

INTOSAI



Fundamental Principles of Performance Auditing

Proposed

Endorsement Version

(In the PSC working language)

For approval by the PSC

Steering Committee

(Cf. Due Process - Stage 3)

INTOSAI



INTOSAI General Secretariat - RECHNUNGSHOF
(Austrian Court of Audit)
DAMPFSCHIFFSTRASSE 2
A-1033 VIENNA
AUSTRIA

Tel.: ++43 (1) 711 71 • Fax: ++43 (1) 718 09 69

E-MAIL: intosai@rechnungshof.gv.at;
WORLD WIDE WEB: <http://www.intosai.org>

INTRODUCTION	5
PURPOSE AND AUTHORITY OF THE FUNDAMENTAL PRINCIPLES OF PERFORMANCE AUDITING	5
FRAMEWORK FOR PERFORMANCE AUDITING	6
<i>Definition of performance auditing</i>	6
<i>Economy, efficiency and effectiveness</i>	6
<i>Objectives of performance auditing</i>	7
<i>The applicability of the ISSAI 300</i>	7
ELEMENTS OF PERFORMANCE AUDITING	8
<i>The three parties in performance auditing</i>	8
<i>Subject matter and criteria in performance auditing</i>	8
<i>Assurance and confidence in performance auditing</i>	9
PRINCIPLES FOR PERFORMANCE AUDITING	9
<i>General Principles</i>	9
Audit Objective	10
Audit approach	10
Audit Criteria	10
Audit risk	11
Communication	12
Skills	13
Professional judgment and skepticism	13
Quality control	14
Materiality	14
Documentation	15
<i>Principles related to the audit process</i>	16
<i>Planning</i>	16
Selection of topics	16
Designing audits	17
<i>Conducting</i>	18
Evidence, findings and conclusions	18
<i>Reporting</i>	19
Content of the report	19

Recommendations	19
Distribution of reports	20
<i>Follow up activities</i>	20

INTRODUCTION

1. Professional standards and guidelines are essential for the credibility, quality and professionalism of public sector auditing. The International Standards of Supreme Audit Institutions (ISSAIs) developed by the International Organization of Supreme Audit Institutions (INTOSAI) 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 national laws and regulations and mandate.
2. ISSAI 300 should be read and understood in conjunction with ISSAI 100, which includes the fundamental principles for public sector auditing in general. The principles in ISSAI 100, including specifically those relating to ethics and independence, also apply to performance auditing. ISSAI 300 builds on the fundamental audit principles in ISSAI 100 and develops some of them further within the specific context of performance auditing.
3. The Fundamental Principles of Performance Auditing (ISSAI 300) consist of three sections.
 - * The first section provides the framework for performance auditing and for making reference to the International Standards of Supreme Audit Institutions (ISSAIs).
 - * The second section consists of principles for the performance audit engagements that the auditor should consider prior to commencement and throughout the audit process (General Principles).
 - * The third section contains principles related to the main steps in the audit process itself. Each principle is followed by explanatory text to make the principle more clear.

PURPOSE AND AUTHORITY OF THE FUNDAMENTAL PRINCIPLES OF PERFORMANCE AUDITING

4. The Fundamental Principles of Performance Auditing represent a common understanding of what Performance Auditing is and which principles need to be applied to achieve good quality. INTOSAI members are encouraged to develop or adopt authoritative standards consistent with ISSAI 100 and 300 and to take into account the INTOSAI guidance on Performance Auditing. The ISSAI 3000-series provides the overall framework for performance auditing and gives general guidelines on how to perform performance audits as a basis for assisting SAIs in developing their own national standards.
5. Standards for performance auditing should reflect the need for flexibility in the design of the individual engagement, the need for the auditor to be receptive and creative in performing an audit and the need to exercise professional judgement throughout the audit.
6. INTOSAI recognizes that Supreme Audit Institutions (SAIs) have different mandates and work under various conditions. Due to the differing conditions and structures of SAIs not all auditing standards or guidelines apply to all aspects of their work. SAIs therefore have the option of developing authoritative standards either based on, or consistent with, the Fundamental Principles of Performance Auditing. If a SAI chooses to base their standards on the Fundamental Principles of Performance Auditing the standards should in all applicable and relevant aspects correspond with the Fundamental Principles.
7. When adopting or developing auditing standards based on or consistent with the Fundamental Principles of Performance Auditing, reference to these may be made by stating:

... We conducted our audit[s] in accordance with [standards] based on [or consistent with] the Fundamental Auditing Principles of Performance Auditing of the International Standards of Supreme Audit Institutions.

The reference may be included in the audit report or it may be communicated by the SAI in a more general form covering a defined range of engagements.

8. SAIs may choose to adopt the INTOSAI's Performance Audit Guidelines as the authoritative standards for their work. If a SAI chose to use these guidelines as their standards it must in all relevant parts comply with them. Reference in this case may be made by stating:

... We conducted our [performance] audit[s] in accordance with the International standards of Supreme Audit Institutions [on performance auditing].

FRAMEWORK FOR PERFORMANCE AUDITING

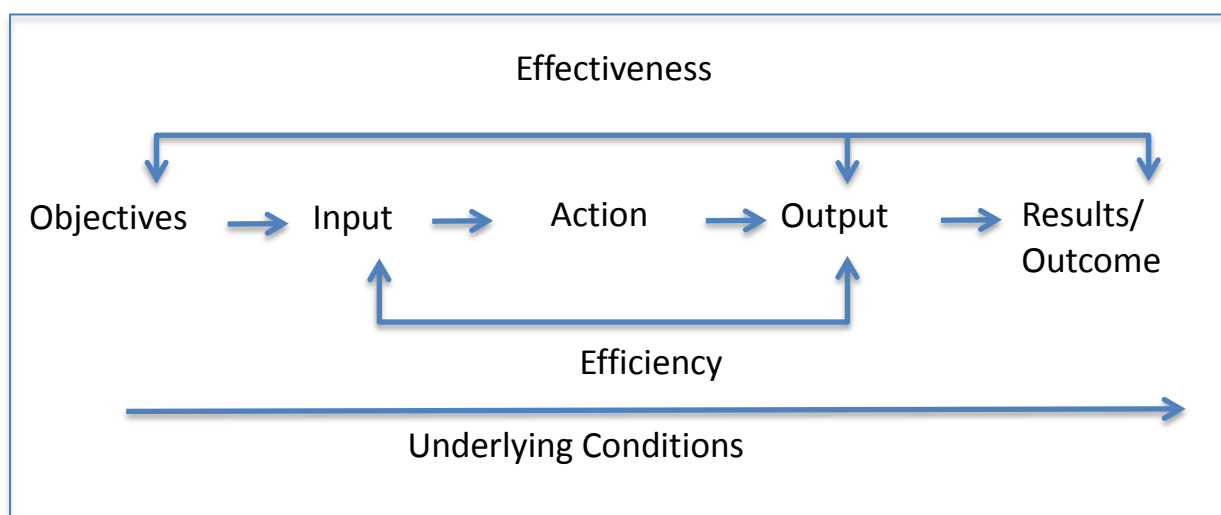
Definition of performance auditing

9. Performance auditing carried out by Supreme Audit Institutions (SAIs) is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organizations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.
10. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits provide new information, knowledge or value by:
- providing new analytical insights (broader or deeper analysis or new perspectives)
 - making existing information more accessible to various stakeholders
 - providing an independent and authoritative view or conclusion based on audit evidence
 - providing recommendations based on an analysis of audit findings.

Economy, efficiency and effectiveness

11. The principles of economy, efficiency and effectiveness can be defined as follows:
- The principle of *economy* concerns minimizing the costs of resources. The resources used should be available in due time, in appropriate quantity and quality and at the best price.
 - The principle of *efficiency* concerns 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.
 - The principle of *effectiveness* concerns meeting the objectives set and achieving the intended results.

Performance Audits often include the analysis of the conditions required to ensure that the principles of economy, efficiency and effectiveness can be implemented. These conditions can include good management practices, or procedures to ensure 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.



Objectives of performance auditing

12. The objective of performance auditing is to constructively promote economical, effective and efficient governance. Performance Auditing. also contributes to accountability and transparency.

Performance auditing promotes *accountability* by assisting those charged with governance and with oversight responsibilities in improving 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 possible shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved. Performance auditing focuses on issues where the examination can add value to citizens, and on areas with the most potential for improvement. It provides constructive incentives for the responsible parties concerned to take appropriate action.

Performance auditing promotes *transparency* by affording parliament, taxpayers and other financiers, 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. SAIs should in performance auditing decide within their mandate on what, when and how to audit and should not be restrained from publishing its findings.

The applicability of the ISSAI 300

13. The Fundamental Principles of Performance Auditing are intended for the adoption or development of standards by SAIs. They have been formulated taking the institutional background of SAIs into consideration, including their independence, constitutional mandates, ethical requirements and the requirements of ISSAIs at level 2, "Prerequisites for the Functioning of SAIs".
14. When dealing with overlaps between audit types (or combined audits) the following points should be considered:

- Elements of performance auditing can be part of a more extensive audit that also covers compliance and financial auditing aspects.
- In case of such overlaps, all relevant standards should be observed. This may not be feasible in all cases, as different standards may contain different priorities.
- In such cases, the primary objective of the audit should guide the auditors in application of the relevant standards. In determining whether performance considerations form the primary objective of the audit engagement, it should be borne in mind that performance auditing focuses on the activity and the results rather than reports or accounts and that the main objective is to promote effective, economical and efficient performance, rather than reporting on compliance.

ELEMENTS OF PERFORMANCE AUDITING

15. The elements of a performance audit (auditor, responsible party, intended user, subject matter and criteria) as defined in ISSAI 100 may assume distinct characteristics in performance audit. Auditors should be explicit in developing the elements of the audit, understand their implications and perform their audit accordingly.

The three parties in performance auditing

16. Auditors frequently have significant discretion in defining subject matter and criteria, which in turn influences who the responsible parties and intended users are. While auditors give recommendations, they need to take care that they do not assume responsibilities reserved to the responsible parties. Auditors in performance audits typically work in a team with different and complementing skills.

17. As to the responsible party it is important to note that different parties may share responsibilities for different aspects of the subject matter. Some parties may have been responsible for actions that lead to problems. Different parties may be able to initiate changes to address recommendations provided by a performance audit. Others may be responsible for providing the auditor with information or evidence.

18. The intended users are the persons for whom the auditor prepares the performance audit report. The legislature, government agencies and the public can be intended users. The responsible party can be one of the intended users, but is usually not the only one.

Subject matter and criteria in performance auditing

19. The subject matter of a performance audit need not be limited to specific programs, entities or funds but can include activities, their output, outcome and impact; actual conditions, their causes and consequences, e.g. service delivery by the responsible parties and effects of government policy and regulations on the administration, stakeholders, businesses, citizens, and society. The subject matter is defined by the objective and formulated in the audit questions.

20. In performance auditing, the auditor is sometimes involved in developing or selecting the relevant criteria for an audit. Paragraph 19 describes which specific requirements follow from this for the auditor.

Assurance and confidence in performance auditing

21. As in all audits, the users of performance audit reports seek confidence about the reliability of information as the basis for their decisions. They therefore 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 and appropriate evidence and actively manage the risk of inappropriate reports. However, the performance auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness on the level of the audited entity in the same way as the opinion on financial statements. This is also not a requirement of the ISSAI framework.
22. The level of assurance that a performance audit report provides should be communicated in a transparent way. Whether economy, efficiency and effectiveness have been achieved may be conveyed in the performance audit report in different ways:
- * 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 objectives, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions.
23. Auditors should only include findings in their reports that are covered by sufficient and appropriate evidence. The decisions made to reach a balanced report, to draw conclusions drawn and to provide recommendations frequently need to be elaborated on in order to provide sufficient information to the user. Performance auditors need to provide specific information on the way their findings result in separate conclusions, and - if applicable - an overall conclusion. This includes making sure to explain which criteria have been developed and used and why, that all relevant viewpoints have been taken into account and thus a balanced report is presented. The principles on reporting give more guidance for this process (paragraph 40ss).

PRINCIPLES FOR PERFORMANCE AUDITING

General Principles

24. The General Principles of Performance Auditing give guidance on those aspects of Performance Auditing that are relevant throughout the audit process.
- * In some areas, the General Principles of Performance Auditing provide principles that ISSAI 100 does not cover. These concern selection of audit topics, identifying audit objectives, determining the audit approach and audit criteria.
 - * In other areas, such as audit risk, communication, skills, professional judgment, quality control, materiality and documentation, the general principles of Performance Auditing draw on the principles of ISSAI 100 and explain their specific meaning in Performance Auditing.
 - * Finally, some areas such as ethics and independence are currently dealt with by ISSAIs on level two and ISSAI 100.

Audit Objective**25. Auditors should define a clearly identifiable audit objective relating to the principles of economy, efficiency and effectiveness.**

The audit objective determines the approach and design of the engagement. Audit objectives could be descriptive (how is it?). However, normative audit objectives (is it as it ought to be?) and analytical audit objectives (why is it not as it ought to be?) are more likely to add value. In all cases, the auditors need to consider what the audit pertains to, which organizations or bodies are involved, and to whom the ultimate recommendations are likely to be relevant. Identifiable audit objectives pertain to a single or identifiable group of government undertakings, systems, operations, programs, activities or organizations.

Many audit objectives can be framed as an overall audit question which can be broken down into more precise sub-questions. They should be thematically related, complementary, not overlapping and collectively exhaustive in addressing the overall audit question. All notions in the question should be clearly defined. Formulating audit questions is an iterative process, in which the questions are repeatedly specified and refined taking into account known relevant information on the subject and feasibility.

Instead of defining a single objective or overall audit question, auditors may choose to develop several audit objectives covering both the overall level and the level of audit questions.

Audit approach**26. Auditors should choose a result-, problem- or system-oriented approach, or a combination thereof to facilitate a good audit design.**

The overall audit approach is a central element of an audit. It determines the kind of study that needs to be applied. It also defines the knowledge, the information and the data needed and how to obtain and analyse it

Performance auditing generally follows one of three approaches:

- a system-oriented approach, which examines the proper functioning of management systems, e.g. financial management systems
- a result-oriented approach, which assesses whether the outcome or output objectives have been achieved as intended or whether programs or services are operating as intended
- a problem-oriented approach, which examines, verifies and analyses the causes of particular problems or deviations from criteria.

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

Audit Criteria**27. Auditors should establish suitable audit criteria fitting the audit questions related to the principles of economy, efficiency and effectiveness.**

Audit criteria within the context of performance audit are audit specific, reasonable 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 and developing audit findings and to conclude on the audit objectives. They also form an important basis for communication within the audit team, SAI management and with the audited entity.

The audit criteria can be qualitative or quantitative in nature and define what the audited entity will be assessed against. The criteria may be general or specific, and may reflect 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).

In identifying criteria diverse sources can be used, including performance measurement frameworks. The source of the audit criteria used should be identifiable; they should be relevant to the audit objective, objective, reasonable and attainable.

Audit criteria should be discussed with the audited entities. Ultimately it is the auditor's responsibility to select suitable criteria. While defining and communicating the criteria in the planning phase might increase their credibility, in audits covering complex issues it is not always possible to pre-define the criteria; instead they will be defined during the audit process.

Whereas in some audit types the criteria are unequivocally provided for by the legislation, this is not typically the case in performance auditing. The nature of the audit and the audit questions determine the relevance and the type of suitable criteria. The credibility of the findings and the conclusions of the performance audit depend largely on the criteria. Thus, the reliability and objectivity of the criteria are very important.

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

Audit risk

28. Auditors should actively manage audit risk. The audit risk concerns incorrect or incomplete conclusions, but also the risk that the audit provides unbalanced information or does not add value to the users.

Many topics in performance auditing are complex and politically sensitive. Purely avoiding such topics might avoid the risk of being incorrect or incomplete, but limit the possibility to add value.

The risk that the audit fails 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 the user of the reports with useful knowledge or recommendations that will genuinely contribute to better performance.

Important aspects of risks include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to and quality of information, getting wrong information (e.g. because of fraud or irregular practices), being unable to put all findings in perspective, or failing to collect or address the most relevant arguments.

Thus, auditors should actively manage risk. Dealing with audit risk is embedded in the whole process and methodology of performance audit. Auditors, in audit planning documents, should present possible or known risks in the coming audit work and how these risks will be handled.

Communication

29. Auditors should establish effective and proper communication with the audited entities and relevant stakeholders during the entire audit process and plan content, process and addressees of communication for each audit.

There are several reasons why planning communication with the audited entities and stakeholders is of particular importance in performance audits:

- * performance audits are not normally performed on a regular (e.g. annual) basis on the same audited entities and thus pre-established channels of communication may not exist, While contacts with the legislature and government bodies may already exist, other groups may not have been engaged with previously, e.g. academic and business communities or civil society organisations.
- * frequently they cannot draw on pre-established criteria (like a financial reporting framework) and thus an intensive exchange of views with the audited entity is necessary,
- * the need for balanced reports needs an active effort to get insight into the point of view of various stakeholders.

Auditors should identify key stakeholders and establish effective two-way communication proactively. With good communication auditors can improve access to information sources, data, and opinions from the audited entity. Good communication by explaining the purpose of the performance audit to stakeholders also increases the likelihood that audit recommendations are implemented. Thus, auditors should seek to maintain good professional relationships with all stakeholders involved, promote a free and frank flow of information in so far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding of the respective role and responsibilities of each stakeholder. However, care should be taken to ensure that the communication with the stakeholders does not compromise the independence and the impartiality of the SAI.

Auditors should notify audited entities of the key aspects of the audit, including the audit objective, audit questions, and subject matter. This usually takes the form of a written engagement letter and regular communication during the audit. Auditors should continue the communication process between the auditor and audited entity throughout the audit process, by means of constructive interaction, as different findings, arguments and perspectives are assessed.

The audited entities should be given the opportunity to comment on the audit findings, conclusions and recommendations before a performance audit report is issued by the SAI. Where disagreements occur they need to be analysed and factual errors corrected. The examination of feedback received should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented.

At the end of the audit process, stakeholder feedback can also be obtained on the quality of audit reports published. The audited entities perception on the quality of audit performed may also be solicited.

Skills**30. Auditors should, as a team, have the necessary professional competence to perform the audit. This includes good knowledge of auditing, research design, methods applied in social science, investigation or evaluation methods, and personal skills such as analytical skills, writing and communication skills.**

In performance auditing, specific skills may be needed. These include knowledge of evaluation techniques and methods applied in social science and personal skills like communication and writing skills, analytical capacity, creativity, and receptiveness. Auditors should have good knowledge of government organizations, programs and functions. This ensures that the right areas are selected for audit and that auditors can effectively undertake reviews of Government programs and activities

Moreover, the way to acquire the required skills can be specific in performance auditing. For the individual engagement the performance auditors need to be able to fully understand the government measures which are the subject matter of the audit as well as the relevant background causes and the possible impacts. This knowledge frequently must be acquired or developed specifically for the engagement. Performance audits frequently involve a learning process and the development of the methodology as part of the audit itself. Thus, learning on the job and training should be available to auditors. Auditors should maintain their professional competence through continuing professional development. A learning attitude of individual auditors and an encouraging management culture are important conditions for enhancing professional skills.

For specialized knowledge external experts can be used to complement those of the audit team. Auditors should evaluate if and in what areas external expertise is required and act accordingly.

Professional judgment and scepticism**31. Auditors should apply professional scepticism, but also be receptive and willing to innovate.**

It is vital that auditors apply professional scepticism and adopt a critical approach and maintain an objective distance to 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 judgment errors 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.

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 need to be not only skeptical, but also creative, reflective, flexible, resourceful and practical in their efforts to collect, interpret and analyze data.

Professional behavior should be maintained throughout the whole audit process, i.e. during topic selection, audit planning, conducting of an audit and reporting. It is important that the auditor works systematically, with due care, with an objective state of mind and with appropriate supervision

Quality control

32. Auditors should apply procedures to safeguard quality to make sure that applicable requirements are fulfilled and place emphasis on appropriate, balanced and fair reports that add value and answer the audit questions.

The principles laid down in ISSAI 40 serve as guidance for performance auditing as well. However, there are some specific issues that need to be addressed:

- Performance audit is a process in which the audit team gathers a large amount of audit specific information and exercises a high degree of professional judgment and discretion on the audit issues. Quality control needs to take this into account.

Setting working conditions of mutual trust and responsibility and providing support for the audit teams in their efforts should be seen as part of quality management systems. This may include the following elements: Quality control systems should be relevant and easy to manage. Auditors should be open to feedback received from the quality control procedures. In case of a difference of opinion between supervisors and the audit team appropriate steps should be taken to make sure that the perspective of the audit team is sufficiently considered and that the policy of the SAI is consistent.

- In performance auditing, even if the report is evidence-based, well-documented and accurate, it still might not be appropriate or sufficient because it does not give a balanced and unbiased view, it does not sufficiently include relevant viewpoints, or the audit questions are not satisfactorily addressed. Thus, these considerations should be an essential part of measures to safeguard quality.
- As audit objectives vary widely between different audit engagements, a clear understanding of what constitutes a high quality report in the specific settings of an audit engagement should be defined. General quality control measures therefore should be complemented by engagement specific measures.

No quality management system at the level of the individual audit can guarantee high quality performance audit reports. It is equally important that auditors are - and stay - competent and motivated. Thus, control mechanisms need to be complemented by support, such as training and learning on the job and guidance to the audit team.

Materiality

33. Auditors should consider materiality in all stages of the audit process and in doing so consider not only financial, but also social and political aspects of the subject matter and how to add the most value possible through the audit.

Materiality can be understood as the relative importance of a matter within the context in which it is being considered. The materiality of an audit topic should have regard to the magnitude of its impacts. It will depend on whether the activity is comparatively minor and whether shortcomings in the area concerned could influence other activities within the audited entity. An issue will be considered material where the topic is considered to be of particular importance and where improvements would have a significant impact. It will be less material

where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or be likely to have minimal impact.

In performance audit, materiality by monetary value may be, but need not be a primary concern. The auditor should define materiality considering also what is socially or politically significant and have in mind that this varies over time and depends on the perspective of the relevant parties. Since the subject matters of performance audits can vary broadly and criteria are frequently not predefined by legislation, this perspective requires comprehensive judgment of the auditors and may vary from one audit to another.

Materiality concerns all aspects of performance audits, such as selecting topics, defining criteria, evaluating evidence and documentation and managing the risks of inappropriate audit findings or reporting and producing low impact reports.

Documentation

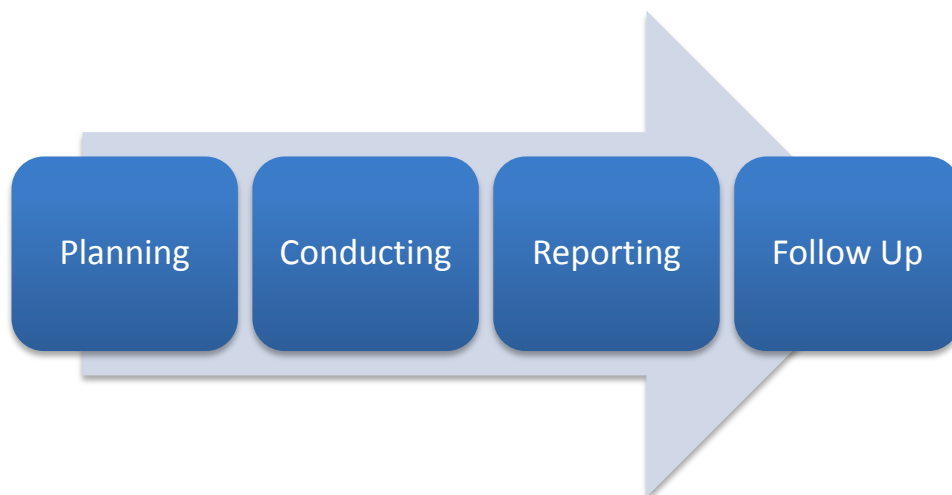
34. Auditors should document the audit in accordance with the circumstances of the particular audit and thus provide sufficiently complete and detailed information to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was performed in arriving at the audit findings, conclusions, and recommendations.

As in all audits, the auditors need to safeguard audit documentation to adequately record the preparation, procedures and findings of the audit. However, the purpose and context of documentation requirements are somewhat specific in performance auditing.

- Frequently, the auditor will have acquired specialized knowledge on the audit topic that is not easily reproduced in the SAI. Since the methodology and the audit criteria may be developed specifically for a single engagement, the auditor carries a special responsibility to make his judgments transparent.
- In performance auditing, the report itself not only presents findings and recommendations but also provides the framework and perspective, the analytical structure used, and a description of the process followed to arrive at the conclusions. To some extent, the report takes up functions that in other types of audits are provided by general standards or the audit documentation.
- The audit documentation seeks not only to represent the correctness of facts, but also that the report presents a balanced, fair and complete assessment of the audited question or subject. Thus, for example, it might be necessary to include in the documentation reference to arguments not accepted in the report, or to communicate how different viewpoints were dealt with in the report.
- The purpose of the audit report in performance auditing frequently is to provide new insights persuasive to reasonable users, rather than a formal assurance statement. As the audit objectives determine the nature of the evidence needed, 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 provide good practices for similar audits.

Principles related to the audit process

35. Performance audit comprises the following essential steps:



- Planning, i.e. selection of topics, pre-study and designing the audit
- Conducting, i.e., collecting and analyzing data and information.
- Reporting, i.e. presenting the outcome of the audit that is: the answers to the audit questions, the findings, conclusions and recommendations to the users.
- Follow-up, i.e. determining whether actions taken on findings and recommendations remedied the underlying problems and/or weaknesses.

These steps may be iterative. For instance new insights from the conducting stage of an audit may require adaptation of the audit plan, and important aspects of writing the report (e.g. drawing conclusions) may take place or be determined already during the conducting phase.

Planning

Selection of topics

36. Auditors should participate in the strategic planning of a SAI by analyzing potential audit topics and conducting research to identify risks and problems.

Determining which audits will be pursued is usually undertaken as part of the strategic planning process of the SAI. If appropriate, auditors should contribute to this process in their respective field of expertise. They can contribute knowledge from prior audits and use information from the strategic planning process in the planning of the resulting single audit engagement.

In this process, auditors should consider that audit topics should be significant, auditable, and reflect the SAI's mandate. The selection process for audit topics should aim to maximise the

expected impact from the audit while taking into account audit capacities (e.g. human resources and professional capacities).

Formalized techniques to prepare the strategic planning process like risk analysis or problem assessments can help structure the process but need to be complemented by professional judgement to avoid one sided assessments.

Designing audits

37. Auditors should plan the audit in a manner that contributes to a high quality audit and carried out in an economic, efficient and effective way, in a timely manner and in accordance with the principles of good project management.

The audit planning should consider

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

To do this, auditors need to acquire sufficient knowledge of the subject matter to ensure the audit's proper design. Performance auditing generally requires that audit specific, substantive and methodological knowledge is acquired prior to conducting the audit ("pre study").

Senior and operational management and the audit team should be fully aware of the design of the audit and what it entails. Frequently the decision on the overall audit design and its consequences on the necessary resources will involve the senior management of the SAI in order to assure that skills, resources and capacities are in place to address the audit objectives and the audit questions.

When designing audit procedures, the auditor has to determine the means for gathering sufficient and appropriate audit evidence. This can be approached in several steps: from deciding on the overall audit design (which question to ask, e.g. explanatory, descriptive, evaluative) to determining the level of observation (e.g. looking at a process or individual files), methodology (e.g. full analysis or sample) to specific data-collection techniques (e.g. interview or focus group). Data collection methods and sampling techniques should be carefully chosen. The planning phase should involve research efforts that are aimed at building knowledge, testing various audit designs; and checking whether data required is available. This makes it easier to choose the most appropriate audit method.

Planning should also allow for flexibility, so that the auditors can benefit from insights made during the course of the audit. Audit methods are expected to be chosen which best allow the gathering of audit data in an efficient and effective manner. While the aim of auditors is to adopt best practices, practical reasons such as availability of data may restrict the choice of methods. Therefore, 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. Being too prescriptive may hamper the flexibility, professional judgement, and high levels of analytical

skills required in a performance audit. In certain instances, e.g. if the audit requires data to be gathered from a large number of different regions, areas, etc. and if the audit procedures are being 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 determined.

While planning the audit, auditors assess risks of fraud occurring. If it is significant within the context of the audit objectives, auditors should obtain an understanding of the relevant internal control systems and examine whether there are signs of irregularities that hamper performance. The auditor should also determine if the entities concerned have taken appropriate actions to address recommendations from previous audits or examinations that are of relevance to the audit objectives. The auditor is also expected to seek contact with stakeholders, including scientists or experts in the field to build up proper knowledge, for instance regarding good or best practices. The overall aim in the planning phase is to decide how to best conduct the audit by building up knowledge and by considering various strategies.

Conducting

Evidence, findings and conclusions

38. Auditors should obtain sufficient and appropriate audit evidence to establish findings, draw conclusions, conclude against the audit objective, answer the audit questions and issue recommendations.

All audit findings and conclusions must be supported by audit evidence. 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 answer to the audit questions.

Conclusions can be based on quantitative evidence reached by scientific methods or sampling techniques. Conclusions may also require the application of significant judgement and interpretation in answering the audit questions, due to the fact that audit evidence may be persuasive ("points towards the conclusion that...") rather than conclusive ("right/wrong") in nature. The need to be exact should be weighed against what is reasonable, economical, and relevant for the purpose of involvement of senior management is recommended.

Conducting a performance audit consists of processes of analysis that evolve gradually through interaction with one another, allowing the questions and methods to develop in depth and sophistication. This may involve combining and comparing data from different sources, drawing preliminary conclusions and compiling findings to build hypotheses that are tested with additional data if necessary. This process is closely related to the process of drafting the audit report which can be seen as an essential part of the analytical process leading to the answer to the audit questions. It is important that the auditor is goal oriented and works systematically, with due care and with an objective state of mind.

Reporting

Content of the report

39. Auditors should strive to provide audit reports which are *complete, convincing, timely, reader-friendly and balanced*.

A report is complete if it 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. It is convincing if it is logically structured, and presents clear relationship between the audit objective, criteria, findings, conclusions and recommendations. All relevant arguments should be addressed.

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

The report should include information about the audit objective, audit questions and their answers, subject matter, audit criteria, methodology, sources of data, any limitations to the data used, and audit findings. The report should clearly answer the audit questions, or explain why this was not possible. Alternatively, the auditor should consider re-formulating the audit questions to fit the audit evidence obtained and thus arriving at a position where the audit questions can be answered. 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 pointed out 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.

The report should be as clear and concise as the subject-matter permits and contain unambiguous language. Overall it should be constructive and contribute to better knowledge and highlight improvements needed.

Recommendations

40. If applicable and allowed by the mandate, auditors should seek to provide constructive recommendations that are likely to significantly contribute to addressing the weaknesses or problems identified by the audit.

Recommendations should be well-founded and add value. They should address the causes of problems and/or weaknesses and transcend inverted versions of the audit conclusions or truisms, without taking over management's responsibilities. It should be clear who and what is addressed by the recommendation, who is responsible for taking initiative and what the recommendations mean, i.e. how they will contribute to better performance. Recommendations should be practical and be addressed to the entities having responsibility and competence for their implementation.

The recommendations should be clear and be presented in a logical, and rational fashion. They should be linked to the audit objectives, findings and conclusions. Together with the full text of the report they should make it plausible for the reader that they are likely to significantly improve the conduct of government operations and programs, e.g. by lowering the costs and simplifying the administration of the services, by enhancing the quality and volume of the services, or by improving the effectiveness, the impact or the benefits for the society of the services.

Distribution of reports

41. Auditors should seek to make their reports widely accessible according to the mandate of the SAI.

Auditors should consider that distributing audit reports widely can support the credibility of the audit function. Therefore, the reports should 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.

Follow up activities

42. Auditors should follow-up on previous audit findings and recommendations when appropriate. The follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of the corrective actions taken where relevant.

Follow-up refers to the situation where the auditor examines the corrective actions the audited entity, or another responsible party, has taken on the basis of the results of previous performance audits. It is an independent activity that increases the value added by the audit process by strengthening the impact of the audit and by improving future audit work. It also encourages the user of the reports and the audited entities to take the reports seriously and provides a useful learning basis and performance indicator for the auditors. A follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problem and remedied the underlying conditions after sufficient time has been allowed for this process..

When conducting a follow-up of audit reports, 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. Consolidated follow-up reports may include an analysis of different audits, possibly including common trends and themes across a number of reporting areas. Follow-up can contribute to a better understanding of the value added through performance auditing in a given time period or subject matter area.