

## **SDP 2020-2022: COMPONENT 1**

### **Are pronouncements on performance auditing sufficiently clear to do the work?**

#### **(a summary of views raised during the discussion session held on 23 February 2021)**

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Discussion sessions represent the second phase of the analysis carried out under the auspices of the PSC secretariat as part of Component 1 review. They build on the initial analysis and feedback provided by the INTOSAI standard setting community (phase one), aim to explore selected issues deeper, and provide input for the preparation of a survey to be addressed to all INTOSAI members (phase three).

The meeting – hosted and moderated by the PSC secretariat – was attended by interested members of the ISLO network, INTOSAI committees, their working bodies, and FIPP who had responded to the open invitation.

#### **Executive summary of the points raised**

The IFPP could elaborate on a number of issues that could help SAIs – both developing and developed – better understand how to do effective PA. This includes providing good examples, which do not necessarily have to be part of the framework.

Pronouncements covering general and performance audit procedures – as well as general ones – should be clearer, as they also represent the core for the quality and credibility of a SAI's work. This includes removing overlaps, clarifying what is a requirement, and what is an explanation. Standards should be clear and short. Handbooks (and not standards) should cover how to do the job.

The question is if IFPP needs to maintain the hundred and thousand series pronouncements as separate sets of documents, if it could distinguish in a single document what represents the basis for developing own standards vs implementing the ISSAIs directly.

The concept of 3Es seems to be generally clear and flexible enough to cover all PA needs. Some voiced a concern that the framework would not benefit from expanding the list of Es, particularly if they represent subject matter (even if one country reported having Environment as a separate E in its legal act). However, a number of participants voiced their conviction that the IFPP may need to make further consideration of certain elements such as sustainability, as they become increasingly relevant in the future.

Some participants reported that the IFPP does not cover certain work they are required or decide to do, such as reviews or assessments that do not address audit questions, or provide conclusions or recommendations. They are currently not able to state that these have been done compliance with standards.

A similar situation applies to evaluations, which certain SAIs consider a distinct and others a similar discipline to performance audit. The distinction is often based on national legal requirements or cultural considerations. Users find PA pronouncements a suitable base for carrying out evaluations, but there is space to reflect on how best to reflect any differences.

**Do you find the current performance audit content of the IFPP clear, sufficient and useful? How would you like to see it develop in the future, such as topics that need covering or where further guidance would be useful?**

It would be useful to have access to more (anonymised) examples of how SAI apply standards and principles, especially in cases when interpretation is more difficult (e.g. COVID-19 pandemic). These examples need not be part of the IFPP.

Most PA work does not really measure efficiency and effectiveness, but rather assesses the conditions for that and how it is managed. More examples on how to do “real” audits of efficiency/effectiveness would be useful. These need not be part of the framework.

One participant questioned if these issues were within the remit of the Component 1 review. (The moderator explained that they are.)

There should be more consistency and clarity in the sequence of ISSAI 100 – 300 – 3000 (and possibly GUID 3910/20).

Topics that could be covered by relevant PA guidance include stakeholder engagement, inclusiveness, assurance, risk, professional judgement, balance in the audit process and report, communication and impact, technology, data analysis and “multi-sectorial” audits.

More guidance on “agile performance audits” would be useful, including what they are in practice and how to conduct them.

One SAI recently started doing “investigations”, which are not PA in the pure sense but the SAI finds them a valuable part of its reporting portfolio. They are more descriptive in nature and do not use criteria. They also do “focus audits”, which are carried out quickly (no more than 14 weeks from start to publication), present facts in context, and do not express any conclusions or recommendations.

There should be a clear distinction between ISSAI 300 and 3000 in order to provide full value. There should be no overlaps. It should notably be clear what is a requirement and what is supporting material.

Current PA rarely addresses real 3E issues; the focus is more on examining the prerequisites for achieving performance. The standards do not reflect this reality. Pronouncements could state more clearly how we connect our world to the 3Es. Clarity also is necessary to facilitate discussions on the subject with colleagues and stakeholders.

Standards should remain clear, free of unnecessary details and abstain from addressing concrete practice. Details should be in handbooks, which also help new auditors to learn. A good example used by the SAI are IDI and ECA handbooks on performance auditing. Making good examples available is always useful, but they are hard to identify.

The current PA standards are useful not only to establish in-house practice, but also for stakeholders to understand what SAIs do. The definition of PA based around the 3Es is good. Referring to “investigations”, work not based on using criteria should not be considered PA, and PA should not deviate from established practice.

The existing performance audit content in the IFPP is certainly useful. The question is if it is necessary to have performance audit standards on two levels within the IFPP, or if it would be better to have only one principles-based performance auditing pronouncement containing all the requirements. For instance, the IIA standards prove to be a very good example of a full set of principles-based auditing standards that are presented clearly and concisely in one pronouncement. This format would work well for INTOSAI’s performance auditing standards.

From a purely theoretical stand-point, more is required to ensure credibility. This does not cast doubt on the competence of performance auditors, but stems from a firm belief that principles and standards are the core of the quality and credibility of our work. Where reports are often disputed, extreme compliance with the standards and extensive QA / QC become critical.

**Do you find the 3Es too restrictive when scoping performance audits, or do they represent a sufficiently flexible guide for all performance audit work? Should there be other “Es”?**

The 3Es are not restrictive. On the contrary, they are very relevant.

In essence, the 3Es are good as they are, but the key question is how you define them. They may need to be adapted to new situations in the developing world.

The 3Es are the core, but can be restrictive when for instance auditing SDGs. Relevance is also a possible key criterion. We can go beyond problems, into outcomes.

The 3Es are comprehensive and we apply them in our work with no problem.

The 3Es are quite appropriate, but we need to see how we can apply them in various situations. For instance, in assessing public response to the crisis of the likes of COVID-19.

The 3Es are sufficiently flexible and do not restrict the SAI from conducting most PAs. In the future, INTOSAI should consider the importance of sustainability, ecology, and social issues. Sustainability could be another element to look at consistently as much as we look at legality of measures or actions.

Having more Es would not change anything – SAIs are not limited in what they can do in applying the 3Es.

One representative mentioned that their law includes “environment” as the fourth E.

Adding more Es could be even be dangerous as this would affect the current broad scope of the 3Es, and open the new ones to further interpretation.

The 3Es model has proven to be robust over the past years and work is well. It can be adapted to the work SAIs do.

Having more concepts in place can be confusing. Not even the three currently in place are always clear to SAIs.

The 3Es are comprehensive and there is no reason to change them. However, SAIs should consistently consider sustainability in their work as already now they consider legality. SAIs should look ahead and assess e.g. whether in ten years’ time sustainability issues will become even more important, and therefore whether they would then need to be reflected more specifically in the framework.

When attempting to achieve a performance audit objective, it is helpful to determine if it is the efficiency, effectiveness, and/or economy that is being evaluated.

The potential magnitude of the risk posed by climate change and its potential financial impact (and existential impact in some cases) is now more widely recognized and understood. The environmental sustainability dimension is therefore also highly relevant when evaluating the performance of any entity. It is also likely to become more relevant in the realm of financial auditing since financial

reporting frameworks could require the recognition of balances and the disclosure of information related to climate change risks. Ethics and equity are also relevant and important dimensions to consider.

The community should be cautious about mixing 3Es with other categories, which are subject matters (e.g. the environment). The 3Es are part of an impact model, but the SAIs may not be well familiar with it. INTOSAI or SAIs should provide training for performance auditors to better understand the model.

***How do we measure efficiency, if it is basically a mixture of the other Es? Is it and E?***

Efficiency is a relative concept – SAIs can measure improvements over time or benchmark with more efficient organisations.

3Es are “perspectives” and not “measures”. They are not absolutes as such.

***Are there types of work SAIs would like to do but cannot because of standards being too restrictive?***

Current pronouncements do not cover investigations and “focus” audits, which are not PA in the strict sense given the absence of criteria considered. The SAI considers these products useful and attempts to follow the standards to the extent possible, or in the spirit they represent.

Pronouncements could address forensic audit work and auditing auditee objectives.

Certain countries do other engagements such as investigations in the sense of identifying fraud. They usually follow CA standards.

***Do requirements in mandates and national law match the definition of PA in the standards? Does the PA definition cause problems for the SAI to meet the requirements in the mandate?***

Five participants that spoke indicated that they do not have such problems.

One participant informed that they have the mandate to question policy matters and law, and make recommendations to change them.

One participant mentioned that stakeholder expectations are important, which in their case means focusing increasingly on outcomes and doing real time audits (COVID response). This is challenging for the SAI.

***Is evaluation fundamentally different from performance audit? Does performance audit have lessons to learn from evaluation?***

ISSAIs 300 and 3000 are the first choice for evaluators working in our SAI. ISSAI 300 is in general more useful and precise for evaluators working in a SAI.

One participant stated that:

- The object of the evaluation is a public policy and not an organization, project or program. At the end of the process, the SAI can recommend changes to the legislation. This happens in half of relevant reports, mostly addressing coherence between legal acts or legislation that is rather old and does not reflect how society has evolved.

- Evaluation is different from PA. Evaluations examine more the impacts of the state's activity, considering also the role of private actors. They assess the social and qualitative aspects of a public policy, and tend to make more use of social science methodology to answer questions. Nonetheless, PA can also use such methods and other SAI consider this PA.
- Evaluators have a lot to learn from auditors, but evaluators can also bring a valuable know how to auditors. What is important is the quality of the audit and that the questions and answers are addressed appropriately, regardless of whether these are called an evaluation or a PA.
- Differences are often given by different institutional set-ups of the SAI in each country.
- What is more important than labeling is quality: good questions, good methods, good answers.
- It is good to have two INTOSAI working bodies – on PA and evaluation. It allows for stimulating debates, standards and guidance, but importantly training possibilities.

All PA is evaluation and a systematic determination of performance, using criteria. There may be various approaches, but PA is about evaluation.

Performance auditors evaluate and use results of evaluation to make a conclusion.

One participant indicated that their mandate clearly distinguishes between the PA work done by the SAI and the evaluations that government is mandated to carry out on its activities and operations.

It would be useful if ISSAI 300 included the possibility to question legislation and allow proposals to change legislation through recommendations.

Evaluation is broad concept and there can be many types, whilst for PA there is a standard defining the audit type. PA is also evaluation, and then each SAI may decide to call its approach what it wants.

There is a gap that we find quite critical – the auditing of government's performance reporting. This is a critical element of work that sits outside the standards. In our case, investment in methodology in this area comes from benchmarking with one SAI and – unfortunately – nowhere else. Added to this is an expectation from citizens that this type of auditing (or performance auditing, or even evaluations) will give a credible view on the citizen's experience of government's initiatives. In our current set-up, we are exploring the world of social auditing (either cooperating with or doing it in own right) as a way of bridging this gap. This would be an excellent area to address as part of emerging issues – something that the world of standard-setters or INTOSAI is not touching at all yet. Hopefully our work on component 1 will also flag the need to have something to say on emerging issues – perhaps following a maturity curve that starts with guidance outside the IFPP, Guidance in the IFPP and perhaps even later a few principles and/ or standards.

That there is no big difference between PA and evaluation. Such distinction probably is a matter of culture and legal mandate. There can be a separate regulation for evaluations, it may be stated specifically who can do them, how evaluations are financed; who chooses the topics for evaluations, how evaluators collect data; how they ensure quality; how evaluation results are recorded and whether they are publically reported; and how evaluations are used. However, both PA and evaluations are evaluating activities.

There is a historical difference between PA and evaluation, and one does not consider them to be always the same, although they can be. Both evaluators and performance auditors – through analysis – discover and communicate what they found. Both activities could learn from each other. If the SAI

is mandated to do both, it is put at the risk to illustrate how these activities are different. In conclusion, SAIs should try to understand the difference and learn / apply the methods from evaluation.

***Is there a need for further guidance on evaluations in IFPP?***

There is no need for further guidance as there is already GUID 9020 in the framework.

There is no need for further guidance but perhaps PA guidance could further clarify and explain the relationship between the two.

There is no fundamental difference. SAIs can learn from each other, especially on how to apply in PAs methods used specifically in evaluation.

Differences lay in terminology and legal implications. This includes possibilities for one approach to propose sanctions, and not for another. Which may be reason for a SAI to call some of its work one or another, as is more suitable.

Empathy could be used as a fourth "E". SAIs should be open to discussion and understand circumstances in which institutions operate. Respect is key.

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