audit findings better. Auditors should, however, remain conscious that PAC reports should add value in the accountability process. The practice of auditors drafting PAC reports could be seen as a temporary arrangement, until the capacity of PAC is restored.

Furthermore, assistance offered by SAIs may include the review of PAC reports before they are issued to confirm factual contents and consistency of interpretations.

In countries where PAC is not ready to deal with performance audits, such audits can be summarised in the SAI's annual report, or in a separate report. In such situations, the SAI may take the main responsibility to encourage the audited entities to change – and report the results to Parliament.

---

[134] Detailed advice for how to assist PAC are provided in the AFROSAI-E *Toolkit for SAI's communication with and reporting to PACs.*

9 FOLLOWING UP THE AUDIT REPORT

There is a need to follow up the performance audit engagements from different perspectives. Follow-up on the implementation of the engagement and the lessons learned are elements in good project management, and dealt with in Section 7.4. This Chapter deals with the follow-up of the audited entities implementation of the audit recommendations, or other actions taken to address the problems highlighted in the audit.

It may serve four main reasons to follow-up on the recommendations the SAI and the PAC have made in reports:[135]

- Increasing the effectiveness of audit reports – the prime reason for following up audit reports is to increase the probability that recommendations will be implemented;

- Assisting the government and the legislature – follow-up may be valuable in guiding the actions of the legislature;

- Evaluation of SAI performance – follow-up up activities provide a basis for assessing and evaluating SAI performance; and

- Creating incentives for learning and development – follow-up activities may contribute to better knowledge and improved practice within the SAI.

According to ISSAI 300:42, auditors should follow-up previous audit findings and recommendations wherever appropriate. Follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective actions.

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

---

[135] ISSAI 3000, Section 5.5, page 75.

When conducting follow-up of an audit report, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow up and adopt an unbiased and independent approach. Follow-up results may be reported individually or as a consolidated report, which may in turn include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas. Follow-up can contribute to a better understanding of the value added by performance auditing over a given time period or subject area.[136] While it is generally recommended to follow-up on the recommendations made, different methods may be used to do so, for example to:

- Arrange a meeting with the audited entity after a certain time has elapsed to find out what actions have been taken to improve its performance and to check which recommendations have been implemented;
- Request the audited entity to inform the SAI in writing on what actions they have taken to address the problems presented in the audit report;
- Ask questions and make observations in the regularity audit of the entity, to find out what actions have been taken;
- Carry out limited field visits to collect and analyse data on whether identified problems have been appropriately addressed or not; and
- Carry out a follow-up audit, resulting in a new performance audit report.

What methods to use depend on the priorities made by the SAI in the strategic and annual planning of performance auditing and the availability of resources. It is also influenced by the importance of the identified problems and the actions expected to be implemented and the external interest for information on the actions taken.

EXPERIENCES IN THE REGION – SAI LESOTHO
FOLLOW-UP OF RECOMMENDATIONS

SAI Lesotho starts to follow-up each performance audit after six months of the main audit. In the first follow-up, the team usually contacts the auditee informally and requests the auditee to provide information indicating the extent to which the recommendations have been implemented. Depending on the result of the first follow-up, we decide if we need to continue to monitor how the recommendations are implemented, which we usually have to.

We use the Follow-up Review Template (below) to assess the extent and status of implementation of audit recommendations. This is an effective way to confirm the status of action on each recommendation from the audited entity.

If a year after the report had been issued, progress on implementation of recommendations is not visible or convincing; the audit team will be introduced to the auditee to conduct a field follow-up so as to be able to assess the extent at which recommendations have been implemented. The team will also find out whether the auditee encountered problems that hindered implementation of recommendations. It is after this exercise that a decision is made whether to also undertake a follow-up audit or not. It is not common that we make follow-up audits.

LESOTHO FOLLOW-UP REVIEW TEMPLATE

Audit Report: Auditee: Date Issued:

No.	Recommen-dation	Action Taken (as per report given)	Status/Progress for non-completion of recommendations	Impact (if any)
1				
2				

Prepared by: Date:

---

[136] ISSAI 300:42.

APPENDICES

Appendix 1 Defining output and outcome and measuring efficiency

This Appendix addresses some challenges the auditors may meet in defining and measuring the output and outcome for public organisations:

- The distinction between intermediate products and output and outcome/results;
- Different measures of output and outcome; and
- Many public organisations produce more than one type of output and outcome.

The distinction between intermediate products, output and outcome

Within the Traffic Police (the system of production) there may be different sub-systems producing intermediate products or services. In producing traffic inspections, an intermediate product may for example be to plan the inspections. Output and outcome, on the other hand, cover the services provided to someone outside the organisation (traffic inspections) and the results the inspections create in society (reduction in road accidents and deaths).

Measures of output and outcome should only cover the output (products and services) and outcome leaving what has been defined as the organisation (the Traffic Police). If the definition of the organisation is changed, the definitions of the output and outcome need to be changed accordingly.

The analysis of the causes to the observed level of efficiency, however, needs to cover the different steps in the production and the activities within the "black box".

Different measures of output and outcome

The achievements of an organisation can be measured in terms of the immediate output, the products and services, as well as the outcome. It is not always obvious how to distinguish between outputs and outcome, as the results of public activities sometimes can be seen as a continuum – from what the organisation immediately produces to what is finally achieved in society. This is illustrated in Figure 20.

Figure 20. Immediate, intermediate and long term results
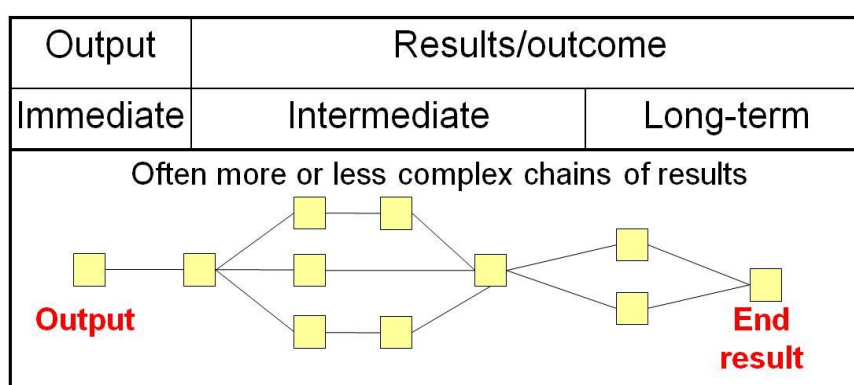
It is in general easier to measure the achievements close to the organisation that has produced them, i.e. the immediate output, than to measure the actual outcome in society. The output can be measured in terms of quantity as well as quality. Quality can be seen as the aspects of the output that enables it to create the intended outcome in society. This means that quality is not an absolute standard, but linked to the final results: a product of high quality will lead to the intended outcome.

While measures of efficiency often include the quantity of output, the quality of the output may also vary which can be equally important for how efficient the organisation is. In the case of

information brochures on road safety, for example, quality may refer to issues such as whether simple language is used, if the message is understandable, if the individuals in the target group are interested and can be affected by this type of message, and whether they are prepared to change their behaviour.

Efficiency is measured close to the organisation. It is often difficult to include costs, volume of production as well as quality in the same calculation. In studies measuring efficiency in terms of the relationship between the volume of production and the costs, it is rather common to assume that the quality has not changed, and for that reason can be excluded from the calculation. In cases where there is no need or objective to increase the quality, this assumption may be reasonable. In most cases, however, there is either uncertainty or a need or objective to increase the quality. In such cases, it is necessary to collect other information about the development of the quality of products or services in order to make any statements on the efficiency.

The implication is that measures of efficiency usually are partial, in that the measure either relate the volume of production to costs, or separately measures some aspects of the quality of output. The limitations to efficiency measures must always be taken into account in the auditor's analysis of efficiency.

Many public organisations produce more than one type of output and outcome

Many public organisations produce more than one type of output and outcome. There may be different products or services that together are expected to lead to the end results in society. The different types of traffic inspections that the Traffic Police carries out, are a good example of this. The Traffic Police may also produce other products and services aiming at reducing the road accidents, such as information materials. The different outputs are supposed to contribute to the same outcome – increased knowledge and changed behaviour by citizens in order to reduce the number of deaths in road accidents.

Many public organisations, including the Traffic Police, have not only several products and services, but are also expected to contribute to a different outcome in society.

When different outputs are produced, it can be difficult to allocate the used resources to different products or services, something that is necessary for an comprehensive assessment of the efficiency. The quantity of different products or services cannot directly be summed up with each other, e.g. broadcasting information on radio once cannot be summed up with one brochure. Instead it is necessary to find ways to allocate the costs to different types of products. Usually it is necessary to use a logic basis for proportioning different costs according to a standard. For example, staff cost may be allocated to different groups of products based on the working hours used for each one of them. It may be more logical, however, to allocate costs for office space, furniture and certain equipment proportionally to the number of staff involved in the production (rather than their time), while the costs for IT may be related to only one of the products.

When costs can be allocated to different types of products, the unit cost a certain year can also be used as weights to summarising different types of products into one overall measure for the total production. With this technique, an index series for total efficiency over time can be calculated.

Sometimes the problem of allocating costs to different types of products can be avoided by defining a measure of output on an overall level, like the number of taxpayers for a tax administration or the number of graduates for a school.

Appendix 2 Structure of a pre-study memorandum and work plan

This Appendix presents a common structure for pre-study memorandum and work plan in performance auditing.

- 1. Background
    - A brief introduction, giving overview that puts the audit topic into perspective, for example in terms of the sector, main actor and possibly a brief history.
    - Motivation for the pre-study.

- 2. Design of the pre-study, gives a brief outline as to how the study was carried out in terms of scope and what methods and sources of information have been used.

- 3. Description of the audit area
    - An overview of the area to understand the context of the topic for audit, such as legislation, budgets, the role of government entities, goals and objectives and the role of different stakeholders.
    - Systems and process descriptions – a more detailed description of how the system and processes being audited is expected to function – often supported by a figure, a flowchart or similar.

- 4. Results of the pre-study in terms of the information collected, problems identified and the reasons why they are considered to be problems, often supported by a problem tree illustrating the relations between different problems.

- 5. Selection of the audit problem
    - Analysis of the alternative audit problems against selection criteria.
    - A description of the selected audit problem, if the team recommends that a main study should be carried out.
    - Recommendation to management on whether or not to carry out a main study.

The work plan normally needs to include the following.

- 6. Methodological planning – audit design
    - Audit objective;
    - Audit scope;
    - Audit questions and sub-questions;
    - Audit criteria;
    - Strategy, methods and sources for data collection and analysis; and
    - Expected results of the audit.

- 7. Administrative planning
    - Team composition, considering necessary skills and needs for experts;
    - Timed activity plan, with clear management milestones;
    - Budget;
    - Mechanisms for monitoring the progress of audit;
    - Risks for carrying out the audit (reputational risks as well as risks to implementation); and
    - Communication with the audited entities and other main stakeholders.

Appendix 3 Structure of a performance audit report

This Appendix presents a common structure for reports. An alternative is to combine conclusions and recommendations into one chapter. Another alternative is to structure the report after main issues and present findings, conclusions and recommendations in different sections. The latter may be relevant when the audit addresses more than one issue without cause-effect relationships, i.e. when the audit focuses on more than one main problem. Findings, conclusions and recommendations in performance audit reports must always be clearly signposted.

Title
The title should make it clear what the audit topic is, and when feasible indicate the audited entities responsible for the activities audited.

Submission letter
Written on the official letterhead of the SAI, the submission letter(s) presents the report to the responsible parties, those responsible for management of the government undertaking and those responsible to take action for improvement. It includes the signature of the Head of the SAI. It may include references to the mandate of the SAI to perform the audit, the standards used, the names of the auditors which undertook the audit and information on how the SAI intends to follow-up the recommendations.

Table of contents
The table of contents presents the structure of the report.

Executive summary
The chapter summarises the introduction, major findings, conclusions and recommendations. It is a short summary in a few pages designed for those who have little time to read the full report.

> *Hints & Tips.* Build an executive summary from summary paragraphs within the main report – this will ensure that the summary is consistent with the report. Often the summary paragraphs can be summarised further in the executive summary.

Chapter 1: Introduction
Provides brief background information about the audit topic. It could include a brief description of the area in society that is influenced by the audit topic, as well as a brief mentioning of government undertakings This chapter also presents the audit motivation and a description of important aspects of the audit methodology, including the audit objective and scope, audit questions, criteria and methods for data collection and analysis, including the principles for selecting cases in the audit. An alternative is to present the audit methodology in a separate chapter. There is also a need to describe limitations in terms of the availability and quality of data, and how this has affected the audit report.

   Since the audit criteria usually are described more in detail in the chapter on the audit area and used in the findings chapter, it is usually sufficient to refer to the type of criteria in chapter 1. If appropriate, a more detailed presentation of methods for data collection (list of documents reviewed and number of interview objects, etc.) may be included in an appendix.

Chapter 2: Description of the audit area
Provides basic data about the type and size of government undertakings, describes the role of government entities and other stakeholders, incl. the legislation, objectives, organisation and funding. Also details how the systems, processes and activities are supposed to function. The chapter may be named after the audited system or programme. The descriptions should make it clear who is responsible for what, how the system should work, with details that make it possible to understand the report. Often it is appropriate to explain the audit criteria in this chapter, even if the essence of them also needs to be used in order to develop findings.

The test question for how much text to include in the report is: what does the reader need to know to understand the audit findings, conclusions and recommendations?

Chapter 3: Findings

Audit findings represent the differences between the criteria − 'what should be' − and the evidence on the actual situation (conditions) −'what there is'. The chapter should clearly describe the criteria and relate it to the evidence on the actual situation. The purpose of this chapter is to answer the audit questions by comparing appropriate and sufficient audit evidence to criteria, and to link different findings to each other in cause-effect relationships. Sometimes it is not fully appropriate to present consequences or causes as separate findings, for example to avoid a too detailed structure of the report. Consequences or causes – based on evidence – can then be presented as part of a certain finding.

The order of information in the report should follow a pyramid structure with the main or high level messages raised first, and then supported by lower level findings and evidence. It is usually best to start the findings chapter by presenting the evidence for the existence and magnitude of the audit problem. The rest of the chapter then flows naturally in explaining the causes to the problem. In a well-written report, the executive summary can usually be taken from the opening paragraphs for each main finding.

> *Hints & Tips.* Remember – you are not writing a mystery novel where you have to wait until the end before the mystery is solved. Bring the main messages as far forward in the report as it makes sense for a reader with no prior knowledge of the subject.

The report should make liberal use of headings and other signposting material. Headings can be meaningful by summarising the findings included in the paragraphs below (e.g. instead of "Needs Assessment in the procurement process", the heading could be "Needs assessments do not take the user perspective into account" if this is the main finding.

> *Hints & Tips.* Questions can make very useful headings in audit reports and encourage the auditor to state the answer as a punchy first paragraph (e.g. "Was the construction project finished on time?" where the next paragraph can begin with a sentence of "Yes" or "No".)

Chapter 4: Conclusions

The chapter contains the SAI's conclusions deduced from the findings. Conclusions should flow logically from the findings, which means that they should be based on sufficient appropriate audit evidence, including objective and logical analysis. Conclusions may also take a step further and include the opinion of the SAI based on the findings and indicate problems or risks going beyond the direct findings.

Chapter 5: Recommendations

This chapter includes the SAIs recommended practical improvements in operations and/or performance of the audited entity based on the audit findings and conclusions.

Appendices

Appendices can be used to present detailed descriptions and findings and may also be used for comprehensive descriptions of the audited entities, statistical tables, detailed explanations of methods used, etc. This is a way to avoid the report to become too long and make it easier to read it. It is also suitable to place a glossary of terms and a list of abbreviations in the beginning of the report or in an appendix.

Abbreviations and glossary of terms

Be restrictive in using abbreviations, limiting the use to those well known or used often in the report. Put abbreviation in brackets the first time it is used, explaining the full name. Also explain technical terms used in the report to facilitate the understanding of readers.

REFERENCES

The guidance materials in performance auditing available from AFROSAI-E has been used as references for this Handbook, See Chapter 2. In addition, the following references are made.

AFROSAI-E course materials in performance auditing

AFROSAI-E Regularity audit manual, 2012

Evaluation and its use in value for money studies, National Audit Office of U.K.

Getting beneath the surface, A handbook for using qualitative evidence in value for money examinations, National Audit Office U.K.

Getting to the heart of the matter, How case studies can help, National Audit Office of U.K.

Guidelines for performance audit, Office of the Auditor-General of Norway, 2005

Measuring evidence – Statistical Handbook for value for money and performance audit, National Audit Office of U.K.

Performance audit manual, Brazil Court of Audit, 2010

Performance audit manual, Office of the Auditor-General of Canada, 2011

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

Retningslinjer for forvaltningsrevisjon (Performance audit manual), Office of the Auditor-General of Norway, 2012 (available in Norwegian only)

The Research Methods Knowledge base, Trochim, 2002

Using Graphics in Corporate Reporting, Canadian Institute of Chartered Accountants, 2008

Veileder i resultatorientert revisjon (Guideline for result-oriented audits), Office of the Auditor-General of Norway, 2006 (available in Norwegian only)

Vägledning i effektivitetsrevision (Performance audit manual), Swedish National Audit Office, 2012 (available in Swedish only)

ABBREVIATIONS AND GLOSSARY OF TERMS

Used abbreviations	
AFROSAI-E	African Organisation of English-speaking Supreme Audit Institutions
AG	Auditor General - Head of SAI
CAAT	Computer-aided audit techniques
CCAF-FCVI	Canadian Comprehensive Audit Foundation
ICBF	Institutional Capacity Building Framework
CAG	Controller and Auditor General
CICA	Canadian Institute of Chartered Accountants
DAG	Deputy Auditor General
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IDI	INTOSAI Development Initiative
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PMF	Performance Measurement Framework
SAI	Supreme Audit Institution
SAI Botswana	Office of the Auditor General of Botswana
SAI Canada	Office of the Auditor General of Canada
SAI Ethiopia	Office of the Federal Auditor General of Ethiopia
SAI Ghana	Ghana Audit Service
SAI Kenya	Office of the Auditor General of Kenya
SAI Lesotho	Office of the Auditor General of Lesotho
SAI Malawi	National Audit Office of Malawi
SAI Mozambique	Tribunal Administrativo de Mozambique
SAI Namibia	Office of the Auditor General of Namibia
SAI Netherlands	Netherlands Court of Audit
SAI Norway	Office of the Auditor General of Norway
SAI Rwanda	Office of the Auditor General of Rwanda
SAI Sierra Leone	Audi Service Sierra Leone
SAI South Africa	Auditor-General South Africa
SAI Swaziland	Office of the Auditor General of Swaziland
SAI Sweden	Swedish National Audit Office
SAI Tanzania	National Audit Office of Tanzania
SAI Uganda	Office of the Auditor General of Uganda
SAI U.K.	National Audit Office of United Kingdom
SAI USA	United States Government Accountability Office
SAI Zambia	Office of the Auditor General of Zambia
SAI Zimbabwe	Office of the Comptroller and Auditor General
WHO	World Health Organisation

Concepts related to Chapter 3 Economy, efficiency and effectiveness

"Black box"	A name for the activity programme or organisation in the input/output model.
Cost-efficiency	Produced output in relation to the total costs.
Economy	Minimizing the costs of resources. The resources used should be available in due time, in appropriate quantity and quality and at the best price.
Effectiveness	Meeting the objectives set and achieving the intended results.
Effects	Another term for outcome or end results.
Efficiency	Getting the most from available resources. It is concerned with the relationship between resources employed and outputs delivered; in terms of quantity, quality and timing.
Government undertakings	Used in the Handbook as an umbrella term for activities, programmes organisations etc.
Impact	The achievement of outcomes attributed to the government undertaking.
Intermediate effects	Another term for intermediate outcome.
Intermediate outcome	Different steps in a chain of effects before the final outcome is achieved.
Intermediate output	Internal products or services, not aimed for direct use outside the organisation.
Labour efficiency	Produced output in relation to the used manpower.
Objectives	Explicit or implicit intentions of governments regarding the purpose of government undertakings – what is intended to be achieved.
Outcome	The end results of government undertakings, the same as effects.
Output	The immediate product or services leaving delivered to someone outside ton.
Quality of output	Aspects of the products and services that has a value for intended users and give positive contributions towards achieving the intended outcome.
Results	Used in ISSAI 300 in the meaning "end results". Sometimes used as an umbrella concept covering output, intermediate outcome and outcome.

Concepts linked to Chapter 5 Institutional capacity for performance auditing

Ethics: Competence	Apply high professional standards, follow standards and procedures, exercise due care, continuously update skills.
Ethics: Impartiality	Make use of information from different parties in an impartial way.
Ethics: Independence	Be independent of the audited entity, interest groups, avoid conflict of interest and personal interest.
Ethics: Integrity	Observe standards, professional conduct and act honestly in the public interest.
Ethics: Objectivity	Be neutral and objective in dealing with topics under review only express opinions in reports based on evidence.
Ethics: Professional judgement	Be open to views and arguments, use an objective state of mind, and apply knowledge from training and work experiences to make wise choices.
Ethics: Professional secrecy	Not disclose information from the audit other than in line with SAI procedures.
ICBF	Institutional Capacity Building Framework, AFROSAI-E's model for self assessment of the development of SAIs in the region.
Independent quality control review	Review of drafts by a knowledgeable person not involved in the audit or in line management of the audit.
Quality assurance review	Independent review of the functioning of a SAIs quality control system, including review of already published audits.
Quality control review	Review of drafts before publication of an audit, to improve its quality.
Quality control system	Different measures in a SAI to ensure quality in the production of audits.
Scepticism	Adopt a critical approach, probe, and maintain an objective distance to the information provided.

Concepts related to Chapter 6 Planning the audit

Administrative planning	Planning of the budget, activities, staffing, risks and communication in the audit.
Area watching	Activities where the auditors scan different sectors to develop and initial understanding and search for indications or risks for problems motivating an audit.
Audit criteria	Normative statements used to assess the performance of the auditee. What should be?
Audit coverage	Similar to scope.
Audit design	The audit objective, scope, question, criteria and strategy and methods for data collection and analysis used to guide the audit.
Audit engagement	The audit project.
Audit entity	The organisation subject to audit, synonymous to "the auditee".
Audit evidence	Factual information and logical analysis on the conditions on the ground (answering the question what is?), to be evaluated with criteria to develop findings.
Audit mandate	What the SAI is allowed to audit according to legislation/regulations.
Audit object	The activities, processes and programmes covered in the audit.
Audit objective	A brief and distinct formulation of what the audit is to accomplish.
Audit problem	A focus for a main study linked to the three E's, the main issue the audit will address and contribute to improve.
Audit questions and sub-questions	Questions to answer enabling the auditor to reach audit objective.
Audit scope	Defines what the audit covers (who?, what?, when?, where?).
Audit topic	A more or less specific area or problem initially selected for audit.
Auditors	The Head of the SAI and other persons in the SAI delegated to conduct the audit.
Auditability	The possibility to carry out an audit, considering the context, skills and resources.
Auditee	The organisation subject to audit, synonymous to "the audited entity".
General problem	A situation in society which is not satisfactory and could be improved.
Identified risks	Risks based on indications or some evidence.
Inherent risks	Risks inherent in the type of activity, not yet based on indications.
Intended user	The persons for whom the auditors prepare the report.
Limitations to the audit	Shortcomings in terms of activities not performed as intended in the audit and the absence of or uncertainty in available data, affecting the audit.
Materiality	The importance of issues in financial, social and political terms.
Methods of data collection	For example interviews, questionnaires, document review and inspections used to collect data in the audit.
Methodological planning	Planning the strategy and methods to collect and analyse data.
Overall risk analysis	Compiling sector risk assessments to an overall assessment, prioritising audit topics.
Potential for change	The opportunity to solve/reduce performance problems related to a topic.
Responsible parties	The audited entities responsible for management of the government undertaking, as well as those responsible to provide information or act on recommendations.
Risk for the three E's	Risk for performance problems with the economy, efficiency and effectiveness of government undertakings.
Sector risk analysis	Assessing risks for performance problems in a sector, resulting in identification and prioritisation of potential audit topics.
Strategy for data collection & analysis	Overall approach to data collection and analysis, identifying the need for data and combining study designs, methods and techniques to enable the auditors to answer the audit questions.
Subject matter	The government undertakings subject to audit.
Subject matter info.	Information in the performance audit report, developed by the auditors.

Concepts linked to Chapter 7 Executing the audit

Accurate	True and comprehensive with all findings correctly portrayed.
Analytical evidence	Includes computation, comparisons, separation of information into components as well as logical reasoning and rational arguments.
Anonymity	Not divulge people's opinions, in particular if sensitive information.
Audit Criteria	Normative statements used to assess the performance of the auditee. What should be?
Cause	The reasons causing a problem. May be a link between different findings.
Complete	All information and arguments needed to correctly understand, satisfy the audit objectives and answer all audit question.
Conclusions	Based on the findings, summarising the result of the audit against the audit objective, possibly she SAIs opinions.
Conditions	The factual situation on the ground. What is?
Consequence	The effects of a problem. May be a link between different findings.
Cost-benefit studies	Investigations of the relationship between the costs and benefits of government projects or programmes expressed in monetary terms.
Cost-effectiveness studies	Focuses on the relationship between project costs and outcomes expressed as costs per unit of outcome achieved.
Documentary evidence	Information from documents, incl. IT systems and existing statistics.
Findings	Comparison of conditions with criteria. One finding can be the cause or the consequence of another finding.
Objective and logical	Facts and arguments are neutral and rationally linked to findings
Physical evidence	Information from observations of people or inspections of physical objects.
Process studies	Analysing the events in processes, often work processes.
Reasonable evidence	Create a reasonable basis for findings at a reasonable cost.
Recommendations	Proposal addressed to government entities to solve or reduce problems and the causes to them.
Relevant evidence	Has a logical and sensible relationship to the findings.
Reliable evidence	Consistent with facts - remain consistent if studies are repeated.
Sufficient evidence	Enough to support the audit findings and conclusions.
Testimonial evidence	Information from people (oral or written answers).
Valid evidence	Consistent with facts - measure what is intended to measure.

Concepts related to Chapter 8 Deciding on and reporting the audit

Balanced and fair	Be objective, fair and not misleading, considering all relevant viewpoints and also acknowledge achievements.
Comprehensive	Including all information that is needed to understand the report.
Concise reports	No longer than needed to convey and support the message.
Constructive reports	Add value, significantly contribute to addressing the weaknesses or problems identified by the audit Include positive conclusions as appropriate.
Convincing reports	Be logically structured with clear links between the audit objective, criteria, findings (based on sufficient appropriate evidence), conclusions and recommendations.
Objective reports	Consider issues from different perspectives and maintain an open and objective attitude to various views and arguments.
Reader friendly reports	Be easy to read for the intended target group(s), be as the subject-matter permits.

AFROSAI-E Secretariat
235 Veale Street, Brooklyn Gardens, Brooklyn
Pretoria, South Africa
PO Box 446, Pretoria, South Africa, 0001

Phone: +27 12 426 8000
Fax: +27 12 426 8257

www.afrosai-e.org.za