

INTOSAI



Performance

Auditing Standards

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PSC-SECRETARIAT

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1. INTRODUCTION

1. INTOSAI's fundamental auditing principles¹ recognise that due to the differing approaches and structures of Supreme Audit Institutions (SAIs), not all auditing standards apply to all aspects of their work. Furthermore, on the basis of the terms of the audit mandate with which SAIs are empowered, any auditing standards external to the SAI cannot be prescriptive, nor have a mandatory application to the work of the SAI. However, in order to promote high quality work across its members, INTOSAI advocates that each SAI should establish a policy which has regard to INTOSAI standards, and other specific professional standards, which should be followed in carrying out various types of work that the organisation conducts. This document outlines a common understanding of what defines high quality work in performance auditing

2. Comparisons between the practices of performance auditing in different countries show considerable variations depending on the mandate, organisation and methods used by the SAIs. The legal, administrative and economic environment can have a bearing on the nature of performance audits conducted and how they are carried out. The maturity of public sector administration also impacts on the extent and nature of performance audits that can be performed.

3. Performance auditing generally follows one of two approaches in examining the performance of the audited entity. The audit may take a result-oriented approach, which assesses whether pre-defined objectives have been achieved, or a problem-oriented approach, which verifies and analyses the causes of a particular problem(s).

4. Performance auditing may also adopt one of two perspectives for the audit: a top-down perspective, which focuses on the requirements, intentions, objectives and expectations of the Legislature, Executive and/or regulatory body, or a bottom-up perspective, that focuses on the effects of the activity on the audited entity and the larger community². In the case of the former, performance auditing takes the intentions and decisions of the legislature for granted, while examining whether possible shortcomings in the laws and regulations have affected those intentions being met. Depending on their mandate, SAIs may audit the assumptions on which policy decisions were based and the impact of such policy decisions. The findings provide an objective assessment to inform the legislature on such issues as how to enhance policy target achievement and/or how to accomplish objectives more efficiently and effectively.

5. Whichever approach or perspective is adopted, performance auditing aims towards examining the economy, efficiency and effectiveness of the audited

¹ ISSAI 100, paras. 14 and 17.

² ISSAI 3000, para. 1.8

entity in the performance of its functions and activities, rather than the audited entity's compliance with established legislation and regulations.

6. As performance auditing can deal with all facets of the public sector, it would not be possible or appropriate to propose detailed common auditing standards to cover all situations. Accordingly, auditors are required to apply their own professional judgments and applicable professional standards to the diverse situations that arise in the course of performance auditing.

2. PERFORMANCE AUDITING STANDARDS

2.1 Definition

7. Performance auditing is an independent and objective examination of government undertakings, programmes or organisations, with regard to one or more of the three aspects of economy, efficiency and effectiveness, aiming to lead to improvements³.

8. The performance audit task is a separately identifiable piece of audit work, typically resulting in the issuing of a statement, or report. It should have clearly identifiable objectives and pertain to a single or clearly identifiable group of activities, programmes or bodies known as the "audited entity".

2.2. Performance audit objective

9. According to ISSAI 100⁴, an individual performance audit should have the objective of examining one or more of these three aspects:

- (a) the economy of activities in accordance with sound administrative principles and practices, and management policies;
- (b) the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- (c) the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

10. Frequently, the audit questions addressed by performance audit are not exclusively based on a retrospective audit approach. In a performance audit, SAIs should be able to take an early initiative and furnish proactive audit findings, and/or recommendations, where appropriate. Furthermore, financial

³ ISSAI 3000, Part 1, para. 1.1.

⁴ ISSAI 100, para. 40.

and compliance audit aspects, including environmental considerations in the context of sustainable development, can also be included in a performance audit. Finally, the perspective of the citizen could also be taken into account where possible.

2.3 Selecting audit topics

11. Auditors should select audit topics that are significant, auditable, and reflect the SAI's mandate⁵. Furthermore, the audit should lead to improved value for money, and/or other important benefits for public finance and administration, the audited entity, or the general public. Performance audit topics should be selected on the basis of problem and /or risk analyses and materiality or significance. The processes of strategic planning and establishing the annual audit programme, are useful tools for setting priorities⁶.

2.4 The audit process

2.4.1 Planning an audit

12. The auditor should plan the audit in a manner which ensures that it is of high quality and is carried out in an economic, efficient and effective way and in a timely manner⁷. Consequently, the audit planning documents should contain:

- a) the audit: objective, questions or hypotheses, criteria, scope and period to be covered by the audit, and methodology;
- b) background knowledge and information needed to understand the entity to be audited, to allow an assessment of risk, possible sources of evidence, auditability, and the materiality or significance of the area considered for audit⁸;
- c) staffing requirements, i.e. competencies (including the independence of engagement staff) and possible external expertise required for the audit, the estimated cost of the exercise, the key project timeframes and milestones, and the main control points of the audit;

⁵ ISSAI 100, para. 34.

⁶ ISSAI 3000, para. 3.2.

⁷ ISSAI 300, para. 1.1.

⁸ ISSAI 300, paras. 1.3-1.4.

d) an indication of the sound knowledge of the auditors in the subject matter to be audited⁹.

13. Performance audits should have suitable audit criteria that focus the audit and provide a basis for developing audit findings. Audit criteria should be reliable, objective, useful, and complete.

14. The audit scope should clearly define the extent, timing and nature of the audit to be carried out. When laws, regulations, and other compliance requirements pertaining to the audit entity have the potential to significantly impact on the audit questions, then the audit should be designed to address these issues in order to conclude on the audit questions.

15. In determining the extent and scope of the audit, auditors often need to assess the reliability of internal controls that assist in conducting the business of the audited entity. The extent of that assessment depends on the objectives of the audit¹⁰. Moreover, they should be alert to situations or transactions that could be indicative of illegal acts or abuse and should determine the extent to which such acts affect the audit findings¹¹. Therefore, where there is an overlap between other types of audit and performance auditing, classification of a particular audit should depend on the primary purpose of that audit¹².

16. When designing audit procedures, the auditor should determine the means for gathering sufficient appropriate audit evidence to conclude against the objectives, answer the audit questions, or confirm the hypotheses. Since auditors seldom have the opportunity to consider all information about the audited entity, data collection and sampling techniques should be carefully chosen.

17. Performance audits can draw upon a large variety of data-gathering techniques, such as surveys, interviews, focus groups, observations, documentary analysis, and transaction testing. Audit methods should be chosen which best allow the gathering of audit evidence in an efficient and effective manner. While the aim of auditors should be to adopt best practices, practical reasons such as availability of data may restrict the choice of methods. Therefore, as a general rule, it is advisable to be flexible and pragmatic in the choice of methods. For this reason, performance audit procedures should not be standardised in all their terms, as due to the flexibility, imagination and high levels of analytical skills required, being too prescriptive may hamper the functioning of performance auditing¹³.

⁹ ISSAI 3000, para. 2.2.

¹⁰ ISSAI 300, para. 3.1.

¹¹ ISSAI 300, para. 0.3(d).

¹² ISSAI 100, para. 41.

¹³ ISSAI 3000, para. 1.8.

Nevertheless, the design of each audit procedure should, include an overall activity plan.

18. Auditees responsible for or involved in the audited entity should be notified of the key aspects of the audit, including the scope, the audit objective, the audit questions and the audit criteria, before the start of the audit¹⁴ or after the completion of the audit planning.

2.4.2 Examination

19. Audits should be performed with due care, with an objective state of mind, and with appropriate supervision. The audit team should collectively possess adequate knowledge of the subject matter and audit techniques.

20. The auditor should obtain sufficient and appropriate audit evidence to satisfy the audit questions, to be able to draw conclusions and, if appropriate, to issue recommendations. The nature of the audit evidence required in performance audit is determined by the subject matter and the audit questions. Under normal circumstances, performance audits are more open to judgement and interpretation than financial and compliance audits, due to the fact that audit evidence is more persuasive ("points towards the conclusion that...") than conclusive ("right/wrong") in nature¹⁵.

21. Evidence may be categorized as physical, documentary, testimonial, or analytical. The types of evidence to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance, and reasonableness. Audit evidence should be competent, relevant and reasonable in order to support the auditor's judgment and conclusion regarding the audit questions¹⁶. All audit findings and conclusions should be supported by audit evidence.

22. Performance auditors should be resourceful, flexible and systematic in their search for sufficient evidence. They must also be receptive to views and arguments and seek information from different sources and stakeholders¹⁷. Auditors should always try to be practical in their efforts to collect, interpret and analyse data. Secondary data is that which is collected and/or analysed by others, and can be an important source of information in performance audits. It is important, that the reader of the audit report is informed about the source and quality of the data, particularly when it contains estimations.¹⁸

¹⁴ ISSAI 300, para. 1.4.

¹⁵ ISSAI 3000, para. 4.2.

¹⁶ ISSAI 300, para. 5.4.

¹⁷ ISSAI 3000, para. 4.2.

¹⁸ ISSAI 3000, appendix 3, para. 5

23. The analysis of data involves combining the audit findings from different of sources. It is crucially important that the auditor works systematically and carefully in interpreting the data and arguments collected¹⁹. The audit team should document all matters which in its professional judgement are important in providing evidence to support the audit findings and the conclusions to be expressed in the audit report.

24. Working papers produced by the auditor need to fully record the preparation, conduct, contents and findings of the audit in a meaningful way. They should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was performed in support of the audit conclusions. In general, the organisation of the audit should also satisfy the requirements of good project management²⁰.

25. The development of good and proper external relations is a key factor in achieving effective and efficient performance audits. Therefore, auditors should seek to maintain good professional relationships with all stakeholders involved, promote the free and frank flow of information in so far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding of the respective role and responsibilities of each party. The communication process between the auditor and audited entity begins at the planning stage of the audit and continues throughout the audit process, by a constructive process of interaction, as different findings, arguments and perspectives are assessed.

2.4.3 Reporting

26. In a performance audit, the auditor reports on the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are met. Such reports may vary considerably in scope and nature, for example covering whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements²¹.

27. For all audit assignments any limitations to the audit, such as restrictive regulations, or limitations concerning access to information or reporting requirements, should be disclosed to users of the audit report. The report should also disclose the standards that were followed in carrying out the performance audit.

28. The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in

¹⁹ ISSAI 3000, para. 4.5.

²⁰ ISSAI 300, para. 5.7

²¹ ISSAI 400, para. 4.

the same way as the opinion on financial statements. Where the nature of the audit allows this to be done in relation to specific areas of an entity's activities, the auditor should provide a report which describes the circumstances and context to arrive at a specific conclusion rather than a standardised statement.

29. The audit report should include details of the audit objective, audit questions, audit scope, audit criteria, methodology, sources of audit evidence, any limitations to the data used, and audit findings. It should clearly conclude against the audit questions, and audit findings should be put into perspective. Congruence should be ensured between the audit questions, findings and conclusions. The report should, where appropriate, make recommendations.

30. The report should be timely, complete, accurate, objective, convincing, constructive, and as clear and concise as the subject-matter permits²². It should also be reader-friendly, well structured, and contain unambiguous language. Overall, it should contribute to better knowledge and highlight improvements needed²³. The audit findings and conclusions should be based on evidence and should be clearly distinguishable in the report²⁴. All relevant arguments should be considered in the report and the report should be balanced and fair²⁵.

31. Recommendations, where provided, should be argued in a logical, knowledge-based and rational fashion, and be based on competent and relevant audit findings²⁶. They should be practicable, add value and address the audit questions. They should be addressed to the entity having responsibility and competence for their implementation. The audit recommendations are often of an advisory character.

32. Auditors should, within the scope of the audit, refer in the audit report to all significant instances of non-compliance and significant instances of abuse that were found during or in connection with the audit²⁷. Where such instances are not pertinent to the audit questions, it is envisaged that they would nevertheless be communicated to the auditee preferably in writing at the appropriate level.

33. Unless prohibited by legislation or regulations, before publishing a performance audit report, the SAI should always consider giving the auditee(s) the opportunity to comment on the audit findings and recommendations²⁸. Where disagreements occur they should be analysed and factual errors

²² ISSAI 400, para. 22.

²³ ISSAI 3000, para. 5.3.

²⁴ ISSAI 400, para. 7.

²⁵ ISSAI 400, para. 24.

²⁶ ISSAI 3000, para. 4.5.

²⁷ ISSAI 400, para. 7.

²⁸ ISSAI 3000, para. 4.5.

corrected. Producing detailed audit reports and distributing them widely is vital for the credibility of the audit function. SAIs should decide about the method of distribution in conformity with their respective mandates. The reports should be distributed to the audited body, the Executive and/or the Legislature, and where relevant, the media and to other interested stakeholders²⁹.

34. Auditors should not communicate to third parties, neither in writing nor orally, any information they obtain in the course of audit work, except where doing so is necessary to discharge the statutory or otherwise prescribed responsibilities of the SAI in question. Any such communication of information should be governed by the statutory or other rules of procedure in force for the respective SAI³⁰. Auditors however, may exchange information with internal auditors, should this information not be of a data security or other confidential nature, for the purposes of ensuring that any identified shortcomings are addressed. For example, auditors should also report any financial irregularities to the authorities concerned, where appropriate.

2.4.4 Follow-up

35. Follow-up of the audit report should be part of the audit cycle. The priority of follow-up tasks should be assessed as part of the overall audit strategy of the SAI³¹. Sufficient time should be allowed for the audited entity to implement appropriate action.

36. When conducting follow-up tasks, the auditor should adopt an unbiased and independent approach. The focus should be to determine whether reported weaknesses have been remedied³². The results of the follow-up task should be reported appropriately, together if possible, with the conclusions and impacts of the remedial actions taken.

2.5 Quality system

37. Performance audits should be subject to a system of quality assurance and control which provides reasonable assurance that the audit has been conducted in accordance with professional standards and regulatory and legal requirements, and that the reports are appropriate. The following issues are important to ensure the quality of audit work:

- a) SAIs should ensure that they have sufficient personnel with the capabilities, competence and commitment to ethical principles necessary to perform audit work;

²⁹ ISSAI 3000, para 5.4.

³⁰ ISSAI 200, para. 2.46.

³¹ ISSAI 3000, para. 5.5.

³² ISSAI 400, para. 26.

b) to the extent possible and needed, performance audits should be carried out by teams since, as a rule, they involve the solution of complex questions³³. All audit team members should understand the audit questions, the terms of reference of the work assigned to them, and the nature of obligations required of them by auditing standards;

c) the work of the auditors throughout the audit phase should be properly supervised, and documented work should be reviewed by a senior member of the audit staff³⁴. The performance auditor should perform procedures to obtain sufficient appropriate audit evidence that the work of the other auditor is adequate for the performance auditor's purposes, in the context of the specific assignment;

d) the principles of proper administration should be observed. The audit process including important decisions taken and the underlying considerations should be well recorded to provide audit evidence in support of conclusions and decisions, and to provide records to assist audit management in monitoring and review of work³⁵;

e) experts participating in an audit should have the necessary competence required for the purposes of the audit. The audit team should ensure that the expert is independent of the activity/programme, and that (s)he is informed about the conditions and the ethics required³⁶;

f) decisions should be properly documented regarding the audit objective and questions, and criteria of the audit, resources to be applied to the audit in terms of skills and qualifications, arrangements for reviews of progress at appropriate points, and the dates by which fieldwork is to be completed and a report on the audit is to be provided³⁷;

g) each SAI should have a quality assurance system to assist it in the effective management of its own operations and sustain the quality of its performance. In addition it should consider obtaining an independent appraisal of its work through an audit quality control review³⁸.

³³ ISSAI 3000, para. 2.2.

³⁴ ISSAI 300, para. 2.1.

³⁵ ISSAI 3000, para. 2.2.

³⁶ ISSAI 200, para. 1.18 and 2.43-45.

³⁷ ISSAI 200, para. 1.24 and 1.26.

³⁸ ISSAI 200, paras. 1.29 and 1.30.